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Aberdeen & Grampian
Chamber of Commerce

TOURISM network

Sector Survey Report
2011

North-east
Leisure **Retail**
Landscape



Aberdeen & Grampian
Chamber of Commerce



Technology Strategy Board
Driving Innovation



*Robert Collier
Chief Executive, AGCC*

Foreword

Member's needs are at the heart of the work of the Aberdeen and Grampian Chamber of Commerce and, as a result, we have formed a range of sector-interest groups from within our membership of more than 1,200 organisations allowing us to target specific needs with increasingly tailored services and benefits.

As part of these services, the Chamber are pleased to publish a series of surveys to provide sector specific research on businesses in North-east Scotland; the first being tourism. The aim of this survey is to assess the state of tourism within the North-east by comparing current performance against previous performance, identifying factors and issues affecting the industry, estimating the impact of policy and other public enablers on profitability and establishing the overall optimism of the industry on future growth and performance.

Our conclusion is that overall, the prospects for the tourism sector in North-east Scotland appear to be bright. Businesses are optimistic about their future, opportunities exist for investment and new ventures, the local environment is regarded as very supportive and visitor numbers appear to be on the rise.



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Your Network.
Your Opportunities.



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EXECUTIVE SUMMARY

The tourism survey is the first of a series of sector surveys planned by the Aberdeen & Grampian Chamber of Commerce and partners to provide sector specific research on businesses in North-east Scotland. The aim of this survey is to assess the state of the tourism sector within the North-east by comparing current performance against previous performance, identifying factors and issues affecting the industry, estimating the impact of policy and other public enablers on profitability, and establishing the overall optimism of the industry on future growth and performance. Out of the 399 companies that were contacted to undertake this survey, 41% responded by completing an online questionnaire within the month of February, 2011. The key findings are summarised below.

Profitability

Most companies report that profitability of their business has remained the same (40%) or declined (38%) while only a few companies reported an increase in profits (under 20%). Profitability was affected by sales, costs and competition. While sales overall saw significant improvements in the period under review, with over 30% of companies reporting an increase, an overwhelming number of companies also reported an increase in the costs and rates for running their business (90%) and the level of competition for their markets (70%).

The most important factor in profitability appears to be costs, rather than sales or competitive ability. Companies that showed an ability to manage costs were also most likely to report increased profitability.

Local environment rated excellent for tourism business

Companies rated the local environment as having the most positive effect on their business for the period, whereas UK government policy overall was rated as having the most negative effect. Lack of appropriate promotion for the region was also rated as affecting tourism businesses adversely.

In the future, companies are apprehensive about the impact of fuel, heating and oil price rises and lower support from local and national governments. They are nevertheless expectant that destination image marketing will increase and more collective ventures within the industry will result in better performance for the region.

North-east businesses demand relevant content from VisitScotland

Businesses would like to see VisitScotland lead the way in promoting the region. However, there is specific demand for more regional content



in VisitScotland's national and international promotions. Companies would also like more cooperation with other business sectors in the region, for example, oil and gas and aviation. On the other hand, businesses do not wish the local authorities to take a primary role in promoting or marketing the region, but to continue to provide the right environment for the sector.

Many businesses not aware of skills development opportunities

Most companies feel that the skills required for the industry are available in the North-east. However as many as 18% of companies reported difficulty in finding the right people to hire, and 40% reported difficulty in identifying the right training for themselves and their staff. Businesses frequently mentioned that tourism would benefit from training that improved the local knowledge of their staff.

Businesses foresee a challenging but promising future

Companies are optimistic about the future for tourism in the North-east and for their businesses. While tourist visits from the rest of the world are

expected to drop slightly as the pound continues to regain value, European and UK visitor numbers are expected to rise. This will lead to increased sales, but companies are also wary of the impact of increased business costs and rates. Nevertheless, there is optimism that the effects of the recession will continue to wear off and there will be opportunities for businesses to expand and grow. The evidence for this is already noticeable as most companies (51%) reported that they had hired a new start in the last 6 months, although in some cases this is not addition but replacement of staff. Few companies (about 8%) reported a lay-off of staff.

Relevance

The findings in this research should be of relevance to the tourism industry in North-east Scotland as they provide a comprehensive understanding of the sector's current practices, circumstances and future expectations. Equally, these findings are important to policy makers who are interested in understanding the factors affecting growth of the North-east tourism industry. By appreciating these factors and being aware of what the industry's priorities are, policy shapers and makers alike will be better informed to create the right environment for business to thrive and thereby grow tourism in North-east Scotland.

