A study on the competitiveness and prospects of tourism in Cyprus

July 2013

Opening the vault of tourism in Cyprus

A study carried out by the Hospitality and Leisure Group of PwC Cyprus and PwC's Chair at the University of Nicosia

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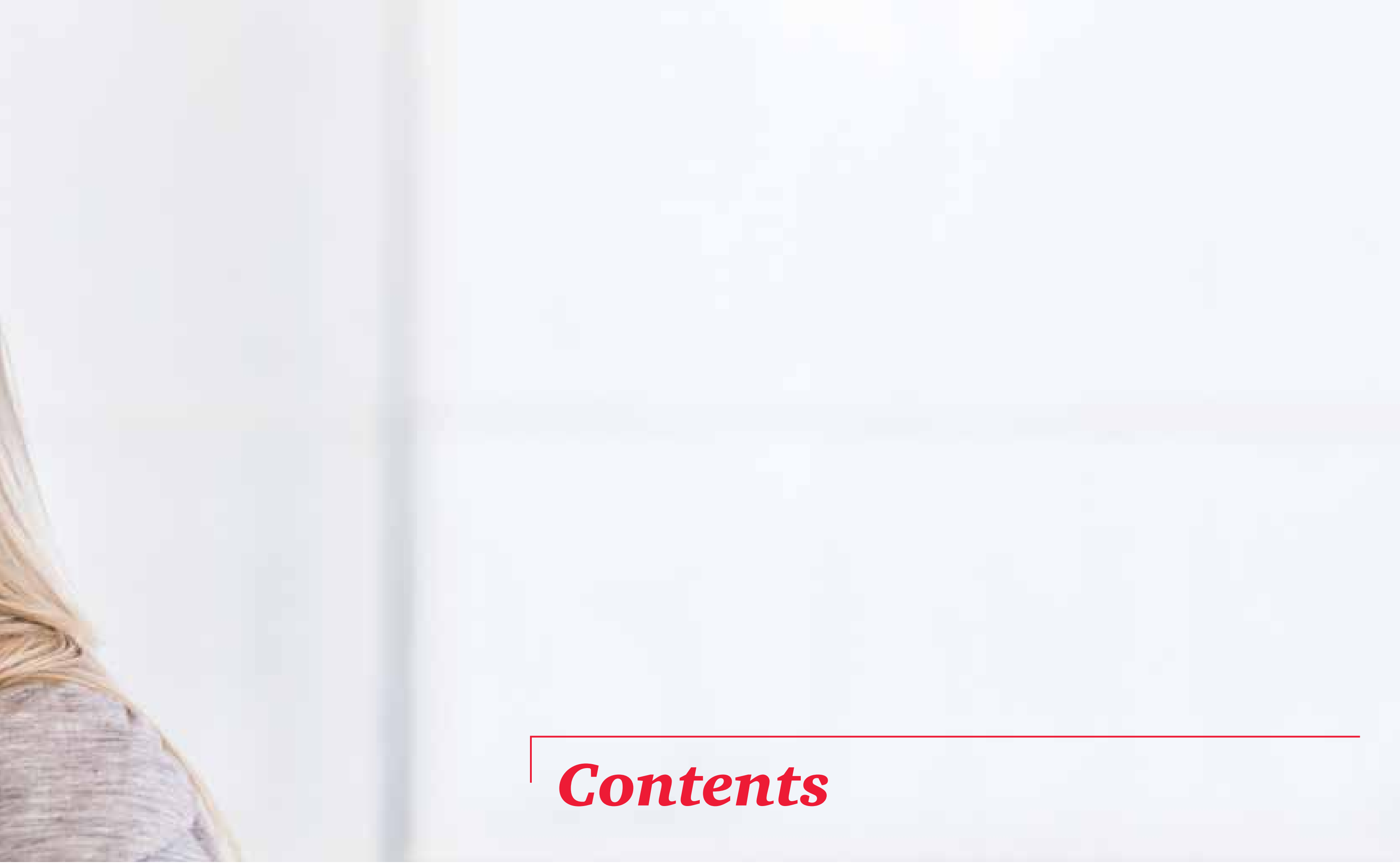

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Introduction

Evgenios C Evgeniou
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In the past 2 to 3 years, the tourism industry has experienced significant increase, mainly due to the growing number of tourists from Russia and other Eastern European countries. In 2012, the number of tourists in Cyprus rose by 3% compared to 2011, whilst tourism revenues increased by 10.2%. Despite this increase, the figures for 2012 are significantly lower compared to 2000 and 2001. The accumulated decrease in tourism revenues in the period 2001 – 2012 is estimated at more than one billion euro.

