

**IRISH TOURIST
INDUSTRY
CONFEDERATION**

ITIC is very grateful for the support provided by Fáilte Ireland and Tourism Ireland, which made this report possible.



**IRELAND'S
COMPETITIVE
POSITION
IN TOURISM**

A REPORT

Report prepared on behalf of ITIC by:

CHL Consulting Company Limited
40 Northumberland Avenue
Dun Laoghaire
Co. Dublin
Telephone: +353.1.284.4760
Fax: +353.1.284.4775
E-mail: mail@chl.ie
Website: www.chl.ie



**Updated
October, 2007**

Copyright and Related Rights Act, 2000

© Copyright 2007, CHL Consulting Company Ltd.

This document is copyright under the Copyright and Related Rights Act, 2000.

The information and documentation contained herein is of a confidential nature and is supplied to the Irish Tourist Industry Confederation for their exclusive use only.

Vers3/smcm/31.10.07

CONTENTS

	Page No.
<i>Executive Summary</i>	<i>i</i>
1. INTRODUCTION	1
2. DETERMINANTS OF COMPETITIVENESS	3
2.1 <i>Definitions of Competitiveness</i>	3
2.2 <i>Measures of Competitiveness</i>	5
2.3 <i>National Model of Competitiveness</i>	13
2.4 <i>A Competitiveness Model for Irish Tourism</i>	16
3. IRISH TOURISM INDUSTRY PERFORMANCE	20
3.1 <i>Ireland's Tourism Industry Performance</i>	20
3.2 <i>Ireland's Competitive Performance</i>	26
3.3 <i>Visitor Attitudes Survey</i>	29
3.4 <i>Summary of Ireland's Recent Tourism Performance</i>	32
4. APPLYING THE COMPETITIVE MODEL TO IRISH TOURISM	33
4.1 <i>Primary Product</i>	33
4.2 <i>Policy Inputs</i>	36
4.3 <i>Essential Conditions</i>	48
4.4 <i>Market Connections</i>	58
5. PRODUCT INNOVATION	60
5.1 <i>Innovation and Competitiveness</i>	60
5.2 <i>Innovation in Tourism: The Swiss Example</i>	62
5.3 <i>Tourism Product Innovation in Ireland</i>	64
5.4 <i>Tourism Product Innovation Proposals</i>	68
6. MEASURES TO IMPROVE COMPETITIVENESS	71
6.1 <i>Goals</i>	71
6.2 <i>Roles of the Public and Private Sectors</i>	73
6.3 <i>Recommended Measures to Improve Competitiveness</i>	75
7. APPENDICES	87
Appendix 1: Terms of Reference	87
Appendix 2: List of Reference Sources	90
Appendix 3: Indices of National Competitiveness	93

Ireland's Competitive Position in Tourism

Report Update 2007 - Executive Summary -

In October 2005, the Irish Tourist Industry Confederation commissioned CHL Consulting Co. Ltd. to conduct a study of Ireland's competitive position and to identify the actions that should be taken by the industry, state agencies and the Government to improve this position. The study was conducted between October 2005 and February 2006, and the final report was published in June 2006. This comprehensive update of the original study was prepared during August and September 2007.

A summary of the report is provided in this section. A chart containing a summary of the recommendations is included on pages (ix) to (xx).

1. DEVELOPMENTS IN 2006 – 2007

The experience of the Irish tourism industry over the past 18 months has graphically illustrated the fact that competitiveness is a complex concept when applied to tourism. On the one hand, many of the key variables that influence Ireland's competitiveness and have been the subject of growing concern, continued to disimprove. On the other hand, Ireland enjoyed a record year in tourism in 2006, outperforming its competitors by some distance, and demand has continued to increase in 2007.

The overall number of overseas tourists visiting Ireland increased by almost 10% in 2006, well above the average increase of just under 4% recorded for Europe as a whole. Arrivals during the first half of 2007 rose by a further 3%. Revenue growth matched volume growth in 2006 but surged ahead by 7.5% during the first half of 2007. The domestic market has also been buoyant.

The regional distribution of tourist activity continues to be a pressing issue, but there was a significant improvement in 2006 and the regions outside Dublin recovered some of the share of bednight demand lost since 1999. However, the introduction of Open Skies means that there will be a substantial shift in transatlantic seat capacity from Shannon to

Dublin with the attendant risk of a significant loss of up to 230,000 U.S. tourist bednights in the western regions in 2008. A sustained, focused marketing campaign will be required over the next 3 years to stimulate an increasing incidence of visit and longer length of stay in the west, irrespective of gateway of arrival.

While the overall national picture is one of a healthily performing industry, the continuing disimprovement in a number of key areas poses serious threats to our competitiveness in the years ahead. Among these are the following:

- prices in Ireland are continuing to rise at a faster rate than elsewhere in Europe, and Ireland's position as an expensive destination is becoming well-established; the challenge ahead will be to manage our cost competitiveness to the greatest extent possible while ensuring that visitors receive good value for money;
- education and training will be critical considerations in the coming years as the number of Irish people employed in tourism continues to decline; if people are the mediators of the Irish holiday experience, the Irish product risks becoming less competitive in terms of its inherent appeal. Tourism Ireland are currently conducting research into this issue.
- the natural and built environment is a fundamental part of Ireland's product and brand identity, but is widely perceived to have deteriorated in recent years. Tour operators interviewed noted that the 'authentic Ireland', as portrayed in brochures and envisaged by their customers, is now only available in certain parts of the country. We seem to be lagging behind other destinations such as Scotland and New Zealand which have placed great emphasis on environmental concerns. However, the issue is moving up the agenda here and Fáilte Ireland have recently published an Environmental Action Plan for the period 2007 – 2009

In conclusion, Ireland's performance over the past 18 months demonstrates that price is not the sole determining issue in Ireland's competitiveness, but value-for-money certainly is. The latter depends on a wide range of factors and failure to address threats in relation to these, especially in relation to the essential elements of our primary product, will undermine our competitiveness. There is an urgent need to press ahead with the implementation of the recommendations in this report.

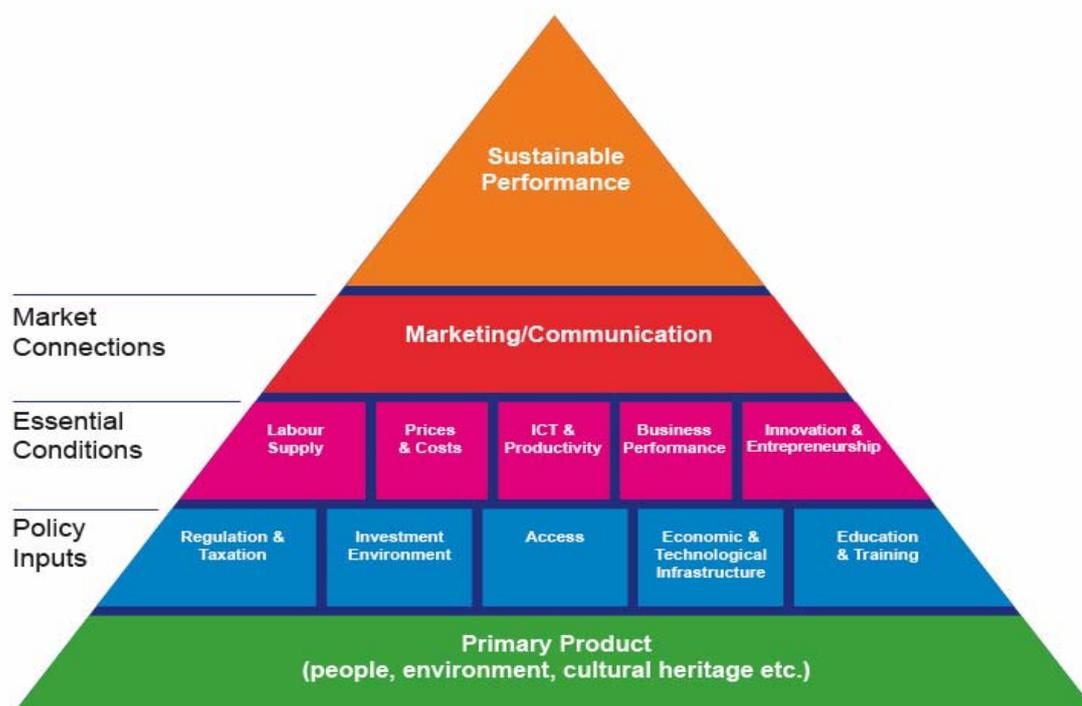
2. DETERMINANTS OF COMPETITIVENESS

- Deceptively simple in concept, competitiveness is a complex measure especially when applied to entire economies and destinations. It embraces a very wide range of factors which extend into all areas of economic and social activity.
- Competitiveness is a dynamic rather than static measure, and is based on perceptions of value rather than price.
- While cost-competitiveness is undoubtedly an important consideration, it represents only one of many dimensions of overall competitiveness. In general, as destinations develop and are successful, they become less cost-competitive but they can maintain their appeal on the basis of successful management of other competitive advantages. The goal is to deliver a quality value-for-money experience that vindicates the price.
- Ireland scores well in international measures of competitiveness as an economy and as an environment for business. Its competitive ranking as a tourist destination is lower, and is negatively affected by prices and environmental issues.

3. A COMPETITIVENESS MODEL FOR IRISH TOURISM

The NCC's Competitiveness Pyramid offers a framework that can be tailored to the specific circumstances of the tourism industry. We have adapted the Pyramid to the particular circumstances of the tourism industry and the resulting Tourism Competitiveness Pyramid is shown overleaf.

Tourism Competitiveness Pyramid



4. SUMMARY OF IRELAND'S RECENT TOURISM PERFORMANCE

While visitor numbers and tourism revenue have increased substantially in recent years and world market shares have been maintained, a number of key threats to competitiveness exist. These are:

- **Growing imbalance in regional distribution of tourism demand:** West coast regions had 1,970,000 fewer holidaymaker bednights in 2006 compared with 1999, although this represents a significant improvement on 2004. These regions had two-thirds of all overseas holidaymaker bednights in 1999 but this share has now dropped to 54%. This indicates a decline in the competitiveness of regional tourism in current market circumstances, and tourism businesses in the regions are suffering as a result.
- **Decline in average length of stay:** reflecting shorter breaks which are having a serious impact on tourism revenues.

- **Ireland's competitive advantages are under pressure:** successive Visitor Attitudes Surveys over the period 2000-2006 have shown that a declining number of visitors see the Irish people, our scenery and unspoilt environment as distinctive. A growing percentage of people could not identify any competitive advantages.
- **Reduction in satisfaction with value for money:** The Visitor Attitudes Surveys highlight a growing dissatisfaction with Ireland in terms of value for money - the costs of eating out and drink are particular causes of dissatisfaction.

5. APPLYING THE COMPETITIVE MODEL TO IRISH TOURISM

- **Primary Product:** Ireland's key competitive advantages - people, cultural heritage and environment - remain intact, but the analysis in this report indicates that there are serious threats that need to be addressed. Failure to address these will result in a steady deterioration of the primary attractors and drivers of tourism, with serious consequences for the industry. Commitments under the National Development Plan 2007-2013 include substantial allocations to tourism product development and to investment in Ireland's cultural heritage.
- **Taxation:** The high VAT rates in Ireland relative to our competitors in Europe, and the non recoverability of VAT on accommodation and eating out as a business expense (other than for conference accommodation), have a negative impact on the competitiveness of business and leisure tourism. Dramatic increases in local government charges have had a serious impact on the cost competitiveness of Irish tourism.
- **Investment Environment:** The growing economy has created a healthy investment environment for tourism. The favourable fiscal environment for business has included low interest rates, tax based incentives for investment and reduced personal and corporate tax rates.
- **Access:** Access improvements have contributed substantially to Ireland's competitiveness as a tourist destination in recent years. Despite this, there is still room for improvement in the quality of the experience and there is also a need to focus on the issue of access to the regions. There is an urgent need to upgrade facilities at Dublin Airport, including the construction of a new terminal which has now received planning permission from An Bord Pleanála. The issue of access aptly demonstrates the fact that competitiveness is a dynamic rather than static factor.

While much has been achieved, continual improvement is required in order to ensure sustainable performance.

- **Economic and technological infrastructure:** Infrastructure has a significant impact on tourism - particularly in the areas of transport, energy and technology. Continued investment in the transport infrastructure, as indicated by the Government's 'Transport 21' plan, and in the NDP 2007-2013 will be essential. Ensuring universal broadband access will also be very important for the tourism industry.
- **Education & training:** With the decline in manufacturing and an aging population, the tourist industry can provide many opportunities to re-skill workers. The industry must better compete in the labour market by driving productivity and raising the profile of tourism as an important sector in Ireland's economy.
- **Labour supply:** The tourism sector is increasingly reliant on foreign labour as, in a labour market characterised by low levels of unemployment, Irish people are not attracted to working in the tourism and catering industry. The difficulty for an industry such as tourism, which has relatively low levels of productivity, is that it finds it difficult to compete successfully for quality staff in a tight labour market. With people identified as a core part of Ireland's brand image, the industry faces a challenge in ensuring the quality and commitment of its labour force.
- **Prices & Costs:** While there have been some positives, such as lower air fares, it is clear that Ireland is no longer a low cost destination. Having come into line with the EU inflation rate in 2004 and 2005, prices in Ireland have accelerated ahead again in 2006 and 2007.
- **Productivity:** gains in productivity are difficult in tourism, and Ireland lags behind the EU average productivity level in the hotel and catering sector. Data on employment and gross tourism revenues suggest that productivity in tourism in 2007 was at the same level as in 2001.
- **Marketing Connections:** Ireland has a strong brand in tourism, but research has revealed that while people understand the appeal of Ireland they are less clear on what there is to do in Ireland once they get here. Tourism Ireland research has shown a high level of interest in Ireland but much lower active planning and purchase rates.

6. PRODUCT INNOVATION

Innovation has a fundamental causal relationship with economic growth and productivity, and high productivity levels reflect a high degree of competitiveness. At enterprise level, innovation in both product and service development and in business processes is a requirement of sustained profitability and longevity.

Firms are the primary innovators and drivers of competitiveness. The role of government is to challenge, to encourage, to stimulate and even push firms to raise their performance. This may involve stimulating early demand for new products, investment in specialised factor development, support for research and development, and appropriate regulation to maintain a competitive market environment.

Recommendations on pilot product innovation projects proposed by participants in two innovation workshops conducted as part of this study included the following:

- i) Establish a Tourism Product and Business Process Innovation Fund, accessible by research institutions as well as businesses, preferably working in networks or clusters; this could embrace a tourism product innovation centre.
- ii) Celebrate innovation through a Tourism Innovation Awards scheme that would be open to businesses, local authorities and local development agencies, including community groups.
- iii) Develop comprehensive, interactive local area tourism web-sites carrying details of all possibilities in an area for tourists, with a booking facility and accessible through a gateway at national level.
- iv) Engage retired people as tourist guides and animators to work at street level in the main tourist areas and at visitor attractions and heritage sites.
- v) Create a 'What is Ireland' introduction for tourists which they would receive on arrival, or view on aircraft and ferries; this would be a quick run through Irish history, culture, traditions and social customs.
- vi) Inaugurate a 'Discover Rural Ireland Day' for the home market as well as for overseas tourists, which would invite people to participate in a wide range of rural recreational activities with the support of experienced guides and instructors.

- vii) Create a traditional transport holiday combining journeys on a steam train, bicycles, horses and barges.
- viii) Create Irish island-hopping holidays which would include a range of different activities and experiences.
- ix) Establish a web-based intermediary to connect local product providers with tour operators.
- x) Develop and disseminate case studies on successful Irish destinations and entrepreneurs.
- xi) Accommodation, food and beverage providers could contribute to active tourist information flows by using disposable place-mats with a map of their local area showing things to do and see; these could also be placed in guest bedrooms.

7. RECOMMENDATIONS

Our recommendations on measures to improve Ireland's competitive position in tourism are outlined in the table overleaf. **It should be noted that the order in which the recommendations are presented is related to the model of tourism competitiveness, which informs the structure of this report, and does not reflect any rank order of importance. All of the recommendations are considered to be important. Having said that, the continued evolution of Ireland's competitive position and marketplace developments over the past two years suggest that particular emphasis should be placed on the primary product (people, the environment and cultural heritage), cost competitiveness, education and training, and the transport infrastructure including regional access.**

The proposed timing of the recommended actions has been updated from the original report.

Theme	Actions	Timing	Lead responsibility
<p>2. Greater Local Authority commitment to tourism</p>	<p>Original recommendations:</p> <ul style="list-style-type: none"> - explicit inclusion of responsibility for tourism in the role and title of a Director of Services in each Local Authority. - requirement to have a written tourism policy, to be implemented by the appropriate Director of Services, and to prepare a periodic tourism development plan with a specified action plan and budget. (Note that the remit of Local Authorities should not extend to direct involvement in tourism marketing, other than in the form of contributions to established tourism marketing bodies). - appointment of a tourism development officer in each Local Authority, where such a post does not already exist. - formation of a coordinating group involving senior Local Authority personnel and representatives of the tourism industry. 	<p>Immediate</p> <p>Immediate</p> <p>2008</p> <p>2008/2009</p>	<p>Local Authorities</p> <p>“</p> <p>“</p> <p>“</p>
<p>Updated Position, 2007:</p>	<p>A growing number of counties have, or are putting, tourism development strategies in place. The need for county tourism coordinating groups has increased with the abolition of the County Tourism Committees. In view of the fundamental role that the Local Authorities have in tourism, there is a need for close cooperation between the Authorities and the industry. All of the above recommendations continue to be relevant.</p>		

Theme	Actions	Timing	Lead responsibility
<p>3. Industry bodies have a leadership role to play</p> <p>Updated Position, 2007:</p>	<p>Original recommendations:</p> <ul style="list-style-type: none"> - identifying and promoting actions to enhance competitiveness - acquisition and dissemination of knowledge to assist in product and business process improvement, and in the achievement of productivity gains. - enabling information sharing and the study of best practice management and operations among networks at local and regional levels. - facilitating cooperative action in the areas of product development, training and procurement. <p>The industry bodies are continuing to represent the interests of their members, but few apart from ITIC and IHF have the resources to invest in key areas of research and dissemination of knowledge. ITIC therefore has a key role to play in coordinating the industry and making inputs to policy-making in all areas that affect tourism. The above recommendations continue to be relevant.</p>	<p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p>	<p>Tourism industry representative bodies</p> <p>“</p> <p>“</p> <p>“</p>

Theme	Actions	Timing	Lead responsibility
<p>4. All parties have an essential role in protecting the environment</p> <p>Updated Position, 2007:</p>	<p>Original recommendations:</p> <ul style="list-style-type: none"> - ensure that tourism interests are represented on environmental bodies including the EPA. - the tourism industry must invest in 'green' operational practices for sustainable tourism. A high-profile eco-awards scheme and environmental quality mark should be introduced by the industry. - provide continued support to best practice initiatives such as Tidy Towns, National Spring Clean¹, People and Place Programme, and the IHF Waste Management Strategy for Hoteliers. - direct Local Authority funds for tourism into environmental enhancement projects and activity infrastructure. <p>This continues to be an area of major concern for tourism, but progress is very slow. At this point, the country appears to be in a research phase – Fáilte Ireland has published its Environmental Action Plan and DIT are about to host a major conference on the findings of a major piece of research into sustainable tourism. There is a need to convert research and policy to action while, at the same time, avoiding unnecessary knee-jerk measures that create high costs for little or no benefit.</p> <p>The above recommendations continue to be relevant.</p>	<p>2007/2008</p> <p>2007/2008</p> <p>Ongoing</p> <p>Ongoing</p>	<p>Dept. Environment, Heritage & Local Govt.</p> <p>Tourism industry representative bodies/tourism industry</p> <p>Tourism industry</p> <p>Local Authorities</p>

¹ National campaign run by An Taisce and the Department of Environment, Heritage & Local Government

Theme	Actions	Timing	Lead responsibility
<p>5. Place much greater emphasis on the natural and built heritage</p> <p>Updated Position, 2007:</p>	<p>Original recommendations:</p> <ul style="list-style-type: none"> - Government should consider reuniting the heritage functions of the OPW and the Department of the Environment, Heritage and Local Government into one body where heritage is the leading priority. The tourism industry should be represented on this body. - heritage site management should focus on the quality of the visitor experience, with emphasis on improved physical access and interpretation, including longer and more convenient opening hours and greater availability of guides outside the peak summer months. - the natural and built heritage should be accorded greater statutory protection with respect to the planning of new developments. <p>Responsibility for heritage continues to be divided and there is a need for greater coordination between the national and local authorities.</p> <p>There are substantial allocations for natural and built heritage under the NDP, and priorities for this investment need to be clearly established. Emphasis should be placed on the historic fabric of towns as much as on individual heritage sites, and local authorities have a central role to play in this.</p> <p>The above recommendations continue to be relevant.</p>	<p>2008/2009</p> <p>Ongoing</p> <p>Immediate</p>	<p>Government, OPW, Dept. Environment, Heritage & Local Government</p> <p>OPW, Dept. Environment, Heritage & Local Government, Local Authorities</p> <p>OPW, Dept. Environment, Heritage & Local Government</p>

Theme	Actions	Timing	Lead responsibility
<p>7. More balanced regulation and taxation</p> <p>Updated Position, 2007:</p>	<p>Original recommendations:</p> <ul style="list-style-type: none"> - make VAT on hotel and restaurant expenditure for conference, incentive travel and corporate meetings allowable as a business input. - abolish the existing Local Authority rates system and replace it with local income tax, based on profitability as opposed to property valuations. - broaden the tax base so that business and domestic users are charged for services where the levels of use can be determined. - amend funding structure so that funds for social services come from central government. <p>This continues to be a difficult area for tourism. The Finance Act 2007 made some improvement through a provision for the recovery of VAT incurred on accommodation for conferences organised for at least 50 people. However, apart from this limited provision, VAT on the food element remains non-refundable. Apart from the provision for conferences, VAT on hotel accommodation and restaurants is not eligible for recovery by individuals or companies as a business expense. VAT rates on hotel accommodation in Ireland remain high by European standards.</p> <p>Local authority charges continue to increase at a rate substantially in excess of inflation between 2001 and 2007, the price index for water supply, refuse and miscellaneous charges has risen at almost six times the overall rate of inflation. The need to reform local authority funding has become more urgent.</p>	<p>2007</p> <p>2007/2008</p> <p>2007/2008</p> <p>2007/2008</p>	<p>Dept. Finance, Revenue Commissioners</p> <p>Dept. Finance, Dept. Environment, Heritage & Local Government, Local Authorities</p> <p>Dept. Environment, Heritage & Local Government, Local Authorities</p> <p>Dept. Finance, Dept. Environment, Heritage & Local Government, Local Authorities</p>

Theme	Actions	Timing	Lead responsibility
<p>8. Maintain a supportive investment environment for tourism</p> <p>Updated Position, 2007:</p>	<p>Original recommendations:</p> <ul style="list-style-type: none"> - at least €210 million should be allocated to tourism product development under the National Development Plan, 2007-2013. - public sector investment in key heritage attractions be prioritised in the tourism product development plan. - support for private sector heritage attractions be maintained in the form of support for employment through employment training schemes. - selective support for private sector investment be continued but be focused on stimulating and supporting product innovation; key areas for support include attractions, activities, eco-tourism and 'green' tourism initiatives. - a soft-loan scheme for small and micro-enterprises in the tourism sector should be considered. <p>The NDP allocates €317m to tourism product development, although this includes provision for the National Conference Centre.</p> <p>The NDP also makes substantial allocations to cultural infrastructure, natural heritage, built heritage and waterways, totalling €1,519 million. Much of the investment on cultural infrastructure will be spent on the national cultural institutions located in Dublin and therefore will not benefit tourism elsewhere in the country.</p> <p>In addition to the explicit budget for tourism, there are other areas of funding under the NDP that could be used to leverage resources for tourism. These include budgets for LEADER, local enterprise development, community development, the Western Investment Development Fund, Gaeltacht and Island Communities, the Border Counties, and County and Local Development.</p>	<p>Immediate</p> <p>Immediate</p> <p>Ongoing</p> <p>Ongoing</p> <p>2007/2008</p>	<p>Dept. Arts, Sport & Tourism</p> <p>Dept. Arts, Sport & Tourism, Dept. Environment, Heritage & Local Government</p> <p>Dept. Enterprise, Trade & Employment</p> <p>Dept. Arts, Sport & Tourism, Fáilte Ireland</p> <p>Dept. Arts, Sport & Tourism, Fáilte Ireland</p>