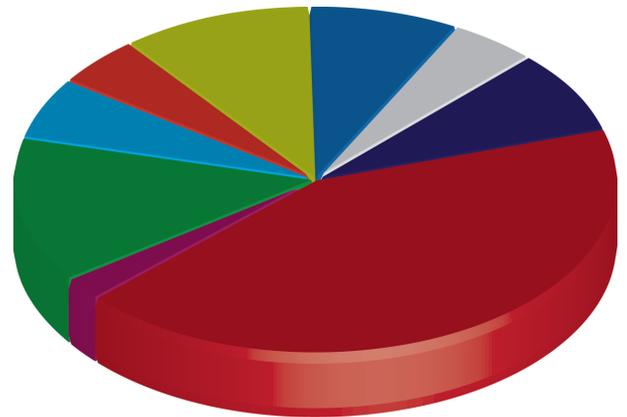
North-east tourism survey

Introduction

Tourism is an important economic sector in Scotland. Recent figures show that this sector contributes a significant amount of revenue to the Scottish economy. According to the Scottish Tourism Forum (2011), there are over 20,000 tourism businesses contributing about £4.2 billion to the Scottish economy annually. In the North-east of Scotland, although the tourism sector plays a vital role and continues to grow, there is lack of readily available evidence about the current state of businesses in this sector, their concerns about policy and other issues affecting their performance, their optimism and overall evaluation of future prospects. To provide stakeholders with this valuable information about tourism in the region, the Aberdeen & Chamber of Commerce, in partnership with the Robert Gordon University, commissioned a “how’s business” and “prospects” research in February 2011, with funding support from Technology Strategy Board and Aberdeen City and Shire Economic Futures (ACSEF).

This report provides a summary of findings of the survey research into tourism and tourism-related businesses in North-east Scotland. The report commences with a profile of tourism businesses in Scotland, followed by analyses of current performance, impacting factors, destination image, and skills availability. The report concludes with analyses of future prospects, expected moderating factors and sector priorities.

North-east Tourism Business by Business Activity
- What is the nature of your business?



- Hotel - 37%
- Travel and Transport - 7%
- Entertainment- 5%
- Restaurant/Pub/Cafe - 7%
- Public organisation - 9%
- Others - 4%
- Tourism attraction - 5%
- Self-catering - 12%
- Bed and Breakfast - 2%

Sector profile

According to a Scottish tourism survey, there are over 400 tourism related businesses in North-east Scotland, providing over 18,000 jobs or about 16% of employment in Aberdeen and Grampian (see VisitScotland.com). Based on our respondent profiles, over 50% of tourism related businesses are accommodation providers, including hotels (37%), self catering and bed and breakfast.

Current performance

KEY FACT

34% of businesses surveyed reported increased sales in the last 12 months, while about 51% stated that there had been no change and 15% that sales had dropped.

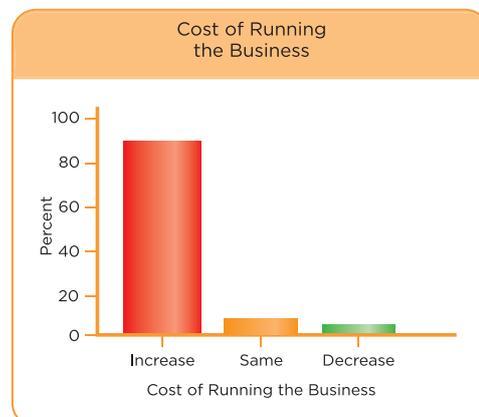
Over 60% of businesses reported more competitive pressure currently than 12 months ago, 30% that the industry is as competitive now as it was 12 months ago and about 5% that there was less competitive pressure.

However, while sales levels have largely remained the same in the face of increasing competition, the overall cost of running business has increased. This is reflected by the overwhelming number of businesses reporting increased costs and rates (91%). As a result, business profitability has been adversely affected overall. Less than 20% of companies reported increased profitability while about 42% reported that profitability has remained at the same level and 39% that it had declined.

KEY FACT

Regression analysis of the various performance indicators reveals that profitability is primarily a function of cost management. Businesses that appear to be keeping costs low are also showing more profitability than businesses that are reporting higher sales or competitiveness but reporting higher costs.

Performance has also been affected by external industry and economic environment factors. While some factors have had a positive effect on businesses, others are perceived as negatively impacting on performance. Businesses that reported better performance for the period also rated the local economic environment as having the most positive effect on their business while they rated the region's destination image promotion and marketing as having a negative impact. On the other hand, businesses that reported declining or similar performance rated government economic policy and costs as having the most negative impact.

