

**Research for
Tourism Leadership
Group**

TRENDS AND MARKETS RESEARCH REPORT



Susan Dickie
VisitScotland
January 2012

Introduction

Three strands of research are being carried out to inform the refresh of the national tourism strategy. These involve identifying key tourism trends, a market assessment, research on the capabilities of Scottish tourism and an exploration of best practice in tourism around the world.

This report presents findings from the research into trends and markets. It provides:

- an overview of key trends and their impact on Scottish tourism
- a summary of tourism in Scotland from a market perspective
- a comparative assessment of tourism markets for Scotland and their key characteristics



Scope of the research

This research considers trends and markets at a country level for Scotland as a destination. The statistics used are totals for all types of tourism and the trends described are applicable to tourism overall. The qualitative information on travel and destination preferences is largely related to leisure travel. (A separate strategy for business tourism (MICE) is currently being developed.)

This approach is in full recognition that some markets might offer particular opportunities for our different industry sectors and that there are distinctive consumer segments within markets. These specific opportunities will be discussed through the various industry events, for inclusion in the strategy.

Knowledge for this research has been gathered from a range of national and international sources. These are listed with links at the end of the document. Tourism forecasts for Scotland are not available off-the-shelf (these are only published at a UK level). However, these are being developed specifically for the Tourism Leadership Group and will be delivered separately. (Please note that forecasts for market size have been drawn from the database of Oxford Economics, a commercial tourism consultancy. These may only be used elsewhere if clearly referenced.)

Summary of key opportunities and challenges

- The new strategy is being developed against a backdrop of unprecedented worldwide economic uncertainty. This has had, and will continue to have, an impact on people's and companies' travel behaviour and this is clearly seen in many of the findings of the research.
- The market assessment highlights that in recent years there has been consistency in the markets which have provided Scotland with the majority of its tourism - and those which are the most valuable in world terms.
- The achievement of potential is very much dependent on ease of access (as well as knowledge of Scotland as a destination and other factors). Therefore - although some emerging markets are showing significant growth in tourism and any new direct flights will boost visits from a particular catchment area - within the 5 year horizon of the strategy, it will be our traditional domestic and international markets which will continue to provide the majority of our visitors. Scotland currently holds a small share of the travel from all the markets, so there is scope for growth.
- However, it is important to recognise the opportunities provided by the fast-growing emerging markets whose demands best fit with Scotland's offer, and ensure that we are able to reap the benefits as their travel behaviour matures and in particular if our accessibility to them improves.
- Domestic tourism from our Scottish and other UK markets should continue to be encouraged, by presenting compelling reasons to visit. It is vital to imbed in Britons' holiday behaviour the consideration of Scotland as an attractive destination of choice.
- The relative weakness of sterling offers an opportunity to build our reputation outside the UK as a competitively priced destination.
- However, the high cost of fuel and increasing flight fares and taxes make more expensive the fly/drive and touring holidays popular with many of our visitors. Mitigating solutions to help keep these affordable should be investigated.
- Messaging about the value for money that Scotland offers must be continued, backed up by delivery of it on the ground.
- People are increasingly looking for valuable, enriching and personal experiences and this trend fits well with what Scotland as a destination can offer. Scotland is perceived to have an evocative history, distinctive culture and friendly people. It is vital that our core strengths continue to be communicated in a consistent and persuasive way and that we meet the demand for authentic experiences, and products and services delivered with skill and personal attention.
- The trend of ageing populations offers potential for growth as the demands of the ever greater market of affluent, active and culturally interested travellers are a good fit with Scotland's tourism strengths. More challenging is positioning Scotland as an exciting destination for younger people and an affordable one for families.
- Digital technology is a huge part of people's day to day lives and the predominant way to plan and book travel for many of our target markets. It is vital that we have the capability and skills to exploit the opportunities this offers for developing and maintaining customer relationships.

Part One - Trends

As an activity which touches on the lives of most consumers and companies, the evolution of tourism is closely tied to national / global social and economic trends – and their resulting impact on consumer and corporate behaviour. Although a dynamic marketplace, the key trends which will continue to impact Scottish tourism over the duration of the strategy are ones which have been developing over recent years.

The world we live in

The economic crisis

The new strategy is being written at a time of turmoil in the world's economies and this has had considerable influence on the fortunes of tourism. The business tourism market was the first to be significantly affected in 2008. Businesses looked to control costs and were unwilling to appear extravagant and so travel budgets were quickly restrained, influencing the frequency and nature of business travel and the use of travel incentives for staff. As the force of governments' austerity measures began to be felt by consumers, leisure travel decisions were also affected and the "staycation" concept born, both in the UK and abroad. While economic analysts are struggling to provide solid forecasts, it is certain that personal and national economic uncertainty will continue to affect both leisure and business tourism in the near future.

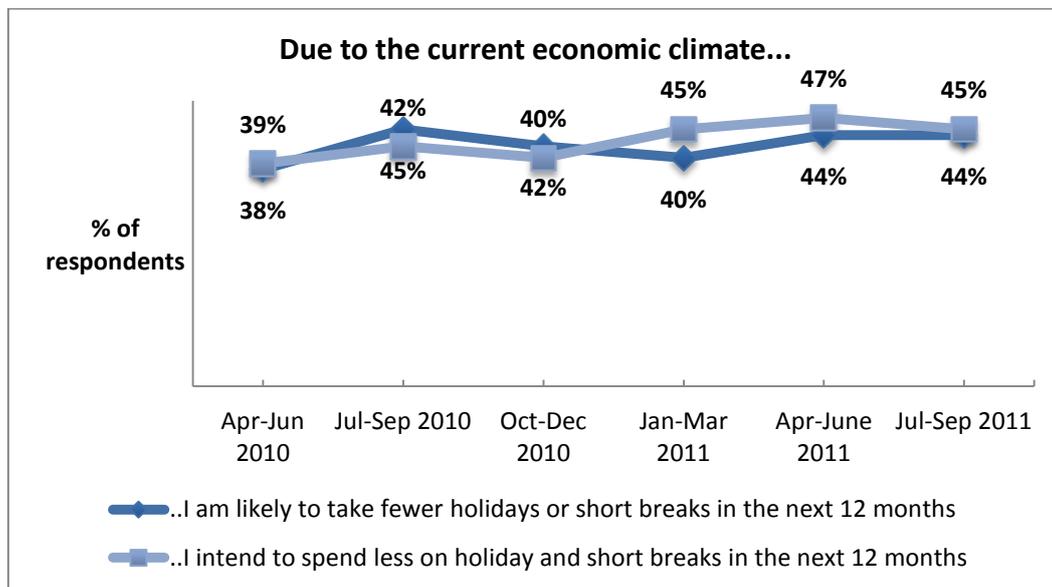
Cautious consumerism

After some improvement through 2010, consumer confidence slipped back during 2011. Consumers in many countries are feeling the burden of rising food and energy prices while other worries include depressed housing markets, political instability and job insecurity. The ways people are trying to tighten their belts include saving on energy bills, putting off replacing household goods, spending less on going out and focussing instead on reducing personal debt. Purchases of own-brand products increased across the world during the recession and they increasingly compete on both value and quality with branded products.

In the last 10 years, low-cost airlines became a mainstream travel option. They opened up new destinations and a wider market of travellers, and helped drive the popularity of the short city break. A similar business model was adopted in the accommodation industry, with the significant growth of no-frills hotel brands. These developments have given extra choice to consumers and encouraged cost-conscious behaviour, but have also complicated purchase decisions, as potentially cheaper options have to be weighed up against the desire for authentic, local experiences.

VisitScotland's tracking research amongst UK residents has monitored how this consumer caution has been reflected in holiday behaviour. The graph shows that many people's travel intentions started to improve during 2010 but weakened again in 2011, and that their desire to limit spending is strong. Ways in which they expect to do this include looking for special deals and offers, spending less on accommodation, cutting back on spend during their trip (on food and drink, attractions and activities) and

going away for a shorter time. These findings have been reflected in other published research and in the feedback we collect from Scottish tourism businesses.



Even when economic recovery is apparent, it is expected that caution will be the order of the day. When making significant purchases, people want to ensure that they are getting value for their money and expectations of products and experiences are increasingly high. Shopping around, price comparison and gathering product reviews and customer feedback are some of the ways people will try to ensure that they get value. This behaviour has already been termed “the new normal”, as many analysts believe that although it was initially driven by the economic crisis, this will be how consumers behave as standard in future.

Just as consumer travel behaviour has been changed by the recent economic woes, so has the business travel market. While recovery is being seen in some sectors as the general business environment improves, spending will continue to be restrained. Like consumers, businesses are keen to get the best deal for their money and are facing demands for accountability, but the value of face to face interaction is well-recognised.

