



The future of tourism in Iceland

Part III: Building the destination

September 2013

THE BOSTON CONSULTING GROUP

Context and structure of document

From October 2012– July 2013, BCG conducted an independent report on the long-term tourism strategy of Destination Iceland. The project, which was carried out in Reykjavik, was commissioned by a consortium of private Icelandic companies, including Icelandair Group, Isavia, Blue Lagoon, and Holdur / Europcar.

This set of documents contains the output from the project. It is structured in 6 parts:

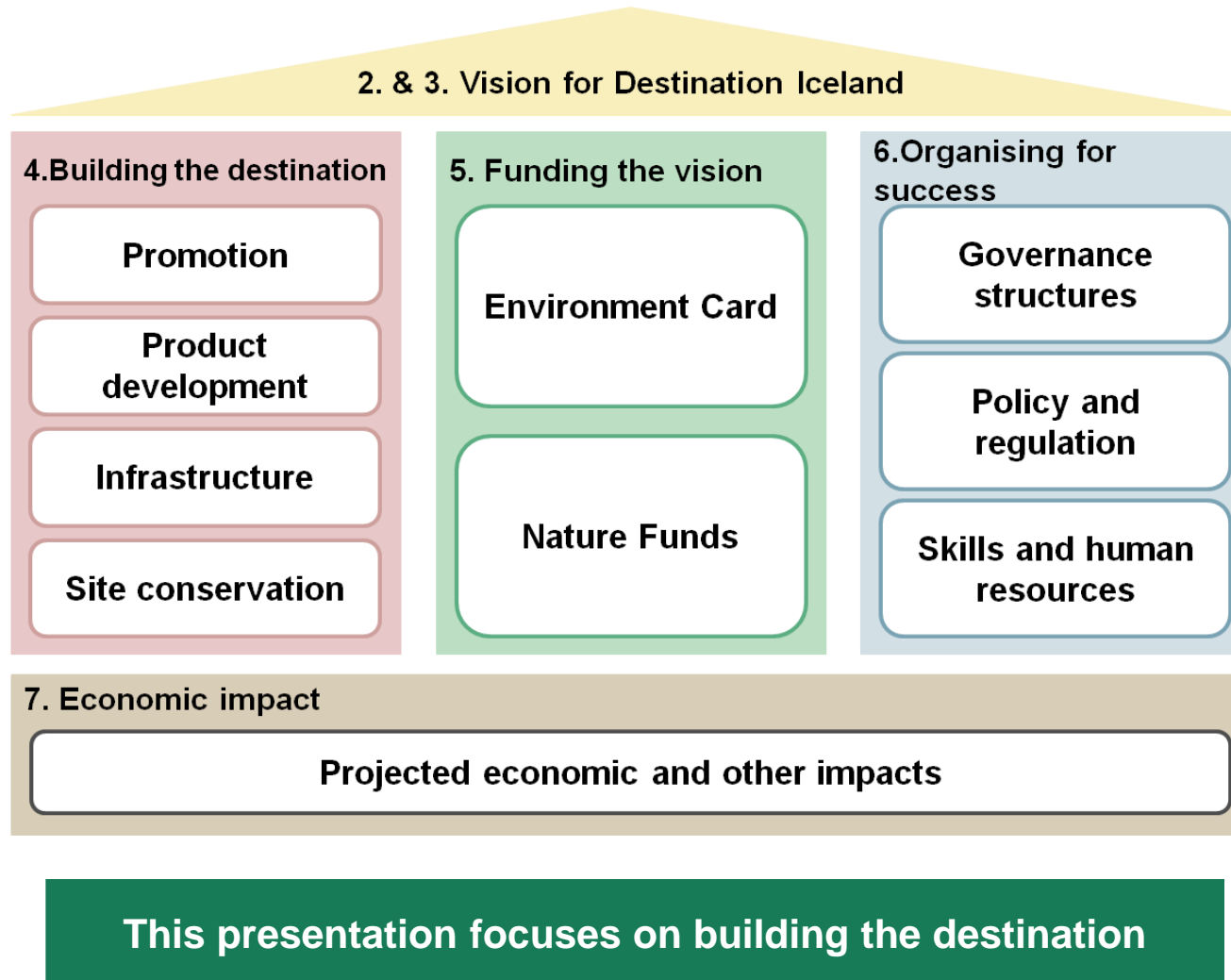
- Part I: Context - Icelandic tourism today
- Part II: Aspiration for destination Iceland and Iceland's target visitors
- Part III: Building the destination
- Part IV: Funding the vision
- Part V: Organising for success
- Part VI: Economic impact