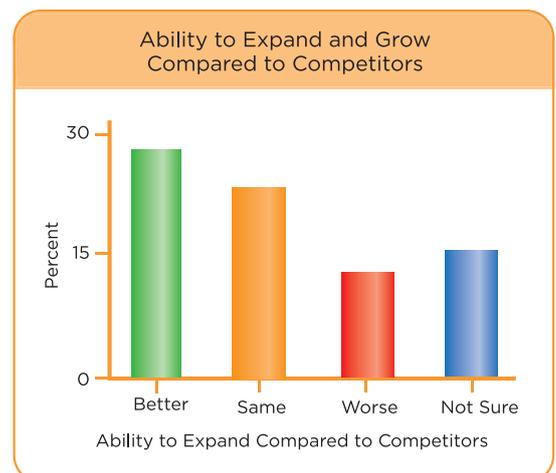
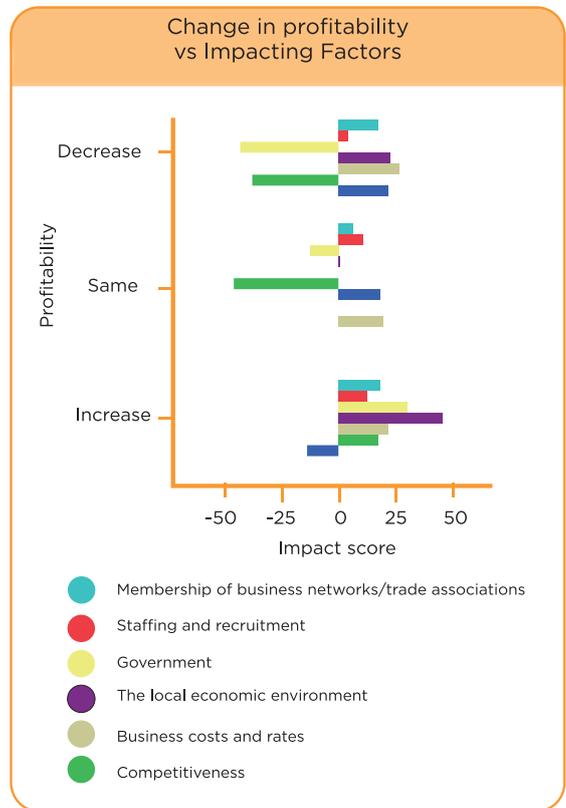
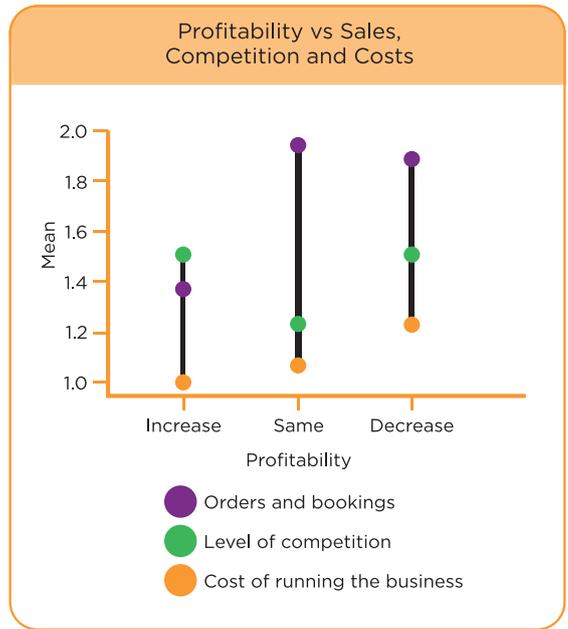


These businesses also felt that the region's promotion and marketing is adequate. This could imply that companies that are not satisfied with how the region is marketed and promoted as a tourism destination are taking more responsibility for their own marketing, and that this is paying off in the form of increased profitability for their businesses.

Nevertheless, most companies are bullish about their ability to expand and grow, rating their overall prospects against the competition as very good. Just fewer than 30% of companies rate their prospects of growth as better than their competition while about 25% rate their prospects as similar to the competition. However, about 30% of companies feel they are worse than their competition or not sure about their growth prospects.

“We are pleased to see that organisations find the local environment supportive of their business. We strive to continually provide an enabling environment for tourism businesses to prosper and grow”

Respondent's Comment



Demand on available capacity

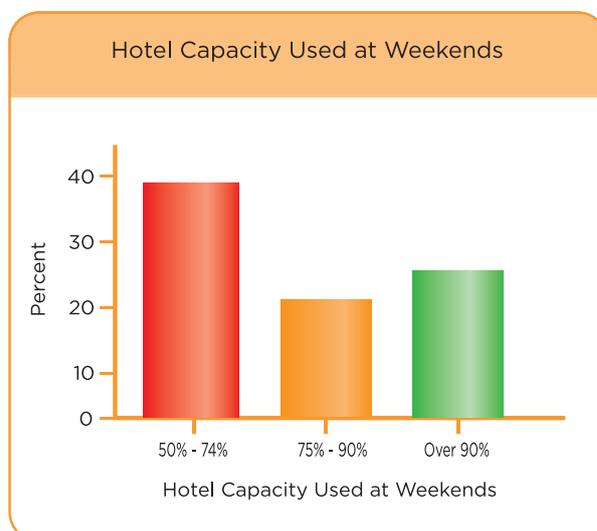
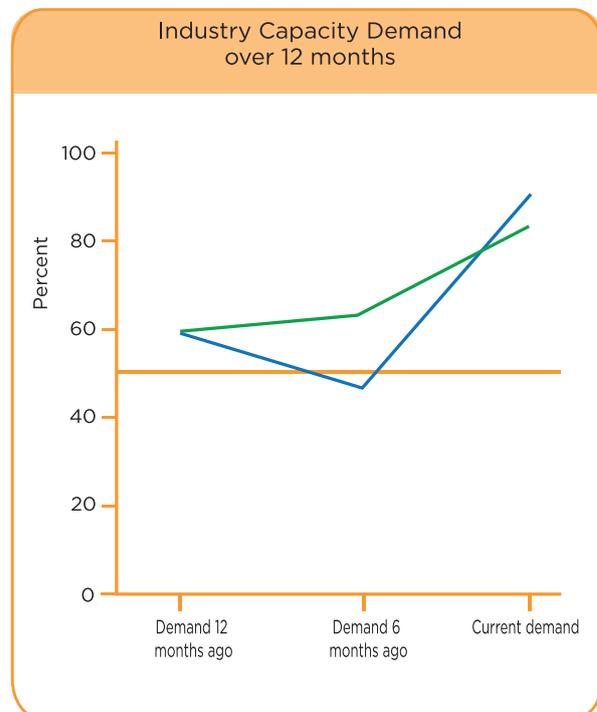
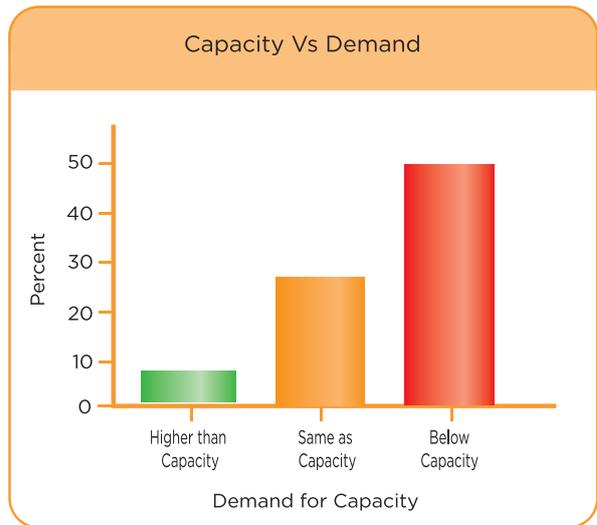
KEY FACT

