

# Tourism Inquiry – Growing Pains

## December 2007

### Introduction

The Federation of Small Businesses (FSB) is Scotland's largest direct-member business organisation, representing over 19,000 members, of whom around 2,000 work in the tourism sector. The FSB campaigns for an economic and social environment which allows small businesses to prosper.

We welcome the opportunity to submit evidence, on behalf of the tourism businesses in our membership, to the Economy, Energy & Tourism Committee's Tourism Inquiry – Growing Pains. This is an opportune moment to reflect on the ambition to grow tourism in Scotland by 50% and to consider some of the opportunities and challenges which may be faced in working towards this goal. Our responses and views on the issues raised are set out below and include comments on the growth ambition; marketing; the importance of small businesses to the tourism economy; skills and quality; transport; planning; and public sector engagement with small tourism businesses.

### Inquiry Response

- How realistic is the proposed ambition for a 50% increase in revenue in the tourism sector by 2015? How was this ambition set and on what basis can it be reached?

The 50% growth ambition, which can be translated into a 4% per annum increase in the value of tourism, undoubtedly sets a tough challenge when set against a European growth rate of around 2% and constantly increasing competition from traditional and emerging destinations. In the face of last year's decline in the value of tourism, it does not look achievable, but to aim any lower would concede that Scotland is set to continue to lose its current share of the market. Instead, the ambition should be used to galvanise meaningful action in the private and public sectors with the aim of attracting more visitors, exceeding their expectations and offering them opportunities to enjoy what Scotland has to offer and contribute to the tourism economy while doing so. As a starting point, the recent standstill budget allocation to VisitScotland should be reviewed to show that the Government is willing to take a lead in working towards the ambition through its own investment in promoting Scotland. An increased marketing effort

requires increased funding and is essential if we are to compete against the higher marketing budgets of other countries, such as Ireland.

**Recommendation:** Review the standstill position taken on the VisitScotland budget for the next three years.

We are aware that the ambition was determined by an industry-led group and has been widely supported across the tourism industry. There has been less idea until recently of how the ambition can be reached and Visit Scotland's Tourism Prospectus is a useful starting point in setting out some of the ways in which the industry can work to achieve growth. However, the ideas set out in the prospectus should not just be published with the expectation that tourism businesses will read and act upon these just because they are there. Instead, a change management approach should be used, with ongoing support from the public sector to help businesses adapt to more new ways of working and understand their potential for working more closely together to reach national and personal growth ambitions.

It is perhaps easier for the private sector to work towards annual growth goals and many already have plans in place for increasing their business year on year. Smaller businesses are, however, dependent to an extent on the public sector's activities in marketing Scotland as a destination and in creating an environment which is conducive to tourism growth, with a particular focus on good quality access, maintaining and enhancing the built and natural environment and providing the advice and support which will help businesses grow and prosper. It would, therefore, be of benefit to have clear plans and proposals from all public sector organisations, including each local authority, of the activities they are undertaking with the aim of actually growing tourism rather than maintaining it at existing levels.

**Recommendation:** Establish full extent of public sector investment in growing tourism.

The target will not be reached if the UK market continues to decline to the extent which has been experienced since 2004. The recent increase in overseas visitors is to be welcomed, but these markets still make up less than 20% of visitors to Scotland. The previous focus on increasing overseas visitors could be more strongly justified as these visitors spent considerably more per night than UK visitors. However, recent statistics indicate that English visitors now spend more per night than overseas visitors. VisitScotland marketing must take a fresh look at and apportion appropriate budgets to marketing to the key English markets.

**Recommendation:** Strengthen the focus on key UK markets.

The importance of small and medium sized businesses (up to 50 employees) to the current tourism economy and the potential for growth, is less well known and perhaps hugely underestimated. Recent research carried out on our behalf has highlighted that businesses within this category contribute 95% of Tourism Gross Value Added in Scotland. It is therefore essential that VisitScotland and the enterprise networks focus more strongly on fully engaging with small businesses, rather than treating them as a mass market, and develop much better communication processes to ensure that the small business voice is taken into account.

**Recommendation:** Improve meaningful engagement with small tourism businesses in view of their cumulative value to the tourism economy

- How can the amount of revenue taken per tourist be increased by the necessary levels without prejudicing value for money and the experiences of the visitor?

A simple approach to this would be to increase prices, particularly in the accommodation and restaurant sector. However, we are already a relatively expensive country and this could lead to losing competitiveness against other European and long-haul destinations for overseas visitors, as well as against the wide range of easily accessible destinations, particularly in lower cost Eastern Europe, for short break visitors from the UK. Even if the quality of facilities increase in line with prices, we would compare poorly in value for money terms, unless prices rise steeply elsewhere.