In the UK, any recovery will be affected by the impact of the public sector cuts on businesses which benefit from the spend of public sector organisations and their employees. The number of Scottish adults who work in the public sector (over half a million) means that the impact could be considerable. Research by PWC in 2010 estimated that around 20% to 30% of hotel business in the UK is related directly or indirectly to the public sector. Business tourism suppliers have already seen the market for government sector meetings weaken.

The demand for valuable experiences

This trend of more conscious consumerism has also resulted in more focus on what is being bought, as well as what is being paid. There is a growing interest in provenance and sustainability and in gathering long-lasting life experiences rather than material possessions. Key motivations for travel include discovery and learning about different countries and cultures. This trend is being seen in the form of demand from our market of increasingly experienced travellers for real encounters with local people, enjoying local produce, getting close to nature and having authentic experiences. Warmth of welcome is an important factor in destination choice and satisfaction. These are things which Scotland has a reputation for providing, something which must be safeguarded and nurtured. Holidays which “give something back” to the visited community (e.g. volunteering, conservation, supporting local charities) have been a small but growing niche market as they help to fill people’s need to feel that their spend has been meaningful, rather than indulgent.



People value travel as a way of having long-lasting, satisfying life experiences

There is also an ever greater emphasis on personal service. As people become increasingly experienced travellers, they have clear expectations of the standard of facilities which is proper at each budget range and business investments and quality schemes have helped to ensure these are delivered. Competitive advantage therefore has often become less tangible and more about how services are delivered. This is well illustrated in TripAdvisor reviews, in which much of the feedback relates to the welcome and service that has been provided in the property, as much as the location and facilities.

People are leading increasingly busy and full lives with multiple demands on their time - be it work, family or other commitments. They want things to be made simple and are increasingly demanding in terms of the response from they receive from suppliers. Widespread use of websites and e-mail has resulted in higher expectations of speedy responses to enquiries and simple transactions. Complexity, difficulty and slowness turn customers off, while anything which makes life easier is welcomed. The success of companies, such as Amazon, illustrates this, while a recent research study suggests that, if of significant benefit, people will pay more for simplicity.

The abundance of choice which is now apparent to consumers also means that people are less willing to make do with a standard offer, but expect to be able to find flexible options which meet their needs exactly. In tourism, an example of this has been the growing demand for short stays which start on any day - a challenge particularly for self-catering businesses. Tourism businesses in general have had to become increasingly flexible as the trend of later booking, encouraged in previous times by the hope of last minute offers and now by economic uncertainty, has developed.

Safety and security

It is no exaggeration to claim that the September 11 attacks changed the world. The terrorist attacks, foiled attempts and security alerts seen in recent years have transformed air travel in particular. For many, the extra time and inconvenience caused by increased security has made travel by plane simply a

necessity to be endured and less of an exciting experience. Direct flights are therefore increasingly appealing and important to destination success. However, as the last 10 years has shown, the growth of tourism has been almost unstoppable and the impact of such crises (and also global health scares and natural disasters) has been generally short-lived.

The digital age

Digital is the fastest growing form of media worldwide and spending on it was little affected by the recent economic crisis. Use of online communications and information has become widespread across all demographics and is now the predominant way to plan travel and holidays. In recent years, the growth of people's engagement with social media, including sharing feedback and reviews, means that this increasingly plays a role in travel decisions, making good customer service a necessity for success. In many industry sectors, digital is now at the centre of business strategy and the more active role that consumers are now playing in brand development, and success, through digital channels will continue to grow. At the same time, consumers' expectation of the digital interactions that they have with a company is ever higher. Accessibility, content, function, engagement, interactivity and customer service must all be excellent - speed and simplicity are key demands.

Digital also allows businesses to develop relationships with their customers which in the past would have been more costly or labour-intensive to maintain. This has led to the growth in the business use of social sites such as Facebook and YouTube to maintain a dialogue with customers, while technology-enabled location-based marketing and behavioural targeting offer opportunities for more focussed marketing activities.

However, alongside people's enthusiasm for digital communications comes caution about possible intrusion. People are increasingly concerned about giving personal information - something on which many targeted activities rely. Recent hacking scares have also raised the questions about transaction security. We are already seeing more legal restrictions being introduced, such as the European legislation on use of cookies. It's vital that businesses keep up to date, not only with the opportunities that digital channels offer, but also their responsibilities when using them.

It is still vital to recognise that other traditional channels and activities have a role to play in tourism marketing and it is important to identify the most appropriate for each market and objective. It is still the case that fewer older people are regular users of online media, while print is a powerful medium for tourism promotion.

Ageing populations

In recent years, the value as consumers of the older generations has been widely recognised. Most countries face ageing populations and the older age groups account for a large share of consumer spend. In the USA for example, the "Baby Boomer" generation (now aged 47-65) accounts for the largest share of sales in most product categories. Prior to the recession, the consensus was that this generation would retire healthy and wealthy. However, the economic crisis has shaken the confidence of many, as the value of their assets such as houses, shares and savings were all under attack. Research has found that many people are now reconsidering their ability to retire when they had planned, with some believing that they

will have to do some form of paid work during their “retirement”. (Similarly, younger people increasingly believe that they will be working into their 70s).

The trend of ageing populations however still offers opportunity for tourism - not least that it provides an ever-growing market. Old age is gradually being re-defined, and with it people’s aspirations of how they live their life. “Old” is getting older, with many people viewing it as being over 70 or over 80 years old. Travel is amongst the most popular ways to benefit from the freedom of retirement. It is vital for destinations and tourism businesses to target older visitors with a range of compelling offers, in a way which recognises these evolving aspirations.

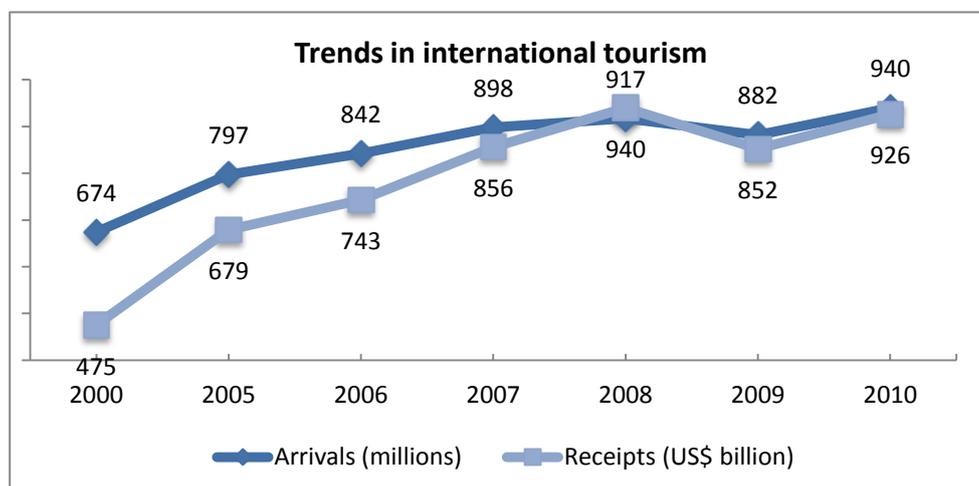


The valuable older traveller market must be targeted with destination messages which reflect their active and inquisitive travel aspirations

Tourism around the world

Although affected by the global economic crisis, tourism is one of the most valuable economic sectors in the world. Countries gain revenue from both domestic tourism (trips and activities done by their own residents) and international tourism (visitors from abroad). While for many destinations, domestic tourism outweighs inbound tourism, on a global level, tourism performance is measured on the basis of “international arrivals” (numbers of inbound trips) and “tourism receipts / expenditure” (spend by international travellers).

The UN World Tourism Organisation collects tourism data and their analyses provide estimates for global tourism growth and comparisons between countries. Tourism around the world had been growing steadily for many years. However in 2009, the effects of the economic downturn impacted tourism globally, and unsurprisingly, a decline in both trips and expenditure was seen. Recovery, however, was starting to be seen at the end of 2009 and continued through 2010. Although buffeted by further financial crises, it is expected that 2011 has again finished ahead and that growth in arrivals will be at a rate of around 3 to 4% per annum in the coming years.