Theme	Actions	Timing	Lead responsibility
<p>9. Better access is essential for regional tourism</p> <p>Updated Position, 2007:</p>	<p>Original recommendations:</p> <ul style="list-style-type: none"> - ensure that the future development of Dublin Airport is prioritised - improve access to Dublin Airport, both from the centre of Dublin and via the M50. - continue to invest in regional airports and in the road networks around them. - introduce regional and local area hop-on/hop-off bus services to enable tourists without cars to travel around the regions. - implement all of the key measures in Transport 21 relating to regional access, including the Western Rail Corridor and the Atlantic Road Corridor. - introduce integrated ticketing between different modes of public transport - introduce user-friendly holiday visa procedures for tourists from the rapidly growing markets in the Far East which will be opened by new air routes in the coming years. - develop a new deepwater port for Dublin at Bremore, which lies between Balbriggan and Gormanston, as proposed by Drogheda Port Company – the Government has given approval to the company to progress this project. - in the longer term, develop an outer ring road around Dublin. <p>All of the original recommendations continue to be relevant, although the grant of planning permission will now enable the planned developments at Dublin Airport to proceed.</p> <p>A key issue in the short to medium term is the potential negative impact of the Open Skies agreement on the western regions. The recommendations already made by ITIC on this issue require urgent implementation, notably the implementation of the tourism and economic plan prepared by the Mid-West Regional Authority in 2006 at the request of the Minister for Transport, and the allocation of a special budget to Tourism Ireland for each of the years 2008 – 2010 to be directed at heightening the motivation to visit the western regions and to at least sustain the level of services to Shannon Airport.</p>	<p>Immediate</p> <p>Immediate and ongoing</p> <p>Ongoing 2008/2009</p> <p>Immediate & Ongoing 2007-2008</p> <p>Immediate</p> <p>2007 onward</p> <p>2012</p>	<p>Dept. Transport, DAA</p> <p>Dept. Transport, Dept. Environment, Heritage & Local Government</p> <p>Dept. Transport Dept. Transport, Local Authorities</p> <p>Dept. Transport CIE, Railway Procurement Agency</p> <p>Dept. Foreign Affairs</p> <p>Dept. of Communications, Marine & Natural Resources, Drogheda Port Co.</p> <p>Dept. Transport, Dept. Environment, Heritage & Local Government</p>

Theme	Actions	Timing	Lead responsibility
<p>10. Continue to invest in education and training</p> <p>Updated Position, 2007:</p>	<p>Original recommendations:</p> <ul style="list-style-type: none"> - intensify the training available for immigrant workers. - instil a greater sense of importance in the quality of the welcome as part of all tourism training programmes. - encourage greater investment in training and education by the industry through enhanced tax reliefs for training expenditure. <p>The recommendations continue to be relevant. and the needs continue to grow as the proportion of immigrant workers in the tourism industry increases and the number of Irish employed declines. The NDP includes a provision of €149 million for tourism training; the industry will need to add substantially to this amount given the scale of task.</p>	<p>Immediate & Ongoing</p> <p>Immediate & Ongoing</p> <p>Immediate & Ongoing</p>	<p>Fáilte Ireland, Industry</p> <p>Fáilte Ireland, Industry</p> <p>Dept. Finance, Dept. Arts, Sport & Tourism, Tourism Industry</p>

Theme	Actions	Timing	Lead responsibility
<p>11. Product innovation is fundamental for competitive success</p>	<p>Original recommendations:</p> <ul style="list-style-type: none"> - busy proprietors should be provided with carefully tailored supports from regional agencies to enable them to be entrepreneurs and innovators: exposure to best practice and ideas elsewhere should form an important part of industry development programmes. - Fáilte Ireland should establish a Tourism Product and Business Process Innovation Fund, accessible by research institutions as well as businesses, working in networks or clusters; this could be modelled on the Swiss Innotour scheme. - the industry (ITIC) should celebrate innovation through a Tourism Innovation Awards scheme. - case studies on successful Irish and overseas destinations and entrepreneurs should be written up and disseminated. - double tax credits should be available for investment in research and development in tourism. - the Government, through Fáilte Ireland and Tourism Ireland, should contribute to a much greater level of research and development in the tourism industry. 	<p>Immediate & Ongoing</p> <p>2007</p> <p>2008</p> <p>Ongoing</p> <p>2008</p> <p>Ongoing</p>	<p>Fáilte Ireland, Regional Tourism Partnerships, County Enterprise Boards</p> <p>Fáilte Ireland</p> <p>ITIC</p> <p>Fáilte Ireland, Industry representative bodies, Academic institutions</p> <p>Dept. Finance, Revenue Commissioners</p> <p>Dept. Finance, Dept. Arts, Sport & Tourism, Fáilte Ireland, Tourism Ireland</p>
<p>Updated Position, 2007:</p>	<p>The Tourism Product Development Strategy 2007-2013 includes a provision of €21 million - i.e. about €3m p.a. - for encouraging tourism innovation, including the establishment of a National Institute for Tourism Innovation. These measures will assist in the realisation of a number of the recommendations, but the budgetary allocation is very small in comparison to the R & D allocations to other sectors. A greater level of investment is required, with input from the industry. The above recommendations continue to be relevant.</p>		

Theme	Actions	Priority	Lead Responsibility
<p>12. Increased investment in market connections</p> <p>Updated Position, 2007:</p>	<p>Original recommendations:</p> <ul style="list-style-type: none"> - The real expenditure on international tourism marketing should be increased by 25% over the next 5 years to reach €50 million per year by 2011 (in 2007 prices). - The Regional Tourism Partnerships in conjunction with local authorities and the tourism industry should develop comprehensive, interactive local area tourism web-sites carrying details of all possibilities in an area for tourists, with a booking facility and accessible through a gateway at national level. - the emphasis in tourist information should shift from the supply of lists of products to advice on the opportunities that would best suit individual tourists. - inaugurate a 'Discover Rural Ireland Day' for the home market as well as for overseas tourists. - much greater levels of industry investment in e-marketing are required, both to get product information on-line and to make it available to purchase, and this should be facilitated through education and training measures. <p>Good progress is being made on these recommendations with the allocation of €335m to tourism marketing under the NDP over the next 7 years and new regional websites being launched. Tourism Ireland are hosting an e-marketing seminar later this year. The question is: how will the increased funding be used. Priorities include the need to market the western regions more intensively in a multi-annual programme as recommended under Theme 9.</p>	<p>NDP 2007-2013</p> <p>2007/2008</p> <p>Immediate & Ongoing</p> <p>2008</p> <p>Immediate & Ongoing</p>	<p>Dept. Finance, Dept. Arts, Sport & Tourism</p> <p>Fáilte Ireland, Regional Tourism Partnerships, Local Authorities, Tourism Industry, Shannon Development</p> <p>Fáilte Ireland, Regional Tourism Partnerships, Shannon Development</p> <p>Tourism industry, Regional Tourism Partnerships, Shannon Development</p> <p>Tourism industry</p>

1. INTRODUCTION

During the 1990s, Ireland experienced a halcyon period as a tourist destination. International tourist arrivals more than doubled, while associated revenue grew by almost 100% in real terms. Ireland out-performed the rest of Europe, and increased its share of world tourist arrivals.

This record-breaking performance was achieved in a generally favourable market environment - international tourist arrivals worldwide increased by just over 50% during the 1990s. However, Ireland's out-performance was driven by a beneficial confluence of key competitive factors. These included a comparatively low cost and low inflation business environment, improved access transport, increased resources for destination marketing, a plentiful supply of labour, and substantial public and private sector investment.

Potent intangible factors were also at work. In particular, Ireland developed a new image and appeal which blossomed from international economic and artistic successes. These brought an exciting modern dynamic to complement the more traditional Irish images, and this was encapsulated in the new Tourism Brand Ireland marketing campaign. Creative, booming Ireland became a desirable destination.

The surge of the 1990s came to a sudden end in 2001. A series of external shocks to world tourism in 2001 - notably foot-and-mouth disease, 9/11 and SARS - resulted in the first significant reverse in international arrivals since 1986. While there has been a recovery since then, and successive records for arrivals and revenue were set in 2004, 2005 and 2006, circumstances have changed. New threats to the prosperity of the Irish tourism industry have arisen, both from a loss of advantage in relation to a number of competitive factors, and from marketplace developments. The latter include changes in demand trends and more aggressive competition from other destinations.

Irish tourism is now at a critical point on its development path. A new tourism policy has been under implementation for the past two years but key issues remain to be addressed to ensure that Ireland and the Irish tourist industry will compete successfully on a sustainable basis in the long term. Against this background, the Irish Tourist Industry Confederation commissioned CHL Consulting Co. Ltd. to conduct a study of Ireland's competitive position and to identify the actions that should be taken by the industry, the

State agencies and the Government to improve this position. A copy of the Terms of Reference for the study is provided in Appendix 1.

The original study was conducted between October, 2005, and February, 2006. The study team researched the subject extensively using a wide range of data sources. We consulted with leaders in the tourism industry and leaders in other sectors of the economy. We also interviewed Tourism Ireland representatives in major overseas markets, and a sample of 26 leading overseas tour operators. Finally, we held two special workshops on product innovation in tourism. A list of sources is provided in Appendix 2.

This update was prepared in August/September, 2007. It takes into account developments during the past 18 months, and incorporates the latest available statistical data on all of the indicators of competitiveness analysed in the study. An overview of developments in Ireland's competitive position since the original report was completed is provided in the Executive Summary.

2. DETERMINANTS OF COMPETITIVENESS

Competitiveness is a measure of comparability with one's rivals. Competitive economies, destinations and enterprises are those that have the ability to compete successfully. It is a measure that can readily be determined at enterprise level, since firms may choose to compete primarily on one specific attribute of their products such as price, design or customer service. However, it is a much more complex measure when applied to economies and destinations. In this section, we seek to define competitiveness as it applies to tourist destinations, and to develop a model of competitiveness in tourism.

2.1 Definitions of Competitiveness

There are many definitions of competitiveness, most of which are closely related to each other but with each taking a particular angle on the subject. A number of interesting perspectives were put forward by people from within and without the tourism industry with whom we consulted during the study. A selection of their definitions is provided in Box 1 below.

Box 1: What is Competitiveness?

- 'A state of being better or worse than others'
- 'The advantage you have over another'
- 'Delivering good value for money'
- 'Making the experience worth the money'
- 'Relative perceived quality in the served market'
- 'The capacity to respond flexibly to customers'
- 'Selling products profitably in international markets'
- 'Being sustainable'

Sources: Observations made by people interviewed for this study

The above definitions represent quick responses to a question, but together give a good flavour of the essence of competitiveness at enterprise level. More analytical definitions of national competitiveness have been proposed by Stephane Garelli, the Director of the World Competitiveness Yearbook². He puts forward two definitions, one concise and one that attempts to be more encompassing of all aspects of competitiveness.

² Stephane Garelli, 'Competitiveness of Nations: The Fundamentals', World Competitiveness Yearbook, 2005, IMD, Lausanne.

The condensed version is:

“Competitiveness analyses how nations and enterprises manage the totality of their competencies to achieve prosperity or profit.”

This definition is close to many of those suggested by people whom we interviewed, and offers a summary of the process of competitiveness. A more insightful definition of competitiveness at national level offered by Professor Garelli describes it as an analysis of the

“facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value-creation for its enterprises and more prosperity for its people.”

The second definition recognises the role of national government in establishing an environment that supports (or obstructs) the ability of enterprises to compete. It also indicates that national competitiveness is based on a complex range of factors. While prices and cost competitiveness are obviously important elements, there are numerous other factors which also exert a determining influence.

This notwithstanding, popular debate on competitiveness has become increasingly absorbed with the price of goods and services. The emphasis is on cost, which has become the primary yardstick for value, while other factors that contribute to value are largely ignored.

When the prevailing price levels in certain leading tourist destinations are considered in conjunction with their respective volumes of tourist arrivals, it is evident that the relationship between price and demand is neither simple nor direct. In fact, the experience of destinations such as London, Paris and Sweden demonstrate that competitiveness is not incompatible with an expensive operating environment. This is highlighted by the results of all three of the competitiveness indices considered in this Section - the most competitive destinations also appear among the most expensive. As the Director of IMD puts it:

'In many cases, the explanation is that nations first tend to be competitive then, with success, become expensive. The relationship between costs, productivity and competitiveness is a subtle one. A low cost competitiveness strategy gradually leads to the development of other competitive advantages'.

Source: ¹IMD: 'World Competitiveness Yearbook', 2005

This is not to diminish the importance of costs and prices as significant competitive factors. However, many input costs are outside the tourism industry's control, and increases in these usually have to be accepted by the industry. Examples include energy costs, insurance and taxes, including local authority charges. In the face of steep increases in such costs, the industry can seek to become more efficient, raise productivity levels and implement cost control and reduction policies. Price increases are also likely in such circumstances but, where these exceed prevailing rates of inflation and the tourism product becomes expensive relative to competing destinations, the commercial response required of the industry is to deliver value for money to its customers. The overall quality of the tourist experience then becomes the defining criterion of value.

2.2 Measures of Competitiveness

As the economic study of competitiveness has evolved, analysts have created a variety of models which explicitly take into consideration a wide range of different factors. During the past 20 years, a number of measures of national competitiveness have been developed by international organisations, including the World Economic Forum (WEF), the International Institute for Management Development (IMD) and the World Travel and Tourism Council (WTTC). The benchmarking indices for national economies that have been developed by the WEF and IMD are described in Appendix 3. Both the WEF and the WTTC have developed indices that are specific to tourism and these are outlined below.

2.2.1 The World Economic Forum (WEF)

The WEF has developed a Travel and Tourism Competitiveness Index (TTCI) which is at the core of its Travel & Tourism Competitiveness Report 2007. The aim of the TTCI, which covers 124 economies, is to provide a comprehensive strategic tool for measuring

the factors and policies that make it attractive to develop the travel and tourism sector in different countries.

The TTCl is comprised of 3 component indices - the regulatory framework index, the business environment and infrastructure index, and the human, cultural and natural resources index. The three indices are based on a group of 13 sub-indices or 'pillars'. The 13 'pillars' are themselves calculated on the basis of 58 underlying component indices for which data are available for the majority of countries. These indices are developed from survey data, obtained from the WEF's annual Executive Opinion Survey, and from hard data obtained from publicly available sources, international travel and tourism institutions, and travel and tourism experts, such as IATA, ICAO, UNWTO, WTTC and UNESCO. Of the 58 sub-pillars, 28 are scored on the results of the Executive Opinion Survey and 30 are supported by hard data.

Box 2 gives the list of 13 'pillars'. Ireland's score and ranking with respect to each of the pillars are detailed in Table 2.1.

Box 2: WEF Travel & Tourism Competitiveness Index: Component Indices

Main Indices	Main Pillars
1) Regulatory framework	Policy rules & regulations; environmental regulation; safety & security; health & hygiene; prioritisation of travel and tourism strategies
2) Business environment & infrastructure	Air transport infrastructure; ground transport infrastructure; tourism infrastructure; ICT infrastructure; price competitiveness in the T&T industry
3) Human, cultural & natural resources	Human resources; national tourism perception; natural and cultural resources.

Source: WEF Travel and Tourism Competitiveness Report, 2007

Table 2.1: Ireland's Ranking in the WEF Travel & Tourism Competitiveness Index 2007

Index	Score (1-7 scale)	Ranking (out of 124 countries)
Overall	4.9	27
Regulatory framework	5.3	14
- policy rules & regulations	5.7	4
- environmental regulation	5.2	22
- safety & security	5.2	31
- health & hygiene	5.7	35
- prioritisation of travel and tourism strategies	4.8	24
Business environment & infrastructure	4.4	26
- air transport infrastructure	4.3	20
- ground transport infrastructure	3.8	50
- tourism infrastructure	5.6	13
- ICT infrastructure	4.3	30
- price competitiveness in the T&T industry	4.1	91
Human, cultural & natural resources	5.0	46
- human resources	5.8	9
- national tourism perception	4.8	67
- natural and cultural resources.	4.5	54

Source: WEF Travel and Tourism Competitiveness Report, 2007

According to the WEF report, Ireland is competitively strong in areas of policy rules and regulations: property rights are well protected, foreign ownership is authorised and there are effective rules governing foreign direct investment. Ireland also rates highly on the human resources sub-pillars of ease of hiring foreign labour (ranked 2nd overall), the quality of the educational system (ranked 6th), secondary education enrolment (ranked 8th) and investment in staff training (ranked 15th). Ireland is seen to have a competitive advantage in tourism infrastructure (number of hotel rooms per head of population, the presence of major car rental companies and ATMs accepting Visa cards) and in the prioritization of travel and tourism (effective marketing and branding activities - ranked 9th, Government prioritisation of the T&T industry - ranked 13th, and T&T fair attendance - ranked 15th).

However, these strengths are offset to some degree by weaknesses such as the high price of fuel (ranked a very low 116th) and purchasing power parity (ranked 113th). In relation to these two sub-pillars Ireland has similar scores to Germany, France and the Netherlands, and is ranked higher than the UK. Ireland's overall ranking is adversely

affected by the fact that it has very few World Heritage sites and nationally protected areas, and has the second lowest rated ground transport infrastructure system in the EU original 15.

Table 2.2 shows the overall rankings of Ireland and its main European competitors in relation to the three main indices. Ireland's competitive position seems at variance with its actual performance in recent years relative to the other destinations which implies that the indices are not capturing all aspects of competitiveness and that their accuracy may be limited. However, the indices also highlight issues that Ireland needs to address in order to enhance its competitiveness in the future.

Table 2.2: WEF Travel and Tourism Competitiveness Index: Comparative Rankings

Country	Overall Ranking	Regulatory Framework	Business Environment & Infrastructure	Human, Cultural & Natural Resources
Switzerland	1	2	2	2
Austria	2	3	12	1
Germany	3	6	3	6
UK	10	21	6	10
Denmark	11	8	16	9
France	12	13	5	28
Sweden	17	19	13	27
Netherlands	19	22	15	25
Belgium	21	24	29	4
Norway	23	9	21	40
Ireland	27	14	26	46
Estonia	28	32	25	34
Italy	33	42	30	32
Czech Republic	35	40	37	22
Hungary	40	26	51	51

Source: WEF, 2007

The following points may be noted with regard to the rankings in Table 2.2:

- Although Ireland is ranked 27th in the overall index, the ranking on the Regulatory Framework index is 14th, significantly higher than the UK, Sweden and Italy. The main reason for the high ranking is Ireland's effective/facilitative policy rules and regulations - Ireland is ranked 4th overall in this sub-pillar.

- Ireland's ranking in the Business Environment and Infrastructure Index is negatively affected by its ground transport infrastructure and price competitiveness. Internet usage is also below that of its principal competitors.
- Ireland is ranked 46th in the Human, Cultural and Natural Resources index, the lowest in the competitor set. The main reasons for this ranking are the low scores on the natural and cultural resources and the national tourism perception pillars. These rankings stemmed from very low scores in relation to the number of World Heritage Sites, the size of nationally protected areas as a percentage of total land area and, with regard to national tourism perception, the likelihood of visiting business executives being given a recommendation by their hosts to extend their visit for leisure purposes. This last index is based on the WEF's Executive Opinion Survey.

On the whole, the rankings in the WEF report do not appear unreasonable and they are generally consistent with the findings of our analysis in this report. However, in a number of the key areas in which Ireland is outperformed by its competitive set, the rankings are based on the subjective opinions of the participants in the WEF's Executive Opinion Survey. The sample size in this survey averages 80 per country, but no details with regard to the size and composition of the Irish sample are published. The statistical robustness of this survey is therefore unclear.

As identified in the WEF report and this study, Ireland's main competitive advantages are:

- highly competitive environment for business and investment
- the education system
- ready supply of labour force and the ease of hiring foreign labour
- effective marketing and branding activities
- the prioritisation of sustainable tourism and travel.

The major disadvantages are:

- high cost destination
- inadequate air transport, ground transport and internet infrastructure
- lack of world heritage sites and nationally protected areas.

2.2.2 The World Travel and Tourism Council (WTTC)

The WTTC has developed its own **Competitiveness Monitor**. This is intended to provide a ranking of countries in terms of the relative extent to which they offer a competitive environment for travel and tourism development.

Rather than attempting to create a single index of competitiveness, as the WEF and IMD have done, the WTTC's Competitiveness Monitor comprises eight separate indices, each of which measures a different dimension of tourism performance and the operating environment for tourism enterprise and activity. As with the WEF framework, the eight indices are themselves calculated on the basis of a series of underlying component indices for which data are available for the majority of countries. (Over 200 countries are covered by the Competitiveness Monitor.) Box 3 gives the list of eight indices plus the principal component indices underlying each of them.

The indices are calibrated by the WTTC to enable comparisons to be made between all countries. The value of each index ranges from 0 to 100, with '0' representing the least competitive and '100' representing the most competitive. Ireland's score on each of the indices is shown in Table 2.3. (No value has been calculated for the Openness Index in Ireland's case, but a high ranking could probably be assumed.)

Box 3: WTTC International Tourism Competitiveness Monitor: Component Indices

Main Indices	Main Pillars
1) Price Competitiveness	Hotel prices, indirect taxes, purchasing power parities
2) Human Tourism	Volume and value of inbound and outbound tourism
3) Infrastructure	Roads, railways, water, sanitation
4) Environment	Population density, CO ₂ emissions, ratification of international treaties on the environment
5) Technology	Internet access, telephones, mobile phones, high-tech exports
6) Human Resources	Life expectancy, literacy, enrolment in primary, secondary & third level education, employment in travel & tourism, unemployment, population, gender indicators
7) Openness	Visa requirements, trade openness, taxes on trade, tourism openness
8) Social	Human Development Index, TV's, personal computers, newspapers, crime.

Source: WTTC Competitiveness Monitor, 2006

Table 2.3: Ireland's Ranking in the WTTC Competitiveness Monitor, 2004

Index	Value	Ranking (out of 212 countries)	Range
Price Competitiveness	24	101	Below average
Environment	51	92	Average
Infrastructure	52	63	Average
Human Tourism	60	30	Average
Social	76	23	Above average
Human Resources	88	17	Above average
Technology	99	16	Above average

Source: www.wttc.org, 2006

The pattern of values for Ireland shown in Table 2.3 is broadly consistent with that of other Western European destinations and with the WEF Travel and Tourism Competitiveness Index. The main exceptions are the Infrastructure and Environmental Indices where Ireland's scores are much lower than those of our European competitors. On the other hand, while Ireland also records a low score on price competitiveness, many other Northern European destinations have even lower scores on this Index. This is illustrated in Table 2.4 which gives the values of selected indices for Ireland and a range of other destinations.

Table 2.4: WTTC Competitiveness Monitor - Comparative Rankings

	Tourist Arrivals (mn)	Price Index	Human Tourism	Infrastructure Index	Environment Index
Norway	3.0	8.3	n.a.	n.a.	97.7
New Zealand	2.3	40.2	61.7	n.a.	89.6
UK	22.4	14.8	48.0	74.4	88.2
Sweden	10.4	11.6	58.8	61.8	83.4
Italy	43.5	22.3	35.8	61.4	75.0
Germany	19.2	32.3	48.3	70.0	74.2
Denmark	2.0	14.5	70.0	59.5	69.2
Switzerland	10.0	8.4	69.4	79.1	65.4
France	80.9	26.2	35.2	62.2	65.2
Austria	19.2	29.3	69.6	77.1	64.1
Ireland	7.0	23.9	59.6	52.1	50.9

Note: 100 = most competitive; 0 = least competitive.

Ireland's low ranking on infrastructure and environment relative to other northern and western European destinations highlight areas of concern. Both the WEF and WTTC indices are consistent on this. People interviewed during the course of this study emphasised the need to maintain high levels of expenditure on the national transport infrastructure. ITIC's submission to the National Development Plan³ noted that:

'In overseas markets, deficits in physical infrastructural capacity are much more likely than the cost of access fares to inhibit tourism growth in the future. For overseas and domestic tourists alike, an upgrading of internal transportation capacity is a prerequisite to ensuring a greater regional dispersion of tourism'.

