

SESSION 2: Product development, Diversification and Innovation: A Strategic Approach for Developing Sustainable, Quality and Innovative Tourism Products:

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QUESTIONS:

- First Question: What is the positioning of Cyprus tourism sector in the national economy?
- What are the strategic objectives for developing Cyprus to a sustainable tourism destination?
- Can you brief us on the practices applied by the Cyprus Tourism Organisation towards quality assurance?
- Does Cyprus have any strategy to diversify its product and improve its competitive advantage? (apart from sun ,sea and sand)
- How does Cyprus cope with seasonality issues?

1. What is the positioning of Cyprus tourism sector in the national economy?

Tourism has been one of the most important sectors of the Cypriot economy since the 1980s with a high direct and indirect contribution to GDP and employment compared to other EU member states. As such, the sector has been one of the major pillars supporting the effort of the economy towards recovery following the 2013 crisis.

The significant growth of the sector fuelled by a rapid increase in tourist arrivals and revenue during the 1980s and 1990s before reaching peak figures in 2001, has been followed by a period of relative stability. Excluding the two exceptional performances in 2000 and 2001, during which arrivals approached 2.7 million in each year, the number of tourists visiting Cyprus since 1999 has generally fluctuated around the 2.4 million mark.

In brief, tourist arrivals in 2014 recorded a small 1.5% increase compared to 2013 reaching the 2.42 million mark in tourist arrivals. There were reductions in tourists' arrivals from the UK, Germany, the Nordics and Greece which however were covered by increased numbers from Russia, Israel and central European countries.

At the same time, the contribution of the tourism sector to real growth has deteriorated. The main sub-sector of tourism, ie accommodation and food services has dropped from 10% of real GDP in 2000 to 7% of real GDP in 2013.

In terms of employment, in 2013, 7.8% (or 27.000 people) of the total active workforce in the Cyprus economy worked in the hotel, travel agencies, airlines and other passenger transportation services, while in 2014 the total number of employment in the same sectors rose to 28.000 people indicating a 3.7% increase in employment in those sectors which accounts for 8.9% of the total employment.

Based on tourist expenditure data, total tourism receipts in 2013 rose to €2.1 bn, accounting for 13% of total GDP. At the same time, WTTC (The World Travel & Tourism Council) estimates the total contribution of Travel & Tourism to GDP (including direct, indirect and induced effects) to 20.6% of GDP, thus highlighting the importance of the sector to the Cyprus economy.

On the other hand, in 2014 tourism revenue fell by approximately 3%, dropping to €2.035 bn. This is attributed to the fact that, even though tourists who visited the island stayed for longer, with *the average length of stay increasing from 10.25 days in 2013 to 10.69 days in 2014*, they spent less during their stay resulting to an average per day expenditure drop from €84.5 in 2013 to €77.5 in 2014 (*i.e. drop of 8.3%*). It should be stressed that the first nine months results of 2014 were better both in terms of arrivals and revenue, but the developments in the last three months of the year from key source markets, especially from Russia, resulted in a total annual reduction of the tourism revenue.

The tourism market is very concentrated and dependent on the UK and Russian markets with around 60% the tourist arrivals from these markets. While the share of tourists from UK has declined, the Russian market has gained in importance over the last few years, and currently accounts for around 25% of total tourist arrivals. In fact, Russia is one of the few markets that have supported the number of arrivals in recent years, while the British market, has weighted down on the number of arrivals. Other countries with significantly high number of arrivals to Cyprus, such as Germany, Greece and Sweden, have much lower shares of those tourists, around 5% for each market. Tourist arrivals from the Middle East, mainly from Israel and Lebanon, are relatively low, although they have been increasing in recent years.

The observed concentration makes the industry particularly vulnerable to developments in these markets. The recent developments as regards the Russian rouble and the Ukraine events which pose a significant challenge for tourism arrivals and revenue for 2015, are indicative of the problems related to overdependence on a small number of markets. At the same time, the increased share of the Russian market has contributed positively in terms of tourism revenue given the higher amount of money Russian

tourists spend during their stay in Cyprus compared to tourists from other countries. Hence, having realised the risks posed by tourism sector's over-dependence on two markets, targeted activity has been initiated towards the diversification of Cyprus tourism market mix. Special efforts have been put into increasing the market share from our traditional markets, such as Nordic countries, Germany, France and other central European countries.

2. What are the strategic objectives for developing Cyprus to a sustainable tourism destination?

The Cyprus Tourism Organisation aims to strategically develop Cyprus as a sustainable destination.

Our efforts towards this goal are clearly reflected both in the Cyprus tourism strategy objectives and our everyday activities.