This is the third of the six documents

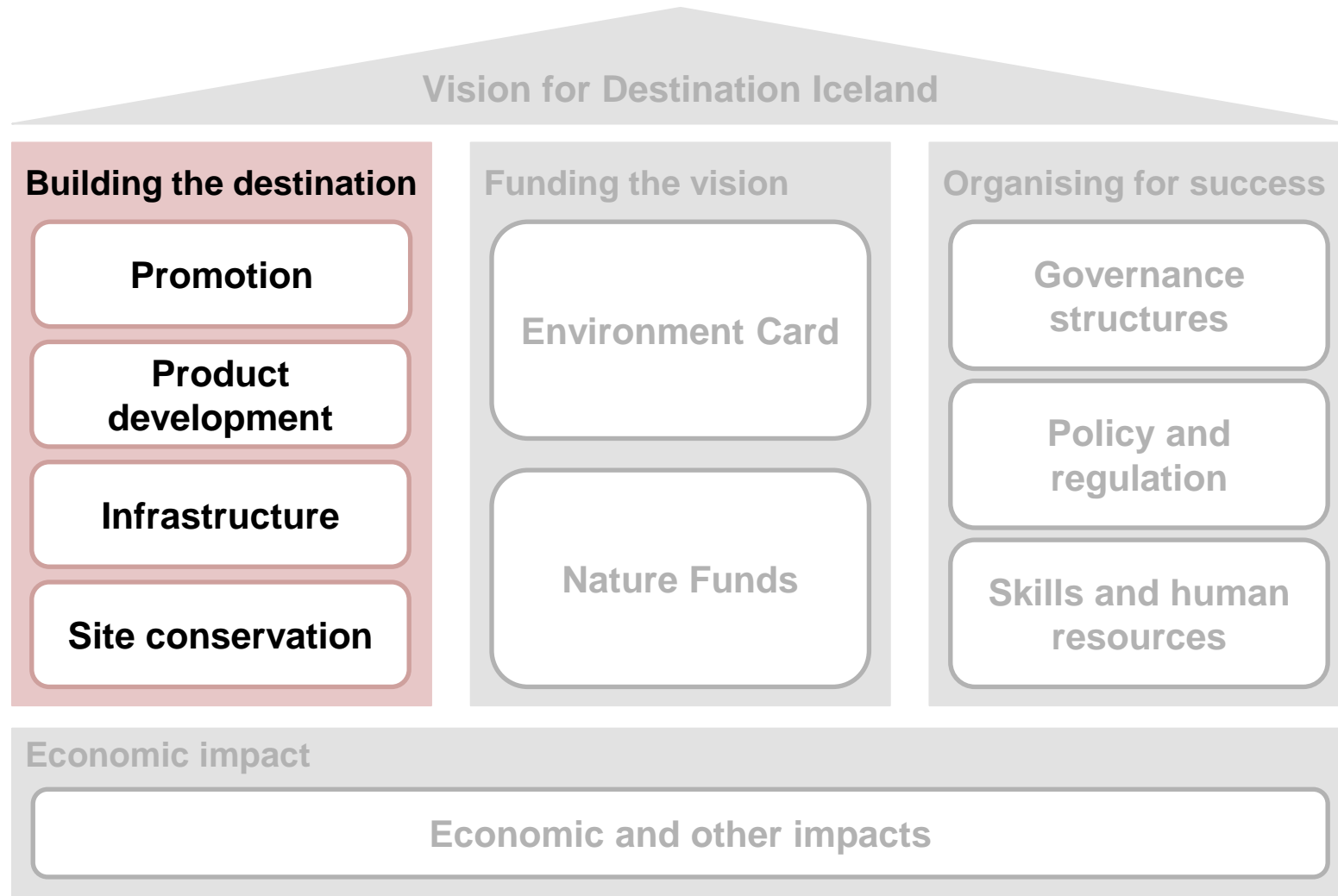
Agenda

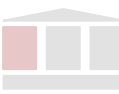
- Part I: Context - Icelandic tourism today
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New vision for the future of tourism in Iceland requires a programme of transformation



Building the destination

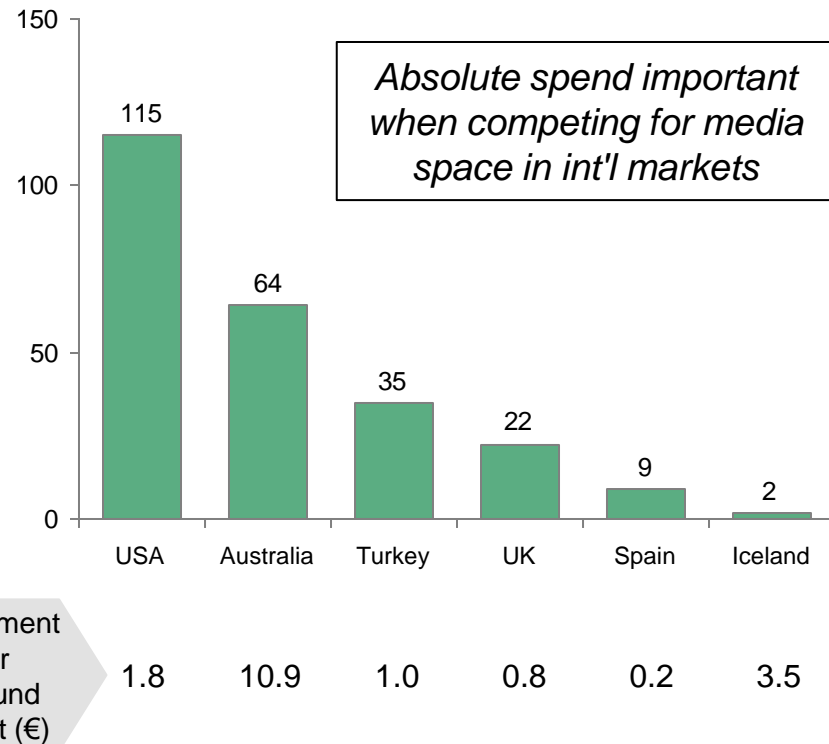




Promotion: Use low-cost, high-engagement marketing channels where possible

Iceland's promotional investment is small vs. other countries

Approx. Advertising Spend by national promotion authorities (M€, 2011/12)



Need for highly targeted approach

Limited budget implies need to target promotion on narrow segments to achieve "cut through"

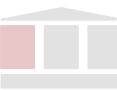
- Broad-based advertising across multiple markets unlikely to resonate with consumers

Focus message on defined target segments

- Target Well-Off Adventurers, City Breakers, Older Relaxers, and Emerging Market Explorers
- Message focused on year-round destination and range of activities outside capital region

Use low-cost channels as far as possible

- Social media, Google, and targeted print ads may be more effective than mass channels
- However, need full analysis of past campaigns to identify optimal Return on Marketing Investment



Internal campaign could reinforce "warmhearted welcome"

Example of Singapore 2006: "4 million smiles" campaign



Objective

- Making sure that visitors participating in Singapore 2006¹ appreciate the reception from their arrival at the airport
- Inclusion of the whole population in a successful reception

Method

- Advertising campaign on warm reception and population's smile
 - All inhabitants invited to supplying a digital picture of their smile²
- Incentives
 - 16 "smile ambassadors" in the island to communicate on the operation
 - Gifts to win
 - And even... sales promotions on cosmetics
- Training of tourism workers
 - Taxi drivers: distribution of a "good behavior" guide and 3 hours of training

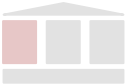
Key Success Factors

- Campaign to mobilise the whole population on reception quality
- Advertising on many tourism buildings, including airport, to reach visitors upon their arrival
- Use of a specific event to create momentum



¹ IMF and World Bank meetings in September 2006 ² On a Web site www.smileS2006.com or via MMS

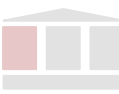
Source: BBC news, channelnewsasia, financialexpress; BCG analysis



Iceland has a range of world class attractions



Source: Iceland Travel, interviews with Icelandic industry players
Part III - building the destination.pptx



However, existing attractions not always well developed, while key assets remain untapped

Existing products not always well-developed

Visitor flow not always well managed, leading to pressure on some attractions

- Congestion at some popular sites, e.g., Þingvellir viewing points
- Potential site damage at Laki and craters at Fimmvörðuháls

Some key sites under-developed, limiting visitor engagement (and spend)

- E.g, short visit times at Geysir and Gullfoss driven by lack of complementary activities



Development of existing attractions to add value

Key assets, esp. outside Reykjavik / the South, remain untapped

Most key attractions are close to Reykjavik; natural assets in other regions under-utilised

Many attractions are geared to summer

- Based on outdoor / open air activities
- With limited access during winter months

'Gaps' in product offer for some target segments

- e.g. opportunity to increase culture attractions for Older Relaxer
- e.g. opportunity to develop shopping for Emerging Market Explorers & City-Breakers



Development of new attractions



Attractions today not always delivering maximum visitor value

Typical visits at Gullfoss & Geysir today last ~45 mins

Geysir

15 mins



Watch large Geysir erupt and take photos

10-15 mins



View other Geysirs/walk surrounds

0-20mins



Visit shop and cafe (without clear view)

Gullfoss

20 mins



Walk to lower viewing areas and take photos

10-15 mins



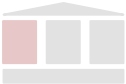
Walk to higher viewing areas and take photos