Environmental management is also a critical issue, given the high priority accorded to it by overseas tourists. Although the WTTC Environmental Index is a very approximate measure of relative competitiveness in this area - see Box 3 - the general point that Ireland's environment will need greater levels of protection in the future remains valid.

2.2.3 Summary of the Main Points on Measures of Competitiveness

The preceding review of definitions and measures of competitiveness highlighted a number of key points, chief among which are the following:

- Deceptively simple in concept, competitiveness is a complex measure especially when applied to entire economies and destinations. It embraces a very wide range of factors which extend into all areas of economic and social activity.
- Competitiveness is a dynamic rather than static measure, and is based on perceptions of value rather than price.
- While cost-competitiveness is undoubtedly an important consideration, it represents only one of many dimensions of overall competitiveness. In general, as destinations develop and are successful, they become less cost-competitive but they can maintain their appeal on the basis of successful management of other competitive advantages. The goal is to deliver a quality value-for-money experience that vindicates the price.

³ ITIC: "Submission to National Development Plan", prepared by Paul Tansey on behalf of ITIC, March 2006.

- Ireland scores well in international measures of competitiveness as an economy and as an environment for business. Its competitive ranking as a tourist destination is lower, and is negatively affected by prices, environmental and infrastructural issues.
- Finally, the use of quantitative indices to measure relative levels of international competitiveness has signal limitations. They rely on a wide range of underlying indices and other data which not only vary from country to country, but many of which only have a partial relevance to competitiveness. In a number of instances, especially in the WTTC's Competitiveness Monitor, certain data appear to have been selected as a proxy for more direct measures, simply on the basis of availability. Examples include hotel prices as an indicator of all tourism product prices, and merely being a signatory to international treaties on the environment rather than actually implementing them.

2.3 National Model of Competitiveness

The difficulty of developing single measures or indices of national competitiveness that adequately capture all of the relevant factors has been described in Section 2.2. In his book, *The Competitive Advantage of Nations*,⁴ Professor Michael Porter argues that '*the only meaningful concept of competitiveness at the national level is national productivity*'. While this can be measured in terms of per capita national output, it is itself dependent on a multiplicity of factors and the actions taken by enterprises and governments to influence these.

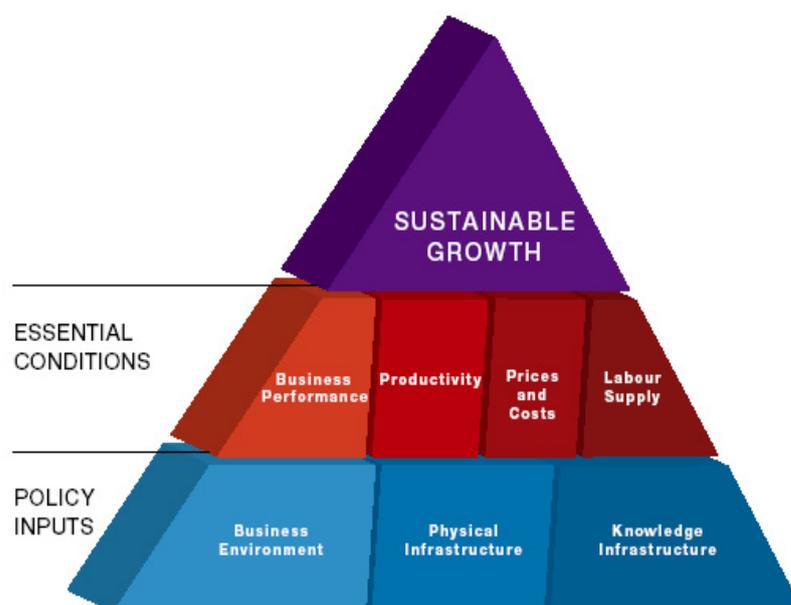
In this light, a more practical approach in terms of identifying the key competitive factors and appropriate actions may be found in descriptive models, the individual components of which can then be analysed. The National Competitiveness Council (NCC) has developed such a model which it calls the Competitiveness Pyramid, illustrated in Figure 1 below. The Pyramid is derived from the NCC's definition of national competitiveness as

'a broad concept that encompasses a diverse range of factors that support the ability of firms in Ireland to achieve success in international markets, in a way that provides Ireland's people with the opportunity to improve their living standards and quality of life'.

Source: NCC: Annual Competitiveness Report, 2005

⁴ Michael Porter: *The Competitive Advantage of Nations*, Reed Business Information, 1990

Figure 1: The NCC Competitiveness Pyramid, 2007



The key elements of the Competitiveness Pyramid are:

- **Sustained economic growth:** the goal of national competitiveness is to achieve sustainable improvements in living standards and quality of life.
- **Essential conditions:** these are the key drivers and enablers of competitiveness at enterprise level, and are essential requirements for sustainable economic growth. They comprise labour supply, productivity, prices and costs, business performance, and innovation and entrepreneurship.
- **Policy inputs:** the measures required to enable and support competitiveness in relation to Business Environment (comprising taxation, regulation and finance), Physical Infrastructure, and Knowledge Infrastructure (comprising education, training and R&D). In general, the State has a vital role to play in delivering the appropriate policy inputs.

The NCC benchmarks Ireland's performance against other advanced economies across the range of competitive factors that make up the Pyramid, using some 135 indicators. This benchmarking exercise provides a good insight into Ireland's competitive position, and helps to identify the key competitive challenges that the economy faces. The latter are highlighted in the NCC's report, '*The Competitiveness Challenge*', which is updated

and published annually. In its 2006 report, the NCC called for policy action in ten key areas to foster the conditions necessary to drive productivity growth in the future. The three leading priorities are identified as:

- Cost competitiveness: co-ordinated actions to restore Ireland's cost competitiveness are seen as critical across a range of policy areas including fiscal policy, infrastructure and land-use planning.
- The development of a knowledge intensive workforce, with reforms and investment required at pre-primary, secondary and higher education levels
- A competitively priced and secure supply of energy.

Other areas requiring action are identified as:

- labour force development
- public sector efficiency
- social capital, including social partnership, quality of life issues and active citizenship
- innovation, research and development
- productivity growth
- regulatory environment
- infrastructure.

The work of the National Competitiveness Council is very important both to the understanding of Ireland's competitive position and in advising on policies to promote national competitiveness. However, it has very little, if anything, to say about tourism. This reflects a wider lack of serious consideration of tourism by many of the economic development agencies, local authorities and government departments other than those specifically charged with a tourism brief.

It is not clear why this state of affairs should persist. The economic value of tourism has been the subject of numerous detailed studies conducted by leading economists over the past 15 years. In 2006, it is estimated that tourism contributed almost 4% of Gross National Product, and employment in tourism-related enterprises amounted to 249,338 persons in some 18,000 establishments. Tourism is one of the largest industries in the country, and one which has continued to generate new jobs while agriculture and manufacturing industry have been experiencing a decline in employment. Moreover,

tourism activity and enterprise is spread throughout the island which makes it a vital contributor to local economies in areas that would otherwise have little or no economic activity.

Possibly, one of the reasons why tourism is off the radar of many public sector bodies is that it is not an explicit component of the national accounts. The fact that tourism is a collection of industries rather than a single industry also adds to its complexity for analysis. The development of a Tourism Satellite Account by the National Centre for Tourism Policy Studies at the University of Limerick will help to give a better understanding of the size and role of the tourism industry. The first report on this project was published in 2005, and it pointed out that much more work remains to be done, especially in the area of data collection, as there are many gaps (for example, in the area of day-trips). However, the initial results indicate that the total economic value of tourism activity is in the region of 8% of GNP.

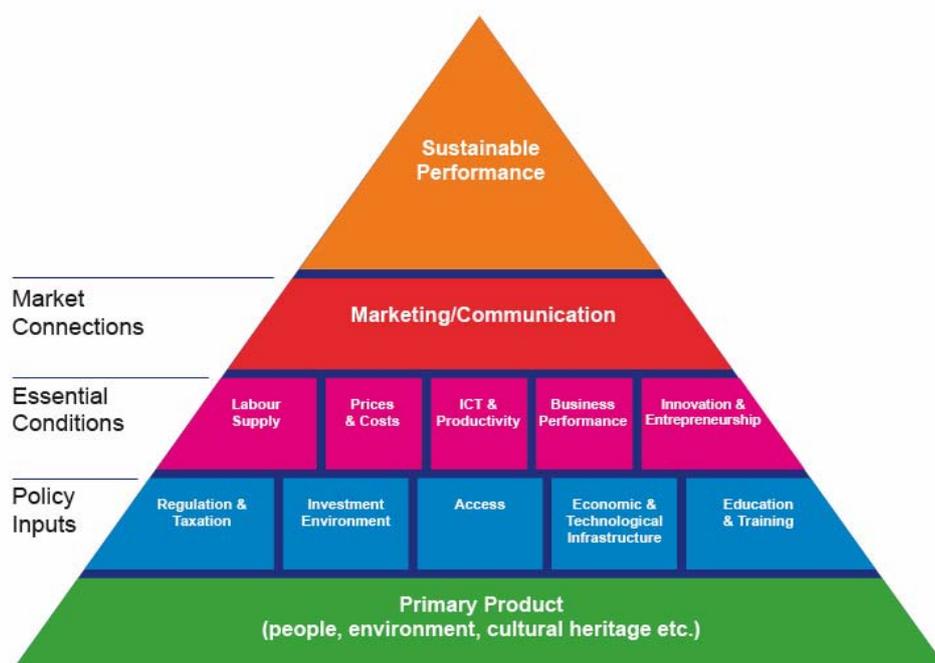
The development of the Tourism Satellite Account will have a valuable role to play in demonstrating the high value of tourism to the economy at national and regional levels. Recognition of the importance of tourism by policy makers, local authorities and the economic development agencies will be critical to the competitiveness of Irish tourism in the years ahead.

2.4 A Competitiveness Model for Irish Tourism

The NCC's Competitiveness Pyramid offers a framework that can be tailored to the specific circumstances of the tourism industry. We have adapted the Pyramid by giving explicit recognition to additional factors at the 'essential conditions' and 'policy inputs' layers. We have also added two layers to the pyramid to represent the primary tourism product and marketing respectively, since these have distinctive dimensions in tourism. The resulting Tourism Competitiveness Pyramid is shown in Figure 2 overleaf.

The elements of the Tourism Competitiveness Pyramid may be described as follows:

Figure 2: Tourism Competitiveness Pyramid



- **Primary Product:** market research over the years has consistently shown that the main attractors for visitors to Ireland and our principal competitive advantages with regard to product are Irish people, scenery, the natural environment and our cultural heritage. These attractors constitute the primary tourism product. They can be defined as Ireland's factor endowments in tourism insofar as they are inherited assets. The national responsibility is to protect and preserve these assets, to enhance them if possible, to educate residents and visitors about them, and to enable access. They are the foundations of the tourism industry and Ireland's ability to compete is threatened by any damage to, or diminution of, these assets.
- **Policy inputs:** the key areas in which policy inputs are required to enhance the competitiveness of Irish tourism may be summarised under the following headings:
 - regulation and taxation
 - investment environment
 - economic and technological infrastructure
 - education and training
 - access.

These are broadly the same as in the NCC's Competitiveness Pyramid, with the exception that access is highlighted because of its critical importance, and explicit recognition is also given to the investment environment. The latter relates to investment by both the public and private sectors as well as the policy measures required to stimulate and support investment in tourism development.

- **Essential conditions:** the factors on this layer of the Tourism Competitiveness Pyramid are largely the same as in the NCC's pyramid, and comprise:
 - labour supply
 - prices and costs
 - productivity, and information and communications technology (ICT)
 - business performance
 - entrepreneurship and innovation.

The additions in the Tourism Competitiveness Pyramid are to make the use of information and communications technology explicit in the model, and also to highlight entrepreneurship and innovation.

- **Marketing/Communications/Distribution Channels:** a layer of the Tourism Competitiveness Pyramid is allocated to these closely related factors because of their distinctive features in tourism. In the first place, national destination marketing is largely funded by Government through the principal tourism marketing and development agencies, Tourism Ireland Ltd. and Fáilte Ireland. The many good reasons why governments throughout the world fund national tourism marketing will not be rehearsed here. Suffice to say that it is a profitable activity for the State in terms of the substantial tax revenues earned from tourism, and it fills a large gap which a fragmented industry, mainly composed of numerous small and micro enterprises, cannot fill.

A second distinctive feature of tourism marketing is the physical distance between suppliers and buyers at the initial point of purchase. The 'transactability' of the tourism product therefore depends heavily on the use of various distribution channels, including tour operators, travel agents, global distribution systems and, increasingly, the internet. The importance of distribution channels therefore means

that they need to be explicitly featured in the model since they have a significant impact on competitiveness.

- **Sustainable Growth:** this is the apex of the pyramid, and the ultimate objective of national competitiveness in tourism. It is heavily dependent on successful management and delivery with respect to each of the competitive factors highlighted on the supporting layers. Sustainability in this context encompasses economic, social, cultural and environmental sustainability. While it is impossible to insulate Irish tourism against external shocks, such as terrorist attacks, climatic factors or economic upheaval in major source markets, performance and growth are ultimately dependent on the ability of Irish tourism to remain highly competitive in the long term.

3. IRISH TOURISM INDUSTRY PERFORMANCE

In this chapter we will examine Ireland's competitive performance. We begin by looking at headline tourism data to see how well Ireland has been doing in recent years. This performance is set in the context of the success of the wider Irish economy.

We then place Ireland's performance in the context of international competition. We examine Ireland's share of world and European tourist arrivals and Ireland's performance relative to our competitive set.

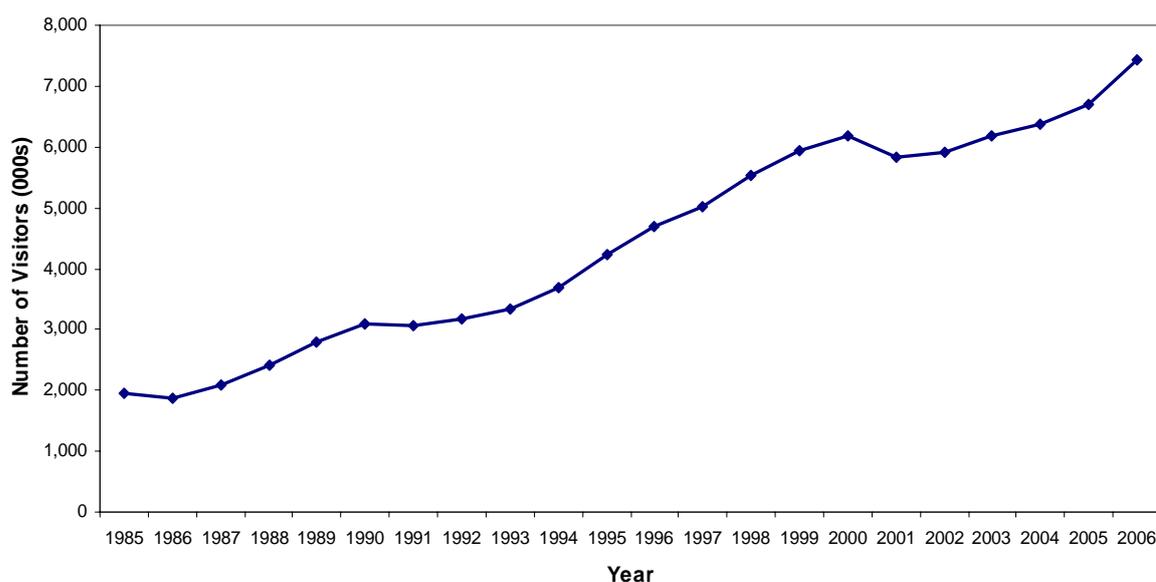
This section concludes with consumer feedback from the 2006 Visitor Attitudes Survey suggesting, that despite recent growth, the Irish tourism industry has many reasons not to be complacent.

3.1 Ireland's Tourism Industry Performance

3.1.1 Overseas Visitor Numbers

The Irish Tourism Industry has achieved a remarkable growth over the last twenty years, with overseas tourist arrivals growing from 1.95m in 1985 to 7.4m in 2006. Figure 3 highlights the successful growth path of the industry since 1985.

Figure 3: Total Overseas Visitors 1985 - 2006



Source: Fáilte Ireland, 2007

During the period 1993 to 2000, the annual growth rate in overseas visitor arrivals averaged 9.4%. Another period of strong growth was during the four years from 1986 to 1990 when average annual growth rates of 13.3% were achieved. These periods of growth correspond with stronger world economic performance as reflected by growth in real GDP in OECD countries.⁵

The sharp decline in visitor numbers in 2001 reflects the downturn in world travel after September 11th, and the negative impact on tourism of measures to defend against foot and mouth disease. These occurrences demonstrate how tourism demand can be seriously affected by external events outside the control of industry and government.

Overseas visitors to Ireland did not return to 2000 levels until 2003. They have continued to rise since then, albeit at a slower pace than in the years 1993 to 2000. From 2000 to 2006, the annual growth rate in the number of overseas visitors to Ireland has averaged just 3.1%. However, the growth in numbers recorded in 2005 and 2006, at 5.9% and 9.7% respectively, suggest that Ireland has been competing successfully during the past two years.

Figures released by the Central Statistics Office show that overseas visitor numbers have continued to increase in 2007, albeit at a slower rate – during the first 6 months of the year, arrivals were up by 3% over the same period in 2006, with particularly strong growth (+15%) coming from Continental Europe. Revenue from overseas tourists increased by 7.5% during the first 6 months of 2007, more than twice the rate of volume increase. Among the factors contributing to the higher average expenditure per tourist has been the rapid growth in pure holidaymaker and business tourist arrivals (+11% and +12% respectively) while the lower spending VFR arrivals were down by 8%.

3.1.2 Source Markets

Great Britain represents Ireland's most important source market accounting for an annual average of 57% of all overseas visitors since 1990. Recent years have seen a modest reduction in the level of dependence on the British market, with its share of total arrivals dropping steadily from 58% in 2002 to 52% in 2006. Proximity and ease of access as well as a large Irish contingent living in Britain have historically contributed to a heavy flow of

⁵ OECD 'Economic Outlook Number 78 Annex Tables', 19th December 2005

traffic between Britain and Ireland. However, this market is increasingly under pressure as low-fares airlines open up new destinations from Britain.

Ireland's visitor numbers from Continental Europe grew by 18.3% in 2006, and the results for the first 6 months of 2007 show a further 15% increase. The German and French markets remain the most important Continental European source markets despite a number of years of negative growth during the past decade. However, there was a significant upturn in these markets in 2005 which was sustained into 2006. Much of the overall growth from Continental Europe since 2004 is attributable to the large numbers arriving from Poland and other East European countries in response to the employment opportunities available in Ireland.

Outside Europe, North America remains the most important source market. Visitor numbers have almost returned to pre-2001 levels, with a 10.4% increase in visitors in 2006 and a further 3% rise in the first half of 2007.

Ireland's visitor numbers from new and developing markets (all areas outside of Europe and North America) grew by 9% in 2006. While these visitors represented only 4% of all overseas visitors to Ireland, their distance of travel meant that they stayed longer and contributed 7% of total tourism revenue. It is likely that migrant workers accounted for a sizeable share of this increase.

Table 3.1 highlights a number of relevant travel trends in key source markets.

Table 3.1: Trends in Key Source Markets

Market	Trends
Great Britain	<ul style="list-style-type: none"> - Increase in short 'city' breaks over longer holidays - Attraction of new destinations especially Eastern Europe and sun holidays especially Spain and France - Decline in car tourism and increase in air access
Germany	<ul style="list-style-type: none"> - Sun holidays maintain popularity - Length of stay in decline despite growing market for long (4+ nights) holidays - Seasonality still important with most travel taking place from June to August
France	<ul style="list-style-type: none"> - Recent strong growth in outbound travel will be affected by poor economic environment - Significant portion (18% in 2005) of outbound travel from those aged 65+ - Use of travel trade remains high; 61% use a travel agent or tour operator to book part of their holiday
Italy	<ul style="list-style-type: none"> - Seasonality still important with most travel taking place in July and August - Strong preference for touring holidays - Use of travel trade remains high
USA	<ul style="list-style-type: none"> - Higher growth in travel to regions other than Europe - Within Europe, while Western Europe is favoured over Eastern Europe in absolute terms, there is more rapid growth in demand for the latter. - Outbound holiday travel becoming less seasonal with more travel originating in the off-season - Growing use of internet as information source.

3.1.3 Regional Imbalances in Tourism Growth

Despite the huge growth in visitor numbers since 1985, the regional distribution of Ireland's tourism has been undergoing major changes. While Dublin has increased in popularity, areas outside the capital have suffered significant losses. Using bednights as the key measure of performance, overseas holidaymakers spent 1.8 million fewer bednights in regions outside Dublin in 2006 than they did in 1999. Although this was an improvement on the regional performance in 2004, it still represents a dramatic 9.4% drop in demand.⁶ The net loss in the four regions on the western seaboard was even higher at 1.97 million. In contrast, Dublin experienced a 76% increase in overseas holiday bednights during the same period. The Midlands-East region also enjoyed a substantial increase.

⁶ ITIC, 'How Tourism to Ireland is changing: Regional Distribution', Tourism and Transport Consult International, June 2005 - data updated to 2006.

All regions outside Dublin, with the notable exception of the South-East, have been affected by this drop in bednight demand from overseas holidaymakers. The greatest losses in the regions have been in relation to the British market (drop of 1.65m bednights since 1999) and North America (drop of 355,000 bednights). The Continental European market for the regions actually increased by 35,000 bednights over the period. The regions to have lost most are Shannon (down 1.07m bednights since 1999), the North-West (down 484,000 bednights) and the West (down 362,000 bednights). These figures are of particular concern since tourism is relatively more important to the economies of these three regions than it is to any of the other regions in the country, including Dublin⁷.

The decline in holiday bednight demand in the Western regions implies a loss of competitiveness on the part of these regions in current market circumstances. There appear to be two distinct types of holiday demand for Ireland - a short break market, centred on Dublin, and longer holidays spread across the rest of the country. The Western regions have found it very difficult to attract demand from the short-break market, while the traditional longer holidays market has been changing in profile. The ITIC report on the regional distribution of tourism concluded that:

'The fall off in the demand for holidays outside of Dublin is partially explained by the parallel reduction in the proportion of car-based tourism, especially the 'bring your own car' segment from the UK. Another factor is the wider range of competitively priced air services into Dublin. Other factors that have contributed to the decline in tourism to areas outside Dublin include the decline of the discretionary Visiting Friends and Relatives (VFR) visitor segment from Britain and the lack of growth in holiday visitors from the German, French and Dutch markets - all segments which traditionally focused on rural Ireland, particularly the western regions'.

Source: ITIC: 'How Tourism to Ireland is Changing: Regional Distribution', prepared for ITIC by Tourism and Transport Consult, June 2005

The regional distribution of tourism improved in 2006, and the figures for holiday bednight demand quoted above represent a significant improvement over the performance recorded in 2004 when demand outside Dublin was some 3.4m bednights below the 1999 level. Increases in direct air services to the regions by low-cost carriers influenced this upswing in regional demand in 2006. Notwithstanding this improvement, the goal of

⁷ ITIC: 'Submission to National Development Plan', March 2006, prepared by Paul Tansey for ITIC.

achieving sustained growth in tourism across all regions continues to be a pressing issue for Irish tourism.

3.1.4 Domestic Trips and Northern Ireland Visitors

Domestic tourism, including tourism from Northern Ireland has seen a significant increase since 2000⁸. Domestic trips increased by 33% (to 7.3 million trips) during the 6 years up to 2006, while visitors from Northern Ireland increased by 26% (to 585,000 visits). This growth occurred despite the impact of low fares airlines and increased overseas travel from both North and South.