Most tourism businesses are currently operating at about 75% - 85% of their available capacity. This is significantly higher than average occupancy rates achieved throughout the UK.

Almost as many as 50% of businesses report that current demand for their product or service is below their available capacity. 27% report that demand is equal to capacity while less than 10% report demand exceeding available capacity. Further analyses show that overall, current demand on capacity is an improvement on levels of demand witnessed 12 months ago and, particularly, from 6 months ago. Weekday demand has seen steady growth over the previous 12 months, yet it can be seen that there was a slowdown 6 months ago. Weekend demand however saw a significant drop between 12 and 6 months ago, dipping below the 50% mark, but is now showing signs of significant recovery (currently at around 75%). The previous drop in demand may be attributable to adverse weather conditions witnessed between October and December 2010, as well as the continued effect of the preceding recession.

Weekend demand for hotel and other accommodation has been a recurrent issue in previous surveys. We therefore surveyed demand for hotel accommodation specifically to see how hotels are performing in this area.

About 40% of hotels utilise only between 50% and 75% of their capacity at weekends, 22% utilise between 76% and 90% while about 25% utilise over 90% of their available capacity. On average, hotels have seen significant improvements in weekend occupancy over the 12 month period. This increase follows promotional campaigns that were run by VisitScotland, the Hoteliers Association and local authorities in the winter of 2010, and can therefore be attributed to the impact of the campaigns.



Destination promotion

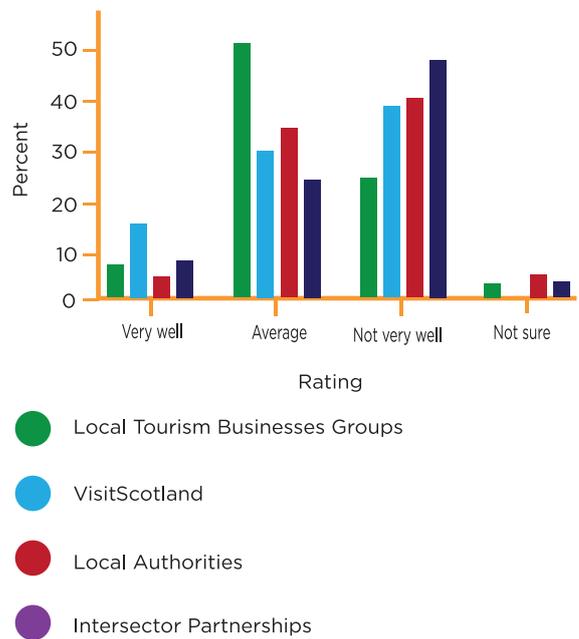
We asked businesses to identify and rate organisations, bodies and initiatives that have been/should be involved in promoting the North-east as a tourism destination. From current and past practices in the region as well as in other tourism areas of the UK, the following bodies were identified through interviews prior to the rating survey: local tourism business groups, VisitScotland, local authorities and inter-sector partnerships.

KEY FACT

The following graphs show that in general, local businesses are not satisfied with how well the region has been promoted and marketed.