There is also an argument for focusing on higher spend customers, either business tourists or leisure visitors looking for a luxury experience. However, VisitScotland's scenario planning in *Tomorrow's Tourism* suggests that this is not a route towards growth, but would simply encourage visitors who would stay in gated resorts which are often internationally owned, with only a small portion of the wealth generated benefiting the Scottish economy. This approach would fail to benefit the many small tourism businesses who lack the resources and the willingness to risk investing in providing a luxury product for a narrow market, but who cater well to the current more generalist market.

Instead, we would support the emphasis placed on cross-selling in the Tourism Prospectus which encourages visitors to explore more widely, spending more, staying longer and potentially, becoming more likely to return. Cross-selling is already happening in many areas, with or without the incentive of the VisitScotland Marketing Challenge Fund which is still seen by many small businesses as cumbersome and hard to access. However, it can be a challenge for small businesses to overcome the perception of local businesses being competitors. Working together on a more formal basis than simply signposting can also be more difficult, as without the presence of a willing larger player who can offer administrative and professional marketing resources, small businesses can struggle to develop and implement good ideas. We would recommend that more administrative and advisory support should be offered to groups of small businesses to encourage productive collaboration, as well as support in making funding applications. The success of initiatives such as Destination Arran has been aided by the availability of dedicated administrative support and this should be made available to other areas. Increasing the availability of smaller, easily accessible financial support schemes would also be of assistance.

**Recommendation:** Ensure practical support is available to encourage and assist businesses to collaborate.

Small businesses also have an essential role to play in increasing the range of facilities available to visitors and, therefore, increasing visitor spend. Much of the innovation in the tourism sector is driven by small businesses and more support is needed to further encourage start-ups and innovation in existing businesses. Yet, small tourism businesses

are often not taken seriously by the support agencies as they may fail to meet the type of high growth criteria which apply to other key sectors. This should be addressed and it should be determined at the highest level whether support and advice should be through VisitScotland or through the Business Gateway, working more closely with VisitScotland to develop expertise. Whatever route is selected, it should be adequately resourced and enabled to capitalise on existing expertise to ensure that tourism no longer slips between two stools.

**Recommendation:** Clarify and improve the provision of specialist tourism business advice and support.

- How widely known and accepted is the 50% growth ambition amongst all sections of the tourism industry - public and private sector - and how engaged are all with their role in meeting the ambition?

The 50% growth ambition is now fairly well known among small tourism businesses, although fewer may be aware of the breakdown to 4% per annum. Most of these businesses are aware of the need to adapt to meet changing trends in the marketplace and in new technology if they are to grow their own businesses and contribute to the national growth ambition. As a consequence, small tourism businesses are taking action to change the way they do business, including developing web sites, undertaking internet marketing, promoting short breaks throughout the year and providing tailored information and additional services to their customers. However, care should be taken in calling for increased marketing expenditure from small businesses who will inevitably have smaller returns than large businesses as the cost of marketing activities, such as website development or advertising is fairly constant, while their capacity and opportunity for increased turnover is considerably lower.

Many good quality small businesses have developed an expertise in retaining customers and maximising their yield from them. However, the marketing power of individual or even groups of small businesses is not enough to compete in a global marketplace. They, therefore, need the support of the public sector to maintain and develop the infrastructure required to make them more accessible, to maintain and enhance the built and natural environment and provide the kind of public facilities visitors require. It is also essential that VisitScotland listens more to the experience of small tourism businesses regarding the needs and expectations of their visitors. More small businesses may engage with VisitScotland and align their activities with the national agency's if they believed that VisitScotland was taking the needs of their marketplace into account.

**Recommendation:** Improve two-way communication between small tourism businesses and VisitScotland.

- What are the specific challenges in Scotland's tourism industry in relation to skills, training, quality standards, service levels and leadership and how can these be overcome?

Many of the challenges relating to skills and quality have changed little over the past 20 years. Customer expectations continue to rise and many small businesses are doing all they can to improve their facilities and service levels. However, there must be greater public sector recognition of the challenge faced by a small business in establishing priorities for investment out of limited resources in comparison with a

larger business which has sufficient turnover to invest in continuous quality development and training in the expectation of larger economic returns.

Training is still a relatively high cost, particularly in an industry with a high turnover where it is not known how long the investment will benefit the business paying for the training. While small businesses may recognise the benefits of training, there can be a major cost implication in covering a staff member attending an external training course, as well as course costs. Although there have been improvements in recent years, training still tends to be concentrated in more urban areas, making it more difficult for the typically smaller businesses in rural areas to attend. New web-based training opportunities, such as the tourism training programme developed by Robert Gordon's University, are valuable and have received our full support. These should be widely promoted to tourism businesses. This type of web-based training overcomes some of the challenges, but lacks the important networking and interactive aspect of communal training. Many training courses also tend to be scaled down versions of courses developed by or for larger businesses and may not meet the needs of small businesses. More bespoke training for smaller businesses needs to be developed and rolled out to the industry across Scotland at prices which will encourage uptake, rather than acting as a barrier.