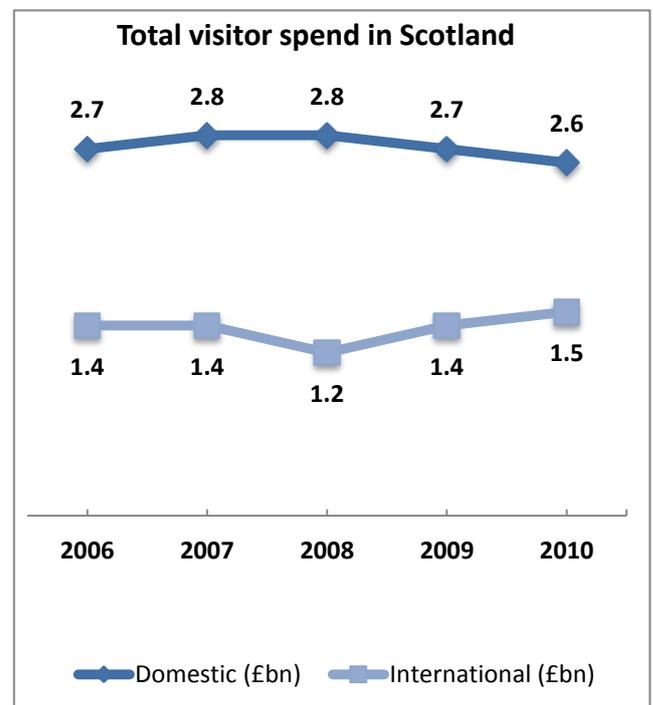
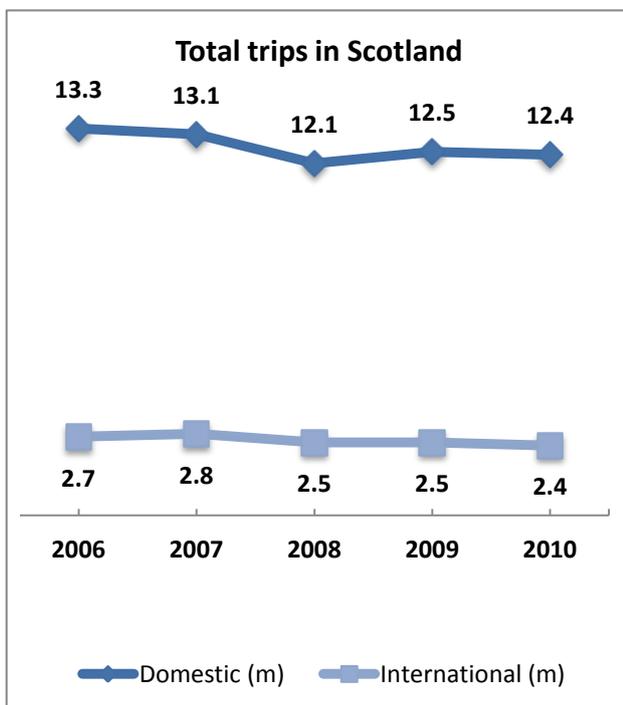


Moreover, despite economic concerns, holidays remain a protected purchase for many people, especially those in secure jobs, with manageable debt and reliable disposable income. Holidays are an emotional purchase. The decision to take a holiday is often based on feelings that it is deserved, or essential as a break away from the stress of daily life. Therefore despite current intentions to reduce their spend on trips, a recovery in consumer confidence will result quickly in an upswing in holiday taking.

Part Two - Tourism in Scotland

Visitor facts and figures

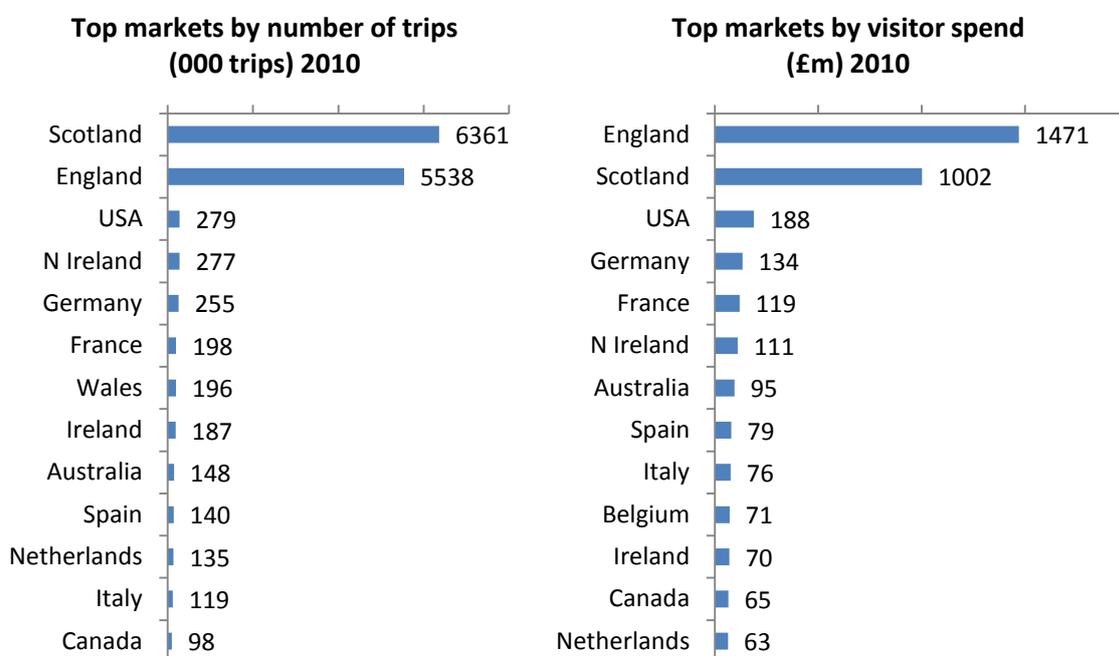
The graphs below present the statistics for visitor numbers and spend over the 5 years between 2006 and 2010. (Please note that the figures have been rounded for ease of reading.) While full year statistics for 2011 are not yet available, statistics for the first 9 months show a pattern of growth in tourism from the domestic markets. However, international tourism in the first 6 months of 2011 showed a decline compared to the same period in 2010 (international statistics for the peak summer period are still to be received).



Scotland's top markets in 2010

The vast majority of the volume and value of Scotland's tourism is accounted for by the domestic markets - Scotland, England, Wales and Northern Ireland. In 2010, their total share was 84% of trips and 65% of visitor spend. However, the value of international visitors is underlined by this latter statistic - that 35% of Scotland's total visitor spend is delivered by the 16% of trips made by international visitors, highlights the high yield nature of many foreign visitors. Their trips are often longer than those of domestic visitors, allowing more to be seen and done, more of the country to be visited and involving more spend per trip.

The following graphs show the markets which provided most trips and visitor spend in 2010. In recent years, there has been little change in the top markets, though some rankings have changed. Again, the relative value of international visitors is highlighted by the lower ranking of Northern Ireland by value, as compared with volume, and the exclusion of Wales from the top tier in terms of value, even though it was our 7th biggest market in terms of numbers of trips.



Other measures to consider when assessing markets include the average length of stay, average spend per trip / night and seasonality.

In general visitors from international markets stay longer than those from abroad. While the trips by visitors from England and Scotland itself last on average 3 to 4 nights, international visitors stay an average of 9 - those coming from long haul markets staying the longest. These longer trips are in turn reflected in the measurement of spend per trip. While the average spend per night is similar for English and foreign visitors, the top markets by average spend per trip are international, in particular the long-haul markets.

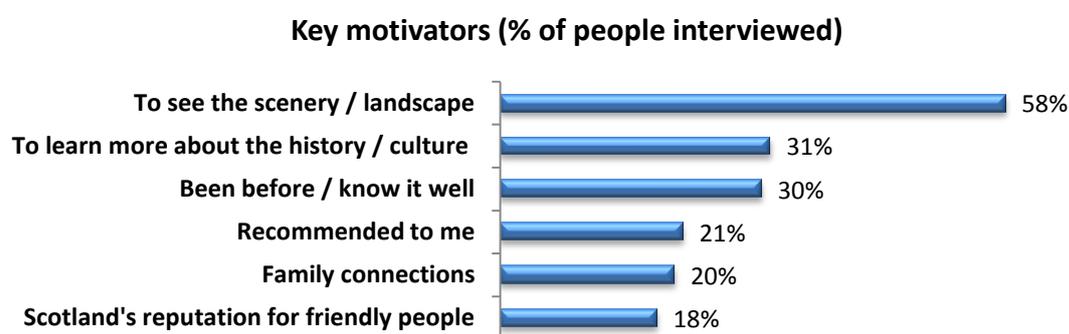
| | Average length of stay (nights) | Average spend per trip (£) | Average spend per night (£) |
|-----------------------------|---------------------------------|----------------------------|-----------------------------|
| Scotland | 3.2 | £158 | £49 |
| England | 4.0 | £266 | £66 |
| All UK average | 3.6 | £212 | £59 |
| All Overseas average | 9.0 | £617 | £68 |

While all types of domestic visits and business trips by international visitors are spread throughout the year with a bias towards quarters 2 and 3, the months of July to September account for a high proportion of holiday trips by international visitors. Southern European markets in particular have a summer bias, while others are more evenly spread and Ireland performs similarly to a domestic market with year round tourism.