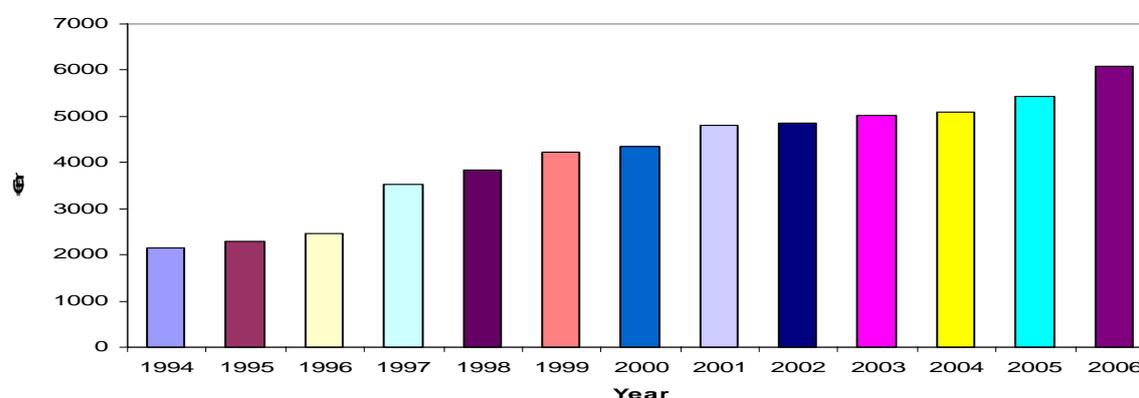
The strong growth in the short break market has benefited both overseas and domestic tourism. The buoyant domestic market has a key role to play in driving up the quality of the Irish product and in balancing the seasonality of overseas visitors.

During our consultations, a number of people commented on domestic market price resistance. This arises from an unwillingness to pay higher prices at home because they perceive that the quality to be had in Ireland is lower than overseas. With increased overseas travel, and the experience of overseas products and services, the domestic market will play a key role in driving quality standards at home.

3.1.5 Tourism Revenue

With the shift towards short breaks, revenue is a more important indicator of performance than visitor numbers. Figure 4 shows that Irish tourism has grown from a €2.2 billion industry in 1994 to a €6.1 billion industry in 2006 - a growth of 182% over the period⁹.

Figure 4: Total Tourism Revenue 1994 - 2006



Source: CSO / Fáilte Ireland / Northern Ireland Tourist Board (NITB)

⁸ Since 2000, measurement of domestic trips and Northern Ireland visits were revised based on the CSO Household Travel Survey.

⁹ Since 1994 there have been a number of changes in the way that data is measured, e.g. exclusion of commercial drivers.

At the same time, there has been a slight slowdown in tourism revenue growth since 2001, reflecting the reduced growth rate in volume. Between 1996 and 2000 total tourism revenue increased by 32% compared with 26% between 2001 and 2006. Of greater concern is that average expenditure per overseas tourist, excluding access transport, has declined in real terms by 12% since 2001. This fall appears to be primarily attributable to a shorter average length of stay.

3.2 Ireland's Competitive Performance

In this Section we put Ireland's performance in the context of the international tourism market and examine how well Ireland is performing in comparison to our competitive set.

3.2.1 Share of World and European Tourist Arrivals

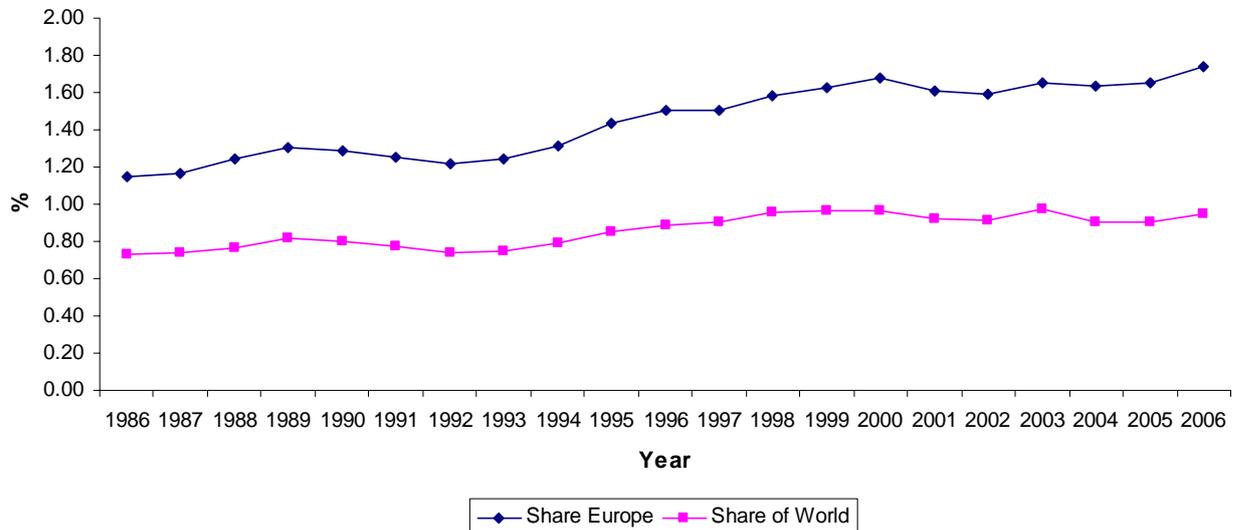
The litmus test of competitiveness is market share. In broad terms, where Ireland has maintained or increased market share, this can be interpreted as maintaining or improving competitiveness. Conversely, where Ireland has lost or is losing market share, this can be taken as an indicator of a loss of competitiveness. The gains or losses in competitiveness may be due to changes in product quality, standards of service, image, etc. and not just changes in relative prices. The individual measures of competitiveness are examined in greater detail later in this chapter.

Figure 5 overleaf shows Ireland's share of world and European tourist arrivals¹⁰ from 1985 to 2005, the latest year for which comparative data are available.

Our share of world arrivals has grown from 0.78% in 1985 to a peak of 0.97% in 2003 and, in 2006, was just below this peak at 0.95%. Our share of European arrivals has grown from 1.2% to 1.7% over the same period. Despite the increasingly competitive international tourist market since 2000, we have maintained our market share. These figures suggest that we are 'punching above our weight' in the international tourism market.

¹⁰ WTO figures are for all arrivals, not just 'promotables'. Ireland's figures are for all out-of-state tourists, including Northern Ireland.

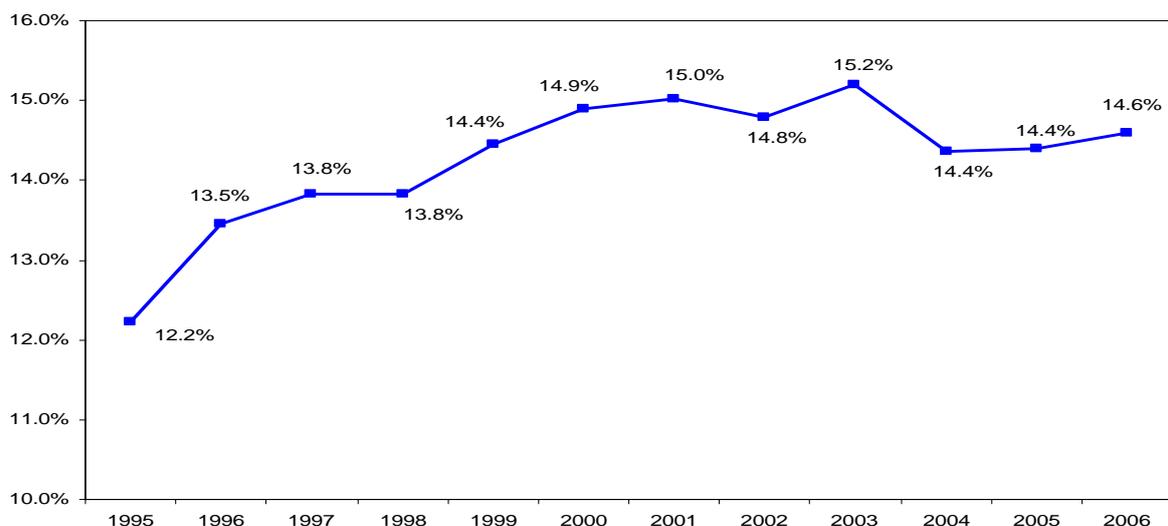
Figure 5: Ireland's share of World and European Tourist Arrivals 1985 - 2006



Source: WTO and Fáilte Ireland

Ireland has a sizeable share of tourism demand in Northern Europe. This region comprises the UK, Ireland, Iceland and the Scandinavian countries (Denmark, Finland, Norway and Sweden). Ireland enjoys the second largest share of demand in Northern Europe after the UK. As illustrated in Figure 6, this share has increased from 12.2% in 1995 to 14.6% in 2006 (although the share in 2006 was below the peak of 15.2% achieved in 2003.)

Figure 6: Ireland's share of Northern European Tourist Arrivals 1995 - 2006



Source: WTO and Fáilte Ireland

3.2.2 Share of Outbound Tourist Numbers from Main Source Markets

An important consideration in any evaluation of Ireland's tourism performance relates to the changing nature of market share from the core source markets - UK, USA, Germany and France. Table 3.2 shows Ireland's market share of world outbound visitor share from the main source markets.

Table 3.2: Ireland's Share (%) of World Outbound Visitor Numbers from the Main Source Markets for the Selected Years

Source market	2001	2002	2003	2004	2005	2006
UK ¹¹	8.1	8.4	8.8	8.0	7.8	8.0
USA	3.4	3.4	3.4	3.3	3.1	3.2
Germany	0.4	0.4	0.4	0.4	0.5	0.6
France	1.2	1.3	1.4	1.2	1.1	1.2

Source: Tourism Ireland, 2007

The figures suggest that our market share of UK outbound visitors reached a peak in 2003 and since then there has been a decline in market share – although there was a small recovery of share in 2006. Despite a growing outbound British market, the loss of market share reflects the opening up of many new destinations from the UK.

The figures show that Ireland has achieved and more or less maintained a growing share of the US and French markets and has improved its position in the German market.

3.2.3 Ireland's Performance Relative to the Competitor Set

From the general perspective, Ireland is in competition with every other tourist destination in the world. From the particular perspective of comparable product sets, Ireland is in close competition with little more than a handful of other destinations. In one sense, defining this competitor set is fairly straightforward, as the Irish tourism product is unquestionably non-sun/non-winter sport and consequently should be compared with destinations with similar product offers.

However, because access - ease of access and transport fares - is a major determinant in choice of holiday destination, its inclusion as a determining factor can change the composition of countries making up the competitive set. For example, in the British

¹¹ Includes Northern Ireland

market, the availability of low-cost fares to long haul destinations, such as Thailand and the US, brings these countries into the general competitive ambit. The problem is that the greater the number of destinations included in the competitor grouping, the less meaningful the concept becomes when used as an indicator of performance.

What matters for practical purposes is the degree of potential substitution; the extent to which tourists generally would regard particular destinations as plausible options. Based on the findings of the Tourism Brand Ireland consumer research and our fieldwork research among tour operators in the major source markets, Ireland's competitor grouping is shown in Table 3.3.

Table 3.3: Ireland's Competitor Set

Source Market	Composition of Competitor Set
Britain	- Brittany / Normandy, Scotland, Wales, Holland
US	- England, Scotland, Wales, Germany, Brittany/ Normandy
Germany	- England, Scotland, Wales, Brittany/Normandy, Scandinavia
France	- Scotland, England, Wales, Germany, Brittany/ Normandy, Scandinavia

Germany, Holland and France appear among our competitor set in addition to the Northern European destinations included in Figure 6. However, while our share of total arrivals in Northern Europe has risen during the past ten years, figures from Fáilte Ireland up to 2002 suggest that we have lost market share in the French, German and Dutch outbound markets for Northern Europe. However, Ireland appears to have maintained its share of the Italian market and increased its share of the Nordic market.

3.3 Visitor Attitudes Survey

3.3.1 What attracts visitors to Ireland?

Table 3.4 outlines the competitive advantages spontaneously identified by holidaymakers in the Visitor Attitudes Survey. The Irish people and the scenery continue to be our leading competitive advantages with our culture and history increasing in importance. The fact that our core attractors are still in place was supported by the tour operator survey, although it appears that they have suffered greater erosion in Dublin than in the western regions.

Table 3.4: Ireland's Competitive Advantages

	% of Overseas Holiday			
	2000	2004	2005	2006
Irish people	45	40	39	39
Scenery	33	31	28	27
Culture/History	15	19	15	15
English speaking	15	16	14	15
Restful/Relaxing	10	10	10	8
Unspoilt environment	11	9	9	6
Access	7	9	10	10
Drink/Pubs	10	7	9	4
Quiet roads	6	6	5	4
Good accommodation	7	5	4	4
Prices/Value	5	3	3	2
None	2	4	4	n.a.

Source: Fáilte Ireland Visitor Attitudes Survey, 2006

However, Table 3.4 also suggests that these competitive advantages are under pressure. A declining percentage of visitors between 2000 and 2006 saw the Irish people, our scenery and our unspoilt environment as distinctive. And worryingly, a growing (although still small) percentage of visitors could not think of any competitive advantages.

3.3.2 Decline in value for money satisfaction levels

While Ireland continues to rate highly for the friendliness of its people, the beauty of its scenery and the natural environment - the three most prominent decision drivers for choosing Ireland - Table 3.5 shows that the benefits of these primary attractors are being undermined by a negative perception of value for money.

Table 3.5: Key Competitive Factors

	% of Overseas Holiday Visitors							
	Decision Drivers				Very Satisfied			
	2000	2004	2005	2006	2000	2004	2005	2006
Friendly people	87	85	84	83	89	90	89	87
Beautiful scenery	83	83	82	80	89	91	90	91
Natural environment	77	77	77	74	79	83	81	82
Pace of life	72	69	71	68	82	81	79	81
Cities, towns	63	63	60	58	66	66	65	66
Way of life	61	59	56	n.a.	64	59	58	n.a.
Value for money	64	62	59	57	52	38	42	41
Accommodation prices	62	62	60	59	55	46	46	45
Sea and air fares	47	55	54	54	39	46	49	50

Source: Fáilte Ireland Visitor Attitudes Survey, 2006

52% of tourists surveyed in 2000 were 'very satisfied' in terms of value for money, compared with only 38% in 2004. There was an improvement to 41% in 2006, probably reflecting some stabilisation in prices of tourist services such as accommodation. Satisfaction with sea and air fares improved markedly over the same period coinciding with its increased importance as a decision driver. However, low cost access is no longer an Irish phenomenon with other destinations offering good access opportunities.

Overall, 14% of holidaymakers felt that they did not get good all round value for money, with respondents from some markets - such as Germany at 36% - stating high levels of dissatisfaction. In fact, the highest levels of dissatisfaction are recorded in the mainland European markets, in part reflecting the increased price transparency of our common currency. Table 3.6 shows specific aspects that were considered less than good value.

Table 3.6: Aspects considered less than good value

Overseas Visitors	2000	2001	2002	2003	2004	2005	2006
Eating out	11	11	18	26	28	29	27
Drink	8	8	12	19	22	23	20
Cost of Living (general)	8	7	13	17	19	20	21
Food in shops/supermarkets	5	5	9	11	11	11	8

Source: Fáilte Ireland Visitor Attitudes Survey, 2006

Key parts of the tourist experience - eating out, drink, general cost of living and food in shops and supermarkets - lead the way in terms of visitor perceptions of poor value for money. Elements such as gifts/souvenirs, admission prices to attractions, accommodation, petrol, car hire and internal transport receive much better ratings.

Despite Ireland's successful growth in visitor numbers and revenue, we have no reason to be complacent. The Visitor Attitudes Survey has identified serious issues for the industry. These include a sharp decline in value for money satisfaction levels and a weakening of our competitive advantages. There are serious issues to be addressed if Ireland is to remain competitive in the global tourism environment.

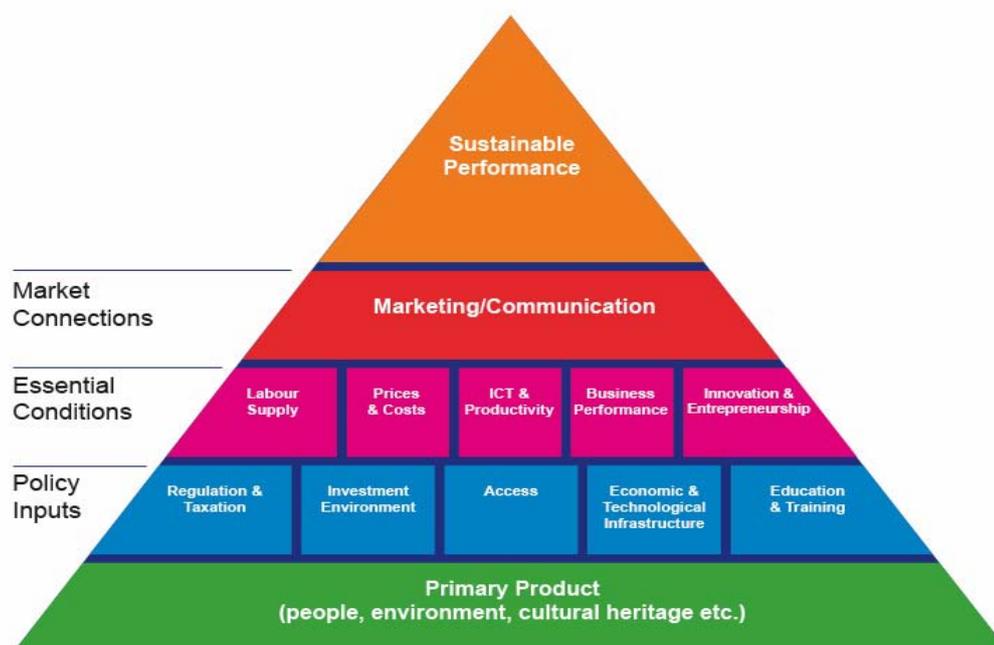
3.4 Summary of Ireland's Recent Tourism Performance

While visitor numbers and tourism revenue have increased substantially in recent years and world market shares have been maintained, a number of serious threats to competitiveness exist. These are:

- **Growing imbalance in regional distribution of tourism demand:** West Coast regions had 1,970,000 fewer holidaymaker bednights in 2006 compared with 1999. These regions had two-thirds of all overseas holidaymaker bednights in 1999 but this share has now declined to 54%. This indicates a decline in the competitiveness of regional tourism in current market circumstances, and tourism businesses in the regions are suffering as a result.
- **Decline in average length of stay:** reflecting shorter breaks which are having a serious impact on tourism revenues.
- **Ireland's competitive advantages are under pressure:** successive Visitor Attitudes Surveys during the period 2000-2006 have shown that a declining number of visitors see the Irish people, our scenery and unspoilt environment as distinctive. A growing percentage of people could not identify any competitive advantages.
- **Reduction in satisfaction with value for money:** the Visitor Attitudes Surveys highlight a growing dissatisfaction with Ireland in terms of value for money - the costs of eating out and drink are particular causes of dissatisfaction.

4. APPLYING THE COMPETITIVE MODEL TO IRISH TOURISM

As competitiveness is a dynamic rather than static measure of performance, we examine Ireland's competitive process by applying the Tourism Competitiveness Model.



As the model shows, there is no single measure of competitiveness. There are several significant elements and the relative importance of these changes continuously. While it is easier to recognise competitive performance than it is to specify its cause, this section provides a detailed analysis of each element to show their impact on competitiveness in recent years.

4.1 Primary Product



While our primary product is fixed to a great extent, it is possible for it to be damaged or even destroyed due to poor management. We have a duty of care to protect these fundamental aspects of the Irish tourism experience.

There are obvious challenges as the primary product is a jigsaw of pieces managed by many players, rather than one homogenous product under central management. In this section, we look at the core elements of Ireland's image and examine the changes of recent years. Many of the elements of the primary product require better protection for the future and better packaging for the tourist.

In marketing terms, the primary product is expressed in the image of Ireland held in the minds of prospective visitors. 'The image of Ireland is the collection of ideas that resides in the hearts and minds of our holidaymakers.'¹² Over the past four years, Tourism Ireland interviewed 28,000 holiday makers in Ireland's twelve largest source markets in order to identify the core elements of Ireland's image. They are as follows:

- Warm and friendly people
- Living culture
- Historic culture
- A breathtaking place

These elements closely match with the top three key decision drivers identified in the Visitor Attitudes Survey - friendly people, beautiful scenery and natural environment. The Visitor Attitudes Survey also points to the fact that these competitive advantages are under pressure. The following is a brief summary of the main strengths, weaknesses, opportunities and threats to our primary product.

Table 4.1: People

Strengths		Weaknesses	
-	Friendly, charming and witty	-	Foreign language skills
-	Attentive but relaxed and welcoming	-	Reluctance to enter tourism sector because of unsociable hours
-	B&Bs as distinctive 'people' product		
Opportunities		Threats	
-	Language abilities of foreign national workers	-	Increasingly 'cash-rich / time-poor' people with less time to chat
		-	Loss of hobbyist / enthusiasts who provided expertise for free - e.g. the ghillie publican

¹² Tourism Ireland, Marketing Insights 2006 'Image of the Island of Ireland'.

Table 4.2: Cultural Heritage - historic and living culture¹³

Strengths		Weaknesses	
-	Dynamic and busy arts calendar	-	Financial viability
-	New facilities and venues	-	Marketing - arts sector with limited focus on tourism market
Opportunities		Threats	
-	Ireland's increased wealth presents an opportunity to leave a positive and lasting cultural legacy	-	Ireland is less fashionable
-	Exporting Ireland's artistic talents - music, art, theatre - overseas	-	Increasing 'banalisation' - everywhere becoming the same.
-	Specifically targeting tourists for arts events and festivals		
-	Development of a Heritage Trust to ensure that the needs of our historic environment are represented properly.		

Table 4.3: Environment - 'a breathtaking place'

Strengths		Weaknesses	
-	Image as 'the green island'	-	Access to land ¹⁴
-	Introduction of plastic bag charges, etc: a step in the right direction.	-	Litter and hygiene (Visitor Attitudes Survey)
		-	Illegal dumping of waste.
Opportunities		Threats	
-	Development of better activity products along the lines of 'Walking in the Southwest'.	-	Excessive development
		-	Rural housing
		-	Traffic density
		-	Pollution.

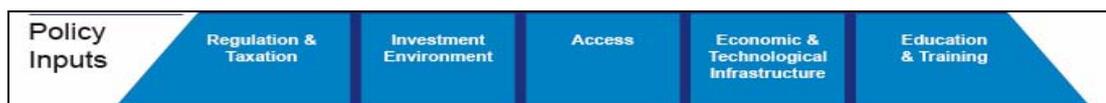
While our competitive advantages - people, cultural heritage and environment - remain intact, the above summary analysis indicates that there are serious threats to all three that need to be addressed. Failure to address these will result in a steady deterioration of the primary attractors and drivers of tourism, with serious consequences for the industry.

¹³ Our historic culture is expressed through our historic buildings and environment. Our living culture is expressed through our arts activity.

¹⁴ Robert Lloyd Praeger's comment in 'The Way That I Went', 1937 no longer rings true: 'Ireland is an unusually convenient land for cross-country walking....there is little, especially in the agricultural and hill regions that make up most of the country, to prevent your wandering where you please, and you are welcome everywhere.'

4.2 Policy Inputs

The policy inputs supporting tourism are discussed in this section. These are the areas that provide a supportive environment in which tourism can thrive. Ireland's competitive performance in the coming years will depend heavily on the decisions being made today in the following key policy areas:



This section also identifies a number of issues for policymakers in ensuring that the policy environment supports the productivity, innovation and entrepreneurship of those working in tourism at industry and enterprise level.

4.2.1 Regulation and Taxation

Ireland's economic model is built around fostering a positive environment for business, with a regime of low direct taxes and relatively high indirect taxes. This taxation environment is favourable to business, but impacts on consumer prices. Higher indirect taxes, especially VAT, have a significant impact on the price of Ireland's tourism product. In 2006, VAT and excise duties contributed €19 billion out of a total tax take of €45.5 billion with stamp duties bringing in a further €3.7 billion - while corporate tax and capital gains tax contributed only €9.8 billion¹⁵.

In addition to the price impact of high VAT rates, spiralling local government charges are contributing to steep cost increases which also push prices up and adversely affect competitiveness.

VAT

Many cost factors (e.g. interest rates, exchange rates, international growth, oil prices, etc.) are outside the control of the Irish government. Domestic fiscal policy is therefore important in creating the most competitive environment for tourism. Up to 2007, there were two major VAT related issues:

¹⁵ Department of Finance, End-December 2006 Exchequer Returns

- the VAT rate applied to accommodation and meals, key parts of the tourist experience
- the non-recoverability of VAT paid on hotel and restaurant costs by international conference, incentive travel and corporate meeting sector (a growing sector internationally). This issue has been partly resolved in the Finance Act, 2007, which introduced a provision effective from 1st July, 2007, to allow recovery of VAT incurred on accommodation while attending a 'qualifying conference' - i.e. one organised to cater for at least 50 delegates. However, VAT on the food element remains non-refundable.