The sector self-rating shows a self-indictment by local businesses as they overwhelmingly state that their promotion and representation of the region has only been average, while as many as 25% feel that sector effort has been below average. Just over 15% of businesses feel that VisitScotland has promoted the region very well; but 65% feel that VisitScotland has done an average job or worse. The local authority fares similarly. Although as many as 35% of businesses rate Council performance as average, less than 10% consider that they have done a very good job of positioning the area as a tourism destination while just under 40% feel they have done a worse than average job of it. However the highest dissatisfaction appears to come from the level of promotion effort resulting from inter-sector partnerships in the region. Tourism businesses feel that there has not been enough done in the area of collaboratively promoting the region's tourism potential, and thus as many as 48% rated efforts in this area as below average.

How well have the following organisations promoted the North-east of Scotland as a tourist destination?



We want to see more North-east attractions promoted. As well as golf, we have fishing, highland games, and great wildlife on land and at sea

Respondent's Comment



Future promotion

We also asked businesses who should have primary responsibility for promoting the North-east's tourism destination image. The preferred choice for the majority was VisitScotland (37%), followed by local inter-sector partnerships (26%). On the other hand, business would least wish to see the local authorities directly involved in destination image promotion.

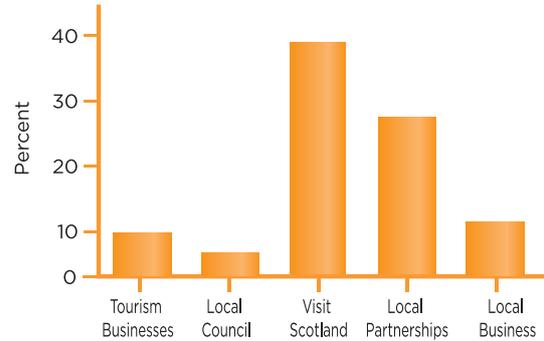
KEY FACT

Surprisingly, but perhaps reflecting concern about the resources that destination image promotions might incur, less than 10% of businesses stated that tourism businesses should take direct responsibility for promoting the region, either individually or as a network.

Further analysis of respondent comments shows that although a preferred choice, businesses are sceptical about how well VisitScotland will promote the region in the future.

They perceive VisitScotland as a more nationally oriented organisation and would prefer to see more local themes and content in VisitScotland's national and international promotions.

In future who should promote tourism in North-east Scotland



VisitScotland would continue to work in partnership with all stakeholders to promote the North-east as a top tourism destination

VisitScotland



Recruitment, skills and training

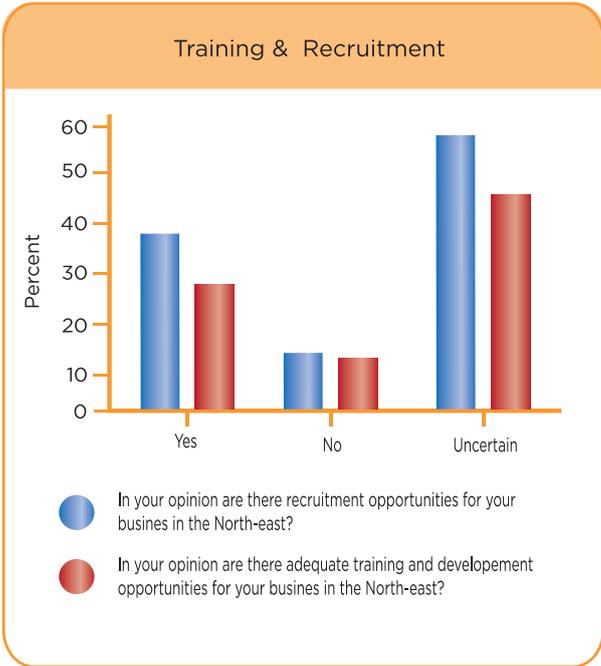
Reflecting the pick-up in business activity as indicated by demand and sales levels, about 67% of businesses stated that they had recruited recently in order to replace (27%) or increase (9%) staff. About 20% stated that they had recruited for both reasons.

Of those that had recruited in the period, nearly 20% stated that they had experienced some level of difficulty in the recruitment process, including finding and recruiting the right staff, while an approximately equal 13% stated that they found it easy, very difficult and neither easy nor difficult to recruit the right staff.

However, asked about the adequacy of the available skill base in the region, nearly 40% of tourism businesses stated that this was adequate while 15% opined that it was not. But almost 50% were uncertain about the adequacy of the skills base, casting doubts as to the strength of available skills in the region's tourism industry.

Equally, a large number of businesses were uncertain about the adequacy of recruitment (45%) and training (58%) opportunities. 38% stated that there were ample opportunities for recruitment while 15% stated that there were not. 27% stated that there were adequate training and development opportunities while 15% again stated that there were not.