Scotland's brand strengths

Although a small country in world terms, Scotland benefits from a strong national identity and some widely recognised features. The strength and appeal of the three elements of Scotland's brand essence - Enduring, Dramatic and Human, highlighting our landscape, history, culture and people - have been regularly confirmed by quantitative and qualitative research amongst visitors.

The recent wave of VisitScotland's visitor survey again confirmed the key motivators for tourism in Scotland. (Overseas visitors were more likely than UK visitors to rate friendly people and recommendations as important.)



These motivators are reflected in the type of holiday popular in Scotland, which are touring around (often mixing urban and rural locations), countryside holidays and city breaks. They are also reflected in the type of activities popular with visitors: sightseeing, visiting historic attractions and museums / galleries, visiting cities, trying out local food and shopping. Walking is the most popular type of outdoor activity done by visitors. VisitScotland's ongoing brand research amongst UK adults, also highlights that Scotland is viewed very positively in terms of its scenery, outdoor activities and the opportunities to combine both city and rural activities in a trip.

However, there are some challenges to overcome both in people's perception of Scotland as a destination, and in providing them with a satisfying experience when they visit.

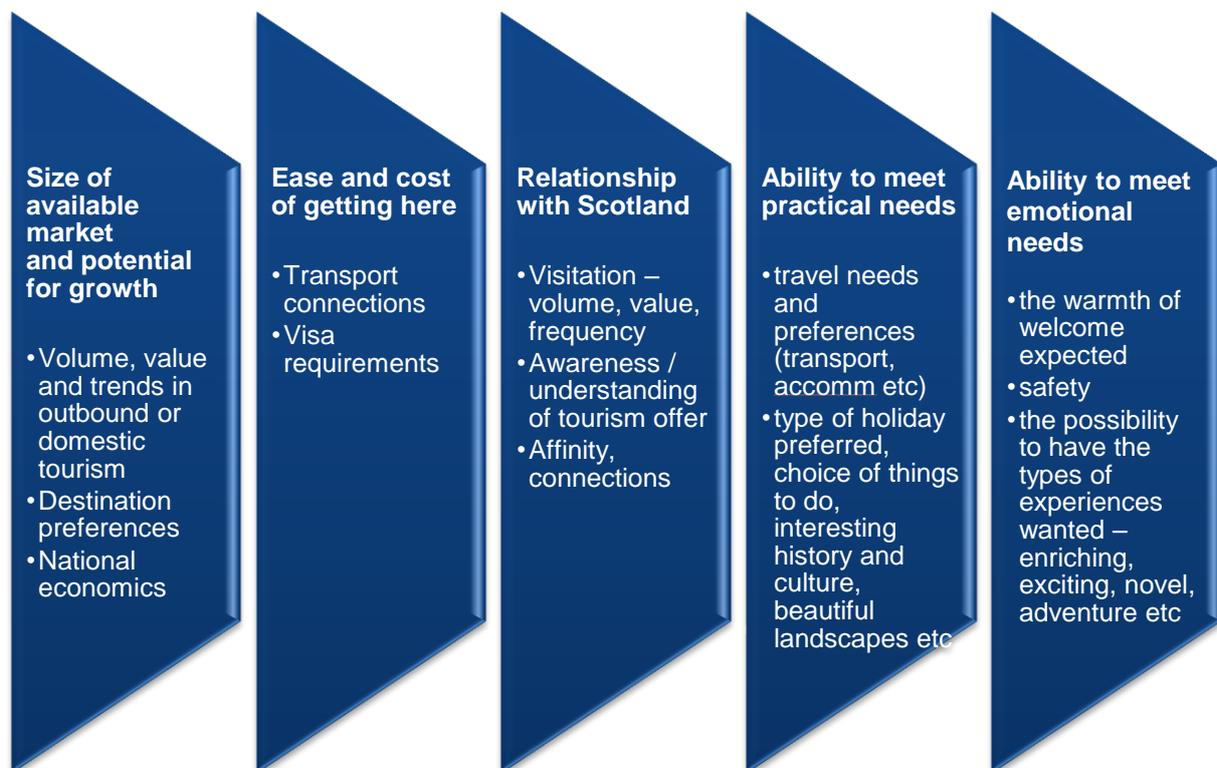
Across our key markets, there are varying levels of awareness of Scotland, its geography and what it can deliver as a destination. To gain visitors, Scotland has to be in the consideration set when decisions are being made. This requires an on-going delivery of consistent and compelling messages.

As a developed western economy, Scotland has some perception of an expensive destination, relative to some other choices. Moreover, visitor research has consistently found that some people are dissatisfied with the value for money they feel that they have got. As people are increasingly demanding consumers, and currently cautious about their spending, it is important to ensure that Scotland has a reputation for delivering value for money, whatever the budget.

Part Three - Market Assessment

A mixture of quantitative and qualitative factors has been considered when assessing the opportunities offered by markets, as outlined in the chart below.

While statistics are an important starting point to gauge the size of markets, the picture gained from these must be tempered with other factors which influence the likelihood of tourism to Scotland specifically. Therefore, as well as trends in travel volume and value, it is important to consider the favoured destinations of each market, the accessibility of Scotland, and their travel preferences and the fit of these with what Scotland can offer.



A statistical assessment

The first stage in the market assessment was to look at the top markets now and in future.

The countries spending most on international travel around the world have remained consistent over the past decade

World's top outbound markets (spend) - 2010

- Germany
- USA
- China
- UK
- France
- Canada
- Japan
- Italy
- Russia
- Australia

World's top outbound markets (spend) - 2020

- China
- USA
- Germany
- UK
- France
- Korea
- Japan
- Hong Kong
- Canada
- Russia

Forecast of top inbound markets to Scotland in 2020 (spend)

- USA
- Germany
- Spain
- Australia
- Canada
- France
- Ireland
- Italy
- Netherlands
- Switzerland

Scotland's top markets 2010 - (trips)

- Scotland
- England
- USA
- N Ireland
- Germany
- France
- Wales
- Ireland
- Australia
- Spain
- Netherlands
- Italy
- Canada

Scotland's top markets in 2010 - (spend)

- England
- Scotland
- USA
- Germany
- France
- N Ireland
- Australia
- Spain
- Italy
- Belgium
- Ireland
- Canada
- Netherlands

The markets providing most tourism in Scotland have also stayed quite consistent in recent years and are a mix of domestic, European and long-haul markets.

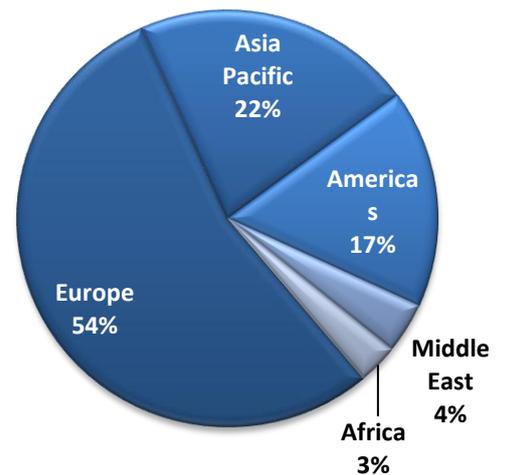
NB A large proportion of a country's international travel is taken within its own region, e.g. much of China's outbound travel remains within Asia. This impacts on the size of our available market.

Sources - UNWTO, VS / Oxford Economics (forecast), UKTS, IPS

Some statistical background to this chart is available overleaf, while Scotland's market data is contained in the earlier section.