After undertaking a comprehensive situational analysis of our tourism sector, we have set the following strategic priorities:

- Lengthening of the tourist season
- Improvement of occupancy rates of hotels
- Development of a multi-dimensional, qualitative experience
- Offer of alternative forms of tourism
- Improvement of the service quality in the tourist industry, and
- Development of tourism infrastructure projects

The objectives I have just mentioned are achieved within a framework of a sustainable development which respects the natural and human environment, while maximizing the benefits to the national economy and society and protecting the environment.

Regarding the local communities, economic growth and increased commercial and social activity are expected to have a positive impact on the quality of life of our indigenous population, as well as on all aspects of their social and cultural activities.

3. Can you brief us on the practices applied by the Cyprus Tourism Organisation towards quality assurance?

Our efforts to address and maintain the quality aspect in tourism are supported through our legal framework and several quality related schemes.

Our organisation's legal framework – which has been recently redrafted – regulates the licencing and supervision of our 800 Accommodation Units, 3000 Catering and Entertainment establishments, around 500 Travel Agencies and Tourist Guides, through regular on-site inspections.

I must mention that we have a quite demanding regulatory system, with several specification, operational and legal standards and clauses. I believe that this has helped in keeping quality at considerably high levels.

As I have already mentioned, we have redrafted our legislation. It is important that we did this in cooperation with tourism stakeholders from both our public and private sectors.

Aiming for increased quality levels, this renewed legislation aims to satisfy emerging market trends, simplify the whole framework, improve and accelerate procedures and introduce new and enhanced quality criteria for classification.

We have also supported the private sector through an EU funded programme for sustainable upgrading of our tourism infrastructure, as well as other upgrading schemes, i.e. for improving the appearance of our catering establishments.

In addition to that, we facilitate public authorities in improving the safety on public beaches and we support public area embellishment and cleaning.

Moreover, we implement voluntary quality schemes, such as the Cyprus Tourism Quality Label Award (awarded to accommodation establishments applying proven Quality services) and an incentive scheme for the improvement of infrastructure for people with special access needs.

We have also supported the creation of model beaches with programmes like “Greening Cyprus Beaches” and ‘Blue Flag’ beaches.

Furthermore, we regularly undertake educational seminars for various categories of tourism professionals.

4. Does Cyprus have any strategy to diversify its product and improve its competitive advantage? (apart from sun, sea and sand)

Cyprus is definitely not just a Sun a Sea destination anymore.

To this end, a broad range/spectrum of special interest products has been developed:

- to supplement our Sun and Sea product
- to enrich the Sun and Sea experience
- to enhance the tourist experience of our visitors and offer a holistic experience

We accordingly aim to attract special interest market segments, in order to improve the market mix and our image as a destination.

These special interest products definitely have a positive contribution on all three pillars of sustainability:

I. Economic development/activity is dispersed in all/most areas of the country (not only in the seaside resorts) and economic activities (not only in the hotel, catering and travel businesses)

II. Environmental conservation: Certain special interest products capitalize on Cyprus natural resources (Vs construction) and heritage, as well as on the good weather conditions: eg. sports tourism, cycling tourism, nature/walking/nature trails, cultural tourism (archeological, historical, religious monuments), traditional accommodation units (developed in existing buildings of traditional architectural style)

III. Protection, conservation and promotion of cultural heritage: through the organization of events, learning and producing local arts and crafts, rich built cultural heritage

Recognizing the role of Special Interest Tourism to increase our competitiveness and to establish Cyprus as an all year round destination, we set our priorities for the following niche market segments:

1. Conference & Incentive Tourism
2. Health & Wellness Tourism
3. Rural & Nature Tourism
4. Cultural and Religious Tourism
5. Sports Tourism
6. Cycling Tourism
7. Golf Tourism
8. Diving Tourism
9. Weddings & Honeymoons
10. Gastronomy and Wine Tourism
11. Learning Tourism

These segments add value, strengthen Cyprus' competitiveness and, in many cases, involve clientele with high purchasing power.

Cooperative and participative effort:

Considerable effort has been devoted in the establishment of specialized associations in order to be more effective in our efforts for development, in building synergies and promoting every special interest product.

The Cyprus Agrotourism company, the Cyprus Health Service Promotion Board, the Cyprus Spa Association, the Cyprus Incentives and Meetings Association and the Association of Special Interest and Cultural Tourism are our main partners in these efforts.

Furthermore, the establishment of the six regional tourism companies was another initiative of CTO that built synergies in the tourism sector in the form of public-private partnership, aiming at strengthening local collaboration and development.

Finally, the collaboration with certain organizations such as the Travel Foundation in U.K., the Cyprus Sustainable Tourism Initiative and others, also enables us to achieve our diversification targets.