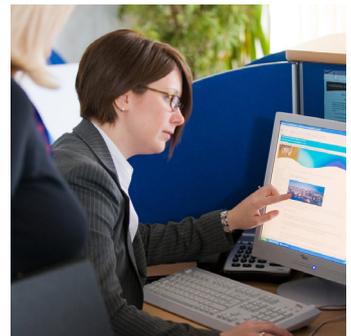
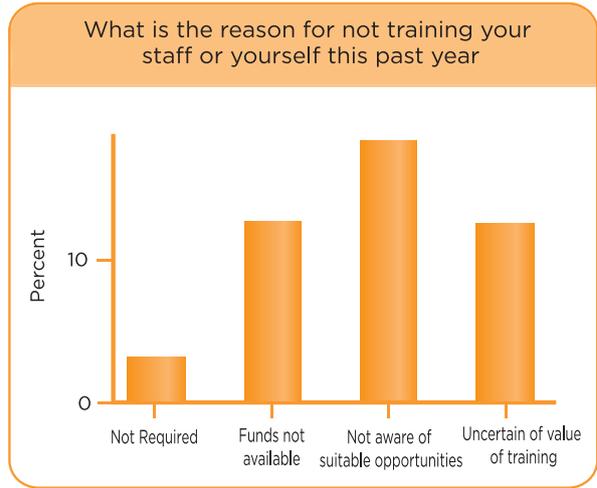
Nevertheless, majority of business owners had engaged in some form of training and self development for themselves and their staff. As many as 75% had attended training and development within the 12 months under review, while about 20% had not. Those that had not trained themselves or their staff during the period were asked about the likely reasons for this and the majority (40%) stated that they were not aware of any suitable training for themselves or their staff, while about 30% stated that training was not required. Two things emerge from these findings. First, it would appear that an information gap exists in terms of availability of



suitable training for tourism related businesses in the region; secondly, it appears that some companies are not fully aware or convinced of the need for regular and refreshment training and development. Making business aware of suitable and relevant training availability could help increase the number of staff being trained and skilled.

Finally, we enquired about the number of businesses that had reduced their staff count. Over 34% of organisations had witnessed staff reductions for the 12 month period, of which more than 50% attributed this to a drop in demand. However 25% stated that they had simply found more efficient ways of running the business.

“Training should be more relevant. We need better skills in customer service and people with a good local knowledge, who are interested in working within tourism”
 Respondent’s Comment



Future trends: regional

Businesses were asked to state their expectations of the region's overall tourism sector for the following 12 months based on the categories of visitor numbers, marketing and promotion activity, support from government and availability of skill base. Businesses are in majority about their positive expectations for visitor numbers in the next 12 months, as about 60% state that they expect the region's visitor numbers to increase. This is likely a factor of expectations about increased destination marketing activity, which about 50% of businesses expect will occur within this period, given renewed focus on the sector as witnessed by these businesses. However, businesses are less optimistic about the level of support they expect from government and government related agencies given the current economic climate.

At both the local and national levels, the majority of businesses (up to 40%) expect that sector support through financial and relief incentives would decline.

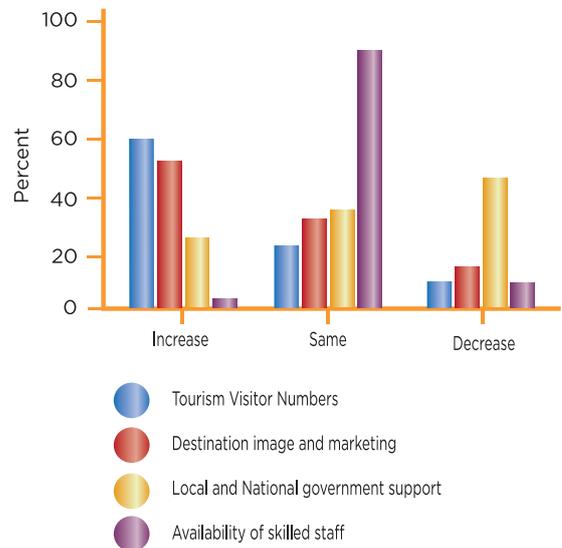
KEY FACT

As a result of reduced sector incentives and relief from government, almost 70% of businesses expect that costs would increase.

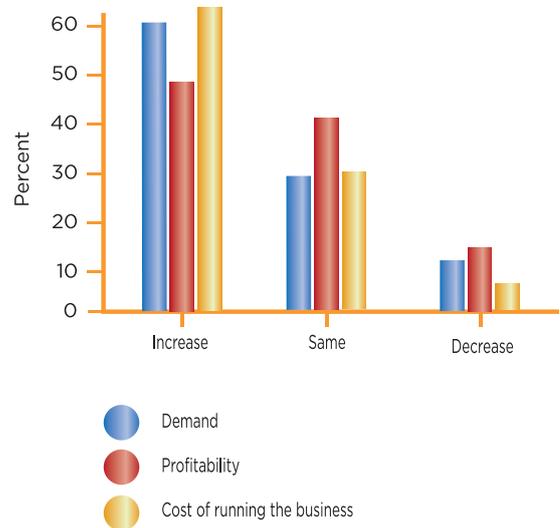
Future trends: Individual business

Businesses were asked to rate their own individual performance expectations. About 60% stated that they expected to generate more demand in the following 12 months, with expectations that this will lead to higher profits (plus 45%) or at the least a retention of profitability levels (about 40%). Less than 20% of businesses expect a drop in profits, even as costs soar (over 60% expect their costs to increase). Given that our analysis has already revealed the impact of cost on profitability, businesses may do well to be wary of profitability over-optimism.