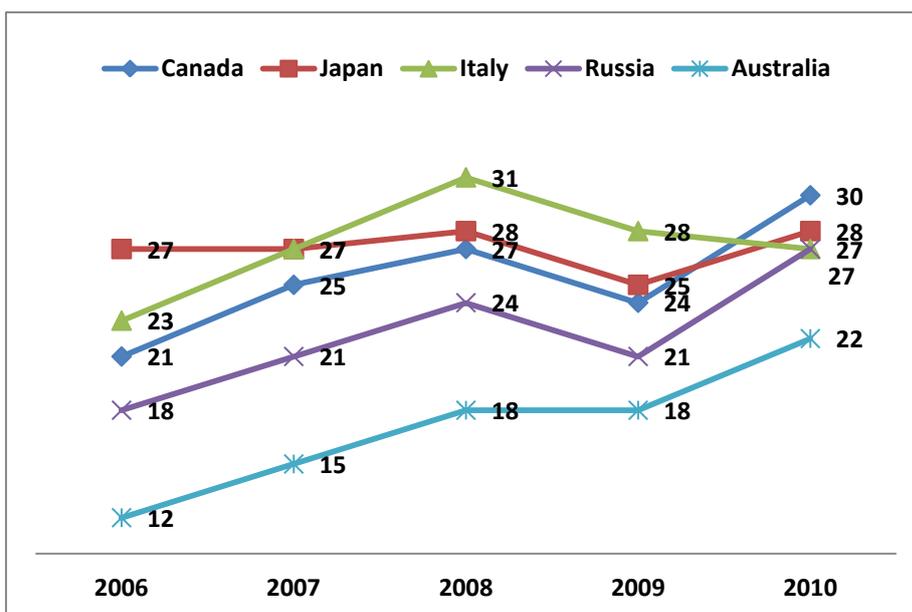
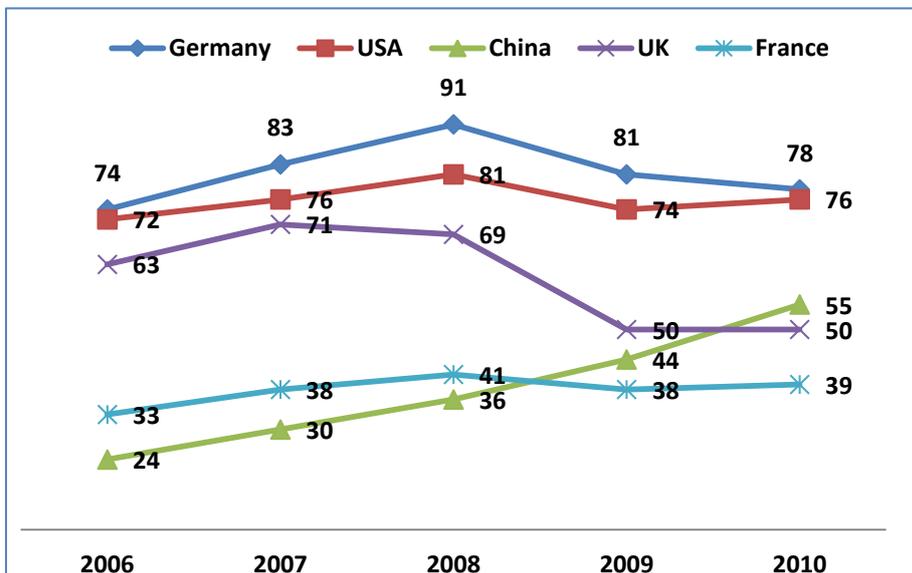
Top regions for outbound travel

Europe is still the top source region for outbound travel, accounting for around half of international trips, many of which are taken within the region. Over the last decade, its share has been reducing slowly. Growth has been faster from the currently smaller BRIC markets, as a result of growing personal disposable income and more business travel and so in the coming years, the share accounted for by the Asia Pacific region in particular will grow.



Top markets by spend on outbound travel

The graphs track the trends in international tourism expenditure by the top ten markets.



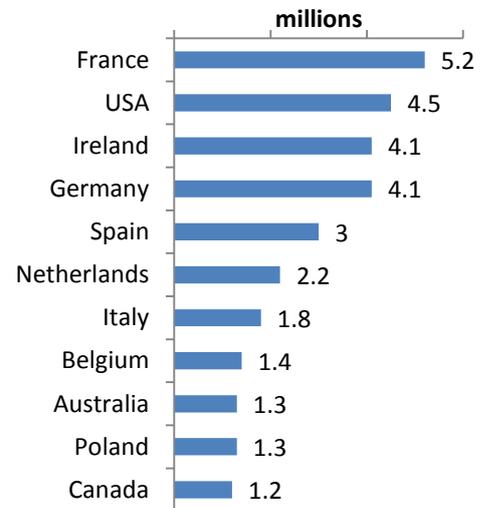
Source - UNWTO 2011

Growth projections

Off-the-shelf forecasts are not available for tourism in Scotland to 2020. However, projections are available for the key markets to the UK. The graph highlights that although the highest average growth rates in coming years are expected to be shown by the emerging markets, the biggest markets for the UK in 2020 are forecast to remain the mature Western markets.

(Chart data source - Oxford Economics)

Forecast for the top markets for the UK by number of visits 2020



Market portfolio

As outlined above, the statistical assessment has been combined with other qualitative knowledge of the markets to develop the following market portfolio, which offers a balance of opportunities. (Key market characteristics are outlined in the next section.)

While it focuses on the key markets for Scotland as a whole, this is in recognition that others might offer opportunities - for particular tourism products or due to future developments, for example, a new flight route.

| Home Turf | Near Neighbours | Distant Cousins | The long game* |
|---|---|--|--|
| <ul style="list-style-type: none"> • England • Scotland • Northern Ireland | <ul style="list-style-type: none"> • Germany • France • Spain • Italy • Ireland • Netherlands • Other EU | <ul style="list-style-type: none"> • USA • Canada • Australia | <ul style="list-style-type: none"> • Brazil • Russia • India • China • Other emerging markets |

*Playing the long game means planning / acting for long term success rather than short term gains

For comparison, the table below provides the 2010 statistics for each of these markets for the value of both total tourism (outbound or domestic as relevant) and visitor spend in Scotland.

position

| | Total tourism spend in 2010 (domestic for UK markets; outbound for international markets) | Spend in Scotland in 2010 |
|-------------------------|--|---------------------------|
| Scotland | £2.2bn | £1002m |
| England | £17bn | £1471m |
| Northern Ireland | £0.7bn | £111m |
| Germany | US\$78bn | £134m |
| France | \$39bn | £119m |
| Spain | \$17bn | £79m |
| Italy | \$27bn | £76m |
| Ireland | \$8bn | £70m |
| Netherlands | \$20bn | £63m |
| USA | \$76bn | £188m |
| Canada | \$30bn | £65m |
| Australia | \$22bn | £95m |
| Brazil | \$16bn | £3m |
| Russia | \$27bn | £9m |
| India | \$11bn | £25m |
| China | \$55bn | £7m |

Sources – UNWTO, UKTS, IPS

Part Four - Market Profiles

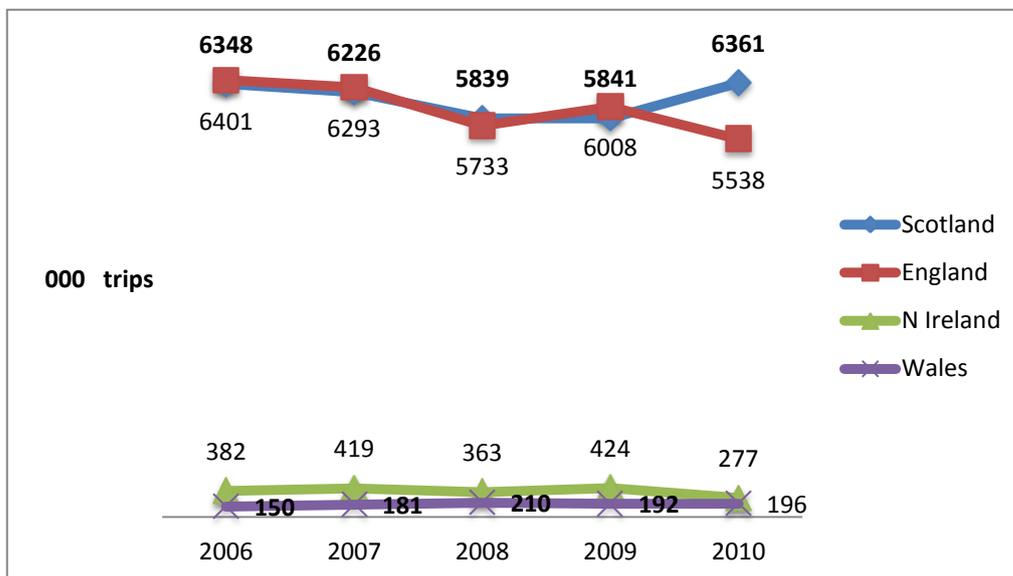
This section presents the common features for each market grouping in the portfolio above and highlights some of the particular characteristics of each market. Further information is available using the source links provided later, or on request.

Home Turf - The UK domestic markets

The UK provides the vast majority of our visitor trips and spend, and day trips as well as overnight tourism, all year round. The UK domestic tourism market is sizeable - totalling almost 120million overnight trips in 2010 with a visitor spend of around £21bn. English residents account for around 80% of the total.

The market as a whole has seen little significant growth over the last 5 years. However, the economic downturn has encouraged staying closer to home, with Scotland benefiting in particular from growth from the Scottish resident market. Although Britons are keen overseas travellers, this provides an opportunity to build on recent positive experiences to preserve the interest in holidaying at home. The opportunity for Scotland to increase tourism from domestic markets comes from increasing our share of the large English market, as well as continuing to increase tourism by Scottish residents.

The graph below shows the trends in tourism in Scotland from each of the UK markets.



SCOTLAND

Looking at total domestic tourism, Scottish residents are the only UK market which made more trips in 2010 than in 2006. Happily, the majority of those trips remained in Scotland.