**Recommendation:** Promote available web-based training and develop and deliver training tailor made for small businesses at reasonable cost.

Tourism businesses also share the problems of other small businesses in the service sector of finding staff with the right attitude and basic skills. Springboard Scotland is doing an excellent job in some areas and should continue to be supported, but more could be done directly by the restructured Careers Scotland to promote employment in the tourism industry at all levels and encourage the development of appropriate skills and a more positive attitude towards working in the service industry.

**Recommendation:** Review promotion of careers in the service industry.

Smaller businesses also invest a disproportionately high amount of turnover, relative to larger businesses, in upgrading the quality or extending their facilities. Yet, the economic impact of their cumulative investment is continually overlooked, while attention is focused on large-scale investments, often by international players, which are more likely to draw public sector support. We would recommend that a method should be found to log and measure the investment made by small businesses across Scotland in improving quality. If this demonstrates their economic impact, the same level of support should be offered to smaller businesses as is available to larger investors to promote a more level playing field.

**Recommendation:** Develop a monitor to measure the cumulative investment made by tourism businesses at all levels in upgrading quality.

- What are the other challenges in meeting the growth ambition and what can be done by both the public and private sectors to overcome these?

For the public sector, transport remains one of the key challenges. While there has been a huge increase in the availability of flights from

some areas, there has been little improvement in transport links from some of the more traditional markets, such as the north of England. Expectations have changed and are not being met. High speed rail links into Edinburgh and Glasgow are urgently required and major investment in rail links north of the central belt is vital, if Scotland is to properly benefit from the growth in short break tourism.

The A1, the main road link into the east of Scotland, is still single lane in many parts, which frequently causes delays which discourage visitors. Fast and easy access to the north and north-west of Scotland, which would open up these areas to short breaks from the more densely populated central belt, is severely restricted by inadequate road and rail access. Because of the lack of dual carriageway, a journey to Inverness can take more than the 3 hours maximum drive time which is a major feature of short breaks. Why spend a weekend in the Highlands, when you can fly to Rome or Prague in considerably less time? Similarly, the bottleneck on the A82 beyond Tarbet on Loch Lomond-side acts as a major deterrent to travel north. The poor condition of the A96 also discourages travel beyond Aberdeen. All of these routes require urgent investment if the tourism potential of the areas they serve is to be maximised, particularly outwith the main season.

**Recommendation:** Take the potential growth in tourism into account when assessing the economic benefit of investment in road and rail services and speed up proposed improvements to key tourist routes.

Planning is a second key issue which must be addressed by the public sector. Even small planning applications face delays and uncertainties which is causing a major barrier for small businesses aiming to grow. For a tourism businesses, a delay at the planning stage can mean that a new development is not ready for the start of the main season which most tourism businesses depend on to ensure their viability. More must be done to speed up the planning process and remove this barrier to business growth.

The need for consistency of quality is a challenge for both the public and the private sector. This is perhaps the only area where the FSB would call for added regulation. The introduction of some kind of compulsory registration scheme which would at least make sure that all premises complied with Environmental Health and Fire regulations, along with basic standards, would be a good starting point.

**Recommendation:** Give further consideration to a compulsory registration scheme for all accommodation providers.

One of the key challenges for the private sector is to fully embrace on-line technology. There has been significant progress towards this with many small businesses developing websites and dealing with e-mail promotions as a matter of routine, but further work needs to be done to help small businesses recognise and take advantage of the full benefits of technology, without losing the personal touch which characterises much of Scottish tourism.

- What are the implications of the Scottish Government's plans for VisitScotland, how will its role change, particularly in relation to its relationship with the enterprise network and Scottish Development International, and its increased responsibilities for attracting international visitors?

The further restructuring of the VisitScotland network raises some obvious concerns, but we are not against rationalisation of administrative functions, in principle, particularly if there are cost savings and efficiencies to be gained.

Clearly, working more closely with the enterprise networks is desirable, if it allows a clearer focus and more joined-up approach to the development and marketing of the tourism product. However, there will continue to be conflicts if the role and responsibilities of each agency are not clearly demarcated and agreed on both sides, with a clear national lead and co-ordination of work which can then be carried out at a local level. The new arrangements will also fail if sufficient priority is not given to tourism by the enterprise networks. For too long, the industry has been the “poor relation” of other key sectors in terms of staff and financial resources and this needs to be addressed. There needs to be a strong focus on supporting product development linked to new market opportunities and this must include smaller projects as well as headline grabbing major developments.