In 2013 and probably in 2014 as well, the tourism industry, like other sectors of the economy, is expected to be negatively affected by the recent developments on the island and the general recession of the European economy. Nevertheless, tourism may well prove to offer a significant "economic injection". To achieve this, it is necessary to promote Cyprus as a tourist destination, continuously enrich our tourism product, improve existing infrastructure and the quality of services rendered as well as utilise the internet. In this context, it is imperative that we understand the views, demands and preferences of tourists. This is precisely the purpose of the study presented in this publication.

Tourism is one of the leading industries in Cyprus and we must, first and foremost, safeguard its financial robustness and tap into its potential in such way so as to assist the economy in general.

Evgenios C Evgeniou
CEO
PwC Cyprus

Commentary

There is no doubt that global tourism is subject to the ever-changing market conditions. According to the World Tourism Organisation, global tourism and international tourist arrivals in 2012 rose by 4%, with the number of travellers exceeding one billion. Emerging economies are taking the lead (4.1%) compared to developed countries (3.6%), with Asia Pacific recording the strongest results. According to the long-term forecasts of the World Tourism Organisation, growth is expected to continue in 2013, although slightly down from 2012 (by 3% to 4%). In terms of geographical regions, prospects for this year are strongest in Asia Pacific (5% to 6%), followed by Africa (4% to 6%), America (3% to 4%), Europe (2% to 3%) and the Middle East (0% to 5%).

Globally tourism is a growing industry, in both absolute and relative terms. It has a multiplier effect on other sectors of the economy and contributes to the overall economic growth of countries, especially in countries where tourism is a principal activity.

As regards Cypriot tourism, following a workshop on the challenges and prospects of tourism held in Nicosia recently, Taleb Rifai, Secretary General of the United Nations World Tourism Organisation, stated that the Cypriot tourism industry is moving in the right direction. This is a positive message, but no one can disregard the impact of the economic crisis, the problems which have arisen (some of which are not new) and the greater competition from other attractive destinations.

The study presented in this publication, conducted by PwC in cooperation with its research Chair at the University of Nicosia, outlines the problems of Cypriot tourism, its comparative advantages and prospects as well as the serious challenges that lie ahead. Cypriot tourism must be safeguarded as our most valuable asset. We neither can afford nor have the right to be complacent, if we wish to move forward with concerted and decisive actions aimed to preserve the comparative advantages of Cypriot tourism and offer immediate solutions which will serve as a “beacon” for the future growth of this vital sector of both the Cypriot economy and society.

Dr. Petros Lois,
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A few words on the study

PwC Cyprus has conducted this study in cooperation with its research Chair at the University of Nicosia. Both quantitative and qualitative research methods were used in the study. The theme and the questionnaires were designed and developed by PwC Cyprus in cooperation with the University, which also set up the research team responsible for the data collection and analysis of the results. PwC covered all the funding needs of the study and in cooperation with the University's research team recorded and analysed the conclusions and comments contained in the findings report.

The study's primary objective is to capture in detail and record the views, perceptions and messages of the two main "stakeholders" which constitute the tourism industry: tourists themselves and local professionals. The basic advantage of this approach lies in the opportunity to identify a possible perception gap between the two categories of stakeholders in terms of what tourists "are looking for" and what professionals and, by extension, the industry, "has to offer".

In addition, the study aims to present a review on tourism. More than ten years passed since the decision of the Cyprus Tourism Organisation (CTO), in cooperation with the government and other partners, to adopt, introduce, diversify and enrich the Cypriot tourism product of "Sea and Sun" with "Sea and Sun Plus".

This change has been permeated in both the national and regional tourism strategies, whilst maintaining the central message and the most important attribute (pole of attraction) of the destination, which is none other than the sea and the sun. Moreover, the "special interest tourism" that was then emerging, were added (cultural tourism, sports tourism, agrotourism, religious tourism, etc.).

Further to achieving the above two objectives of the study, our objective was to introduce and establish, in relation to tourism activity, an innovative tool which serves as a source for data collection. This tool examines the attributes of our tourism product against the needs and demands of its "consumers", as well as their satisfaction levels in relation to their expectations and needs. The findings can be used to ensure more appropriate and timely decisions are taken by all stakeholders, the State and private sector.