Table 4.4 shows that Ireland is in a relatively weak position in terms of tourism VAT. In absolute terms, Ireland's standard VAT rate is 5th highest in the EU and this pushes up all consumer prices. Ireland is ranked 7th highest in terms of VAT on hotel accommodation. However, Ireland's position regarding VAT on restaurants is more favourable, as 16 of the Member States apply their full standard rate to restaurants.

Table 4.4: Irish VAT Rates relative to the rest of the EU (EU 27)

	Ireland	Ranking (of 27)	2 Lowest
Standard Rate	21%	5 th highest*	15%, 15%
Hotel Accommodation	13.5%	7 th highest	3%, 5%
Restaurants	13.5%	17 th highest	3%, 6%

** jointly with Belgium and Portugal.
 Source: Hotrec, 2007*

The already weak competitive position on hotel VAT rates is worsened by the fact that other countries allow VAT on hotel expenditure as a business input. This is not permitted in Ireland. In fact, Ireland has the highest VAT rate among those EU countries that do not allow VAT on hotel accommodation as a business input. Table 4.5 shows the hotel VAT rates levied by this group.

Table 4.5: Hotel VAT rates (%)

(EU countries that do not allow hotel VAT as a business input)

Country	VAT rate %
Ireland	13.5
Italy	10.0
Greece	9.0
Slovenia	8.5
Cyprus	8.0
Poland	7.0
Belgium	6.0
France	5.5
Portugal, Czech Republic, Estonia, Latvia, Lithuania, Malta	5.0

Sources: IHF/HOTREC

The high VAT rates in Ireland and the non-recoverability of VAT as a business expense, other than for conferences, have a serious impact on the price competitiveness of business and leisure tourism.

Increasing local government charges

Dramatic increases in local government charges have had a serious impact on the cost competitiveness of the Irish Tourism industry. Major changes in local government over the last 25 years have led to increased spending to fund an expanding range of responsibilities and services. At the same time, there has been a significant proportional decrease in funding from central government. Raising local taxes from domestic householders has been avoided, apart from waste charges, and it is the business sector that is bearing almost all of the increased cost burden.

IBEC has launched a campaign to highlight the growing cost to business of rising local government charges. A number of key facts have been outlined in this campaign¹⁶:

- Central government contributed 63% of local authority current expenditure in 1983. By 2004 this had fallen to 44%. The absence of domestic rates for almost three decades has exacerbated this decline.
- The business community is the only sector that pays rates and water charges while the cost of waste disposal for business in Ireland is the highest in the EU.

¹⁶ 'Key facts regarding Local Authorities and their funding', IBEC, 2005

- In 2004, the business community paid €1.4 billion in charges to local authorities representing 40% of all income to local authorities. The domestic sector contributed €216 million or just 6% of all income.
- Through commercial rates alone, business paid €900 million which funded 25% of local authority current expenditure in 2004. This represents a 110% increase over the 8 year period since 1996 and is double the cumulative rate of inflation.
- While business contributes over 40% of expenditure, it accounts for less than 10% of the properties and less than 15% of the water connections.

Table 4.6 highlights the dramatic increase in local authority charges in recent years as well as the wide variations between local authorities in charges for the same service.

Table 4.6: Local Authority Charges

Activity	Local Authority	Charge (2004)	% increase
			2000 - 2004
Waste	Cork Co. Co.	€230/tonne	360
	Donegal Co. Co.	€125/tonne	418
Rate Valuation	Kerry Co. Co.	€75.90*	38*
Multiplier	Kilkenny Co. Co.	€49.82*	60*
Water	Cork City Co.	€9.23/1000 gallons	230
	Wicklow Co. Co.	€3.81/1000 gallons	11

Source: IBEC and Dept. of the Environment, Heritage and Local Government. * figures are for 2007.

As a nationally and regionally spread industry, tourism is hit hard by local authority charges. In rural areas with low levels of industry and enterprise, it is often the tourism businesses (hotels, restaurants, shops, etc.) that carry the bulk of these charges.

The Consumer Price Index (CPI) reveals a similar picture. Taking December 2001 as the base (=100), the CPI in August 2007 had risen to 122.2 while the price index for water supply, refuse and miscellaneous services had reached 228.8. Businesses have, of necessity, responded to the dramatically increased local government charges by passing on the cost to consumers. This in turn has drawn the attention of the media and its coverage of 'rip-off Ireland.'

At the same time, new tourist businesses have been hit by arbitrary planning development levies. In 2006, these figures ranged from a charge of €110 per m² in Dublin City Council to €12.50 in Kerry County Council. The members of the tourism

industry - as represented by ITIC - have come together to support IBEC's call for a fundamental change in local authority accountability, funding and efficiency.

4.2.2 Investment Environment

The growing economy created a very healthy investment environment for tourism during the past ten years. The favourable fiscal environment for business has included low interest rates, tax-based incentives for investment and reduced personal and corporate tax rates.

There has been an increased availability of investment capital, with much of the impetus coming from tax-based incentives and grant-aided investment schemes. These have included the following:

Tax-based incentives	Grant-aided investment schemes
<ul style="list-style-type: none">• Accelerated capital allowances• Business expansion scheme• Seaside resort scheme• Urban and rural renewal schemes	<ul style="list-style-type: none">• 3 successive Operational Programmes for Tourism• INTERREG• Leader Programmes

Investment in the Irish tourism product over the period 1989-2005 exceeded €7 billion. During the five years to 2005, capital investment in tourism from all sources amounted to more than €2.7 billion of which €2.4 billion, or 89%, was invested in accommodation-related developments. This flow of investment into accommodation has resulted in a large increase in capacity as well as a significant improvement in standards. However, while tax-based incentives have been effective in stimulating property-based investments, they have tended to lead to an unbalanced supply and overcapacity in certain areas.

On the grant-aid side, the experience has been mixed with some goals being met and other challenges emerging. One of the problems is the difficulty in sustaining certain types of products after the initial capital has been spent. For tourism products such as interpretative centres, walking routes and historic sites, financial sustainability will always be a challenge. As we enter a more cautious investment environment, tourism attractions, activity and infrastructure products with low financial returns will struggle to compete for capital with sectors where there are greater returns to be had.

Looking ahead, there is a need for Ireland to continue to invest in the development of its tourism industry to ensure that the product offering is competitive in terms of quality and range, and meets the demands of consumers. Fáilte Ireland has published its Tourism Product Development Strategy, 2007-2013, which identifies gaps and opportunities in Ireland's tourism product and sets out a strategy to address these, incorporating grant support for investment in selected areas.

The Tourism Product Development Strategy proposes that the State invest €280 million in tourism product development over the period of the National Development Plan 2007-2013. The targeted products are:

- tourism infrastructure [including walking and cycling routes, water-based facilities, signposting etc.]
- international class attractions
- new major annual events
- 'soft-adventure' products [e.g. water-sports, equestrian facilities, outdoor activity centres etc.]
- feasibility study / innovation fund, including the establishment of a National Institute for Tourism Innovation.

The National Development Plan (NDP) incorporates the recommendations of the Fáilte Ireland strategy, and adds in provision for the National Conference Centre to bring the total proposed budget up to €317m.

In addition to the allocation to tourism, the NDP also makes very substantial provision for investment in cultural infrastructure (€904m), Built Heritage (€373m), Natural Heritage (€167m) and Waterways (€75m). This unprecedented level of investment in cultural heritage, amounting to a total of €1,519 million, will make a direct and very substantial contribution to the quality of Ireland's tourism product.

4.2.3 Access

In the past, access was seen as a factor restricting Ireland's competitiveness. Limited access capacity and routes meant that prices were high. In recent years, there has been a dramatic increase in access capacity - particularly air access - as well as a related decline in price. Despite Ireland's improved competitiveness in access, there are still areas where work is required in order to ensure continued sustainable performance.

Increased capacity

Between Summer 2004 and Summer 2007, Ireland experienced substantial increases in air access capacity from most of its major markets, as shown in Table 4.7.

Table 4.7: Weekly air access capacity to the Island of Ireland, 2004-2007

Market	Summer 2004	Summer 2005	Summer 2006	Summer 2007	% increase '04-'07
Great Britain	211,070	242,008	254,626	250,325	+18.6
USA	23,030	27,030	29,431	35,324	+53.4
France	16,408	20,863	25,571	28,916	+76.2
Germany	10,645	18,981	21,624	20,123	+89.0
Spain	14,405	17,706	25,088	39,422	+173.7
Italy	5,560	10,244	14,486	16,871	+203.4
Netherlands	9,219	10,891	10,636	10,636	+15.4
Belgium	6,263	6,281	6,420	5,097	-18.6
All Europe Total	78,700	109,896	147,074	176,518	+124.3

Note: Capacity is measured as the number of direct, scheduled seats available one-way per week.

Source: Tourism Ireland, from Tourism & Travel Consult International.

Sea capacity in Summer 2006 showed a decline over 2005 reflecting a continuing shift in market preferences and the withdrawal of a niche operator operating from Dublin to Liverpool. With the continuing high fuel costs and falling demand in 2006 there has been a further decline in sea capacity as the two main ferry operators have reduced the frequency of their fast ferry services. Table 4.8 shows the weekly sea capacity between Ireland and Great Britain and France in 2006. There was a small reduction in sea access capacity between France and Ireland in the 2005/6 period.

Table 4.8: Weekly sea access capacity, 2005 - 2006

Market	Summer 2005		Summer 2006	
	Car Spaces	People	Car Spaces	People
Great Britain	67,170	271,610	58,380	231,000
France	2,265	8,700	2,250	7,782
Total	69,435	280,310	60,630	238,782

Source: Tourism Ireland

Increased Demand

There has been huge growth in the city breaks market over the last five years reflecting the shift in travel preferences and the greater ease of access. The European Travel Monitor¹⁷ suggests a growth of 108% in the city break market between 2000 and 2004. Passenger figures for Dublin Airport showed that 21.2 million passengers travelled through the airport in 2006, a 15% increase over 2005 and 24% over 2004. The increase in 2006 was the highest recorded by any of Europe's 35 largest airports. This rapid growth underlines the urgent need for the development of the new terminal.

Other airports in Ireland also experienced significant increases in demand in 2006: Shannon recorded a 14% increase in passengers, excluding domestic and transit traffic, while Cork experienced a 4.5% increase, again excluding domestic and transit traffic.

Some 51 new routes and services were launched at Dublin Airport in 2006. By the end of the year, the airport was served by some 97 charter and scheduled airlines flying to over 180 destinations internationally. New routes were also introduced at Shannon and Cork, as well as at the smaller regional airports, including Kerry and Waterford.

Expansion has continued in 2007 and the conclusion of the new EU-US Air Service Agreement ('Open Skies') in March 2007 has paved the way for the development of new trans-Atlantic services. The Brattle Group Report on Open Skies¹⁸, prepared for the European Commission in 2002, concluded inter alia that Ireland would gain a net 10% increase in transatlantic travel demand arising from agreement between the US and EU on the creation of an EU / US Open Aviation Area. Based on 2005 levels of traffic, a full 10% gain would result in an additional 93,700 North American tourists arriving in Ireland. At €788 per capita average expenditure (excluding air fares) this would bring an additional €73.8 million into the economy.

A report on the short to medium term impact of Open Skies published by ITIC in July, 2007, found that the immediate benefits included an increase in the number of US gateways with direct services to Ireland¹⁹. However, while the report concluded that the liberalised operating environment offered good opportunities for Ireland, it also stated that there would be a major shift in the pattern of holiday-taking in Ireland by tourists from the

¹⁷ 'City Profiles', July 2005, IPK International European Travel Monitor

¹⁸ The Brattle Group: "The Economic Impact of an EU-US Open Aviation Area", prepared for the European Commission, December 2002

¹⁹ ITIC: 'Projected Short to Medium Term Impacts of Open Skies for Ireland', July, 2007

U.S. This will be occasioned by a shift in traffic share from Shannon to Dublin due to the reduction in the requirement for carriers on U.S.-Ireland routes to serve Shannon. The current projections for trans-Atlantic services indicate that the number of direct flights into Shannon Airport will decrease from 56 per week during summer 2007 to 42 per week in summer 2008, while the number of indirect flights will remain static at 7 per week. Conversely, the number of direct flights into Dublin will increase from 70 to 92 per week.

The ITIC report estimates that this transfer of services will result in a possible net shift of 25% to 30% of U.S. holiday traffic from Shannon to Dublin in the short term. Such a shift would lead to an estimated drop of between 180,000 and 230,000 bednights along the western seaboard.

As recommended in the ITIC report, there is now an urgent need to implement a tourism and economic plan for the west, including the provision of funds for the promotion of the west in the U.S. market. Such a plan was submitted to the Minister for Transport in June 2006 by the Mid-Western Regional Authority. It is recommended that a special budget allocation be made to Tourism Ireland for each of the three years, 2008-2010, directed at heightening motivation to visit the western seaboard with a view to increasing the incidence of visit and length of stay in the west, irrespective of entry gateway to Ireland.

Decreased prices

Increased demand and increased competition from low-cost carriers has pushed down prices. The Visitor Attitudes Survey showed that sea and air fares are an increasingly important decision driver. At the same time, a growing number of visitors - 50% in 2006 compared with 39% in 2000 - were '*very satisfied*' with the fares they found. CPI data show that air transport prices were well below the average CPI in 2006, but the latest published data indicate that there have been substantial fare increases in the first 8 months of 2007.

The price advantage has diminished

While almost all of the tour operators surveyed commented favourably on increased access capacity and lower fares to Ireland, it is important to note that low cost airlines are no longer exclusive to Ireland only. Other destinations are reaping the benefits of increased and cheaper access. A recent study by the UK Civil Aviation Authority compared the trends in outbound leisure travel and airfares from London airports

between 1996 and 2003²⁰. The study found that, during that period, average fares on services to Dublin did not change in nominal terms while fares to other popular destinations in Europe fell by a substantial amount. At the same time, almost all of those destinations recorded much larger increases than Dublin in UK leisure traffic on the London routes.

The report notes that Dublin already had low-cost services from London since 1993 and so fare levels in 1996 were already low relative to the rest of the short-haul market. What this implies is that the signal advantage enjoyed by Dublin up to the mid-1990s has now diminished. This is significant in competitive terms since the study also found a willingness among consumers to substitute one short-haul destination for another in response to changes in relative fare price differentials.

Still a need for quality improvement

Access improvements have contributed substantially to Ireland's competitiveness as a tourist destination in recent years. Despite this, there is still room for improvement in the quality of the experience. There is an urgent need to upgrade facilities at Dublin Airport, including the construction of a new terminal. The decision by An Bord Pleanála in August 2007 to grant planning permission to Dublin Airport Authority for the construction of Terminal Two has been welcomed by the tourism industry. The issue of access aptly demonstrates the fact that competitiveness is a dynamic rather than static factor. While much has been achieved, continual improvement is required in order to ensure sustainable performance.

4.2.4 Economic and Technological Infrastructure

'The level of infrastructure in a country affects competitiveness and performance in a number of ways. Inadequate infrastructure can increase traffic congestion, reduce productivity, and increase costs. This not only affects existing firms, but it affects a country's attractiveness as an investment location and general quality of life.'

Source: NCC: Annual Competitiveness Report, 2005

Infrastructure has a significant impact on tourism - particularly in the areas of transport, energy and technology.

²⁰ Civil Aviation Authority: "Demand for Outbound Leisure Air Travel and its Key Drivers." London, December, 2005

Transport

Transport infrastructure has a leading role to play in ensuring the quality of the visitor experience. The Visitor Attitudes Survey highlights bad roads and signage as negative aspects of the Irish experience. One-fifth of all holidaymakers commented on the bad roads, making it the leading area highlighted for improvement. However, the decline in mention since the start of the decade suggests that improvements to the infrastructure are beginning to have an impact on tourist perceptions.

Continued improvements look likely with the recognition at government level that investment is required. The recently launched '*Transport 21 Plan: 21st century transport plan for 21st century Ireland*', envisages an investment of €9.4 million per day in transport over the next ten years. This programme has been reinforced by the allocation of €33 billion to transport in the NDP 2007-2013. The quality of access to and from Dublin Airport and the delays cause by the Westlink toll plaza were singled out for repeated criticism by tour operators surveyed. The tourism industry must ensure that the requirements of tourists, as well as the domestic market, are met under the plan.

Energy

Between December 2001 and August 2007, there was a 62% increase in household electricity, gas and fuel costs compared with the overall CPI increase of 22% over that period. Energy accounts for a large and growing share of operating costs in the tourism industry. Mitigating these costs and achieving greater levels of energy efficiency are key concerns for the industry. The industry itself is responsible for identifying and implementing measures to achieve greater efficiencies in the design, construction and operation of its facilities. The issues of cost and security of supplies must also be addressed at national level. Key measures include:

- the installation of an electricity interconnector between Ireland and Britain which would have very positive impacts on capacity and price
- the construction of national gas storage facilities to limit the potential impact of disruption of supply from abroad, and
- the reduction of dependence on fossil fuels with a shift towards renewable forms of energy.

Technology

Given the geographic spread and remote location of many tourism businesses, technological infrastructure - in particular broadband access - has a key role to play in ensuring competitiveness. With the increasing trend towards internet bookings, it is important that tourism enterprises, large and small, are represented online. A 2006 report by London-based Analysys Consulting shows

'that in terms of broadband development Ireland is underperforming against countries with similar GDP per capita by a factor of two to three times and that broadband development will remain very slow until the current Eircom-imposed infrastructural bottlenecks are eliminated.'

Source: Analysys Consulting, 'Action Needed on Unbundling', 2006

Tackling this must be a priority area for government for the sake of tourism and the wider economy. The National Competitiveness Council, in its Annual Competitiveness Report, 2006, stated that the availability of broadband remains an issue for Ireland and that *'trends in leading countries such as Japan and Sweden suggest that two-way broadband speeds and capacity in Ireland will need to increase dramatically'*.

4.2.5 Education & Training

Education and training is fundamentally important to economic performance.

'High levels of investment in education lead to a number of other personal and social benefits, including increased social inclusion, lower crime, reduced welfare dependence and better health'.

Source: European Commission, 'European Economy No. 6/2003', 2003

Ireland's education system has been hailed as one of the reasons for strong economic growth. Investment rates at tertiary level match other OECD countries, but Ireland falls behind in terms of investment in primary and secondary education and lacks a developed pre-primary education system. In addition, adult participation in lifelong learning remains relatively low.

It appears that people are put off careers in the tourism industry because of the weekend work, unsociable hours and lower pay opportunities when compared with more attractive industries like financial services and pharmaceuticals. At the same time, an older generation of 'hobbyist experts' who dispensed angling advice from behind their bar, are slowly dying out and not being replaced.

With the decline in manufacturing and an aging population, the tourist industry can provide many opportunities to re-skill workers. The industry must better compete in the labour market by driving productivity and raising the profile of tourism as an important sector in Ireland's economy.

For those already working in the industry, Fáilte Ireland offer an extensive range of programmes. These include:

- **County-based Tourism Learning Networks:** An action learning service for owners/managers of tourism SMEs and Micro-enterprises networked at county level.
- **Performance Plus:** An online tool to support hoteliers in benchmarking their performance against comparable operators across key performance indicators such as financial, environmental, and energy management.
- **Labour & Productivity Performance:** A service to support enterprises in evaluating their labour costs, labour practices and providing advice on improved model of labour deployment at enterprise level.

While the increasing professionalisation of the sector is a good thing for tourism standards, it is important that we do not lose sight of the distinctly Irish experience offered by B&B and family-run hotels and enterprises.

4.3 Essential Conditions

The essential conditions supporting tourism are discussed in this section. These are the key drivers and enablers of competitiveness at enterprise level, and are essential requirements for sustainable economic performance. They comprise:



4.3.1 Labour Supply

Growth in labour supply has played a key role in Ireland's economic development in recent years. A growing population - between 1991 and 2006 Ireland's population increased by 20%, driven by high net immigration and, since 1999, a rising birth rate. With population growth set to continue and significant potential to grow participation rates, labour supply will continue to be a positive feature of Ireland's competitive landscape. The latest projections from the CSO²¹ suggest that Ireland's population could reach between 4.6 and 4.8 million by 2016, with the labour force growing to almost 2.4 million from its present level of 2.1 million. Growth in labour supply across the whole economy has obvious benefits for tourism.

Table 4.9 shows that, as a sector, tourism provides employment for roughly 8% of Ireland's labour force. Despite the considerable growth in employment in tourism - up by 46% since 1996 - the sector's share of total labour force has contracted slightly in recent years due to very rapid increases in employment in certain other areas, notably in the construction, property, retail, health and social services sectors.

Table 4.9: % of Ireland's labour force working in tourism

	1996	1999	2001	2003	2004	2005	2006
Total labour force (000s)	1,507.5	1,685.9	1,787.0	1,875.5	1,920.3	2,014.8	2,109.5
Number of tourism employees ²²	110,228	151,015	151,292	152,397	152,089	156,973	161,340
% labour force in tourism	7.3%	8.9%	8.4%	8.1%	7.9%	7.8%	7.6%

Source: CSO, Fáilte Ireland

In recent years the tourism sector has faced a number of issues related to recruitment. According to Fáilte Ireland's 'Tourism Business and Employment Survey 2005', the most frequently listed difficulties encountered were:

- a lack of qualified or experienced applicants
- an unwillingness of locally based staff to work long or unsociable hours
- language difficulties with foreign job applicants
- high wage demands
- a lack of skilled kitchen staff.

²¹ CSO: 'Population and Labour Force Projections 2005-2036'

²² Based on Fáilte Ireland, 'Tourism & Employment Survey' (note numbers for licensed premises/public houses and Health and Industrial Catering excluded)

The issue of foreign job applicants is an interesting one. The tourism sector is increasingly reliant on foreign labour as, in a labour market characterised by low levels of unemployment, Irish people are not attracted to working in the tourism and catering industry. Estimates suggest that approximately 73% of those employed in the industry are Irish nationals with non-nationals making up the balance. There are different views within the industry about non-national staff working in tourism. Some feel that the lack of Irish staff is an issue in creating a distinctive sense of place while others feel that it doesn't matter where staff come from provided that their customer service is good. A few, such as the Morrison Hotel in Dublin, see foreign staff as a competitive advantage in business. *'Staff members from overseas will be fluent in languages other than English.'*²³ The Clarion Hotel, Liffey Valley, has staff from 41 different countries and they recognise that *'this is an issue on which Irish hotels will have to place increased emphasis in the future.'*²⁴

Retaining staff also appears to be an issue in tourism. At the time of the Tourism Business and Employment Survey, 2005, there were an estimated 10,000 employment vacancies in tourism enterprises. Businesses found it difficult to retain staff due to the following factors:

- high wage demands
- competition for staff within the tourism sector and from other services sectors
- the transient nature of student workers
- staff not wanting to work late nights or weekends for long periods of time
- not being able to work enough hours.

Research by the National Centre for Partnership and Performance reinforces the general theme that tourism is not perceived to be an attractive industry in which to work. Findings on job satisfaction showed that the lowest satisfaction levels are recorded in the hotel/restaurant industry.²⁵ The difficulty for an industry such as tourism, which has relatively low levels of productivity, is that it finds it difficult to compete successfully for quality staff in a tight labour market. With people identified as a core part of Ireland's brand image, the industry faces a challenge in ensuring the quality and commitment of its labour force.

²³ Irish Independent special supplement, *'Workplace of the Future'*, 15th September 2005

²⁴ Brendan Curtin, Group Operations Director in Fáilte Ireland's *'Tourism Matters'*, January 2006.

²⁵ National Centre for Partnership and Performance, Forum on the Workplace of the Future, *'The Changing Workplace: A survey of employees' views and experiences.'* 2003.