An additional factor is the new role of local authorities in managing the Business Gateway service. There is a high risk that the specialist expertise and knowledge shared by VisitScotland and the enterprise networks will not be transferred to the business advisors charged with informing new and growing businesses, unless communications are strengthened and a system of formal briefings and knowledge sharing is put in place urgently.

**Recommendation:** Establish an ongoing programme of information and knowledge sharing for all business advisors.

Similarly, there must be a strong relationship established with the new skills agency to ensure that the training and skill needs of tourism businesses are better understood and integrated with the development of training programmes, particularly for smaller businesses.

We welcome the focus on attracting international visitors, as there are still opportunities for growth in many markets. It makes sense to capitalise on existing resources to promote tourism as well as other economic opportunities and we support the more extensive use of SDI resources to do this. However, it is essential that strong links are maintained with VisitBritain to ensure that limited Scottish funding is used to add value and extend our reach, rather than duplicating existing efforts. There is also an important advantage to be gained in “piggy-backing” on internationally renowned UK brands, such as London, to raise awareness of Scotland. Overall, there is a fundamental issue to be resolved in how the increased responsibility for costly international marketing is to be fulfilled on standstill budgets without significantly impacting on promotion to the crucial UK markets. This relates to the point made in the response to the first question about what the Government can do to work towards the 50% growth target.

The key areas of concern regarding the restructuring lie in engagement with small tourism businesses and fragmentation of local marketing efforts. On the first of these points, the FSB mentioned in its manifesto that there is already a feeling that the previous sense of “belonging” is being replaced by a perception that small businesses are now just “purchasing” from VisitScotland. Small businesses feel they are no longer a part of a movement working towards a common vision of

growing and improving tourism in Scotland. There is a real concern that further centralisation of VisitScotland offices, without a fundamental review of how VisitScotland is engaging with small businesses, will result in businesses being even more distanced from the key decision making processes.

To address this, the current network of Area Tourist Partnerships must be strengthened and supported, drawing from the best practice demonstrated where these are working well, such as in Perthshire. More effort should be expended in two-way communication with these Partnerships, with the centralised arms of VisitScotland and the enterprise networks paying more heed to the feedback from ATP members, who can offer a grass-root and often highly informed view of tourism markets and their needs and expectations. In the Tourism Prospectus, VisitScotland suggests that tourism businesses should align their efforts with national campaigns and priorities. This will only happen if all tourism businesses feel the national drive genuinely reflects their marketplace and they have made a contribution to setting the direction.

**Recommendation:** Maintain and develop the network of Area Tourism Partnerships with a focus on maintaining two-way communication between the public and private sector.

Our second area of concern relates to the co-ordination of local and national marketing and the risks of fragmentation. The original network of 32 Area Tourist Boards was set up in 1983 to give greater co-ordination and strategic focus to a very fragmented range of marketing efforts by local marketing groups and some local authorities. The network was reduced to 14 ATBs in 1996 to ensure that economies of scale would allow marketing campaigns with much greater impact in an increasingly competitive UK and global marketplace. The new ATBS also aimed to increase promotion of less well-known tourism destinations by cross-selling them alongside recognised landmarks. There is a real danger that this further restructuring will turn the clock back to the days of a fragmented and disparate marketing effort which will have little impact on key consumers. Local area marketing is necessary to support national campaigns, but it is crucial that it is carried out at a scale and with the expertise to ensure it is meaningful. If the 32 local authorities feel further distanced from VisitScotland, it is highly likely that they will continue the trend towards reducing their funding contribution to more strategic campaigns and focus on delivering their own local marketing. This may be reasonably effective for Edinburgh and Glasgow who can generate funding for larger-scale campaigns led by tourism marketing specialists, but will be detrimental to tourism businesses in many other areas who will be poorly served by marketing campaigns with little clout in a crowded marketplace.

**Recommendation:** Take steps to ensure that the marketing of Scotland and its local destinations follows a strategic lead and does not become overly fragmented.

- What can be learned from best practice in other parts of the UK and internationally in terms of meeting the challenges, particularly to encourage people to view the tourism industry as an exciting and viable career option?

We have limited knowledge of best practice in the UK or abroad, but would suggest that any models used elsewhere should not be adopted wholesale. Scotland has a distinctive and long standing tourism

industry and has opportunities and challenges not necessarily found in other destinations which may, for example, be more resort-based. Innovative and effective ideas from other areas would, however, be welcome as long as they are properly assessed for their relevance to tourism in Scotland.

For further information on any of the points raised in this submission, please contact Eileen Calveley, Policy Manager, on [Eileen.calveley@fsb.org.uk](mailto:Eileen.calveley@fsb.org.uk) or **0141 221 0775**.