The study covered the entire spectrum of tourism activity in Cyprus today, including issues which have always been a concern for the industry but were never raised for discussion. This is one of the largest studies on tourism conducted in Cyprus in recent years, both in terms of the sample size and its duration. But most importantly, this study has provided us with very important findings, information and messages, which often challange established perceptions in the industry and pave the way for new directions and practices.

In the light of this initiative, we are focusing on presenting an overview of the central messages and data from the sample of tourists that participated in the study.

Identity of the Study

Methodology: Quantitative study with the use of a structured questionnaire
Size of sample: 1,200 tourists interviewed at Larnaca Airport
Sampling method: Stratified sampling based on gender, age and country of origin
Duration of study: February 2012 – February 2013

Note: A qualitative study based on targeted interviews with selected stakeholders involved in tourism activity in Cyprus has also been conducted in the framework of the study. This document only presents the data of the results of the quantitative study.

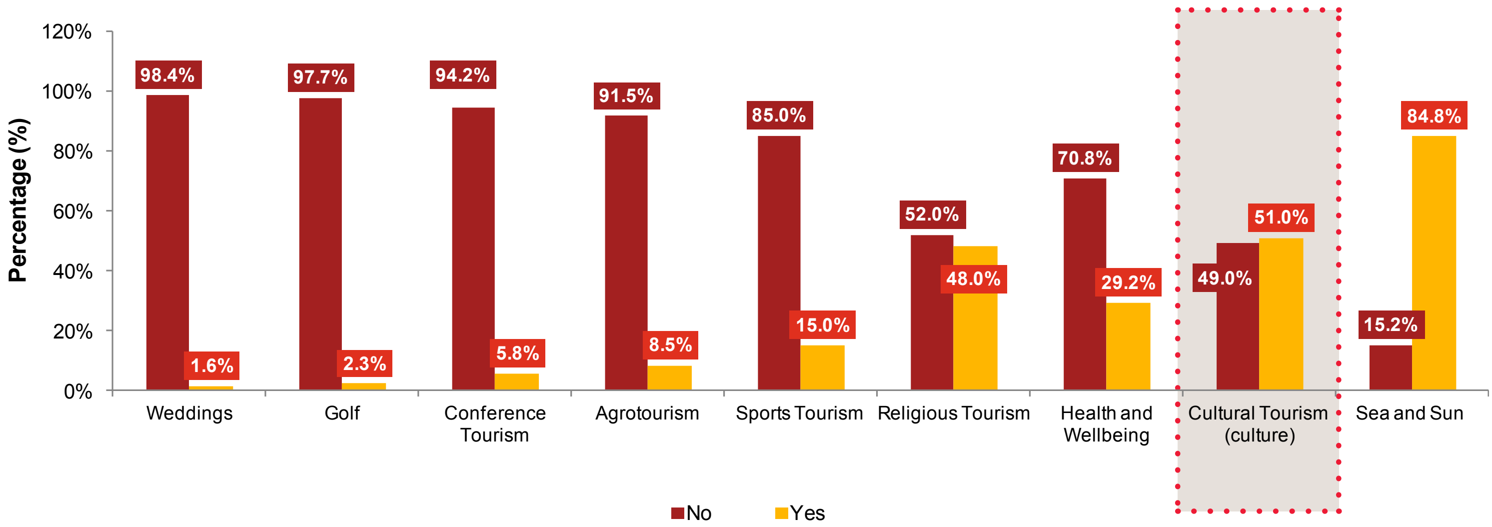
Assessment of the special interest of tourism categories

Cultural Tourism: Heritage for the present– An asset for the future

The island's culture and heritage appear to be our most important assets, since cultural tourism remains the paramount form of special tourism. However, only one in two respondents - out of 58.6% (Table 7) who stated that cultural tourism was an important or very important criterion for choosing Cyprus - has actually enjoyed a cultural tourism experience (Table 1).