4.3.2 Prices & Costs

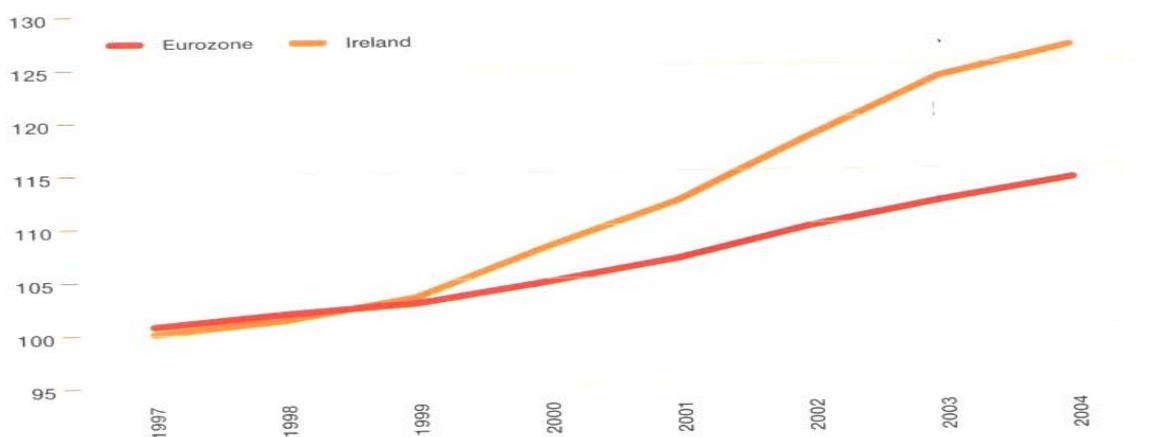
While there are many measures of competitiveness, price is the one that has received most media attention. The concern about prices was highlighted by Eddie Hobbs' RTÉ television programme '*Rip off Republic*', originally aired in 2005 but the term continues to reverberate. Price is an important and extremely tangible measure of competitiveness but, as demonstrated in Chapter 2, it is just one of many measures. The tourism industry should move the debate in the media beyond the narrow focus on price.

While there have been some positives, such as lower air fares, it is clear that Ireland is no longer a low cost destination. In this context, greater emphasis must be placed on quality ensuring that visitors are getting value for their increased spend.

Inflation

Figure 7 shows that during the period 1999 to 2004 Irish inflation rates were running at twice the EU level.

Figure 7: Harmonised Index of Consumer Prices 1997-2004

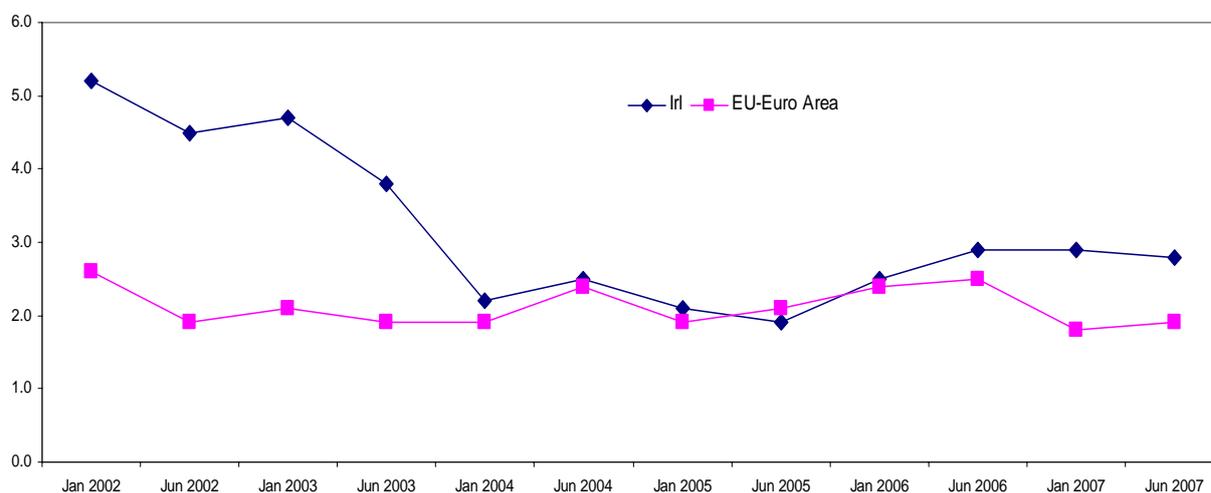


Source: NCC Annual Competitiveness Report, 2003

Figure 8 shows that during 2004 and 2005 our inflation level came into line with the average for participants in EU Monetary Union. However, inflation in Ireland again began to accelerate past the Euro average in 2006 and, by June 2007, the Harmonised Index for Ireland was up to 2.8% compared to an EU wide rate of 1.9%. In a recent article in the Irish Times (10th August, 2007), Paul Tansey notes that high inflation in Ireland has an immediate impact on wage increases. Analysis by the ESRI has found that 50% of the

increase in the Consumer Price Index is reflected in wage increases within 3 months. This suggests that price inflation will continue to be a troublesome issue for the industry.

Figure 8: Harmonised Index of Consumer Prices



Cost Competitiveness

Table 4.10 shows the increases in the Price Indices from the base (100) in December 2001 to August 2007. These goods and services are components of the Consumer Price Index (CPI).

As the data in Table 4.10 show, the rate of inflation of certain tourism product elements, such as package holidays, food & non-alcoholic beverages, and alcoholic beverages, remained below the average CPI up to August 2007. Air fares had been showing a steady reduction in prices up to the end of 2005 but have shown a very large increase since then, which is a matter of concern. The underlying reasons for such large increases in the air and sea fare sub-indices in recent months are not clear, but may be related to fuel cost increases.

At the same time, the prices of other parts of the tourist experience, such as bus and rail fares, restaurants & hotels, and recreation & cultural services, have increased at a higher rate than the CPI. The response to the price increases for restaurants in particular are reflected in the Visitor Attitudes Surveys 2004 - 2006.²⁶

²⁶ See Table 3.6

Table 4.10: Price Indices for selected tourism products 2001- 2007

(December 2001 = 100)

Tourism Element	April 2006	August 2007
CPI - Consumer Price Index	114.8	122.2
Package Holidays	103.1	108.1
Food & non-alcoholic beverages	103.7	106.6
Alcoholic beverages	110.5	109.1
Recreation & cultural services	126.8	132.2
• Cultural admittance	122.6	122.5
• Cinema	119.5	125.5
Bus fares	123.6	127.6
Taxis	116.1	130.5
Rail transport	127.5	131.1
Air transport	120.0	132.4
Restaurants & Hotels	122.6	131.4
• Restaurants / cafes / bars	121.6	131.0
• Accommodation	131.7	150.3
Sea transport	149.9	164.6
Electricity, gas, other fuels	147.2	162.0
Water supply, refuse, miscellaneous	218.6	228.8

Source: CSO

Increases in the cost of electricity, gas and other fuels - while affecting all industries - are worth noting because they impact on the prices ultimately charged to tourists. The huge increases in water supply and refuse prices reflect the spiralling local government charges.

Labour costs are also a significant issue for the tourism industry. Over the past few years Irish labour cost growth has exceeded that in other relevant countries. Table 4.11 shows the percentage changes in compensation per employee since 2003.

Table 4.11: Compensation per Employee (in private sector) % change

	2003	2004	2005	2006
OECD	3.2	3.2	3.3	3.3
Euro	2.2	1.7	1.7	1.9
USA	3.6	4.4	4.3	4.5
UK	4.7	4.4	5.2	4.7
Ireland	3.9	4.0	4.9	4.9

Source: OECD, * forecast

Overseas Tour Operator Survey

The Tour Operator Survey yielded a number of relevant findings in relation to price:

- 11 out of 26 respondents felt that Ireland's competitive position had worsened. Many of those cited rising prices as the reason. Others added that increased prices were not matched by service level and that in general, price has outpaced value.
- 17 out of 26 respondents commented that Ireland's prices were higher than competitors.
- On the positive side, there is still value to be had for group bookings, especially in hotels, and improvements in access have been welcomed.

Irish Tour Operator Experience

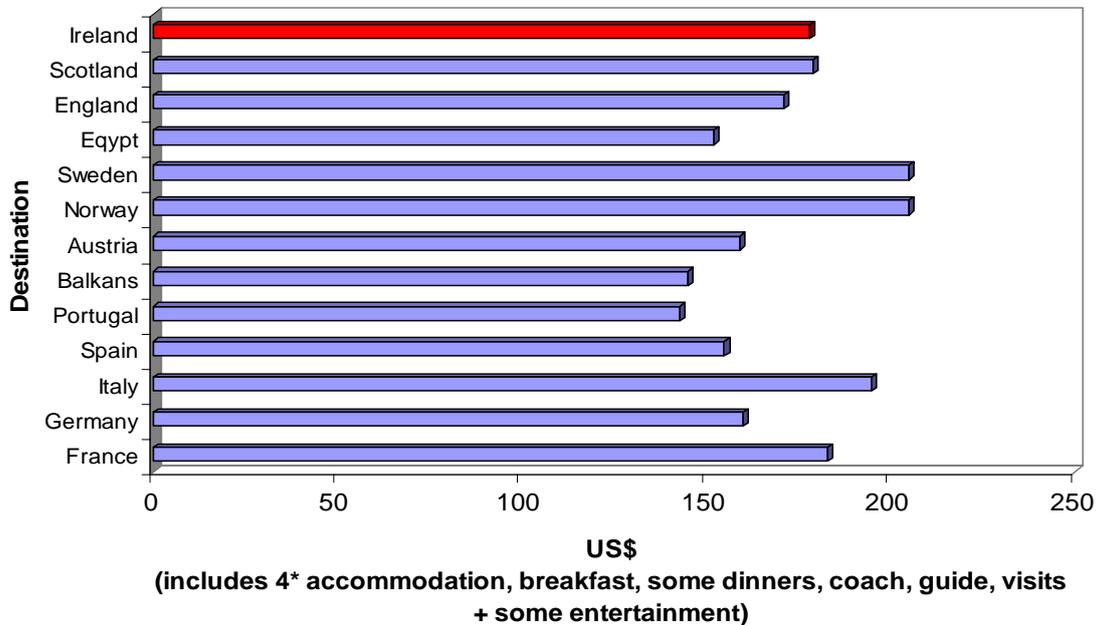
Other marketplace realities are worth noting.

In 2007, a leading US tour operator compared the prices of their tours to different European destinations. Figure 9 overleaf shows that Ireland does not appear to be too far off the average in terms of price and is at the same level as Scotland. Italy's surprising results may be due to the fact that it has been the most popular European country for the US source market and the increased demand has not been met with increased supply, hence the relatively high price.

A leading Irish incoming tour operator provided a number of comments on the issue of price:

- Prices for group travel are competitive as hotels are good and provide value for money
- Increased online booking for individual travellers has led to greater price transparency and therefore lower prices
- The corporate market shows signs of premium yield management among Irish hotels.

Figure 9: International Tour Price Comparison
- price per day, 9/10 day tour at peak season, 2007 -



Final comment on Irish price competitiveness

We conclude with an observation from the European Central Bank:

'.....lower consumer price inflation over the past two years follows several years in which Irish inflation was well above the euro area average. As a result, the aggregate price level for consumer goods and services is now the highest in the euro area while wage levels have also increased relative to the average in our main trading partners. These developments have had a negative impact on the price and cost competitiveness of the Irish economy. With preliminary wage data for early 2005 showing continued strong wage increases across many sectors and economy-wide productivity projected to remain relatively muted, Ireland's international cost competitiveness looks set to deteriorate.'

Source: ECB Monthly Bulletin, September 2005

4.3.3 ICT & Productivity

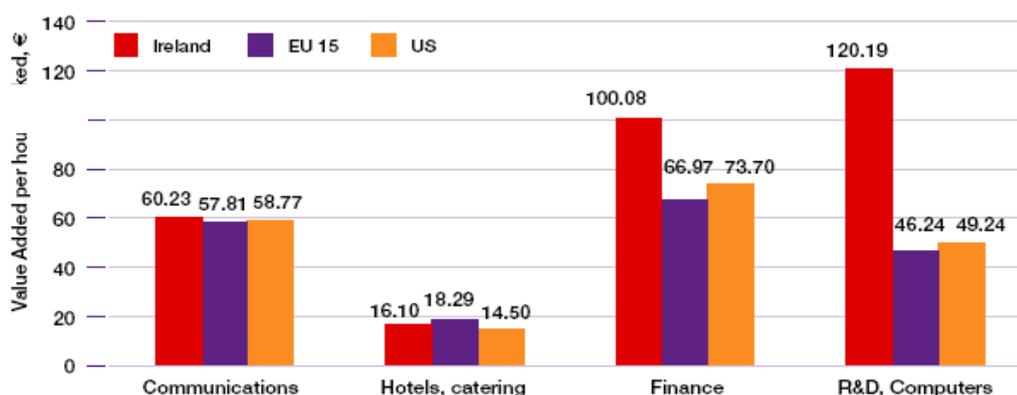
'With employment rates in Ireland now above the EU average, Ireland's ability to catch up with the living standards of the world's richest regions will, relatively speaking, depend less on increasing employment and more on increasing productivity from those already at work.'

Source: NCC Press Release 24th November 2005,
on launch of NCC's 8th Competitiveness Challenge Report

Productivity improvements have been more apparent in capital intensive industries dominated by multinationals where increasing usage of ICT as well as business process re-engineering and outsourcing have been easier to implement.

There is very little information on productivity levels in the tourism industry. Figure 10 shows that productivity in the Irish hotel and catering sector in 2003 was ahead of that in the US, but lagged behind the EU (15). Productivity levels in other major services sectors are much higher than in the hotel and catering sector, as the data in Figure 10 underline.

Figure 10: Per Hour Output Levels in Tradable Services, 2003



Source: Forfás Calculations; Groningen Growth & Development Centre, 60-Industry Database, October 2005

Source: National Competitiveness Council: Annual Competitiveness Report 2006

There are no relative measures of productivity available at overall tourism industry level. The nearest measure is tourism revenue per employee in the industry which increased by 67% in nominal terms between 1996 and 2006 as shown in Table 4.12. At constant

(real) prices, the figures suggest a decline in productivity between 2001 and 2004, but an uplift in 2005 and 2006 has restored it to 2001 levels. It should be noted that this analysis provides an illustration of trends only, rather than absolute figures.

Table 4.12: Tourism Revenue per tourism employee 1996-2004

	1996	1999	2001	2003	2004	2006
Total Tourism Revenue (€m)	2,467.8	4,231.5	4,819.9	5,027.9	5,102.2	6,042.0
Number of employees ²⁷	110,228	151,015	151,292	152,397	152,089	161,340
Revenue per employee	22,388	28,020	31,825	32,992	33,547	37,449
Real revenue per employee*	22,388	26,534	27,201	26,080	25,925	27,176

Source: Fáilte Ireland, * at constant prices

4.3.4 Business Performance

In recent years, there have been many positive indicators of tourism business performance:

- Ireland has maintained its share of European and World arrivals since 2000 despite increased competition
- The volume of overseas tourism has increased from 1.95 million in 1985 to 7.4 million in 2006
- The volume of domestic tourism has increased by 28% since 2000
- The total revenue generated by the tourism sector has increased by 206% since 1990
- The number of tourism businesses has grown significantly over the last ten years
- Hotel occupancy rates have risen.

Despite this positive performance, a number of issues affecting business performance in the tourism sector remain, including:

- Productivity
- Business operations and benchmarking
- Innovation and continuous improvement gains
- High price and cost levels.

Many of these are difficult to measure in a sector that is comprised of many small and micro enterprises.

²⁷ Based on Fáilte Ireland, 'Tourism & Employment Survey' (note numbers for licensed premises / public houses and Health and Industrial Catering excluded).

4.3.5 Innovation & Entrepreneurship

In other business sectors, product innovation and entrepreneurship initiatives have been used to stimulate enhanced business performance. In general, innovation in the Irish tourism sector has tended to be copy-cat rather than the break-through development of completely new products. The numerous new spa developments are a good example. Some wonderful facilities have been created in recent years, but many of the spas are quite basic when compared to world-class offerings.

While *'imitation is perhaps the central fact about innovation and economic development under capitalism'*,²⁸ poor imitations do not demonstrate the potential to be gained from real innovation. Innovation is about customer and quality focus and it applies to product as well as process developments. Entrepreneurship has a close link to innovation as it refers to the management skills or personal initiative used to combine resources in productive ways. Further, it requires the right enabling environment. Section 5 examines the question of product innovation in greater detail.

4.4 Market Connections



The physical distance between suppliers and buyers at the initial point of purchase means that market connections are hugely important in ensuring that consumers know about the product on offer. A nation's tourism brand and marketing communications need to be managed centrally in order to ensure clarity for the consumer - clarity that would not be guaranteed if it were left to individual tourism enterprises.

4.4.1 Ireland brand punching above its weight

In December 2005, Ireland's brand ranked 17th out of the 35 developed and developing countries included in the Anholt Nation Brand Index²⁹ - the first analytical ranking of the world's nation brands. In the commentary, New Zealand (ranked 10th) and Ireland are compared. *'New Zealand and Ireland also have small populations but through positive*

²⁸ Forfás, *Making Technological Knowledge Work: A study of the absorptive capacity of Irish SMEs*, a study for Forfás by Technopolis, 2005

²⁹ Each quarter, starting in 2005, GMI (Global Market Insite) poll a worldwide panel of consumers on perceptions of 35 countries cultural, political, commercial & human assets, investment potential and tourist appeal. www.nationbrandindex.com

*brand values, they manage to punch well above their weight on the global stage.*³⁰

Ireland's brand appears to be built around attractive tourism imagery, spectacular economic growth, well-represented distinctive national culture focused on literature, film and music, and hospitable people.

4.4.2 Ireland's changing image

Despite this positive recognition on the world stage, Tourism Ireland research has revealed a number of changes to the Irish tourism brand:

- **The changing images of Ireland:** those who perceive Ireland to be changing over time see Ireland becoming more homogenous with the rest of Europe, becoming more economically prosperous and more accessible.
- **Contrasting images of Ireland:** the green pastoral Ireland is one of the core elements of the image of Ireland, however there is also the growing appeal of Metro-Dublin as a short break destination.

Research³¹ also shows that the percentage of people actually seeing change is small and the majority of people, for the time being anyway, are still finding the traditional Ireland of their expectation. Tourism images change very slowly but it is important that there is consistency between the image and the reality. On another level, research revealed that while people understand the appeal of Ireland, they are less clear on what there is to do in Ireland once they get here. In addition, Tourism Ireland market managers commented on the difficulty in instilling a sense of urgency to visit. Tourism Ireland research has shown a high level of interest in Ireland but much lower active planning and purchase rates³².

³⁰ Anholt Nation Brands Index, 2nd Quarter 2005

³¹ CHL Tour Operators Survey 2006

³² Tourism Ireland, 'Brand & Advertising Tracking Study', Lansdowne Market Research, 2005.

5. PRODUCT INNOVATION

5.1 Innovation and Competitiveness

The National Competitiveness Council has defined innovation as *'the creative process that transforms new and existing knowledge and technology into commercial value, and reconfigures existing processes in new ways'*³³. Very occasionally, innovation driven by research and development produces a big leap forward. However, it mostly delivers growth through a series of countless small steps. Innovation is also not confined to product development but can be applied to all of the factors that influence competitiveness. A truly innovative industry pursues innovation in all areas - products, processes, marketing, human resources, etc. In order to realise its potential, an industry also needs the support of innovation in its operating environment, including legislation and regulation, financial services, infrastructural provision, etc.

The relationship between innovation, competitiveness and economic growth has been the subject of much analysis on the part of economists. Professor Michael Porter's definition of competitiveness as national productivity was noted in Chapter 2. The Nobel Prize winning economist, Robert Solow, in his analysis of the determinants of economic growth, calculated that just about 20% of U.S. productivity growth is attributable to capital input - the balance is attributable to technological progress. Innovation therefore has a fundamental causal relationship with economic growth and productivity, and high productivity levels reflect a high degree of competitiveness.

In the USA, the National Council on Competitiveness is focusing attention on its National Innovation Initiative. The Council states that:

'Innovation is a proven driver of economic growth, productivity, job creation and rising standards of living. In today's global economy, low costs, high quality, rapid product development and organisational agility form a baseline to compete, but these traits characterise many markets and competitors. Prosperity requires strengthening this baseline and more: it requires innovation'

Source: Council on Competitiveness: National Innovation Initiative, 2004.,
www.innovateamerica.org

³³ National Competitiveness Council: *'Annual Competitiveness Report, 2005'*.

It is interesting to note that legislation proposals before the U.S. Senate include a 'Protect America's Competitive Edge Act'. The origins of this Act lie in the belief that America's ability to compete in the future depends on education, investment in research and development, and the development and deployment of new technologies. The proposed Act contains a series of measures targeted at achieving signal improvements in these areas.

At enterprise level, innovation in both product and service development and in business processes is a requirement of sustained profitability and longevity. Porter's original model of corporate behaviour in a competitive market proposes three generic strategies - cost leadership, differentiation and specialisation.

Successful implementation of any of these strategies depends on the application of some level of creative thinking and innovation (even if these are derived from someone else's good ideas).

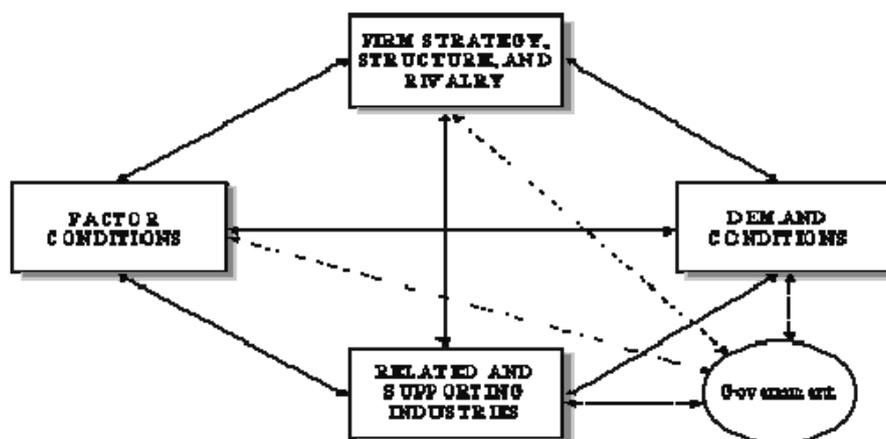
The relationship between innovation at enterprise level and national competitiveness is illustrated by Porter's Diamond (Figure 11)³⁴. The Diamond interlinks four sets of factors and activities which together determine national competitiveness. The factors are:

- **Firm strategy, structure and rivalry:** the extent to which firms' strategies and structures, and the competition they face, encourage them to innovate and raise productivity levels.
- **Related supporting industries:** the clustering of upstream and downstream firms promotes the exchange of information, ideas and innovation.
- **Demand conditions:** the more demanding the customers, the greater the pressure on firms to improve their competitiveness through innovative products, quality gains, service standards etc.
- **Factor conditions:** a combination of general use factors, such as natural resources and unskilled labour, and specialised factors, such as skilled labour, capital and infrastructure; greater levels of competitive advantage are found in specialised factors.

³⁴ Michael Porter: 'The Competitive Advantage of Nations', Reed Business Information, 1990

The emphasis on competition and innovation in Porter's model is evident. In this model, firms are positioned as the primary drivers of competitiveness. The role of government is to challenge, to encourage, to stimulate and even push firms to raise their performance. This may involve stimulating early demand for new products, investment in specialised factor development, support for research and development, and appropriate regulation to maintain a competitive market environment.

Figure 11: Porter's Diamond



5.2 Innovation in Tourism: The Swiss Example

Labour intensive industries such as tourism tend to have below-average labour productivity, and find it hard to attract highly qualified staff and capital (other than for property-based investment). Increasing the productivity levels of such industries is critical to their survival in advanced economies. Manufacturing and an increasing number of service industries have sought to address this issue through international outsourcing. However, this is not an option for tourism. Moreover, major advances in transport and information and communications technology have made previously remote destinations accessible at very competitive prices. The traditional and now high cost destinations in Europe are under increasing pressure and in this situation innovation becomes essential for future prosperity. This need extends over the whole range of business processes as well as product development.

Switzerland is an interesting case study to consider. Swiss tourism has performed poorly since the early 1990s. The number of bednights spent by foreign tourists in Switzerland dropped by almost 23% between 1992 and 2003, while nominal revenue remained static.

Hotel bednight capacity has been static for 10 years. This steady decline reflected increasing competition, economic difficulties in the major source market, Germany, and diminishing competitiveness.