Expected trends over the next 12 months in the following areas:



Expected trends over the next 12 months in the following areas:



“ We are looking forward with positive expectations to the year ahead ”
Respondent's Comment

Factors with greatest impact on future performance

Businesses were asked to rate the specific factors they anticipated would create the outcomes described above.

KEY FACT

The 3 factors expected to have the most impact on performance and business well being in 2011 are fuel prices (rated 65%), VAT rate increase (rated 53%) and business rates policy (rated 51%).

While the cost of fuel and removal of business rates subsidies was expected to add to costs of business, the increase in VAT, along with exchange rates which were not directly measured but frequently mentioned in comments, was expected to negatively impact on visitor numbers.

As a result, businesses anticipate better performance from the domestic visitor markets while the European and rest-of-the-world market present a mixed picture and potential decline, respectively.

Given these mixed expectations in trends for the region, businesses were asked to rate what areas should be priority for stimulating and sustaining growth in the region's tourism.

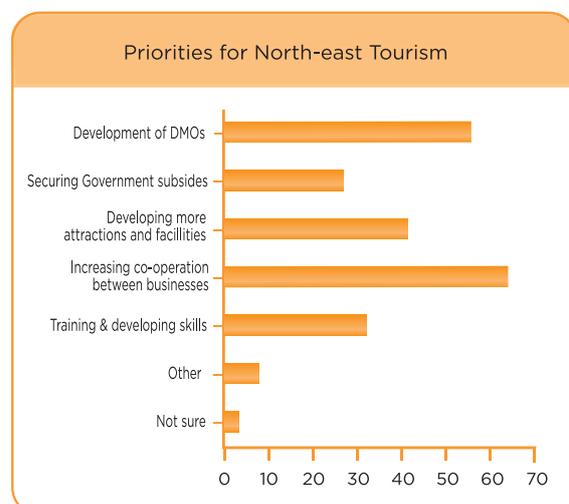
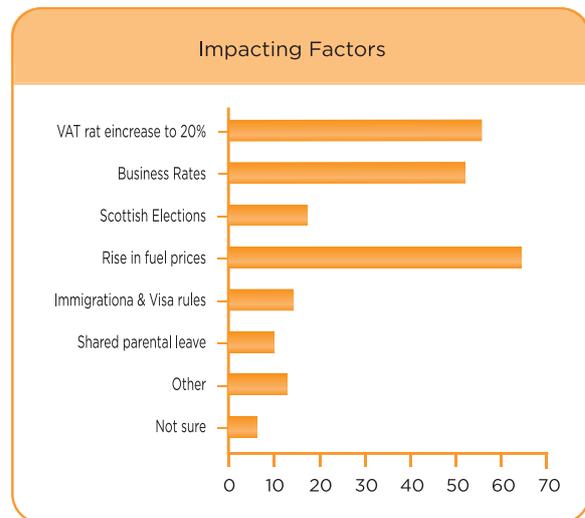
KEY FACT

Cooperative effort between businesses was rated 65% as a priority activity for future growth.

This implies that companies are aware of the potential for targeting and converting businesses tourists to leisure tourists by working together with other sectors that drive business visitors to the region.

The second priority is the development of a destination marketing organisation (56%), implying that businesses would like to proactively complement other marketing and promotion activities for the region.

Facilities/attractions development and training also rated highly, attracting over 40% and over 30% respectively. These areas were more important to businesses than securing government funding, grants or relief, indicating that businesses are confident in their ability to perform well provided the right environment was enabled.



Visitor profile

Visitors to the North-east in the past 12 months came primarily for business purposes, according to estimates by responding organisations. As many as 44% of visitors were business oriented while 23% of visitors came for leisure holiday purposes; 8% reported visits relating to family and friends, 5% were transiting and 20% for indeterminate reasons. The estimates between business and leisure visitors are in contrast with 2009 estimates available with VisitScotland, which show that there were more holiday visitors than business visitors in the region.

KEY FACT

It would appear therefore that the region saw a significant drop in leisure visitors in 2010 while at the same time witnessing growth in the business tourist sector. However, the figures reported by VisitScotland are based on demand-side rather than supply-side surveys.

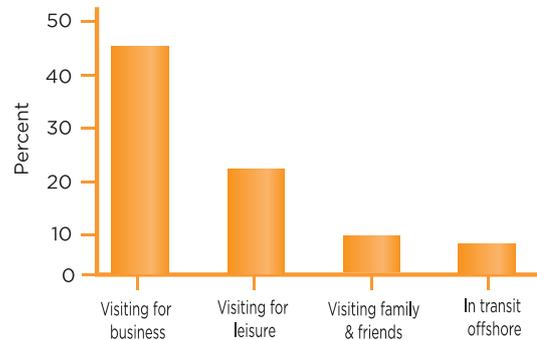
Regardless of whether visiting for business or for leisure, organisations were asked to state what activities their guests took part in or expressed the most interest in when visiting the North-east.