As a result, in this period of economic difficulty, tourism by Scottish residents is continuing to grow - a trend apparent also in mid-year statistics for 2011. On average over the last 5 years, the Scottish market has accounted for 40% of total trips from all markets and 22% of value. In 2010, it was the largest market in terms of numbers of trips and the second most valuable (after England) in terms of visitor spend.

There is therefore a growing awareness of what's available within Scotland and positive experiences will encourage repeat visits. It is vital to consider locals and other Scots as key customers and provide inspiration and persuasion to keep their business.

In 2010, holidays accounted for over half of the trips taken in Scotland by Scottish residents. Visits to friends and relatives, incorporating a significant element of holiday, provided another quarter. Much of the recent growth has been driven by holiday tourism. The day trip market is also very important for many sectors of the tourism industry including visitor attractions.

The most popular tourism activities of Scottish residents in Scotland are taking short and long walks, shopping, visiting historic and heritage sites / castles, exploring a town / city, touring / sightseeing, visiting museums and galleries, fishing, golf and watching wildlife or birds.

ENGLAND

Domestic tourism overall by English residents has been hit by the recent economic difficulties, and this has been reflected in their tourism to Scotland. The vast majority of trips by English residents remain in England, with Wales taking the next largest share, followed by Scotland, which in 2010 held a 5% share of the total number of UK trips taken by English residents.

England was our second largest market by number of visits and was ranked first by visitor spend in 2010 and in recent years has accounted for around 40% of total trips and spend. There is a distinct Scottish heartland - the north of England, including the North West, Merseyside, the North East, Yorkshire and Humberside - which together accounted for just over half of the holidays taken in Scotland by English residents in 2010.

The most popular activities to do in Scotland amongst English visitors are similar to those above - short and long walks, visiting historic and heritage sites / castles, exploring a town / city, touring / sightseeing,



Tourism by Scottish residents in Scotland is growing and should be encouraged by continuing to provide compelling reasons to stay

visiting museums and galleries, shopping, watching wildlife or birds, visiting gardens, golf and mountain biking.

Several challenges exist in growing the English market. The rising cost of petrol and air fares are making travel to Scotland from further afield more expensive. Depending on their tone, the Scottish independence discussions may have an impact on the perception of welcome.

NORTHERN IRELAND

The smallest of the UK domestic markets, tourism by Northern Irish residents within the UK has been stable, and grew slightly in 2010. Just over half of all domestic tourism stays within Northern Ireland, with England taking the next largest share.

In 2010, Northern Ireland was Scotland's third largest market in terms of trips and 6th in terms of visitor spend, although there was a significant decline in volume. In 2010, holidays accounted for over half of trips from Northern Ireland, with another 15% accounted for VFR trips with a significant element of holiday. This highlights that Scottish connections are a key driver for tourism, as are the good transport links - both air and sea. Popular activities on a holiday in Scotland are sightseeing, shopping and walking.

A note on Wales: Wales has not been included in the list of target markets. The reasons for this include its small overall level of domestic travel, the small share of which that comes to Scotland and a recent decline in the value of tourism from this market.

Our Near Neighbours - The European Union

As seen above, Europe has been the main provider of international tourism worldwide for many years. The Western European travel markets are fairly mature, so the rate of growth is not as spectacular as in some Asian markets, but several are, and will remain, amongst the world's most valuable tourism markets.

Moreover, as much of Europe's international travel is taken within the continent, it presents the most accessible opportunities for Scotland to capture its share of visitors.

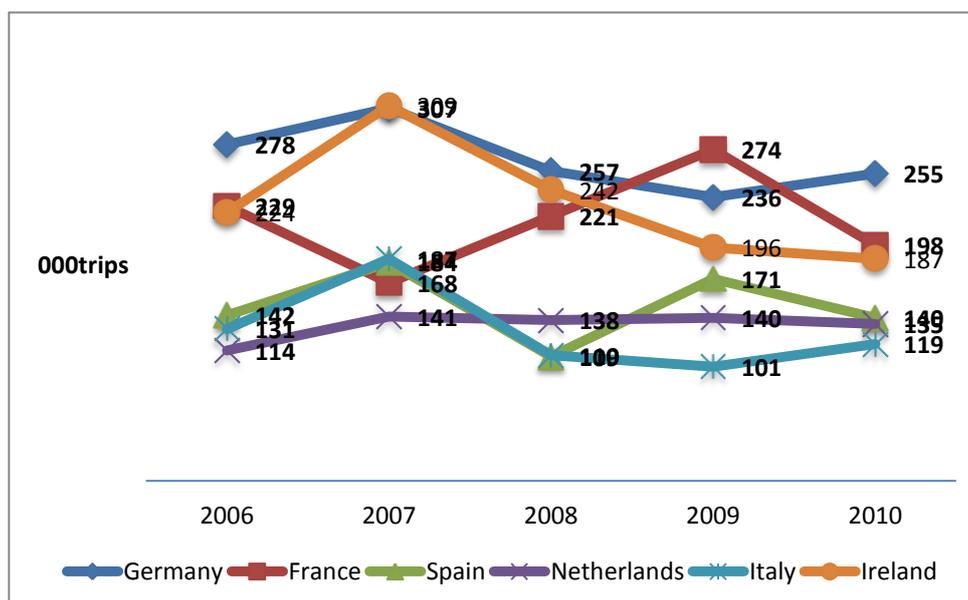
Touring and city holidays are amongst the most popular foreign holidays taken by Europeans – these are holiday types which Scotland can make a compelling offer on, as demonstrated by the activities and satisfaction of our visitors from these markets.

Their proximity, travel connections and healthy annual leave and public holiday entitlements mean that they are markets for both holidays and short breaks. However, some European countries have a marked habit of taking main holidays in July and August, when our occupancy is already high. Widening seasonal spread is therefore a key objective for these markets.

Challenges include the diversity of destination choices that are available to Europeans - often with easy access through flight and high speed rail routes. There are few "flag carrier" links with Scotland, with many routes served by the low cost airlines. A major hurdle is the current economic turmoil in Europe, affecting some major markets, such as Italy, Spain and Ireland directly, and impacting on the economies and consumer sentiment of the region as a whole. Against this backdrop, and as European countries are attractive destinations in their own right, the motivation to travel domestically will continue - often encouraged by home destination campaigns.

While focussing here on some of the markets which are most valuable for Scotland, there are others within Europe which also benefit from relative ease of access, but are smaller markets in value terms. These include the mature markets of Scandinavia, Belgium and Switzerland and the emerging markets of the Eastern EU.

The trends in recent tourism from these markets to Scotland are shown here.



GERMANY

One of the world's strongest economies, Germany has also for many years been the world's most valuable source of outbound travel. Although there has been a downturn in the last 2 years, Germans view travel and holidays as an important part of life, not to be given up lightly. Germany therefore continues to be a market of great opportunity for Scotland - it is currently our second most valuable international market, despite some fluctuation in volume and value over the last 5 years. Although there is a peak of visits to Scotland in the summer, Germany has also provided good levels of spring visitors.

By far the most popular holidays taken by Germans are beach holidays, but city holidays and touring holidays are the next most popular types of outbound holiday. This mix of motivations is reflected in their destination preferences, which include neighbouring countries in Northern Europe, including France, Austria and Netherlands, but also Spain, Turkey and Greece. The UK as a whole is within their top 10 destinations. Competition is fierce for the valuable German market which is targeted by many new and traditional destinations.

Our scenery holds particular appeal to Germans, who enjoy outdoor activities, such as walking, on their holidays. A particular USP of Scotland is the possibility to combine activities with beautiful landscape, history and heritage.

FRANCE

France is the world's 5th most valuable tourism market and despite a dip in outbound travel in 2009 (as was experienced in many markets), growth was again seen in 2010.

After beach holidays, the French prefer touring holidays and city holidays. Key motivations for travel are to learn about another country and explore beautiful scenery. Amongst their favourite leisure pastimes are eating out, walking and visiting museums and galleries.

A long term top market for Scotland – key attractions are the scenery and nature, the choice of things to see and do and the opportunity to meet the locals.

Competition for the French market includes close European neighbours and former colonies in North Africa and the Caribbean. Moreover, France is the world's top tourism destination, offering a diversity of top-class experiences within its borders, so domestic travel is highly popular.

SPAIN

Spain's position as one of the most popular tourism destinations in the world is reflected in a relatively low level of outbound travel and the economic difficulties in Spain have had an impact. However, prior to the economic downturn, outbound travel was growing steadily and Scotland was a popular choice of destination - Spain has been one of our top 10 international markets in recent years.



German visitors in Scotland value the possibility to combine activity, history and culture

Traditionally Spanish people take their main holidays in July /August and this is reflected in the seasonality of their trips to Scotland. However, they also benefit from a number of public holiday long weekends which encourage short break taking.