0-20mins



Visit cafe

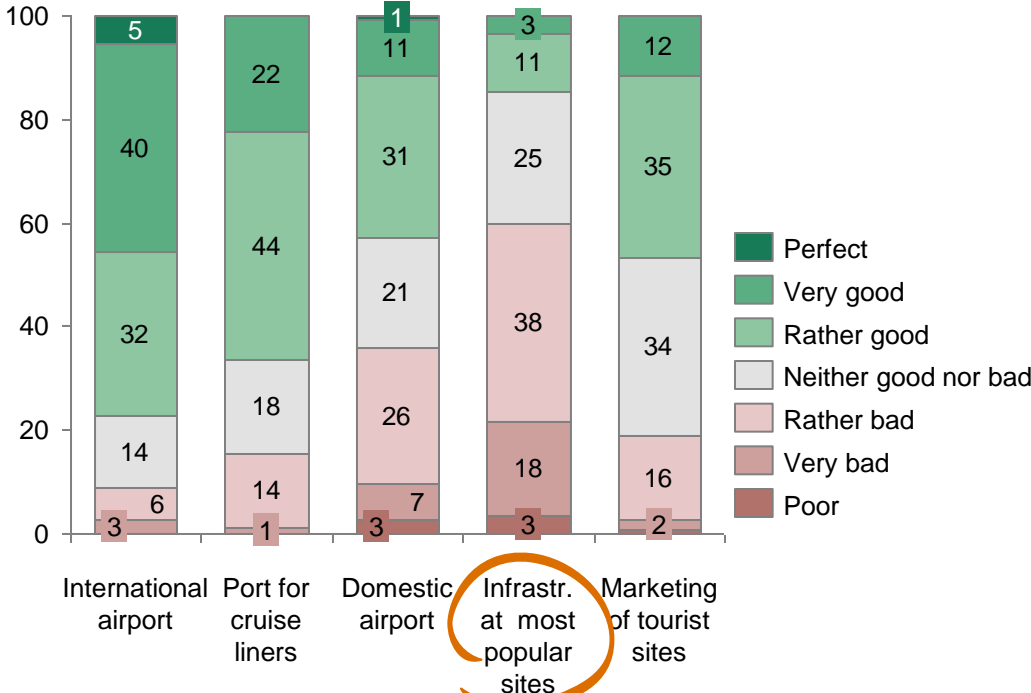
Opportunity to further-develop attractions, focused on target segments e.g., with visitor centres



Existing attractions with important infrastructure gaps

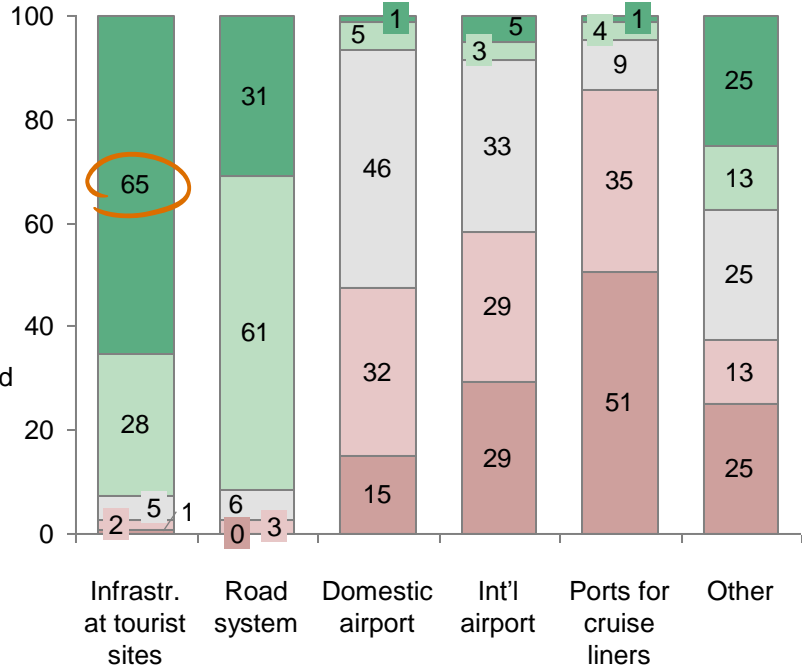
~60% of respondents rated infrastructure at popular sites "bad"

% respondents: "How would you rate the quality of these elements of the tourism infrastructure?"



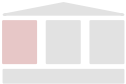
65% rated infrastructure at key sites most important improvement priority

% respondents: "How would you prioritise improvement of these elements of tourism infrastructure in Iceland?"



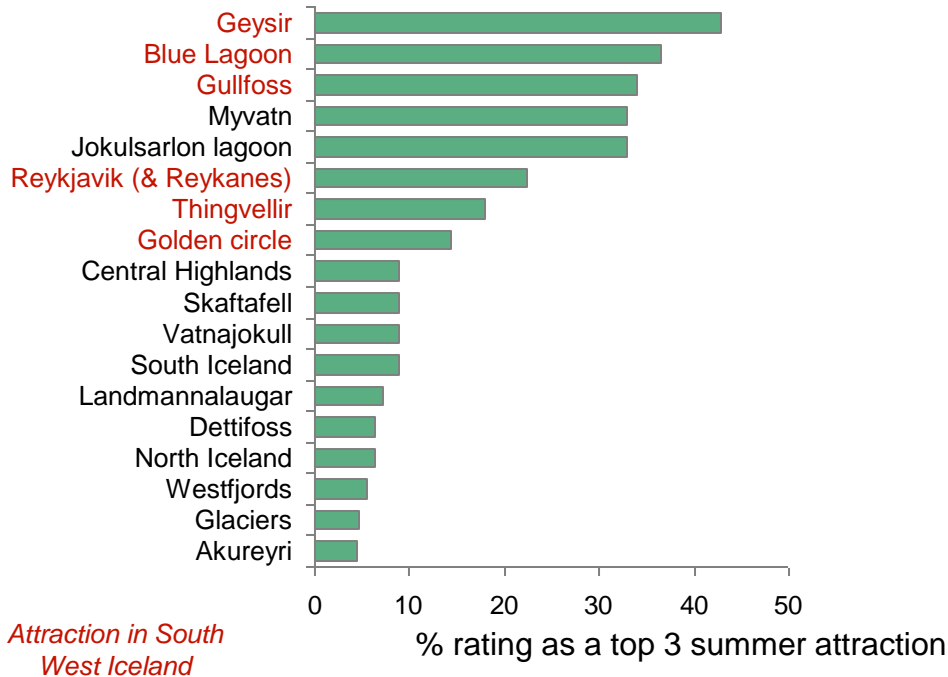
Infrastructure gaps to be explored further in next phase of project