Table 1

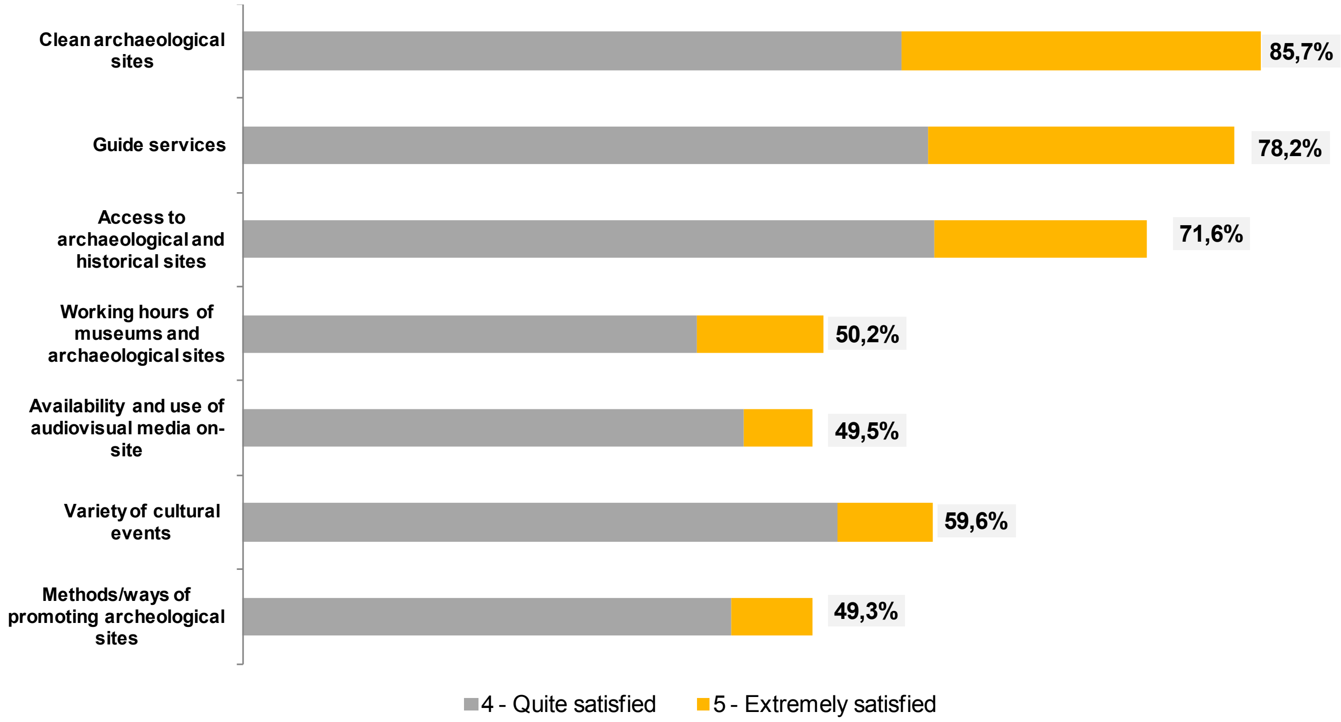
The Cyprus experience in relation to special forms of tourism – Cultural Tourism



Those who did experience cultural tourism have cited as main advantages the clean archaeological sites, guide services and access archaeological historical sites, whilst there is significant room for improvement in terms of working hours, availability of audiovisual media, variety of cultural events, ways information is provided and ways archaeological sites are promoted (Table 2).

Table 2

Degree of satisfaction (scale 4-5) per tourism category: Cultural Tourism (culture)