The Swiss government recognised that reliance on the traditional strengths of Swiss tourism would not reverse the downward slide. A new approach directly aimed at improving competitiveness was required and innovation is central to this strategy. The emphasis is placed on process innovation, with a concentration on cost reduction. However, product enhancement and new product development also form part of the strategy.

The role of the State in promoting innovation is a difficult one and, ultimately, sustainable innovation happens at enterprise level. However, the downward slide in Swiss tourism performance was such that it impelled the government to introduce a special innovation programme for tourism in 2003. Known as 'Innotour' the programme is disseminated on the internet (www.inno-tour.ie). The main components of the programme are:

- Initial grant assistance of up to 50% of the costs of implementing innovations, as an incentive to launching these on the market. The maximum grant available is SwFr 400,000 (c. €256,000).
- Projects must be supported by several companies or organisations. Improvement of vertical and horizontal integration of the supply of tourism products and services is an objective.
- Eligible projects include new products, process improvements, channels of distribution, new organisation structures and service quality improvements. Training and further education may be supported in the context of a new product or processes.
- Research and development may be supported so long as the results are to be tested on the market and put into practice where possible.
- Desirable project characteristics include:
 - focus on the strategic goals of Swiss tourism
 - achievement of economies of scale and cost reduction
 - use of new technology.

The scheme is being administered by the State Secretariat for Economic Affairs. It has a total budget of SwFr 37m (c. €23.7m) to be spent over the period 2003-2007. The following are some examples of projects supported under the scheme:

- An online reservation system for Swiss Youth Hostels.
- A project to develop and promote summer hill walking, making product solutions available through hotels, sport shops and restaurants.
- A quality seal of approval for Swiss tourism products.
- A 'families-welcome' programme.
- A project to use public buses to service marginal tourism regions.
- A museum pass for the whole country.
- Development of historical and cultural touring routes linked with gastronomy and organic farming.

On the face of it, these projects and others supported under the Innotour programme appear to be straightforward product development projects. This might suggest that the programme is broadly similar to the product development components of the successive Operational Programmes for Tourism in Ireland. However, on the basis of the criteria set for the eligibility of projects, it must be assumed that there is an innovative element to each of the projects in receipt of support. Much emphasis is evidently placed on achieving horizontal and vertical product integration, and also on the use of information and communications technology. However, it is not clear to what extent the programme has stimulated research into process improvements aimed at delivering productivity gains.

5.3 Tourism Product Innovation in Ireland

5.3.1 Present Position

There has been a high level of investment in tourism product development in Ireland during the past 15 years. This has been driven by a number of factors:

- significant expansion in capacity in response to rapid growth in market demand
- competitive pressures arising locally and internationally, and intensified by more demanding tourists.
- a number of grant schemes, including the Operational Programmes for Tourism, Interreg, the International Fund for Ireland and other cross-border schemes.
- tax-based incentives, using the Business Expansion Scheme, Seaside Resort Renewal and accelerated capital allowances on hotel construction.

The total volume of investment driven by these factors has been very substantial. Investment in the Irish tourism product over the period 1989-2005 exceeded €7 billion. During the five years to 2005 alone, capital investment in tourism from all sources amounted to more than €2.7 billion. Of this total, some €2.4 billion or 89% was invested in accommodation-related developments.

The benefits of this inflow of capital to the Irish tourism product included a significant general improvement in product quality, an increase in the range of products available, and a better choice of experiences offered to tourists. However, these benefits have been unevenly spread, and not all product development has been entirely beneficial. Many products in the riskier and lower yielding categories, such as heritage attractions, have found it difficult to survive without continuing support in the form of employment subsidies and other assistance. In other categories, such as self-catering holiday homes, there has been too much development which has not yielded the benefits of tourism growth intended by the incentives.

Overall, the quantity of product now available in certain product categories, notably hotels, self-catering and golf courses, is probably adequate for the foreseeable future. This was the consensus view among those consulted during this study, and among the participants in the two Product Innovation Workshops. The product development priorities now relate more to issues of product innovation, product quality, presentation, access and information. There are also needs in the areas of heritage, visitor attractions and outdoor activities.

The goals identified by the Swiss product innovation programme are also relevant - i.e. vertical and horizontal integration of products, use of information and communications technology, business process improvements, cost reduction and focus on any identified weaknesses in areas where tourism is a critical component of the local economy.

5.3.2 Support for Product Innovation in Ireland

The Annual Competitiveness Report published by the National Competitiveness Council shows that Ireland achieves relatively low rankings with respect to the indicators of innovation. For example, the level of investment in research and development by both the private and public sectors is low relative to the other advanced economies selected for comparison, and lies well below the OECD average. In recent years, the State has significantly increased its support for research and development and product innovation carried out by industry, agriculture and academic institutions. The Revised Estimates for the Public Service, 2007, illustrate this commitment to R&D:

- Science Foundation Ireland was allocated a budget of €646 million to invest in academic researchers and research teams between 2000 and 2006; the SFI allocation for 2007 is €171.8m.
- Enterprise Ireland have a substantial budget to support R&D and product innovation in industry, amounting to €117.5m in 2007.
- The Department of Agriculture has an allocation of €15m to support R&D in the food sector in 2007, and a further €23.6m for research and training in agriculture; this is in addition to the substantial share of Teagasc's budget of €128m which is also committed to these areas.
- The Department of Communications, Marine and Natural Resources has an allocation of €32m in 2007 for marine research and development (which includes the Marine Institute's budget).

The strong support for R&D in technology, industry, agriculture, food and fisheries has been maintained consistently during the past five years, and it is expected to increase under the National Development Plan 2007-2013, which includes a provision of €6.1 billion for science, technology and innovation. However, it is not matched by any similar commitment in tourism, despite the fact that it is the largest indigenous industry in employment terms.

As a first step in redressing this deficiency, Fáilte Ireland launched a pilot Tourism Innovation Fund in 2005-06 which has been extended into 2007. The immediate priority of the Fund is to encourage innovation and investment in new products, with emphasis on development outside the main urban tourism areas. According to the Guidelines issued by Fáilte Ireland: *'While the focus will be on innovations which may result in new physical product, proposals which seek to reconfigure the visitor experience shall also be*

eligible.' The Fund is set to operate for three years with a budget of €1 million, and a maximum grant for feasibility studies of 50% of eligible costs subject to an upper grant limit of €20,000. In its present structure, the Fund will primarily support assessments of innovations and planning for their implementation, rather than the actual process of research, development and innovation itself.

The Tourism Product Development Strategy 2007-2013 includes a more substantial allocation of €21 million to innovation. This fund will support feasibility studies, research into competitor behaviour and the establishment of a National Institute for Tourism Innovation.

Fáilte Ireland are also in the process of establishing three product innovation clusters as pilot projects. The clusters are located in three different regions of the country. Each of the clusters gathers together a set of product providers whose products and services are aimed at the same target markets and consumer interests.

As a final point on the question of the State's role in product innovation, it is interesting to consider the findings of a report by Technopolis prepared for Forfás in 2005.³⁵ This report quotes the findings of a survey conducted in 12 EU countries (excluding Ireland, UK and Luxembourg) on the question of where firms obtain their information for innovation. The most important sources for firms are customers, suppliers, fairs and exhibitions, and competitors, in that order. Only about 5% of respondent companies identified academic institutes as important sources, while just 3% identified government and non-profit research institutes as important. The conclusions of the study are that support for innovation in industries, should be directed towards firms and, in addition to R&D support, should build the capacity of firms to innovate and to absorb information. Areas of intervention include

- human resource development
- raising awareness of and access to external knowledge
- increased networking
- improved management organisation and
- developing learning processes within firms.

³⁵ Technopolis: *Making Technological Knowledge Work: A Study of the Absorptive Capacity of Irish SME's*, Forfás, 2005

5.4 Tourism Product Innovation Proposals

The important role of product innovation in driving competitiveness was highlighted in Section 5.1. Particular attention was paid to this question during the course of this study, and CHL ran two special product innovation workshops, involving a cross-section of senior industry figures from both the public and private sectors. The workshops identified key issues and challenges facing the Irish tourism industry, and came up with a series of product ideas and suggestions for pilot projects. The output of the workshops is distilled in the following paragraphs - these contain the main points rather than an exhaustive listing of ideas.

5.4.1 Issues and Challenges in Product Development

The points made by workshop participants can be roughly divided into national and local groupings, as follows:

- **National**
 - There has been a diminution of essential aspects of the Irish appeal as represented by the primary product of environment, people and cultural heritage. There is a need to invest in the protection and enhancement of these core attractors.
 - We need a vision for tourism that complements the quantitative targets, and the latter should be made more relevant to the industry.
 - Government interest in, and a strong commitment to, tourism must be sustained into the long-term, and this commitment should be shared by all parts of the public sector.
 - Emphasis should continue to be placed on the building of close links between the tourism development and marketing agencies and the industry; greater levels of cooperation within the industry are also desirable.
 - There is a need for much greater investment in research and development work in tourism which lags far behind other sectors of the economy in this area of activity.
 - Over-regulation must be avoided - in some areas, notably local food products, we appear to adhere far more rigidly to EU regulations and standardisation than do our competitors.

- Where resources are allocated to activities and projects with a low chance of success, there should be an explicit understanding of risk and the opportunity cost involved (i.e. what the same resources could achieve if allocated to other activities and projects).

- **Local**
 - Tourists have to try too hard to find products and we don't tell them enough about local opportunities such as sporting and cultural events.
 - We should use the creativity available in Ireland, especially in the arts sector, to animate tourism areas and products.
 - There is a need for more imagination in product presentation and for greater horizontal linkages between products in local areas to offer a richer selection of experiences to tourists.
 - The emphasis in tourist information should shift from the supply of lists of products to advice on the opportunities that would best suit individual tourists.
 - The delivery and packaging of tourism products at local level for individual tourists need to be enabled; at present, tour operators fulfil this role for group and FIT customers, but independent tourists have to find out about opportunities themselves.
 - Busy proprietors need carefully tailored supports from regional agencies to enable them to be entrepreneurs and innovators: exposure to best practice and ideas elsewhere should form an important part of industry development programmes.
 - Protection and enhancement of the core primary assets at local level - especially the environment - must be given priority.

5.4.2 Suggestions for Product Innovation Projects

The following ideas were put forward as potential pilot product innovation projects:

- i) Establish a Tourism Product and Business Process Innovation Fund, accessible by research institutions as well as businesses, preferably working in networks or clusters; this could embrace a Tourism Product Innovation Centre.
- ii) Celebrate innovation through a Tourism Innovation Awards scheme that would be open to businesses, local authorities and local development agencies, including community groups.

- iii) Develop comprehensive, interactive local area tourism web-sites carrying details of all possibilities in an area for tourists, with a booking facility and accessible through a gateway at national level.
- iv) Engage retired people as tourist guides and animators to work at street level in the main tourist areas and at visitor attractions and heritage sties.
- v) Create a 'What is Ireland' introduction for tourists which they would receive on arrival, or view on aircraft and ferries; this would be a quick run through Irish history, culture, traditions and social customs.
- vi) Inaugurate a 'Discover Rural Ireland Day' for the home market as well as for overseas tourists, which would invite people to participate in a wide range of rural recreational activities with the support of experienced guides and instructors.
- vii) Create a traditional transport holiday combining journeys on a steam train, bicycles, horses and barges.
- viii) Create Irish island-hopping holidays which would include a range of different activities and experiences.
- ix) Establish a web-based intermediary to connect local product providers with tour operators.
- x) Develop and disseminate case studies on successful Irish destinations and entrepreneurs.
- xi) Accommodation, food and beverage providers could contribute to active tourist information flows by using disposable place-mats with a map of their local area showing things to do and see; these could also be placed in guest bedrooms.

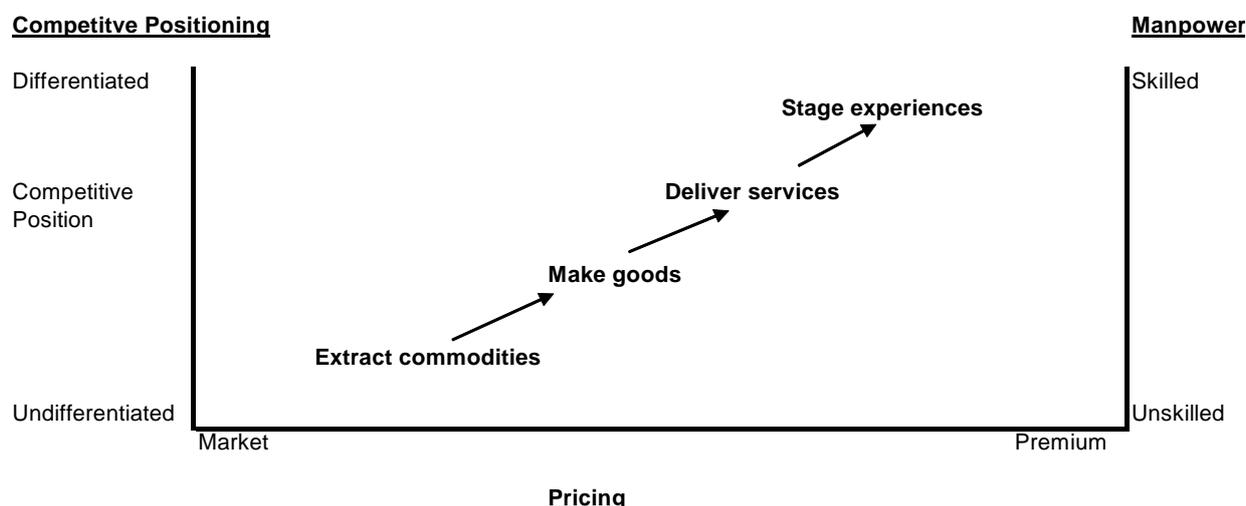
6. MEASURES TO IMPROVE COMPETITIVENESS

6.1 Goals

The core goal for Irish tourism is to develop and deliver distinctive, authentic and memorable experiences that stimulate increased visits, longer dwell times and higher expenditure, and encourage tourists to recommend Ireland strongly to others. The quality of the experience is the key.

This goal has a broad application that extends to all sectors of consumer businesses. Writing in the Harvard Business Review, Pine and Gilmore argued that the latest phase of economic development concerns the staging of experiences.³⁶ As shown in Figure 12 below, economies and industries begin with the extraction of commodities; they move on through the successive phases of manufacturing goods and delivering services to reach the experience economy, which is the position achieved by the most sophisticated businesses and leading economies. The greatest level of value-added and competitive differentiation is achieved at this level.

Figure 12: The Progression of Economic Value



Source: Pine & Gilmore: 'Welcome to the Experience Economy'.

The distinction between delivering services and staging experiences is summarised in Box 3. This is not to downgrade the importance of service delivery - in particular, the quality of services delivered to tourists obviously influences their degree of satisfaction.

³⁶ Joseph Pine & James Gilmore: 'Welcome to the Experience Economy'. Harvard Business Review, Jul-Aug, 1998

However, it is the quality and range of experiences that tourists have in Ireland that will determine whether or not they have a memorable trip.

Box 3: Economic Distinctions

Services	Experiences
<ul style="list-style-type: none"> • are delivered • are tangible • are customised • delivered on demand • seller is the provider • buyer is a client • bought for benefits 	<ul style="list-style-type: none"> • are staged • are memorable • are personal • delivered/revealed over a period • seller is a stager • buyer is a guest • bought for sensations

Source: Pine and Gilmore

The Irish tourism industry is now at the point where it must move towards the experience economy to build a platform for future success. Leading tourism destinations are increasingly focusing on the experience that they offer to their visitors, and on how they can enhance this. The challenge for the Irish tourism industry is to recognise the shifts taking place in tourist preferences and to create authentic, diverse and changing experiences to attract visitors, make them want to return, and make them give strong recommendations to their families, friends and colleagues. The beneficial impact of this process is illustrated in Figure 13, which shows that a ‘virtuous profit cycle’ for business can be achieved through successful investment in and management of the destination experience.

Figure 13: The Experience Profit Cycle



Source: Chris Voss: 'Trends in the Experience and Service Economy', London Business School, 2004.

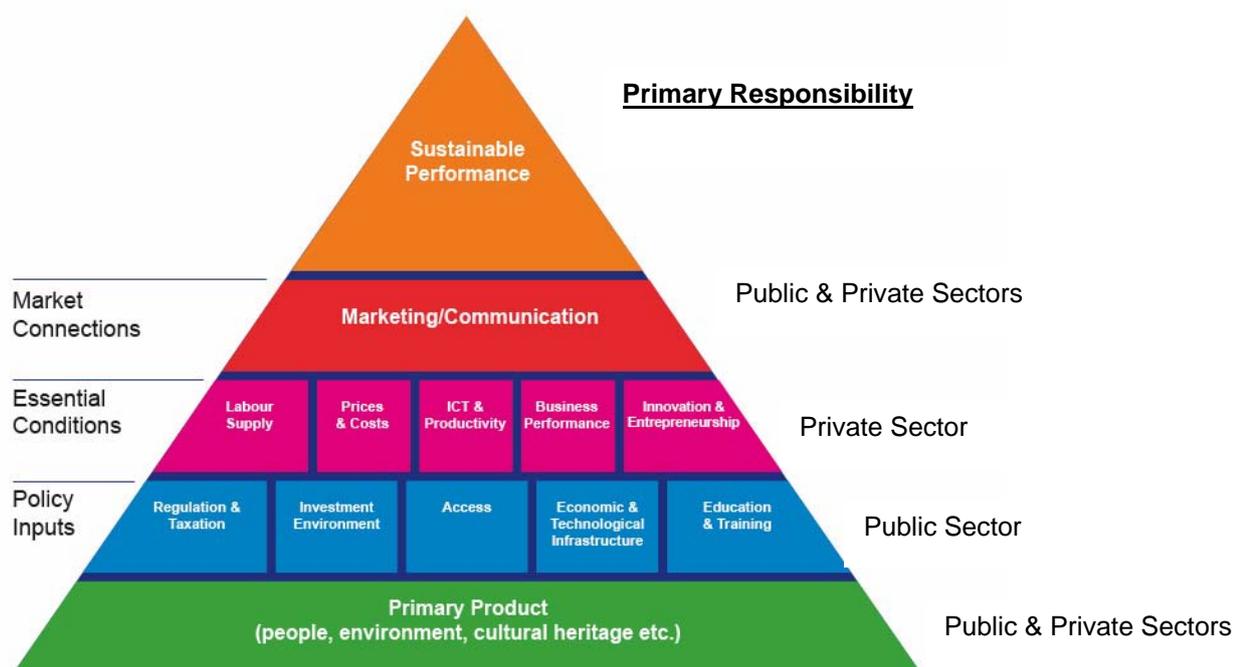
6.2 Roles of the Public and Private Sectors

Conventional analysis of the business environment states that wealth is actually created at the micro-economic level - i.e. by firms - and therefore that the competitiveness of an industry depends on the behaviour of its members. The essential role of the State is to create and sustain a macroeconomic environment that supports enterprise and enables firms to compete. The discussion in Chapter 5 on product innovation highlighted this point. It referred to Porter's analysis which stresses that competitiveness ultimately depends on improving the microeconomic foundations of competition which will then drive country competitiveness. In the long term, national prosperity will hinge on how innovative firms are in their products, services and business processes. At the same time, innovation is also required of the State in creating the appropriate environment for business.

This analysis can be applied to the majority of the productive, traded and commercial sectors of the economy. However, the tourism industry requires a different perspective arising from the very nature of its products and structure. The public sector has a far greater involvement in tourism than it has in most other sectors. This is because it owns, controls or has primary responsibility for large parts of the primary tourism product. This includes the natural environment and most of the important natural, archaeological and built heritage sites. Apart from Irish people, these are the core attractors for tourists.

The public sector is also responsible for the physical infrastructure of the country which enables visitors to tour and access sites. It owns major cultural institutions such as the National Gallery, National Museum and Abbey Theatre. It plays a key role in the education and training of personnel for the tourism industry, and it is responsible for national destination marketing. In summary, the public sector is far more intimately involved in the business of tourism than it is in the business of most other sectors. It therefore shares responsibility for competitiveness in tourism with the private sector. The respective fields of responsibility of the public and private sectors with regard to competitiveness are summarised in Figure 14.

Figure 14: Fields of Responsibility of the Public and Private Sectors



In essence, the tourism industry, both the public and private sectors, creates and delivers the tourism experience. The essential requirement is for the industry to make competitiveness its priority, through

- improving its responsiveness to customers
- identifying and implementing cost control and cost reduction measures
- innovation in business process to achieve productivity gains
- innovation in products and services, identifying customer preferences and matching products to markets.

In addition to its direct involvement in the tourism product, the public sector has the essential role of devising and implementing the correct policy inputs to enable the industry to compete and make Ireland a truly competitive tourist destination. The State also has a critical role to play in promoting Ireland to overseas markets.

6.3 Recommended Measures to Improve Competitiveness

In formulating our recommendations we have focused on drawing up a prioritised menu of recommendations that will have a signal impact. Secondly, we have taken into account actions that are currently being taken by Tourism Ireland, with regard to destination marketing, and by Fáilte Ireland with regard to human resource development, new supports for business and product marketing. Thirdly, we recognise that a number of our recommendations have previously appeared in other reports and studies, including the Tourism Policy Review Group's *'New Horizons for Irish Tourism'*. Where we have included these, it is because they continue to have a central importance to the future of Irish tourism. Finally, the majority of the recommendations are intended to improve the competitiveness of the regions as much as national competitiveness.

The recommendations are detailed in the following sections. A summary table is provided in the Executive Summary at the beginning of this report. Developments affecting the recommendations since our original report was published are highlighted in bold at the foot of each recommendation.

It should be noted that the order in which the recommendations are presented is related to the model of tourism competitiveness, which informs the structure of this report, and does not reflect any rank order of importance.

6.3.1 Overall Sectoral Measures

- **Recommendation 1 - Sustained Government commitment to tourism:** it is vital that the Government sustains and further strengthens the commitment to tourism that it has demonstrated since the Tourism Policy Review Group presented its report in September 2003. This commitment will underpin all other measures that can be taken to improve Ireland's competitiveness in tourism. The commitment should be demonstrated by:
 - appointing a successor body to the Tourism Action Plan Implementation Group which has now completed its term. The successor body should represent a high-level partnership between the public and private sectors, and its brief should be to monitor Ireland's competitiveness in tourism, to identify barriers to competitiveness, to identify and support the implementation of priority measures

required to improve competitiveness, and to coordinate the responses of key actors in the public and private sectors.

- ensuring that tourism is explicit on the agenda of all Government Departments and State agencies so that the tourism impact of all policies, legislation, regulations and other actions is given full consideration.

Updated Position, 2007: The Government has appointed a successor body, the Tourism Strategy Implementation Group. This Group is an invaluable instrument for measurement and maintaining focus. Its current term expires in March 2008 but, given its importance, it should be instated on a permanent basis.

- **Recommendation 2 - Greater Local Authority commitment to tourism:** the critical role that Local Authorities play in relation to tourism does not appear to be fully appreciated, and the actions of Local Authorities with regard to planning, infrastructure, the environment, heritage and the arts need greater consideration and coordination with regard to their impact on tourism. It is essential that a much greater awareness of, and commitment to, tourism is instilled in Local Authorities. This commitment should focus on the areas noted above, which are already within the remit of Local Authorities, but should not extend to direct involvement in tourism marketing (other than in the form of contributions to established tourism marketing bodies).

The following steps should be taken to achieve this:

- explicit inclusion of responsibility for tourism in the role and title of a Director of Services in each Local Authority.
- requirement to have a written tourism policy to be implemented by the appropriate Director of Services, and to prepare a periodic tourism plan with a specified action plan and budget.
- appointment of a tourism development officer in each Local Authority, where such a post does not already exist.
- formation of a coordinating group involving senior Local Authority personnel and representatives of the tourism industry.

Updated Position, 2007: A growing number of counties have, or are putting, tourism development strategies in place. The need for county tourism coordinating groups has increased with the abolition of the County Tourism Committees. In view of the fundamental role that the Local Authorities have in tourism, there is a need for close cooperation between the Authorities and the industry. All of the above recommendations continue to be relevant.

- **Recommendation 3 - Industry bodies have a leadership role to play:** the tourism industry, both the public and private sectors, creates and delivers the tourism experience. The following key areas of intervention by the industry bodies have been identified by the Tourism Policy Review Group and these continue to be priorities:
 - identifying and promoting actions to enhance competitiveness
 - acquisition and dissemination of knowledge to assist in product and business process improvement, and in the achievement of productivity gains.
 - enabling information sharing and the study of best practice management and operations among networks at local and regional levels.
 - facilitating cooperative action in the areas of product development, training and procurement.