Source: Capacent survey of Icelandic tourism industry players, May 2013

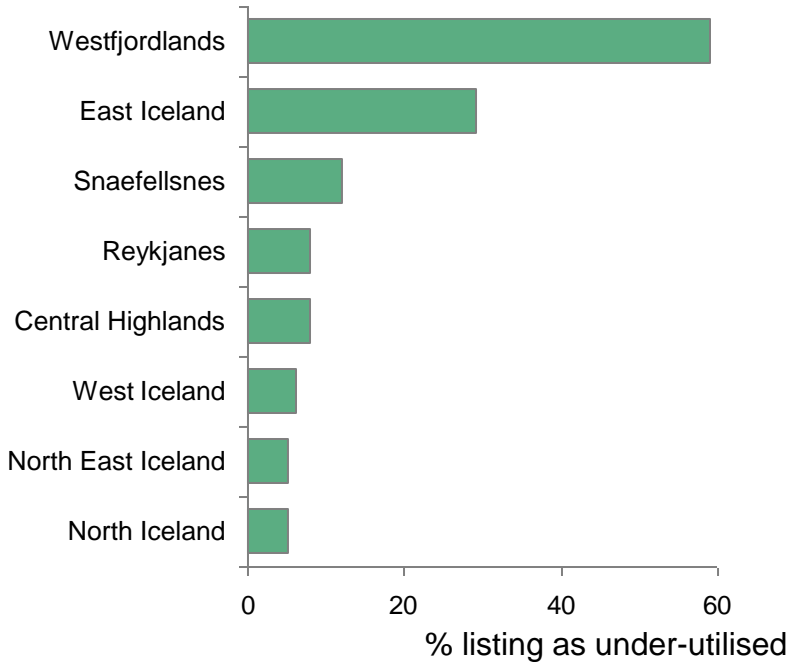


Key areas of the country remain under-utilised

Today, top 3 peak season attractions are all in the South West...

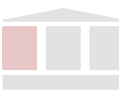


... whilst the West Fjordlands in particular is under-utilised

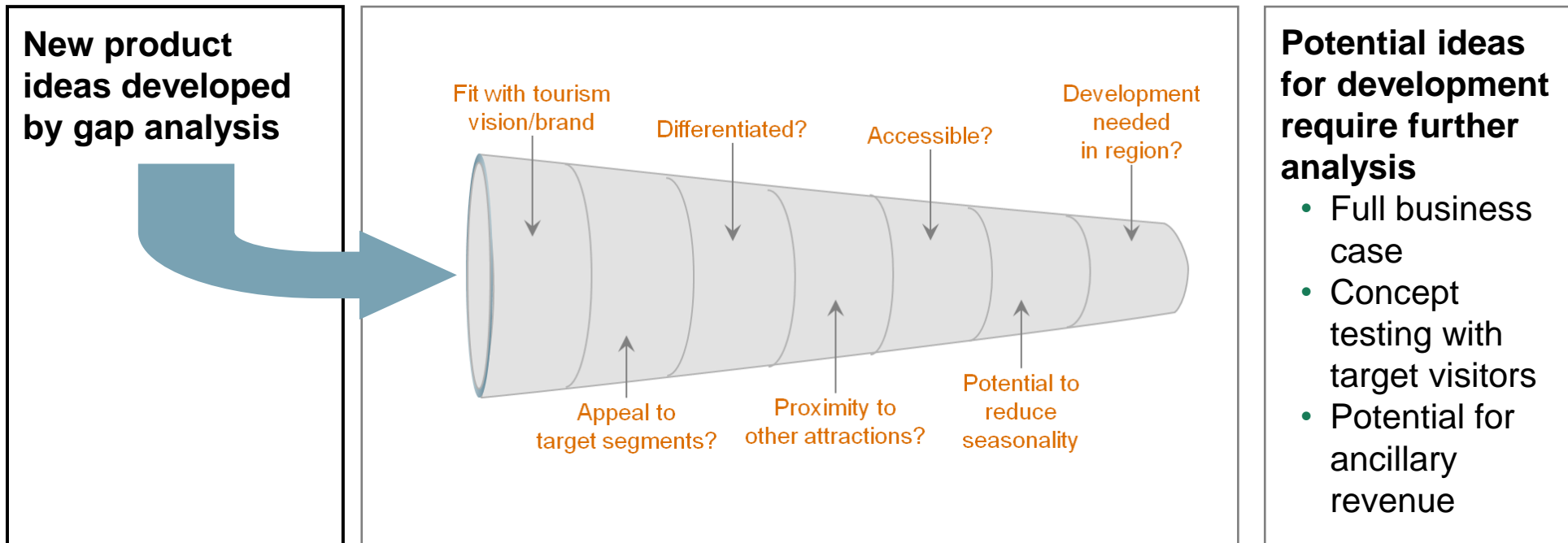


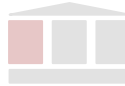
With growing visitor numbers, need to remove pressure from key sites via development of new attractions

Note: Does not include 'other' category, or Northern lights since Northern lights are not location specific
Source: Capacent survey of Icelandic tourism industry players, May 2013



New product ideas to be tested through set of filters





Example: Many possible ideas to leverage glacier asset to develop attractive products...

Potential product development at glacier 3-4 hours from Reykjavik

Illustrative example

1 Mass market ice cave

2 Exclusive ice cave

3 Mid-market ice cave



4 Ice climbing



5 Ice walking



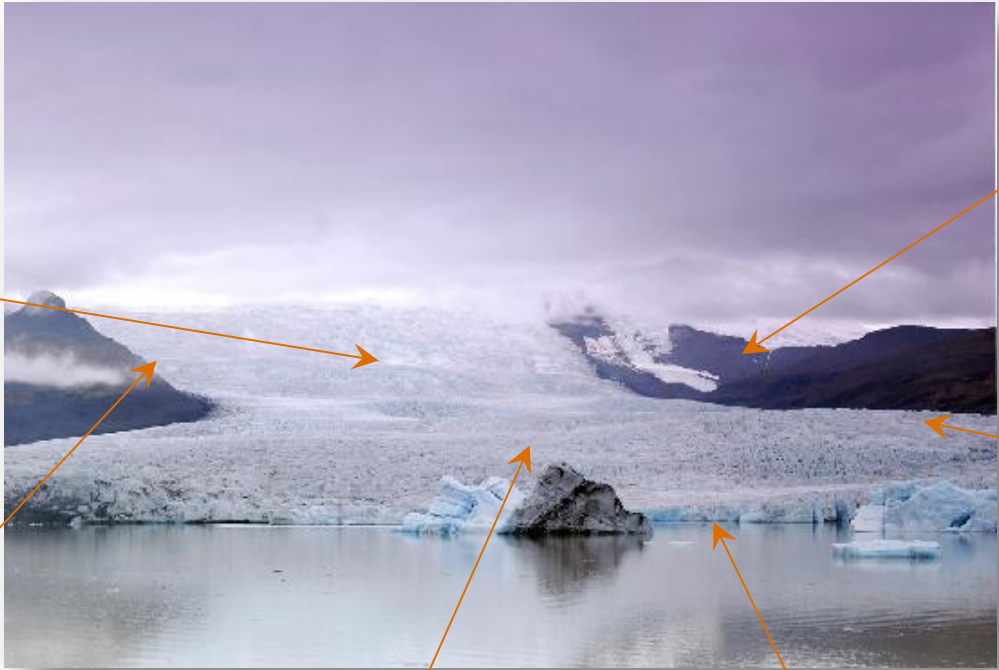
6 Viewing platform

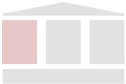


8 Snowmobiling



7 Glacier museum





... Ideas refined in first instance using "target segment" filter



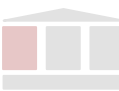
**Assumed appeal to target segments
on a standalone basis**