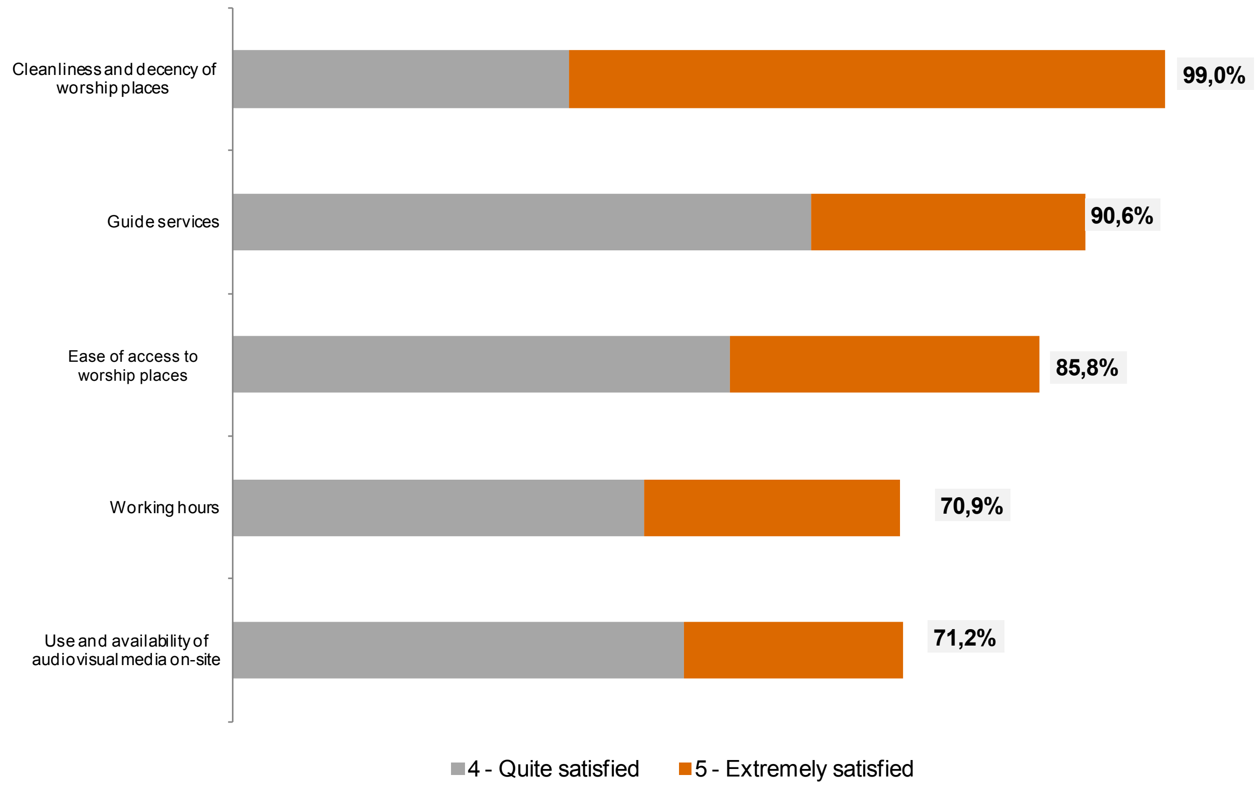
Religious Tourism: A rising star

As anticipated, bearing in mind Cyprus' common religious beliefs with other northeast European countries, the study has confirmed that the increased tourist flow from Russia and other Russian-speaking countries has led to a significant demand for the so-called religious tourism.

Strong points include cleanliness and decency of worship places, guide services and ease of access. However, one in two respondents stated that they would prefer churches to be open for tourists during longer hours (Table 3).

Table 3

Degree of satisfaction (scale 4-5) per tourism category: Religious Tourism



Health & Wellbeing Tourism: A welcomed surprise

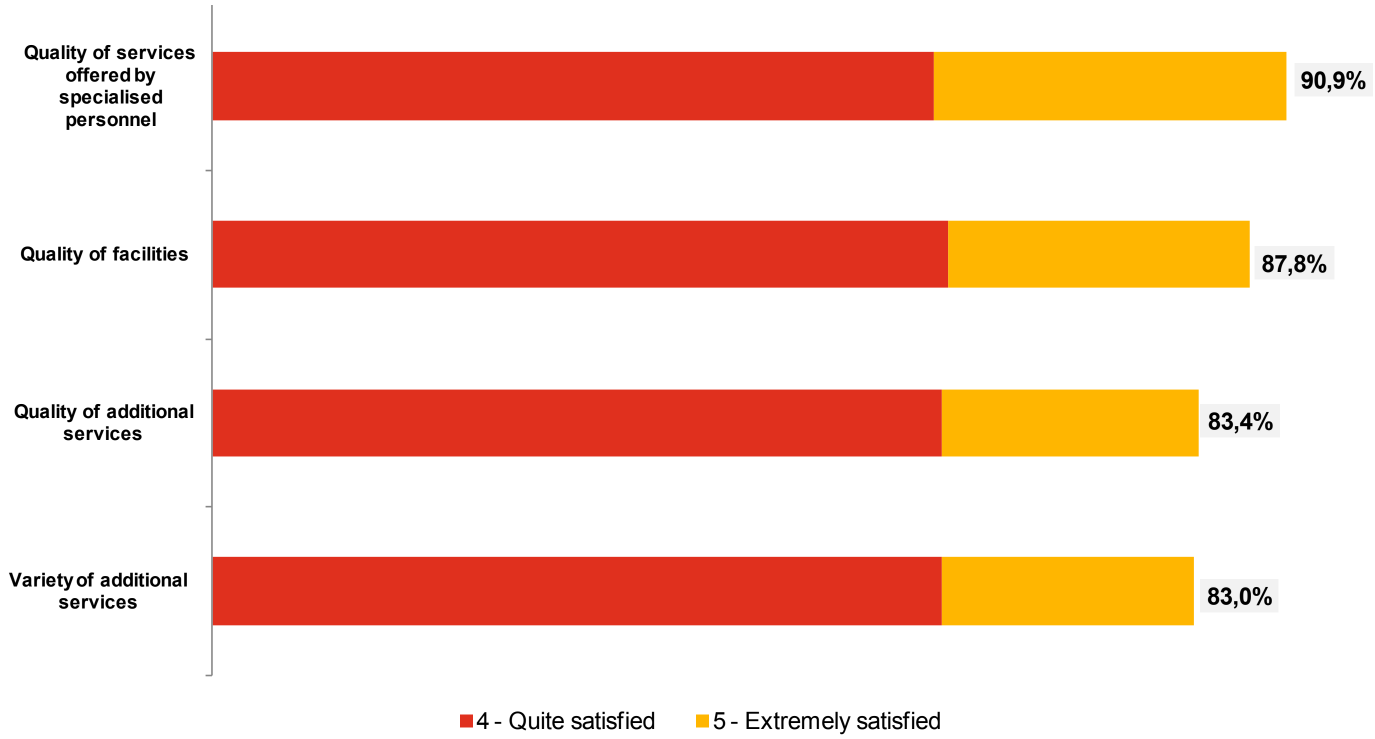
Health & wellbeing tourism was a welcomed surprise in the findings of the survey, attributed to the popularity of the sector. It is worth noting that health & wellbeing tourism appears to gain more popularity compared to other forms of tourism traditionally considered to be of greater significance, such as sports tourism (taking into account the important sports events which have marked the year of the study, e.g. the successful participation of Cypriot football teams in the Champions League), conference and incentives tourism and agrotourism.