5. How does Cyprus cope with seasonality issues?

Like the majority of destinations, we face a seasonality problem as well.

This is further amplified from the limitations in connectivity – especially taking into consideration that we are an island destination at a distance from our source markets –, the limitations in winter leisure programmes and activities in comparison to the summer period and the tendency of our hotels to close in winter months for business related reasons.

Nonetheless, we – as a destination - have several comparable advantages, like the favourable year round conditions, the higher sunshine, the limited rainfall and our high sea water temperature in off-season months and a rich 10.000 year old history and culture.

Trying to alleviate the seasonality problem, we have enforced strong partnerships with our island's private sector as well as our Airports Operator.

In this respect we have introduced new flights from traditional markets during the off-season period and we are glad that our efforts have started to bear fruit.

We continuously develop and upgrade special interest tourist products that can help attract visitors year-round. We have accordingly created special thematic routes (cultural, religious and pilgrimage, wine, bicycling, walking etc).

In addition, we urge our visitors to immerse themselves in authentic culture experiences and village life, especially through our thriving agrotourism movement with a wide range of high-quality, traditional retreats.

We also promote our gastronomy and our wine tradition, which is an important part of any visit to Cyprus.

Of course, like most destinations, we undertake promotional and other advertising campaigns, which have increasingly become online and social media oriented.

Moreover, we give special support to special winter season activities and to events and festivals during that period.

Our tourist regions also offer particular programmes with a wide range of things to see and do in off-season periods.

It is also obvious that our tourism industry offers much more tempting prices, in a collective effort to attract more visitors.

I should also mention that our Government is currently changing a 'demotivating' unemployment benefits scheme for our accommodation industry, transforming it to one that will 'compensate' establishments that remain open during the winter season.

6. What is the relationship between upgrading quality and capturing niche markets? What is your case?

Fundamental knowledge and international market intelligence show that there is a direct relation between upgrading quality and capturing niche markets. In other words, special interest product providers who wish successfully to attract niche markets, they have to set high quality operational specifications, to develop high value product, and to carry effective marketing activities which highlight the first two elements. Additionally, information which concerns the profile and the desires of every niche market is expected to generate more fruitful conclusions about quality aspects regarding the product.

On the same time, intense regional and global competition in the niche market business intensifies the need for high standards and quality assurance. In practice, most niche markets require specialized infrastructure of high standard, service quality, professionalism and well qualified personnel, elements which CTO means to provide and sustain.

Additionally, because CTO knows that high quality products and service improve the image of the destination, stimulate demand and attract bigger numbers in terms of special interest tourists, better quality tourism in terms of expenditure per visitor and bigger tourism revenue, its activities are, therefore towards that direction.

Some practical examples of how Cyprus managed to capture specific niche markets through quality products and service are as follows:

- In Sports tourism, Cyprus developed good quality infrastructure, part of which includes training facilities of international standards (e.g. football fields, swimming pools, track-fields, four international standard golf courses, Shooting facilities, Beach volley fields) that can be used for the organization of international standard events or tournaments and for training of international sports teams.

- In Conference tourism, the industry consists of a wide range and high quality infrastructure (eg the Nicosia international conference center, Hotel conference facilities, auxiliary conference infrastructure) which is composed by the whole range of products and services required by the conference segment (eg. break our rooms, interpretation facilities, etc). The conference tourism in Cyprus is also characterized by a specialized organization model composed by the Convention Bureau, Destination Management Companies, and Professional Congress Organizers.
- In Medical tourism, Cyprus offers very good, new, modern infrastructure in private hospitals and clinics, supported by highly specialized and renowned doctors supported by well-trained paramedical staff.
- Wellness tourism is also composed by highly specialized, thematic infrastructure offering a wide range of treats and a holistic experience, which usually forms a part of the hotel facilities. The thematic product is characterized by the well trained, specialized personnel.

At the moment, both medical and wellness institutions lack in accreditation; hence there is a clear need by the PP partners involved to address this matter immediately.

- Finally, Rural Tourism is composed by a wide range of products, services and experiences offered in a holistic manner, in which the rich natural and cultural heritage is part of this, by attractive agrotourism accommodation units built in traditional architecture design, traditional restaurants (taverns) where tourists can enjoy local gastronomic dishes. However, what really makes the difference in the rural tourism is the local people's authentic attitude towards tourists and the warm Cyprus hospitality which characterizes many Cypriots in the rural areas of Cyprus. Both characteristics is considered that they enhance the level of quality at of the destination.
- Lastly, capturing niche markets can also be achieved through large scale products of high quality. Examples of large scale projects which are in the pipeline for licensing are the Marinas (2-new, extension-upgrading of 1), one resort Casino, one mixed used resort in Pafos, 3 Golf courses and one international standard conference center