>3 hours from Reykjavik
reduces appeal





Illustrative example

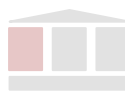
Ideas	Affluent Adventurers	Older relaxers	City breakers	Emerging market explorers	MICE	Further consideration?
1 Mass market ice cave	1/4	1/4	1/4	1/2	1/4	X
2 Exclusive ice cave	1/2	1/4	1/4	1/2	1/4	X
3 Mid-market ice cave	1/2	1/2	1/4	1/2	1/4	✓
4 Ice climbing	1/2	1/4	1/4	1/4	1/4	✓
5 Ice walking	1/2	1/4	1/4	1/2	1/4	✓
6 Viewing platform	1/4	1/2	1/4	1/2	1/4	X
7 Glacier museum	1/2	1/2	1/4	1/2	1/4	✓
8 Snowmobiling	1/2	1/4	1/4	1/4	1/4	✓

Options for consideration would require full business cases & testing with target audience before proceeding
Similar approach should be applied to the development of II key assets within Iceland



Four key types of tourism infrastructure to consider

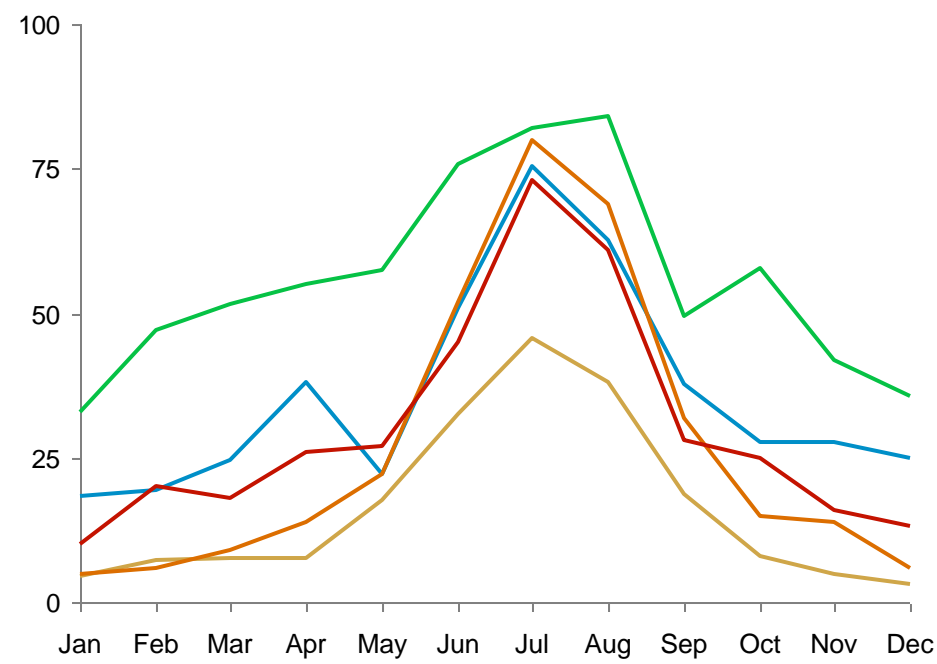
Type of infrastructure	Current / future challenge	Key drivers of investment requirements
 Hotels / other accommodation	Need to increase capacity as visitor numbers rise <ul style="list-style-type: none"> Especially in Reykjavik / South-West during peak months 	<ul style="list-style-type: none"> Overnight stays Seasonality (key driver of utilisation at peak)
 Airport	Keflavik increasingly congested at peaks <ul style="list-style-type: none"> Esp. during Summer months at intra-day connecting times 	<ul style="list-style-type: none"> Visitor numbers Seasonality Intra-day smoothing
 Infrastructure at and around sites, e.g., signage, toilets, parking	Increasing visitor numbers putting pressure on site capacity Lack of facilities at secondary sites driving visitors to top sites	<ul style="list-style-type: none"> Investment choices at primary sites Number of secondary sites to be developed
 Basic social services and infrastructure	Visitor growth likely to generate demand for basic services <ul style="list-style-type: none"> E.g., road clearing as demand rises in Winter E.g., hospitals, waste collection 	<ul style="list-style-type: none"> Visitor numbers Current utilisation of existing infrastructure



Hotels: Capacity needs dependent on tourism growth, seasonality, and potential to manage peaks

Greatest utilisation and lowest seasonality in capital region ...

Hotel & guesthouse room occupancy rate (% , 2011)¹



... Implies most new rooms will be needed in capital

High level analysis based on segments' propensity to travel to regions. More detailed analysis required to address specific question of hotels needed

	No. rooms, 2012 (000s)	Estimated add'l rooms needed, 2023 (000s)
--	------------------------	---

Capital region & Southwest	4.3	3.1
West and West Fjordlands	1.3	0.5
Northwest and Northeast	1.9	0.6
East	1.2	0.4
South	1.8	0.7

Growth in visitors to capital region likely to require significant expansion in hotel capacity

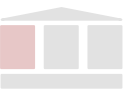
- Utilisation at peak >80% in 2011, >90% in 2012

Growth in regions likely to drive higher utilisation rather than large capacity expansion

- Current utilisation rates lower outside Capital, with some regions below 50% in peak months in 2011 (below 70% in 2012)
- Also, lower % visitors stay in hotels outside capital (higher % stay in campsites, with friends, etc.)

Reduced seasonality will reduce pressure on expansion across all areas

1. 2012 data shows anomalous dip in June, thus 2011 taken as more representative of true occupancy
 Note: No. rooms includes hotels and guest houses. Calculation of additional rooms needed takes into account occupancy rates, shift in regions visited with focused targeting of segments, reduced seasonality
 Source: Statistics Iceland, Icelandair hotels BCG analysis



Airport: Keflavik likely to require investment to manage intra-day peaks during summer months

Growing congestion at Keflavik at key intra-day summer peaks

Iceland's geographic position and Keflavik's use as a hub concentrates traffic on two key "banks" (6.45-7.45am and 4-5.30pm)

- Enables evening landing / take-off in US
- Enables rapid connection times for transfer passengers