In terms of the percentage of tourists who visited Cyprus for health & wellbeing (1 out of 3), there is a significant upward trend compared to figures in the past.

The strong points of this specific category of special interest of tourism include quality of services and facilities as well as quality of additional/related services (Table 4).

Table 4

Degree of satisfaction (scale 4-5) per tourism category: Health & Wellbeing



Other special forms of tourism: Key drivers for enriching the tourism product

The study has also addressed special interest tourism categories such as agrotourism, conference tourism, sports tourism, weddings and honeymoons, as well as golf tourism. The summarised results are presented in the relevant tables (see Tables 5, 6 and 7 on pages 13 and 14).

“ Sea and Sun”: Classic, all time values – sources of optimism and prospects.

“Sea and Sun” remains by far the first and most important incentive for choosing Cyprus as a tourist destination, significantly ahead of the other incentives, the so-called special interest tourism categories. The fact that 95.6% of visitors in Cyprus replied that “Sea and Sun” is the main factor for choosing their tourist destination is indicative of this (Table 7). As shown in the study results, 84.8% of the respondents were satisfied with their visit to Cyprus in terms of this criterion (Table 6).

Table 5

Assessment of the main factors which tourists take into account when choosing their ideal holiday destination (scale 1-5)

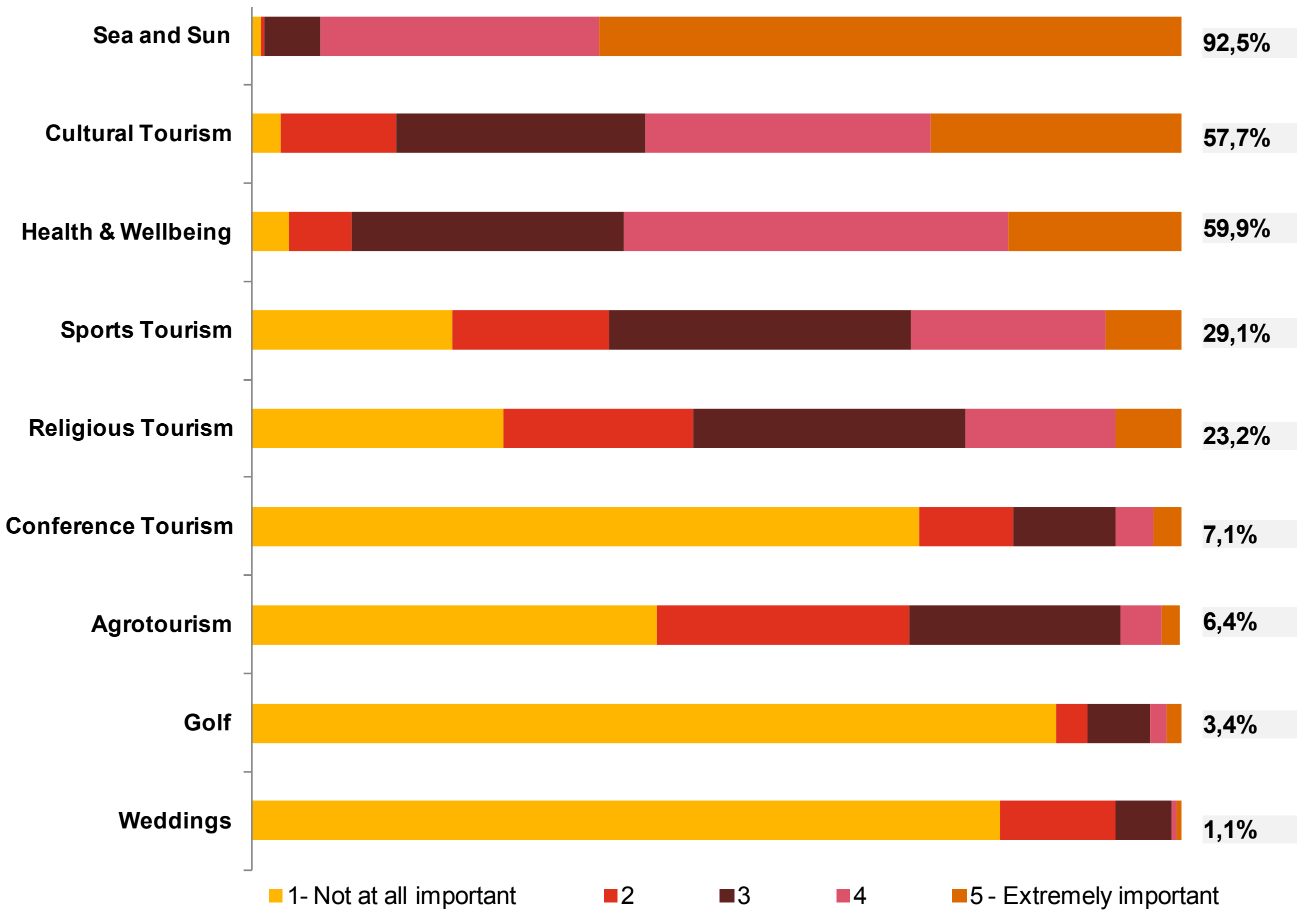
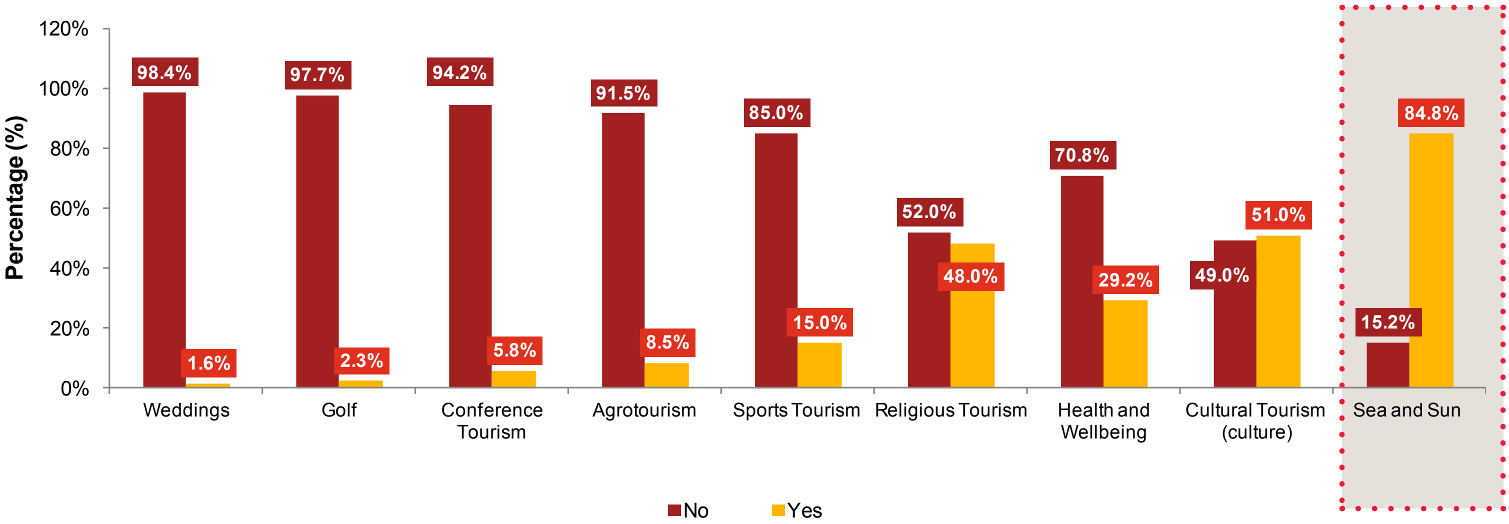