Not surprisingly, beach holidays are outnumbered by city breaks and touring holidays as the most popular types of foreign holidays taken by Spaniards. As well as travel, popular leisure activities for Spanish people include walking and eating out. These preferences are mirrored in their activities on Scottish holidays. Key attractions are our scenery, nature, culture and sights.

Spanish visitors to Scotland tend to be younger than average, making them a good market for tourism products targeting young people. There are good flight links between Scotland and key cities in Spain, providing access to a large catchment area of well-off foreign travellers.

Competition from the Spanish market comes from neighbouring countries including France, Portugal and Italy as well as the USA and Mexico. The UK is amongst the top five most visited destinations.

ITALY

Italy is currently ranked 8th in terms of value of its outbound tourism, despite a dip in 2009 and 2010, reflecting the economic downturn. However, there has been an overall trend of growth in outbound holidays and travel in the past five years. In the short term, the crisis in the Italian economy and the resulting weaker consumer confidence is likely to impact on travel intentions.

The most popular foreign holiday types for Italians are touring holidays, followed by beach and city holidays. Key motivations for travel are discovering new places and learning about other countries. Favourite leisure pastimes include eating out, walking and visiting museums and galleries.

The countries which currently receive most tourism from Italy include neighbours France, Spain and Germany as well as the UK. Outside the EU, Croatia, Egypt and USA are also popular.

The Italian habit of taking the main holiday in the summer results in a concentration of travel to Scotland in the peak months. However, Italians have generous annual leave entitlement with several shoulder season public holidays, offering short break possibilities.

One of Scotland's long-term top markets, in particular for touring holidays, Italians rate Scotland highly for beautiful landscapes.



Spanish and Italian holidaymakers enjoy a mix of beautiful scenery, culture and eating out.

IRELAND

Ireland is currently ranked 30th in the world in terms of expenditure on outbound travel and unsurprisingly, due to the difficulties in the Irish economy, there has been a decline in the last two years, both in outbound travel in general and to Scotland.

However, this market behaves, for Scotland, in a similar way to a domestic market - benefitting from proximity and affinity, and offering good opportunities for year round travel.

After beach holidays, city breaks are the most popular foreign holidays with Irish holidaymakers. They enjoy a destination with lots to see and do. Other reasons for visiting a destination include returning to favourite places, events and festivals, visiting friends and relatives, doing activities such as golf and walking and researching ancestry. The most frequent foreign travel destinations are the UK, Spain, France, USA and Italy, and Scotland in its own right ranks highly.

Given the cultural similarities between Ireland and Scotland, it is necessary to differentiate our travel experience from domestic tourism in other ways.

NETHERLANDS

Netherlands is currently ranked 12th in the world in terms of value of its outbound tourism, and despite a dip in 2009 and 2010, there has been an overall trend of growth in outbound holidays and travel in the past five years.

The most popular foreign holiday types for Dutch people are beach holidays, city holidays, touring and rural-based holidays. Key motivations for travel are relaxing and exploring beautiful landscapes. They rate Scotland highly for our beautiful scenery, and enjoy sightseeing, visiting our cities and historic sites. A long-term top market for Scotland, tourism from Holland has been very stable over the last 5 years. It provides both summer and shoulder season tourism. A particular characteristic of the Dutch market is a significant usage of caravanning and camping as their accommodation choice. They are also more likely than other markets to come to Scotland in their own vehicle, although there are also excellent flight links.

The countries which currently receive most tourism from Holland include neighbours France, Germany Spain and Belgium as well as Turkey and Greece. Further afield, the USA is a popular destination. The UK is also amongst the top countries visited.



City breaks are a popular choice amongst Irish holidaymakers

Distant cousins - USA, Canada and Australia

These countries have strong diverse economies with large, growing travel markets.

People in these markets often have a particular affinity for Scotland built through familial links. VFR and ancestral tourism are therefore particular drivers to visit for these markets and if such connections exist, then repeat visits are especially likely. However, Scotland is also attractive to other travellers who are simply drawn by the renowned scenery and culture.

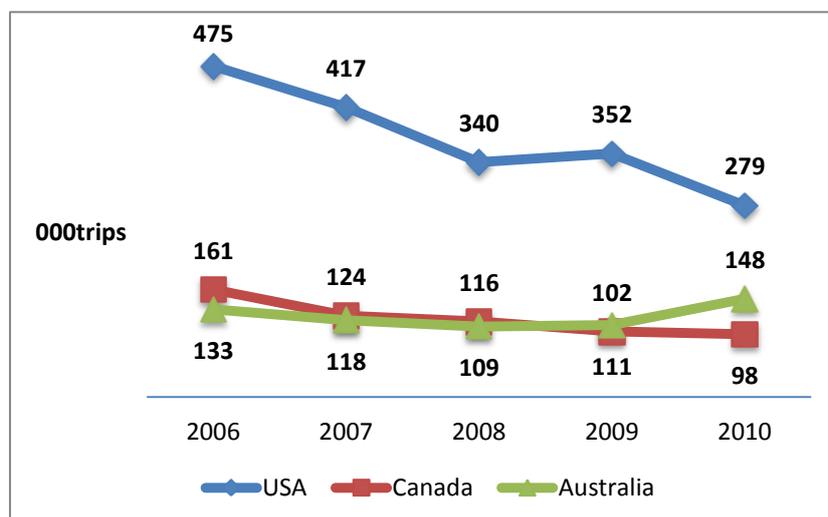
Scotland can offer these travellers many experiences very different from home - mixing cities, activities and scenery with our heritage and history. As their trips generally last more than a week and involve travelling around and seeing and doing many things, they provide amongst the highest spend per trip of all our visitors. This is also compounded by the nature of the visitors from these markets, who tend to be older (though not exclusively) and relatively affluent. As a result they rate comfort and convenience as important factors in their choices.

However, this does not mean that they are not also looking for value for money, and being experienced consumers, they have high expectations for quality of products and personal service.

Much of their foreign travel goes to countries within their own regions, either the Americas or Asia Pacific. However, Europe holds many icons that they are keen to see.

There are limited direct scheduled flights to Scotland, so their long-haul trips often include at least one stop. This will sometimes result in their trip duration being shared with other destinations. The cost of flights, recently increased through the APD and other surcharges is another hurdle.

The graph shows trends in tourism to Scotland from these markets in the past 5 years.



Family and ancestral links as well as emotional affinity are a key driver for visits to Scotland

USA

One of the world's largest economies with a large affluent population, the US is the world's 2nd most valuable tourism market with growing outbound travel - albeit that the upward trend has been affected by the country's continuing economic problems and fluctuating public confidence. However, more Americans than ever are passport holders so equipped to travel abroad.

Although tourism from the USA to Scotland (and equally to UK and Europe) has been declining in recent years, USA has long been one of Scotland's top markets, offering volume, value and a high spend per trip. There is also less of a summer bias than amongst the European markets, with a good proportion of trips arriving in the spring as well as the summer season.

Their key motivations for foreign travel include learning about other countries and discovering new places, so touring holidays which explore both cities and countryside are popular choices for Americans. Beautiful landscapes, nature and great sightseeing are important destination factors. The assurance of a warm welcome is particularly important for Americans.

Scotland is seen to offer this, while our scenery, history and culture are other key attractions for this market. Golf is a popular activity with US visitors, as it allows them to pursue a favourite hobby in an historic and emotionally resonant place.

Outbound travellers tend to be older, well-educated and affluent and have high expectations for service and facilities. However, even the most affluent Americans are keen to get the best value for their money - as can be seen by the popularity of hotel loyalty and frequent flier schemes amongst regular travellers.

Most-visited destinations are predominantly in their own region - Mexico, Canada and the Caribbean - but also amongst the top 10 are France, UK, Italy and Germany. China is an increasingly popular destination.

CANADA

Canada's outbound travel has been steadily increasing, and it is now ranked 6th in the world in terms of international tourism expenditure. The strength of its economy is demonstrated by the recovery in tourism spend seen in 2010 and it has become an increasingly important market for Scotland.

Amongst the most popular types of holidays taken abroad are touring and city holidays - driven by travel motivations including learning about other countries and their way of life, discovering new places and exploring beautiful landscapes. Favourite leisure pastimes include walking, golf and visiting museums and galleries.

In Scotland, popular activities are touring, sightseeing, enjoying the scenery and visiting historic sites. Other drivers for Canadian tourism are researching ancestry and golf. They rate Scotland highly for beautiful landscapes, famous sights and opportunities to meet the locals.

Direct flights to Scotland have decreased in recent years but a new route for 2012 has been announced. However, there is no "flag carrier" airline offering direct flights.

Much of Canadian outbound travel takes place in USA and the Caribbean (Canadians like to escape the bitter winters), while other destinations with family links, including England, France and Hong Kong take a sizeable share of the Canadian market.

Like the American market, Canadian visitors present a good opportunity for visits in spring as well as the summer.