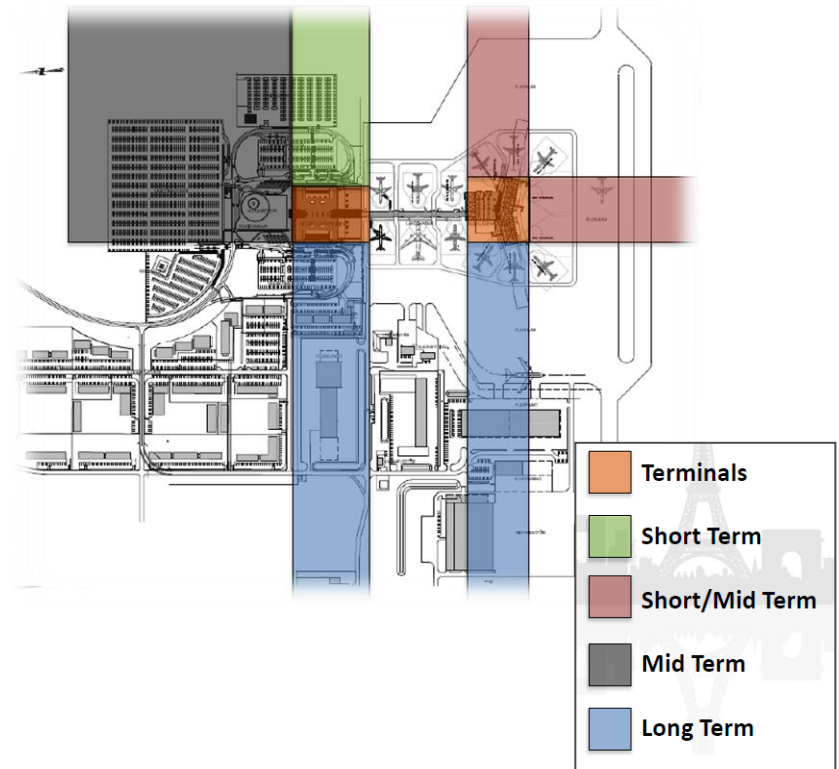
Growth in intra-day peaks create pressure on airport infrastructure

- On a yearly basis Keflavik has 10x fewer passengers than Copenhagen¹
- At peak times, Keflavik has only 4x fewer passengers, implying much steeper traffic peaks

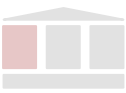
~15B ISK investment needed over 10 years to manage intra-day peaks and renew runway

Growth at off-peak times could reduce pressure on airport as visitor numbers increase

Addressed by short- and long-term capacity expansion



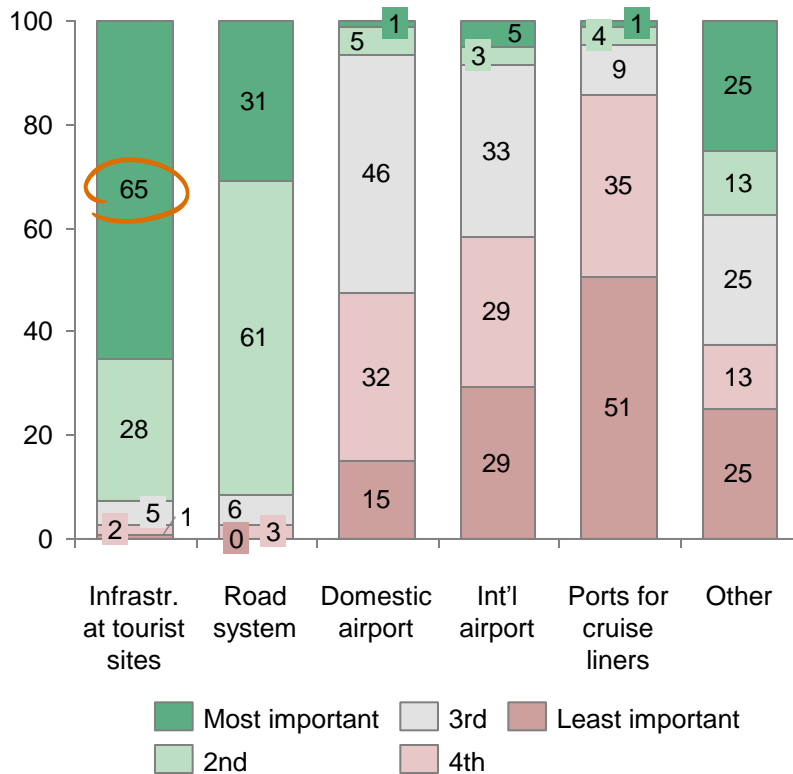
1. 2012, KEF 2.4 million pax, CPH 23.3 million pax
Source: Isavia, www.kefairport.is



Site infrastructure: Investing in sites a priority, but need to ensure sustainability of new infrastructure

Recap: 65% survey respondents rated infrastructure at sites key priority

% respondents: "How would you prioritise improvement of these elements of tourism infrastructure in Iceland?"



Investments should be supported by business plan where possible

New infrastructure at sites requires maintenance and staffing

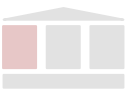
- E.g., toilet facilities to be cleaned and repaired
- Ongoing costs likely to be as large / greater than initial investments

Therefore, need revenue stream to ensure infrastructure can be supported sustainably

- Direct revenue share from Environment Card;
- Charging for ancillary services, e.g., parking
- Developing value-added services for visitors, e.g., exhibitions or activities

Infrastructure investments to be funded through low-interest loans where possible (see section on Nature Fund distribution)

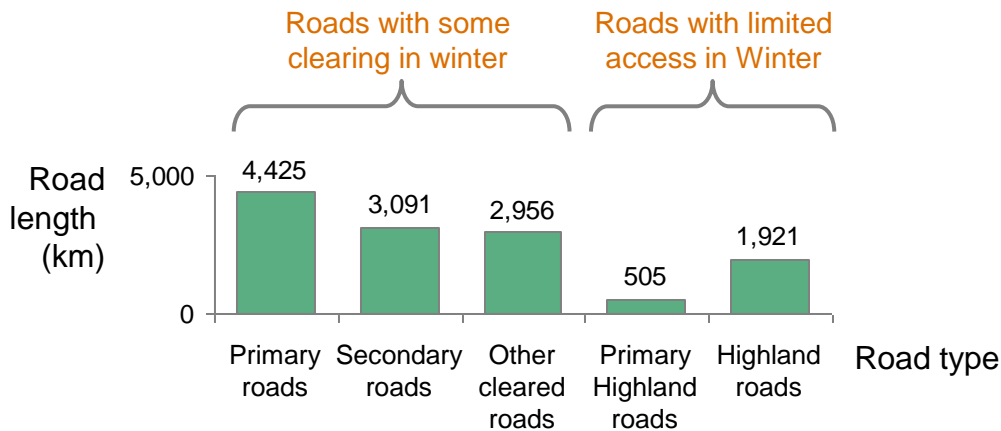
- Ensures business plan in place to develop revenue streams over time
- *Exception:* Where infrastructure important for conservation or regional development



Social services / infrastructure: Example – Need additional road clearing as visitor demand rises in winter

~2,400km of Highland roads at risk of being inaccessible during Winter

Westfjordlands, North-East, East & South-East most affected areas



Roads outside capital region and direct route to Akureyri not fully serviced in Winter

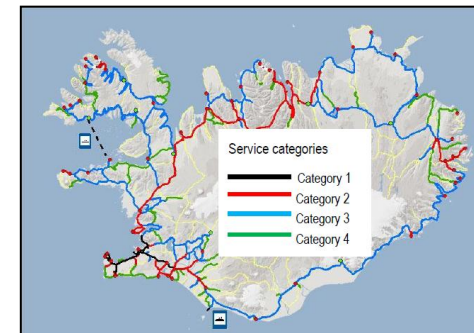
- Roads administration (ICERA) applies four-tier service approach, dependent on road function and traffic volume
- Category 1 implies "bare road" service level, with full clearance of snow /extensive gritting
- Most Cat. 3 / 4 roads in Highland areas in Westfjordlands, North-East, East, South-East and interior, incl. some "basic" transport roads

Road access issue at Winter concentrated in high altitude areas

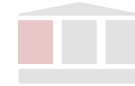
- 91 total snow cover days at Stardalur (185m above sea level) vs. 55 p.a. in Reyk. (52m above sea level)

Cost of Winter service ~€12.6M p.a.