Updated Position, 2007: The industry bodies are continuing to represent the interests of their members, but few apart from ITIC and IHF have the resources to invest in key areas of research and dissemination of knowledge. ITIC therefore has a key role to play in coordinating the industry and making inputs to policy-making in all areas that affect tourism. The above recommendations continue to be relevant.

6.3.2 Primary Product

The primary product is the foundation on which Irish tourism is built. The key components are Irish people, culture, heritage and natural environment. The following recommendations arise:

- **Recommendation 4 - All parties have an essential role in protecting the environment:** national and local authorities and the tourism industry all need to invest more seriously in the protection and presentation of Ireland's natural environment. Key requirements are to

- ensure that tourism interests are represented on environmental bodies such as the Environmental Protection Agency, Comhar³⁷, and Irish Business Against Litter (IBAL).
- the tourism industry must invest in 'green' operational practices for sustainable tourism, covering key areas including energy, water and waste management, maintenance of litter-free zones and environmental enhancement. A high-profile eco-awards scheme and environmental quality mark should be introduced by the industry and promoted actively to enhance the green image of Irish tourism.
- provide continued support to best practice initiatives such as Tidy Towns, National Spring Clean³⁸, People and Place Programme, and the IHF Waste Management Strategy for Hoteliers.
- direct Local Authority funds for tourism into environmental projects such as sustainable walking routes, cycling routes and enhancement of the appearance of villages and towns etc.

Updated Position, 2007: This continues to be an area of major concern for tourism, but progress is very slow. At this point, the country appears to be in a research phase – Fáilte Ireland has published its Environmental Action Plan and DIT are about to host a major conference on the findings of a major piece of research into sustainable tourism. There is a need to convert research and policy to action while, at the same time, avoiding unnecessary knee-jerk measures that create high costs for little or no benefit. The above recommendations continue to be relevant.

- **Recommendation 5 - Place much greater emphasis on the natural and built heritage:** the natural and built heritage of Ireland is vitally important to tourism. Key concerns are protection, conservation, education and interpretation, and enablement of access. Following the break-up of Dúchas, the component parts of the Heritage Service were distributed between the Department of the Environment, Heritage and Local Government and the Office of Public Works which comes under the Department of Finance. It is not evident that this break-up enabled coherent policy-making and action with regard to heritage, including its tourism dimension. Moreover, heritage is only one among the many onerous responsibilities of the Department of

³⁷ The National Sustainable Development Partnership, www.comhar-nsdp.ie

³⁸ National campaign run by An Taisce and the Department of Environment, Heritage & Local Government

the Environment, Heritage and Local Government and appears to be down the list of current priorities set out in the Department's current Strategy Statement.

- Government should consider reuniting the heritage functions of the OPW and the Department of the Environment, Heritage and Local Government into one body where heritage is the leading priority. The tourism industry should be represented on this body.
- heritage site management should focus on the quality of the visitor experience, with emphasis on improved physical access and interpretation, including longer and more convenient opening hours and greater availability of guides outside the peak summer months.
- the natural and built heritage should be accorded greater statutory protection with respect to the planning of new developments.

Updated Position, 2007: Responsibility for heritage continues to be divided and there is a need for greater coordination between the national and local authorities.

There are substantial allocations for natural and built heritage under the NDP, and priorities for this investment need to be clearly established. Emphasis should be placed on the historic fabric of towns as much as on individual heritage sites, and local authorities have a central role to play in this. The above recommendations continue to be relevant.

- **Recommendation 6 - Foster pride in tourism among Irish people:** the people of Ireland need to be made more aware of the value of tourism and tourists need to be given greater opportunities to make contact with Irish people. It is recommended that
 - a national tourism awareness campaign be mounted and updated and repeated periodically; the campaign should embrace education about tourism at schools, T.V. and radio-based public awareness initiatives, and sponsorship of community-based tourism initiatives
 - a corps of on-street volunteer guides be created (a modest remuneration package could also be considered as an incentive) drawing on the growing national resource of retired people; this initiative would be managed at county level, and would require investment in training and casual but distinctive uniforms. (It may be noted that Shannon Development are introducing such a

scheme of on-street Tourism Ambassadors in Limerick city for the summer of 2006 - this could effectively act as a pilot project for the rest of the country.)

- a 'What is Ireland' introduction for tourists be created and issued on DVD to be shown on aircraft, ferries, at airports, on coaches and in hotels. The content would be a quick and entertaining run through Irish history, culture, traditions and social customs. Versions with particular regional emphases could be produced for use in different parts of the country. The same material could also be used with immigrant workers in the tourism sector. Finally, the introduction could also be made available in an iPod version
- the creativity available in Ireland, especially in the arts sector, be used to animate tourism areas and sites, through the engagement of artists and actors.
- strengthen the tourism dimension of the Tidy Towns competition by introducing cultural and tourism criteria similar to those used in the Baile Beo initiative devised and organised by GaelSaoire for the Gaeltacht regions.

Updated Position, 2007: The recommendations continue to be relevant, although a national awareness campaign has been mounted in 2007. The Business Improvement Districts programme in Dublin will include the creation of on-street guides.

In light of the brand review, new imagery should be used in the proposed "What is Ireland" introductory DVD.

6.3.3 Policy Inputs

- **Recommendation 7 - More balanced regulation and taxation:** these can have a significant impact on the performance of the tourism industry. The goal of Government and the Local Authorities should be to ensure
 - (a) that taxation is levied in a way that is fair and which balances their revenue generation requirements with the competitiveness of the industry.
 - (b) that regulation ensures that tourists receive quality products and services while also enabling the industry to operate efficiently and to offer distinctive experiences.

Key proposals made in this area by ITIC and the Irish Hotels Federation are as follows:

- make VAT on hotel and restaurant expenditure for conference, incentive travel and corporate meetings refundable.
- abolish the existing Local Authority rates system and replace it with local income tax, based on profitability as opposed to property valuations, to pay for the provision of community based services such as parks, libraries, street cleaning and local contributions to road maintenance.
- broaden the tax base so that business and domestic users are charged for services where the levels of use can be determined, e.g. water provision, waste collection and planning fees.
- amend funding structure so that funds for social services - specifically social housing, assistance to elderly and allowances for disabled people to adapt their houses - come from central government.

Updated Position, 2007: This continues to be a difficult area for tourism. The Finance Act 2007 made some improvement through a provision for the recovery of VAT incurred on accommodation for conferences organised for at least 50 people. However, apart from this limited provision, VAT on the food element remains non-refundable. Apart from the provision for conferences, VAT on hotel accommodation and restaurants is not eligible for recovery by individuals or companies as a business expense. VAT rates on hotel accommodation in Ireland remain high by European standards.

Local authority charges continue to increase at a rate substantially in excess of inflation between 2001 and 2007, the price index for water supply, refuse and miscellaneous charges has risen at almost six times the overall rate of inflation. The need to reform local authority funding has become more urgent.

- **Recommendation 8 - Maintain a supportive investment environment for tourism:** as a labour-intensive industry with low levels of productivity compared with other leading industries, tourism finds it hard to compete for capital and highly skilled labour. Continued investment in the industry will therefore require public sector support. It is recommended that:
 - at least €210 million should be allocated to tourism product development under the National Development Plan, 2007-2013 (as per ITIC's submission to the NDP, March 2006).

- public sector investment in key heritage attractions be prioritised in the tourism product development plan.
- support for private sector heritage attractions be maintained in the form of support for employment through employment training schemes.
- selective support for private sector investment be continued but be focused on stimulating and supporting product innovation; key areas for support include attractions, activities, eco-tourism and 'green' tourism initiatives.
- a soft-loan scheme for small and micro-enterprises in the tourism sector should be considered.

Updated Position, 2007: The NDP allocates €317m to tourism product development, although this includes provision for the National Conference Centre.

The NDP also makes substantial allocations to cultural infrastructure, natural heritage, built heritage and waterways, totalling €1,519 million. Much of the investment on cultural infrastructure will be spent on the national cultural institutions located in Dublin and therefore will not benefit tourism elsewhere in the country.

In addition to the explicit budget for tourism, there are other areas of funding under the NDP that could be used to leverage resources for tourism. These include budgets for LEADER, local enterprise development, community development, the Western Investment Development Fund, Gaeltacht and Island Communities, the Border Counties, and County and Local Development.

- **Recommendation 9 - Better access is essential for regional tourism:** the principal recommendations relating to access are:
 - to ensure that the future development of Dublin Airport is prioritised
 - to improve access to Dublin Airport, both from the centre of Dublin City and via the M50; in the case of the former, suitable short to medium-term measures need to be identified since the proposed link by metro is not scheduled to be in place until 2012, according to Transport 21; in the case of the M50, the issue is resolving the delays at the Westlink Bridge.
 - to continue to invest in regional airports and in the road networks around them.

- to introduce regional and local area hop-on/hop-off bus services to enable tourists without cars to travel around the regions. (This could be modelled on the Pembrokeshire Greenways and Pembrokeshire Coastal Bus Services which have been introduced specifically to enable access by bus to walks, beaches, boat trips, local villages and attractions along the entire 299km length of the Pembrokeshire National Park coastline.)
- to implement all of the key measures in Transport 21 relating to regional access, including the Western Rail Corridor and the Atlantic Road Corridor.
- introduce integrated ticketing among different modes of transport.
- to introduce user-friendly holiday visa procedures for tourists from the rapidly growing markets in the Far East which will be opened by new air routes in the coming years.
- to develop a new deepwater port for Dublin at Bremore, which lies between Balbriggan and Gormanston, as proposed by Drogheda Port Company – the Government has given approval to the Company to move ahead with this project.
- in the longer term, to develop an outer ring road around Dublin from Balbriggan to Naas.

Updated Position, 2007: All of the original recommendations continue to be relevant, although the grant of planning permission has now enabled the planned developments at Dublin Airport to proceed.

A key issue in the short to medium term is the potential negative impact of the Open Skies agreement on the western regions. The recommendations already made by ITIC on this issue require urgent implementation, notably the implementation of the tourism and economic plan prepared by the Mid-West Regional Authority in 2006 at the request of the Minister for Transport, and the allocation of a special budget to Tourism Ireland for each of the years 2008 - 2010 to be directed at heightening the motivation to visit the western regions and to at least sustain the level of services to Shannon Airport.

- **Recommendation 10 - Continue to invest in education and training:** a suite of new programmes has been introduced by Fáilte Ireland during the past three years, and many of these are focused on key competitive issues, including management development, benchmarking, productivity improvement, service standards and excellence. The establishment of county-based learning networks is a particularly useful initiative for small and micro enterprises.

- intensify the training available for immigrant workers, including cultural and language training as well as operational skills, and make it accessible throughout the country. [This was an area singled out for criticism by the tour operators interviewed.]
- instil a greater sense of importance in the quality of the welcome as part of all tourism training programmes.
- encourage greater investment in training and education by the industry through enhanced tax reliefs for training expenditure.

Updated Position, 2007: The recommendations continue to be relevant, and the needs continue to grow as the proportion of immigrant workers in the tourism industry increases and the number of Irish employed declines. The NDP includes a provision of €149 million for tourism training; the industry will need to add substantially to this amount given the scale of task.

6.3.4 Essential Conditions

- **Recommendation 11 - Product innovation is fundamental for competitive success:** Chapter 5 contains a review of tourism product innovation and a number of recommendations and suggestions for pilot projects. The key goal is to instil an orientation towards and capacity for innovation in the tourism industry. Research has shown that only 20% of European SMEs in the tourism sector regard innovation as a top priority, and micro-enterprises are even less concerned with it.³⁹ The importance of innovation and entrepreneurship cannot be overemphasised, and key recommendations in this regard are:
 - busy proprietors should be provided with carefully tailored supports from regional agencies to enable them to be entrepreneurs and innovators: exposure to best practice and ideas elsewhere should form an important part of industry development programmes. (This recommendation builds on initiatives already being implemented by Fáilte Ireland)

³⁹ PricewaterhouseCoopers: 'Structure, Performance and Competitiveness of European Tourism and its Enterprises', European Commission, 2002

- Fáilte Ireland should establish a Tourism Product and Business Process Innovation Fund, accessible by research institutions as well as businesses, working in networks or clusters; this could be modelled on the Swiss Innoutour scheme.
- the industry (ITIC) should celebrate innovation through a Tourism Innovation Awards scheme that would be open to businesses, local authorities and local development agencies, including community groups.
- case studies on successful Irish and overseas destinations and entrepreneurs should be written up and disseminated by Fáilte Ireland and industry bodies.
- double tax credits should be available for investment in research and development in tourism.
- the Government, through Fáilte Ireland and Tourism Ireland, should contribute to a much greater level of research and development in the tourism industry, commensurate with its importance to the economy, and in proportion to support for R&D in other sectors.

Updated Position, 2007: The Tourism Product Development Strategy 2007-2013 includes a provision of €1 million – i.e. about €3m p.a. – for encouraging tourism innovation, including the establishment of a National Institute for Tourism Innovation. These measures will assist in the realisation of a number of the recommendations, but the budgetary allocation is very small in comparison to the R & D allocations to other sectors. A greater level of investment is required, with input from the industry. The above recommendations continue to be relevant.

6.3.5 Market Connections

- **Recommendation 12 - Increased investment in market connections:** market connections link the Irish tourism product to the tourist. Tourism Ireland has recently launched a new international marketing campaign which focuses on the experience of an Irish holiday. New websites have also been developed by Tourism Ireland and Fáilte Ireland - this is an area in which we should have a leadership position and much is expected here. A number of additional points regarding market connections arose during the course of the study, especially in relation to product innovation, and these are summarised here:

- as proposed in ITIC's submission to the National Development Plan 2007 - 2013, the real expenditure on international tourism marketing should be increased by 25% over the next 5 years to reach €50 million per year by 2011 (in 2007 prices).
- there is a need for more imagination in product presentation and the creation of far greater horizontal linkages between products in local areas to offer a richer selection of experiences to tourists. The Regional Tourism Partnerships in conjunction with local authorities and the tourism industry should develop comprehensive, interactive local area tourism web-sites carrying details of all possibilities in an area for tourists, with a booking facility and accessible through a gateway at national level. The development of these sites should be supported financially by the tourism industry.
- the emphasis in tourist information offices should shift from the supply of lists of products to advice on the opportunities that would best suit individual tourists.
- inaugurate a 'Discover Rural Ireland Day' for the home market as well as for overseas tourists, which would invite people to participate in a wide range of rural recreational activities with the support of experienced guides and instructors.
- much greater levels of industry investment in e-marketing are required, both to get product information on-line and to make it available to purchase, and this should be facilitated through education and training measures.

Updated Position, 2007: Good progress is being made on these recommendations with the allocation of €335m to tourism marketing under the NDP over the next 7 years and new regional websites being launched. Tourism Ireland are hosting an e-marketing seminar later this year. The question is: how will the increased funding be used. Priorities include the need to market the western regions more intensively in a multi-annual programme as recommended under Theme 9.

7. APPENDICES

Appendix 1:

Terms of Reference

A1. TERMS OF REFERENCE

A1.1 Objectives

The principal objectives of this study are:

- To analyse and report on the competitive issues and challenges facing Irish tourism, updating the analysis in CHL's March 2002 report.
- To benchmark Ireland's competitiveness vis-à-vis its chief competitors.
- To make recommendations on actions to be taken by the industry, the tourism development and marketing agencies, and Government to improve Ireland's competitive position, with emphasis on product innovation, market positioning and the business environment.

A1.2 Scope of the Study

The issues to be addressed by the study can be brought together under five headings as follows:

a) Definition of competitiveness in tourism

Much of the debate on Ireland's competitiveness has been confined to costs and prices. This is a very narrow perspective. In its *World Competitiveness Yearbook, 2005*, the Institute for Management Development in Lausanne says that '*Competitiveness is not necessarily incompatible with an expensive operating environment. It even appears that the most competitive nations in 2005 also rank among the most expensive nations. In many cases, the explanation is that nations first tend to be competitive and then, with success, become expensive. The relationship between costs, productivity and competitiveness is a subtle one.*'

In CHL's 2002 report, competitiveness in tourism was related to eight major factor groupings. We will revisit this definition, and ensure that all relevant factors including, for example, marketing presence, are taken into account.

It is noted that, although competitiveness in tourism is influenced by many variables, much emphasis continues to be placed on price by the media and the wider public.

The study will address the issue of price, and will also consider how best to communicate the fact that competitiveness is not the same as cheapness.

b) Analysis of Ireland's competitive position

This part of the study will update the analysis in the 2002 report to establish the current position and trends, and the outlook with regard to key competitive variables. This will include price comparisons where valid comparisons can be made.

c) Competitor analysis and benchmarking Ireland

The study will compare Ireland's competitiveness with other destinations. It will also examine the experience of successful high-priced destinations, assess the basis for their competitive positioning and identify the factors that may be inhibiting Ireland from achieving a similar positioning. Switzerland, Austria and, possibly, Finland and Norway are potential examples. Certain regions in Italy and Spain may also be considered if suitable data are available.

d) Product innovation

This part of the study will consider the various dimensions of innovation in tourism in relation to product and service development. Much of the potential for innovation lies in areas such as efficiency gains, elimination of services of little or no interest to customers and the enhancement of existing products. In a tourism context, it may be more appropriate to focus on 'experience innovation' rather than 'product innovation'.

The study will focus attention on the process of innovation and how this can be devised to become a permanent, inbuilt feature of Irish tourism. We will take into account current initiatives in this area, both within the tourism sector and in other sectors of the economy. It is also noted that Switzerland is implementing a product innovation programme, and information should be obtained on this.

e) Recommendations

The major emphasis of the study will be on producing practicable recommendations for actions to be taken by the major stakeholders to strengthen Ireland's competitive position in the years ahead. Recommendations for action will be placed on a timeline.

Appendix 2:

List of Reference Sources

A2. LIST OF REFERENCE SOURCES

A.2 LIST OF REFERENCE SOURCES

- Analysys Consulting, '*Action Needed on Unbundling*', 2006
- Anholt Nation Brands Index, 2nd quarter 2005
- An Taisce and the Department of Environment, Heritage & Local Government, National Campaign
- Central Statistics Office website
- Chris Voss: '*Trends in the Experience and Service Economy*', London Business School, 2004.
- '*City Profiles*', July 2005, IPK International European Travel Monitor
- Council on Competitiveness: '*National Innovation Initiative*', 2004., www.innovateamerica.org.
- ECB Monthly Bulletin, September 2005
- European Commission, '*European Economy No. 6/2003*', 2003
- European Travel Commission: '*European Tourism Insights 2006*', ETC 2007
- Fáilte Ireland: Tourism Product Development Strategy, 2007-2013
- Fáilte Ireland's '*Tourism & Employment Survey*'
- Fáilte Ireland statistical data
- Fáilte Ireland's Tourism Matters publication, January 2006
- Forfás, '*Making Technological Change Work: A study of the absorptive capacity of Irish SMEs*', 2005
- Forfás, Technopolis: '*Making Technological Knowledge Work: A Study of the Absorptive Capacity of Irish SME's*', 2005
- IBEC and Institute of Public Administration Diary 2006
- Ireland's National Development Plan 2007-2013, Stationery Office, 2007
- Irish Independent special supplement, '*Workplace of the Future*', 15th September 2005
- ITIC, '*Submission to National Development Plan*', prepared by Paul Tansey on behalf of ITIC, March 2006.
- ITIC, '*How Tourism to Ireland is Changing: Regional Distribution*', Tourism and Transport Consult International, June 2005
- ITIC, '*Projected Short to Medium Term Impacts of Open Skies for Ireland*', July 2007

- Joseph Pine & James Gilmore: 'Welcome to the Experience Economy'. Harvard Business Review, Jul-Aug, 1998
- Michael Porter: '*The Competitive Advantage of Nations*', Reed Business Information, 1990
- National Centre for Partnership and Performance, Forum on the Workplace of the Future, '*The Changing Workplace: A survey of employees' views and experiences.*' 2003.
- National Competitiveness Council, '*Annual Competitiveness Report 2005*' and '*Annual Competitiveness Report 2006*'
- National Competitiveness Council Press Release 24th November 2005, on launch of NCC's 8th Competitiveness Challenge Report.
- OECD '*Economic Outlook Number 78 Annex Tables*', 19th December 2005
- Prices and Earnings: *A comparison of purchasing power around the globe*', 2003 Edition, UBS
- Sunday Business Post, February 12th 2006.
- The National Sustainable Development Partnership, www.comhar-nsdp.ie
- Tourism Ireland, Marketing Insights 2006 'Image of the Island of Ireland'
- Tourism & Transport Consult International Access Newsletter July 2005.
- Tourism Ireland, '*Brand & Advertising Tracking Study*', Lansdowne Market Research, 2005.
- World Competitiveness Yearbook, 2005, IMD, Lausanne
- World Economic Forum, '*The Global Competitiveness Report 2005-2006*'.
- World Tourism Organisation statistics.

Appendix 3:

Indices of National Competitiveness

A3. INDICES OF NATIONAL COMPETITIVENESS

A3.1 The World Economic Forum (WEF): Growth Competitiveness

The WEF is an independent international organisation based in Geneva. Among its initiatives is the **Global Competitiveness Programme** which seeks to identify impediments to growth and to stimulate the development of relevant strategies to achieve sustained economic progress. The programme's flagship production is the Global Competitiveness Report. Central to this report is the **Growth Competitiveness Index** which ranks 117 countries. In 2005, Ireland was ranked in 26th place, up from 30th in 2004.

The WEF defines competitiveness as: *'that set of factors, policies and institutions which determines the level of productivity of a country and that, therefore, determines the level of prosperity that can be attained by an economy'*.⁴⁰ The Growth Competitiveness Index (GCI) attempts to identify and quantify these factors on a standard platform on which all countries can be compared.

GCI is composed of 3 component indices - the technology index, the public institutions index and the macroeconomic environment index. Each of these indices is calculated on the basis of hard, statistical data - such as university enrolments, the state of the public finances, and the level of penetration of new technologies such as the internet - and data drawn from a survey of business leaders in each of the participating countries. Only two of the variables used in the calculations are related to price - the rate of inflation and the real effective exchange rate. Considerable emphasis is placed on the business environment and on technology and innovation.

The WEF now considers the three-index base for the GCI to be too limited and has been working on a new index of competitiveness, to be called the Global Competitiveness Index. This will be a much more complex Index, based on 9 rather than 3 sub-indices. The nine components are:

- Public institutions	- Infrastructure
- Macroeconomics	- Health & primary education
- Market efficiency	- Higher education and training
- Technological readiness	- Business sophistication
- Innovation.	

⁴⁰ World Economic Forum, 'The Global Competitiveness Report 2005-2006'.

The new Global Competitiveness Index is expected to be published in 2006.

A3.2 The International Institute for Management Development (IMD)

The IMD is an independent business school based in Lausanne, Switzerland. It includes the **World Competitiveness Centre** whose main publication is the annual World Competitiveness Yearbook which benchmarks 61 countries. Ireland was ranked at 12th place in 2005, down from 10th in 2004.

The benchmarking index is based on a complex set of 20 competitiveness factors, gathered under four headings. These are listed in the box below - it may be noted that only one of the 20 sub-headings deals specifically with prices.

Key Competitiveness Factors

<u>Economic Performance</u>	<u>Government Efficiency</u>
- Domestic economy	- Public finances
- International trade	- Fiscal policy
- International investment	- Institutional framework
- Employment	- Business legislation
- Prices	- Societal framework.
- <u>Business Efficiency</u>	- <u>Infrastructure</u>
- Productivity	- Basic infrastructure
- Labour market	- Technological infrastructure
- Finance	- Scientific infrastructure
- Management practices	- Health and environment
- Attitudes and values	- Education

Source: World Competitiveness Yearbook, 2005

The competitiveness rankings in the Yearbook are arrived at through the measurement of no less than 314 variables gathered under the 20 sub-headings listed above. The scope of these illustrate the point that competitiveness is influenced by a wide range of economic and social policies.



CHL Consulting Company Ltd.
40 Northumberland Avenue, Dun Laoghaire, Co. Dublin, Ireland

Tel: +353.1.284.4760

Fax: +353.1.284.4775

E-Mail: mail@chl.ie