AUSTRALIA

Australia's economy is relatively strong and held up well during the global slowdown, and this is reflected in a steady increase in outbound travel seen in the last 5 years. It is now ranked 10th in the world in terms of spend on international travel.

Travel to Scotland has also been growing steadily. In 2010, Australia was our 4th most valuable international market. The average duration of a Scottish stay is relatively long (often two weeks or more) so the average spend per stay of Australian visitors is comparatively high. Although the largest share of trips arrive in the summer (the Australian winter), a good proportion also come in spring.

Australians are looking for a range of experiences and value Scotland's beautiful landscapes, history and heritage and enjoy meeting local people

Much of the outbound travel from Australia stays within the Asia Pacific region with frequent destinations being New Zealand, USA, Singapore, Thailand and China. However, also in the top 10 are the UK and Italy, which offer both iconic sights and family links.

The key challenge faced in attracting Australian visitors is accessibility and the cost of travelling here, which continues to grow, not only with air fares but taxes.

“The Long Game” - Emerging markets

The BRIC countries (Brazil, Russia, India and China) have been driving much of the world’s economic growth in recent years. With a combined population of around 2.9 billion by 2010, they accounted for over 40% of the world’s population, but under 20% of global GDP. However, if their growth continues at similar rates, all will be amongst the world’s top economies within a few decades. They are also developing fast as consumer markets and have a high level of engagement with technology and brands. Each features a segment of highly affluent individuals who are often the first to try out new products and experiences, as well as a growing middle class.

As a country’s affluence grows, it is reflected in increasing outbound travel. These markets offer significant opportunities for countries to which access is convenient (enabled by transport links and visa arrangements) and to businesses whose marketing strategies, services and products suit their needs. Their travel behaviour will mature and develop over the coming decade providing opportunities to offer more diversified travel experiences, and independent travel will increase. Their growing corporate and industrial sectors will present more business tourism potential, while the hotel and tourism developments within these countries being made by international hotel companies will help to foster the travel habit.

Beautiful scenery, learning about a different country’s history and culture, and warmth of welcome are key factors in destination choice - factors on which Scotland can perform well. Touring holidays are commonly the most popular type of foreign holiday – these offer the opportunity to have a variety of experiences and see many things in one trip. The affluent nature of many travellers from these countries presents opportunities for high-end and tailor-made tourism services, although good deals are still sought and demand for mid-budget options is also present. Another source of opportunity is the addition of leisure activities to a business trip (“business extenders”).

Although detailed knowledge of Scotland is limited, it is viewed as offering experiences and traditions very different to home. Scottish icons, such as whisky and golf, are being adopted as status symbols within the affluent communities.

However, as mentioned before, the opportunities they offer for Scotland are tempered by several significant characteristics and issues (as individually they are very different countries, these vary in their impact on potential). They are long-haul markets and therefore transport access is costly and time-consuming, usually involving at least one change of flight. Obtaining a visa to visit the UK can be a lengthy, expensive and off-putting process. The travel trade in these countries is dominant and often still evolving. It is therefore often complex for individual businesses to work with them and an understanding of local business practices is vital. Unlike our traditional markets, the travellers are often novice, with particular needs and service demands, such as food preferences and language support. Of course, given the

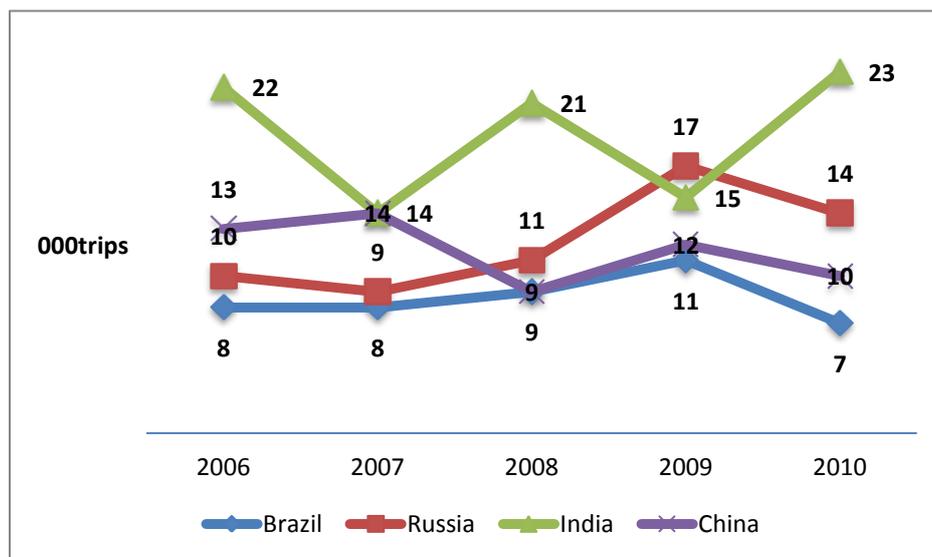


These are fast developing consumer markets with a high level of engagement with technology and brands

potential value of the markets, competition is fierce and the key iconic European destinations, such as France and Italy, have a strong pull.

It also has to be recognised that although the statistics for tourism and growth are significant, much of the travel from these markets stays within their own regions - for example, the majority of Chinese travel is taken within the Asia region.

These factors together mean that the current level of visits to Scotland is relatively low, compared with our traditional markets - as shown in the graph below. This is also the case for a number of other emerging markets across the world which, in the short term, offer lower potential.



BRAZIL

Brazil's strong economic growth has brought increasing personal affluence and ability to travel. Over the last 5 years, outbound travel has been growing steadily and Brazil is now ranked 18th in the world in terms of spend on international travel.

Given its own status as a top sun destination, it is not surprising that the most popular type of foreign holiday is touring. Travellers are interested in beautiful scenery and culture. Receiving a warm welcome is also important. The most frequently visited destinations include neighbours in the Americas - USA, Argentina, Uruguay and Chile, as well as Europe - France, Spain, Portugal, Italy and Germany. The UK is just within the top 10 destinations.

RUSSIA

Alongside its overall economic development, Russia's spend on international travel has grown significantly over the last 5 years. It is now ranked 9th in the world on this measure.

Scenic beauty, history, culture and welcome are key factors in holiday choice. By far the most popular type of foreign holiday is beach holidays, followed by touring holidays. The most frequently visited destinations are their near neighbours, including Ukraine, China and and sun destinations including Turkey,

Egypt and Thailand. The most frequently visited Western Europe countries are Italy, Germany and Spain. The most mature of these emerging travel markets, they are known as demanding travellers.

INDIA

India is still a relatively small market in world terms - it is currently ranked 23rd by spend on international travel. However, driven by increasing prosperity, India is a growing travel market and one particularly valuable for Scotland.

India has historic and family links with Scotland and language is not a barrier. The most popular type of foreign holiday is touring. Multi-generational travel - that is, several generations of a family travelling together - is common and has an impact on their travel choices and needs.

A wide mix of countries receive the most visits from the Indian market - Singapore, France, Thailand, Kuwait, Malaysia, Bahrain, USA, Dubai, China and the UK.



Multi-generational travel is popular with Indian families, affecting travel choices and needs

CHINA

China is forecast to be the world's top outbound travel market by 2020. It is now ranked 3rd in the world in terms of international tourism spend, albeit some way behind the USA. The value of Chinese visitors is not only in tourism spending, but their shopping spend. Touring holidays are by far the most popular type of holiday taken and as often first time travellers, they are keen to see as many of the famous sights as possible. As a result, a characteristic of some long-haul travel from China is to visit more than one country in one trip, resulting in short stays in each. (VisitBritain estimates that 40% of holiday visits to the UK are multi-country trips.)

The vast majority of Chinese outbound travel stays within Asia - the top destinations including Hong Kong, Macao, Korea and Singapore. If travelling further afield, the iconic European destinations are popular including France. USA is also welcoming increasing numbers of Chinese tourists. This valuable market is being targeted by many destinations - most major destinations now have ADS - and there are moves by several countries to improve the accessibility of visas to Chinese visitors. The Schengen visa is a major advantage for multi-destination European trips.

Sources Used For This Research

UNWTO - www.unwto.org - comparable statistics for international arrivals and expenditure, rankings of top destinations

Oxford Economics - www.tourismeconomics.com - forecasts and destination information

National statistics - the UK and GB Tourism Survey and International Passenger Survey – links from www.visitscotland.org Research and Statistics section and also available from National Statistics

VisitScotland research – including visitor surveys, brand research and market profiles
www.visitscotland.org Research and Statistics section

VisitBritain market profiles – www.visitbritain.org

World Travel Monitor by IPK International (a commercial publisher) - holiday type information

Other published reports and information from many sources including the European Travel Commission, PriceWaterhouseCooper, Emarketer, and tourism trade press etc