- ~€1,200/km/year over 10,472km service road



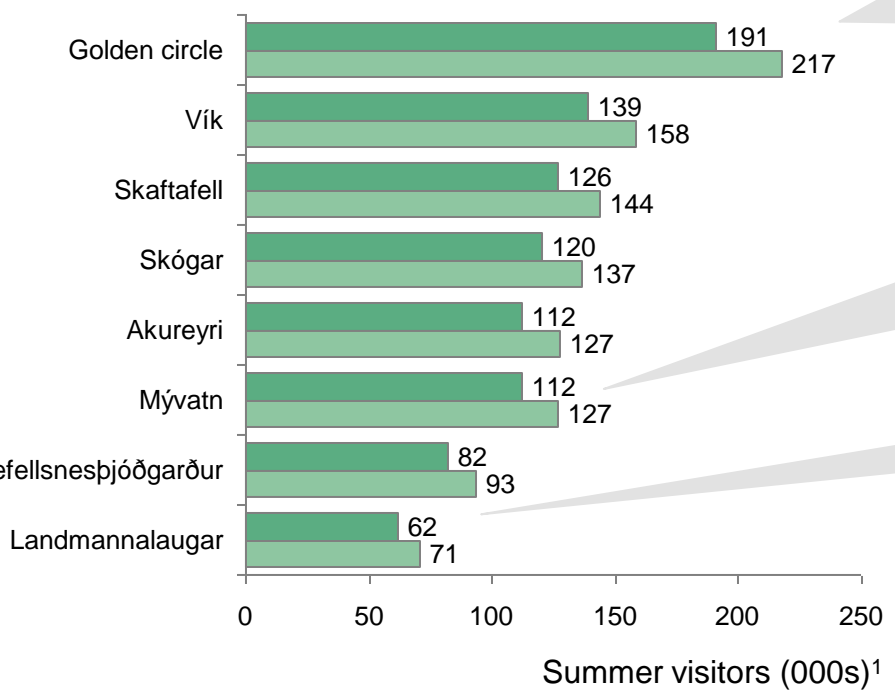
Other services requiring investment include health services, waste collection, water treatment, etc.



Enabling long-term sustainability is critical to a successful tourism strategy in Iceland

Top attractions experiencing rapid increase in visitor numbers...

...With risk of damaging site quality and visitor experience



"Beautiful but too many people!"
TripAdvisor March 2012

"Nowadays, you'll be lucky to find a parking spot in Thingvellir "
Total Iceland, March 2013

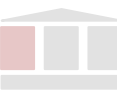
"This winter the number of travellers in the area has multiplied which compromises the vegetation around the lake. Increase in visitors in March 2013 amounted to 67 percent compared to the same month last year."
Iceland Review, April 2013

"Increased crowding detracting from the wilderness experience, causing areas to become less attractive to the purist tourists "
V.Taylor, University of Iceland

"We need to watch environmental issues because our visitors are mostly here for the nature."
 "People are not going to want to come here in the future if everything is doughtrodden and mistreated."
Capacent Iceland tourism industry focus group participants

Investment in sustainability will require new sources of revenues

1. Jun-Aug
 Note: Visitor numbers have been estimated at each site applying % of total visitors travelling to each in 2011
 Source: Iceland Travel; Faculty of Life and Environmental Science, University of Iceland; TripAdvisor, Capacent survey of Icelandic tourism industry players, May 2013



Two key elements to ensuring future of existing sites

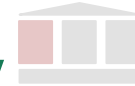
- I Preserving the quality of natural sites**
 - Ia Excessive visitor numbers can damage the quality of sites, reducing their ability to attract visitors in future**
 - Ib New infrastructure should meet environmental standards (e.g., roads, hotels)**

Need to manage visitor impact on site and manage numbers in some areas

- II Maintaining the visitor experience**

Excessive concentration of visitors at peak periods can lead to reduced experience, especially in sites renowned for tranquillity and isolation

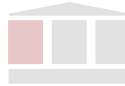
Need to manage visitor flow to and around sites



la A range of measures have been used at sites internationally for protection and preservation

	International Examples	Measure details	Potential application to Icelandic sites
Restrict visitor entry	<ul style="list-style-type: none"> Gorillas, Rwanda Lord Howe Island, Aus Japanese midget submarine 	<ul style="list-style-type: none"> 30 permits per day, costing ~\$750 per permit 350 residents; tourists limited to 400 at a time Divers enter ballot to be granted diving rights; exclusion zone of 500m monitored by long-range camera 	<ul style="list-style-type: none"> Glaciers at Skaftafell Laugavegurinn trail Silfra snorkelling
Limit tour operator traffic	<ul style="list-style-type: none"> Galapagos Islands Machu Picchu 	<ul style="list-style-type: none"> Requirement to visit with certified guide Entrance limited to 2,500 visitors per day Entrance to Huayna Picchu restricted to 400 visitors per day in two allocated time slots Pre-registering with operators essential 	<ul style="list-style-type: none"> Gulfoss, Geysir Whale watching
Restrict accommodation	<ul style="list-style-type: none"> Yosemite / Yellowstone Milford Trail, NZ 	<ul style="list-style-type: none"> Restricted accommodation closest to main attractions, far from perimeter 	<ul style="list-style-type: none"> National parks (e.g., Þingvellir) Laugavegurinn trail Westfjordlands Camping at Skógar
Educate tourists on minimising damage	<ul style="list-style-type: none"> Ayers Rock 	<ul style="list-style-type: none"> ~200k visitors each year 20% of visitors climb the rock (vs. 74% in 1990) Aboriginals use media to discourage climbing 	<ul style="list-style-type: none"> Lake Mývatn Glaciers at Skaftafell

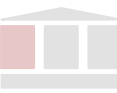
Source: Web search, BCG analysis
Part III - building the destination.pptx



II Five potential tactics to manage flow to and around key sites to preserve visitor experience

	Measure	International Examples	Measure details	Potential application to Icelandic sites
Manage visitor flow <u>to</u> site	a Advance tickets with controlled time slots	<ul style="list-style-type: none"> Last Supper, Milan FastPass, Disney 	<ul style="list-style-type: none"> 15 mins max viewing time Pass to get specific slot for rides with long queues 	<ul style="list-style-type: none"> Geysir Jökulsárlón
	b Developing wider area (incl. visitors centre)	<ul style="list-style-type: none"> i-SITES, NZ Acropolis, Greece Stonehenge, UK 	<ul style="list-style-type: none"> Films, lectures, info boards New museum Wider neolithic landscape marketed to visitors 	<ul style="list-style-type: none"> Þingvellir Skaftafell Lake Mývatn
Manage visitor flow <u>through</u> site	c Increasing perimeter of visit	<ul style="list-style-type: none"> Stonehenge, UK 	<ul style="list-style-type: none"> Ropes added to increase capacity of site, protect stones 	<ul style="list-style-type: none"> Gulfoss
	d One-directional flow	<ul style="list-style-type: none"> Milford Track, NZ 	<ul style="list-style-type: none"> Limited no. walkers in same direction 	<ul style="list-style-type: none"> Laugavegurinn trail
	e Site design (e.g., signage, boardwalks)	<ul style="list-style-type: none"> US National Parks 	<ul style="list-style-type: none"> Boardwalks and signposts to stop meandering Trees and creeks to maintain sense of isolation 	<ul style="list-style-type: none"> Skógar trails Hveragerði springs

Which of these are most relevant for Icelandic sites?