KEY FACT

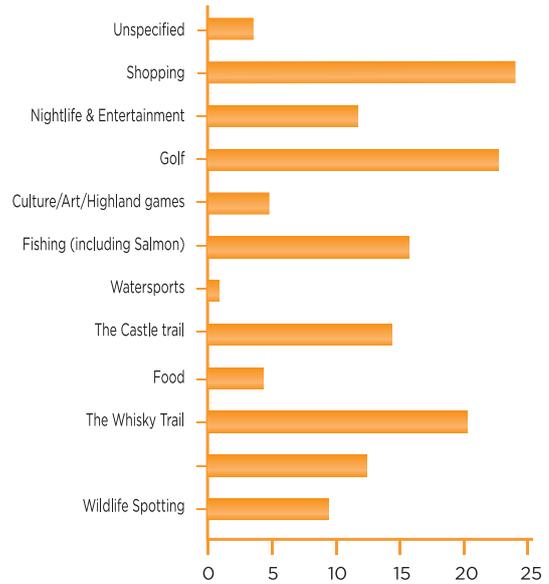
The results show that shopping is the most popular activity (23%) followed by golf (21%). Other prominent activities of interest are the whisky trail (19%), fishing (16%) and the castle trail (14%).

Given their popularity with visitors, these themes would form appropriate bases for promoting and marketing the North-east as a tourism destination.

What is the primary reason for your customers to visit the north east?



Visitor Activities by popularity



Marketing strategy

We asked organisations to share their strategic practices in key areas. Given the dichotomy between weekday and weekend demand mentioned, we asked about promotional incentives for driving time specific demand. About 22% of businesses are offering incentives for weekend visits, less than 5% for weekday visits and 18% for both weekday and weekend visits. However, an overwhelming 35% do not offer any incentives for weekday or weekend visits.

We asked businesses how proactive they are at discussing local tourism activities and attractions with guests. Almost 50% of businesses state that they do this sometimes but not often, while about an equal 20% state they do this often but not always or that they always do so.

Just under 70% of organisations report that they have a marketing budget, of which the majority (68%) utilise about 5% or less of their turnover on marketing. However, about 20% of businesses state that they utilise between 8% and 10% of their turnover on marketing.

KEY FACT

Overall 35% of companies plan to increasing their spending on marketing in the coming 12 months and another 35% to retain the same levels of spending as in the previous years.

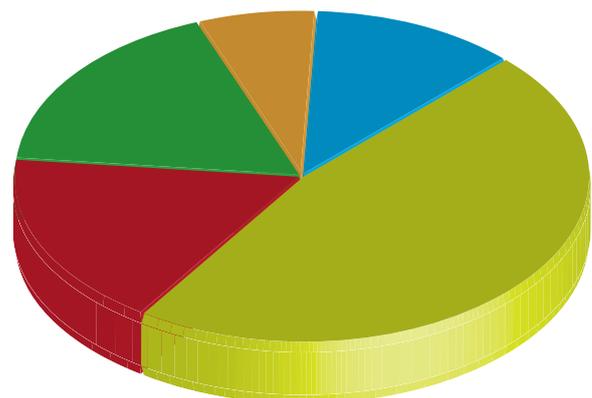
However about 7% of companies either plan to reduce marketing spend or have no defined plan towards marketing of their business in the following 12 months.

Finally, about 80% of companies did not disclose any affiliation to a business association or network, while 20% declared that they belonged to a networking or trade related group.

Do you offer incentives to increase visitor numbers at particular times of the week?



How often do you or your staff initiate conversations with guests about what activities or attractions they can find in the North-east?



- Sometimes but not often
- Often but not always
- Always
- Rarely
- Never

Conclusion

The findings in this survey show that current performance in the North-east's tourism sector can make further improvements. Businesses face many challenges, particularly in relation to rising costs associated with fuel prices and business rates. Additionally, demand for available capacity is relatively low and business is concerned about the effectiveness of current promotions for the region. Nevertheless, the local environment has continued to prove resilient in the face of these challenges, and as a result, businesses are confident and optimistic that, providing there is the right mix of promotion, skills and inter-sector effort, future performance should be positive, ushering in the much needed growth in the region's tourism industry.

One of the issues that emerged as a priority during the tourism research was the benefit that organisations associated with cooperative effort. Clearly, businesses realise that their best chances for growth and increased prosperity lie in collectively marketing and promoting the region, as well as working in partnership with other business sectors operating in the region. However, businesses are also concerned that these collective efforts are currently lacking and have identified these as priority areas going forward. Be it a regional destination marketing organisation or a collection of area DMOs acting together, the need for collaboration and cooperation in promoting the area has been made and industry leaders must respond to the call.

Another issue that has emerged as a priority is the development of more facilities in the region. For example, although the hotels sub-sector is currently active and vibrant, the lack of more four and five-star hotels was constantly cited as constraining the ability of the area to attract major events that would benefit tourism. Given this gap, there is an investment opportunity in the region for more up-scale hotel facilities to be developed. In addition, planned tourism developments in the coming years will put a strain on existing accommodation and leisure facilities, requiring that planning for these should commence in earnest.

Overall, the prospects for the tourism sector in North-east Scotland appear to be bright. Businesses are optimistic about their future, opportunities exist for investment and new ventures, the local environment has been adjudged very supportive and visitor numbers appear to be on the rise.

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