IIa Principle of Advanced tickets, used at Disneyland could be used to manage visits at peak times

Illustrative example: FastPass system at Disneyland



Key attractions at Disney resorts attract large number of visitors, leading to significant queuing times

FastPass system enables guests to reserve a slot, reducing their need to queue

- Limited number of FastPass tickets allowed at one time to avoid guests collecting slots at start of day

FastPass free (included in admissions charge)

Impact: Reduces queuing times for FastPass users *and* traditional standby ticket users¹

- Implicit self-selection

Use of principle

Potential application of principle to Iceland: Managing visits to Geysir



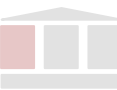
Geysir experience optimal when area is not overcrowded

- "It was very nice. There were few people" – TripAdvisor (2012)
- "We decided to overnight in Geysir at the end of our circle Iceland trip. **This allowed us to miss all the crowds** and coaches and literally have the Geysir's to ourselves - wonderful." – TripAdvisor (2010)

Opportunity to manage coach visits to Geysir through time slot system

- Tour guides required to book times that do not overlap with other large groups

1. Based on evidence from Disney
Source: About.com, Disney



Developing wider area reduces pressure on peak sites

Galapagos opening new trails to "reduce congestion and bottlenecks"



In 2013, Galapagos Islands required cruise ships to apply a standard 15-day itinerary

- Previous 1-week itineraries included major sites only, putting pressure particular areas

Longer itineraries reduce impact on critical sites by 50%, but require new trails to keep visitors engaged for duration of trip

Coordination of itineraries part of Galapagos Islands SIMVIS (System of Managing Visitors) approach to ensuring sustainability

Potential application to Iceland: Develop activities in wider area around Þingvellir

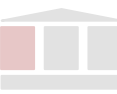


High congestion today at most popular sites at peak times within park

- Difficulty to park at Visitor Centre
- Crowded viewing platform at Almannagjá fault
- Queues to snorkel at Silfra

Wider Þingvellir area with few parking spots & thus no ease of access to vistas

Potential to develop new trails from points further into the park



IIc Increasing perimeter of visit can protect vulnerable sites while allowing greater volume of visits

Stonehenge perimeter put in place to protect site and increase capacity



Prior to 1977, visitors able to walk among / climb on the stones

Significant increase in visitors led to risk of erosion and damage

- Visitor numbers now at ~1M per year

Stones roped off to prevent erosion and enable significant increase in capacity

- Visitors walk around a perimeter a short distance from the stones

Potential application to Iceland: Perimeter at some Gullfoss viewpoints?

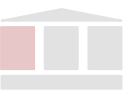


Currently, visitors attracted to small area within site

- Drives overcrowding and potential damage

Opportunity to increase capacity by broadening perimeter and expanding number of viewpoints, e.g.,

- Increase access to other side of the falls
- Create perimeter in some areas to reduce feeling of over-crowding



11d One-directional flow can significantly increase ability for site to bear more visitors sustainably

Milford Track in NZ with capacity of 14k/year through one-directional flow



Risk of overcrowding and environmental damage led to use of control measures

Track can only be walked in one direction from Glade Wharf to Milford Sound during peak season (Oct-April)

- Limit of 40 walkers starting track per day

Capacity limited by number of bunks in accommodation huts

Potential application to Iceland: Laugavegurinn trail



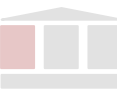
Growing demand has led to overcrowding and risk of damage to fragile soil and vegetation

- "The trail has a substantial amount of people on it" – TripAdvisor post, Aug 2012
- Nearby accommodation appears increasingly to be sold out over summer months¹

Currently, limited control on number of hikers, direction of route, or pace of travel

- Opportunity to preserve site and visitor experience by managing flow through hike, e.g., limiting visitors to one direction, staggering start times

1. According to post on Tour.is site, accommodation options sold out for summer 2013 by March 2013
Source: Web search, interviews



Simple changes to site design can improve visitor flow

US National Parks use signs, boardwalks, and landscape to manage flows



Range of indirect visitor flow management techniques have proved effective in reducing off-trail walking

- One study showed reduction from 73% to 24% visitors walking off trail once information and education signage put in place¹

US national parks effectively deploy range of techniques to minimise damage from visitors and optimise visitor experience, e.g.,

- Signs / boardwalks to reduce off-trail walking
- Use of creeks to reduce visibility of other visitors

Potential application to Iceland: Improve site design at Hveragerði springs



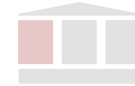
Low use of tourists signs and lack of footpath marking has led to damaged grass and crowding at peak times

Effective signposts/ boardwalks could help to improve management of visitor flow

- Keeping visitors to paths to protect wider area
- Reducing time to reach springs to decrease number of visitors at a given time
- Directing bathers to a range of springs, leveraging natural creeks to reduce visibility of other bathers, improving overall experience

1. Study also highlighted need for stronger direct management practices (e.g., fencing) where higher reductions in off-trail walking are required

Source: "Managing Visitor Impacts in Parks: A Multi-Method Study of the Effectiveness of Alternative Management Practices" (Journal of Park and Recreation Administration, July 2008)



Site conservation requires three key action steps



Improve risk assessment

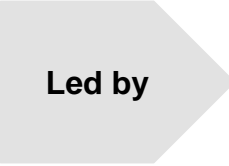
Frequent monitoring of tourist sites / nature areas against clear set of dashboard indicators

- Physical and biological impact on site environment
- Visitor numbers
- Perceptions of congestion

Watchlist maintained of endangered or congested sites, with clear associated actions

- E.g., visitor numbers strictly limited to red-listed sites

Annual progress reporting



Implement visitor management

Use grants from new environmental fund to invest in visitor management techniques

- Advance tickets
- Developing wider area
- Increasing perimeter of visit
- One-directional flow
- Site design (including board walks, signage, landscaping)

Red-listed sites to implement stricter site protection tools

- E.g., limiting tour traffic

Led by site authorities; Oversight from Ministry of Trade and Innovation



Expand conservation efforts

Build on existing work by Environment Agency to fund new conservation initiatives

- E.g., expansion of Agency's "Iceland Conservation Volunteer" programme
- E.g.,

Promote VAKINN certification for tourism service companies, with new emphasis on sustainability

- E.g., encouraging Meet in Reykjavik to adopt Copenhagen Sustainable Meetings Protocol