Table 6

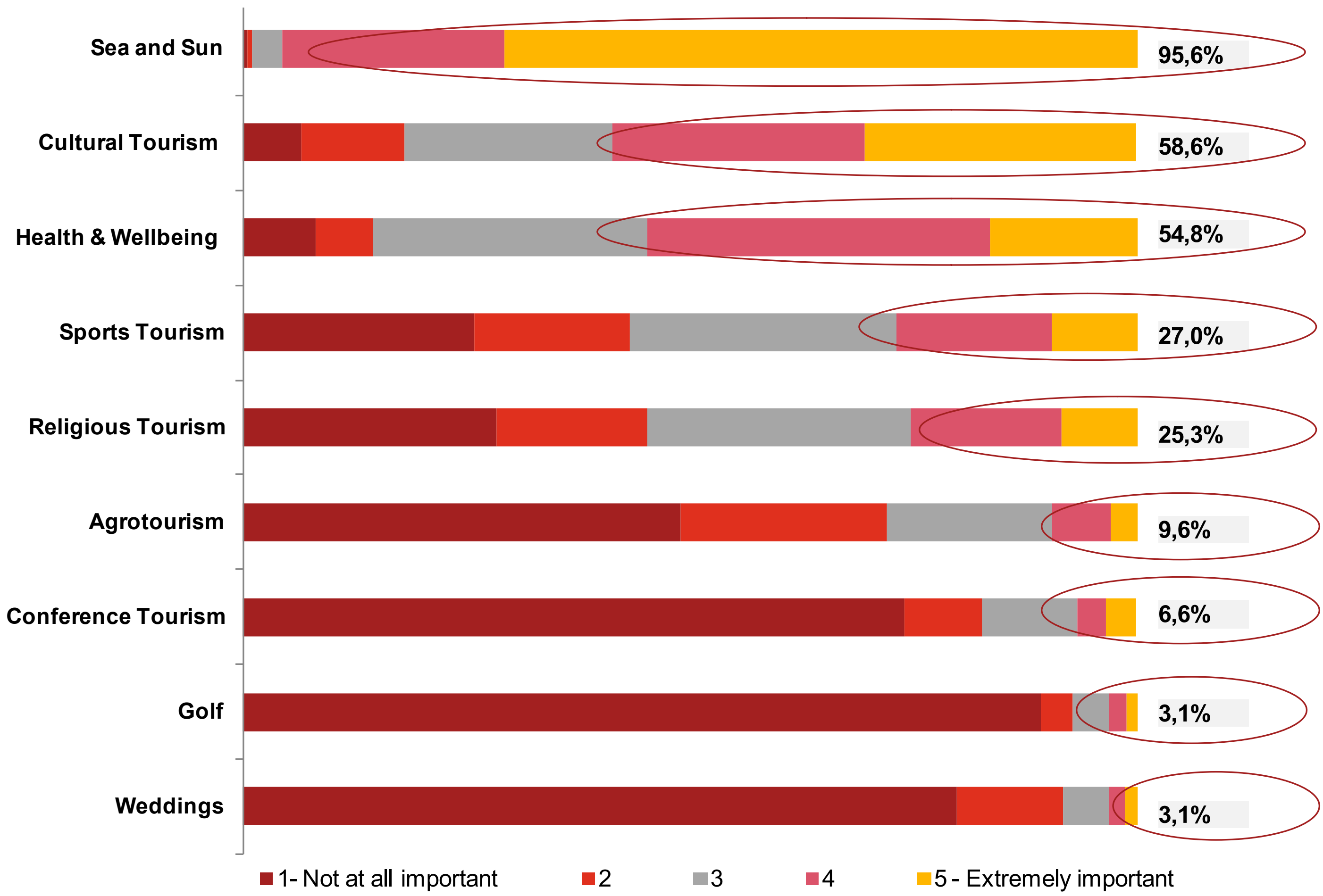
The Cyprus experience in relation to special forms of tourism – "Sea and Sun"



On the other hand, there is significant room for improvement as regards to the efforts to enrich the Cypriot tourism product with special interest tourism categories. This is evident from the percentage rates of the other special incentives forms of tourism when it comes to choosing Cyprus, which are significantly lower compared to the overwhelming 95.6% of "Sea and Sun" (e.g cultural tourism 58.6%, health and wellbeing tourism 54.8%, sports tourism 27%) (Table 7).

Table 7

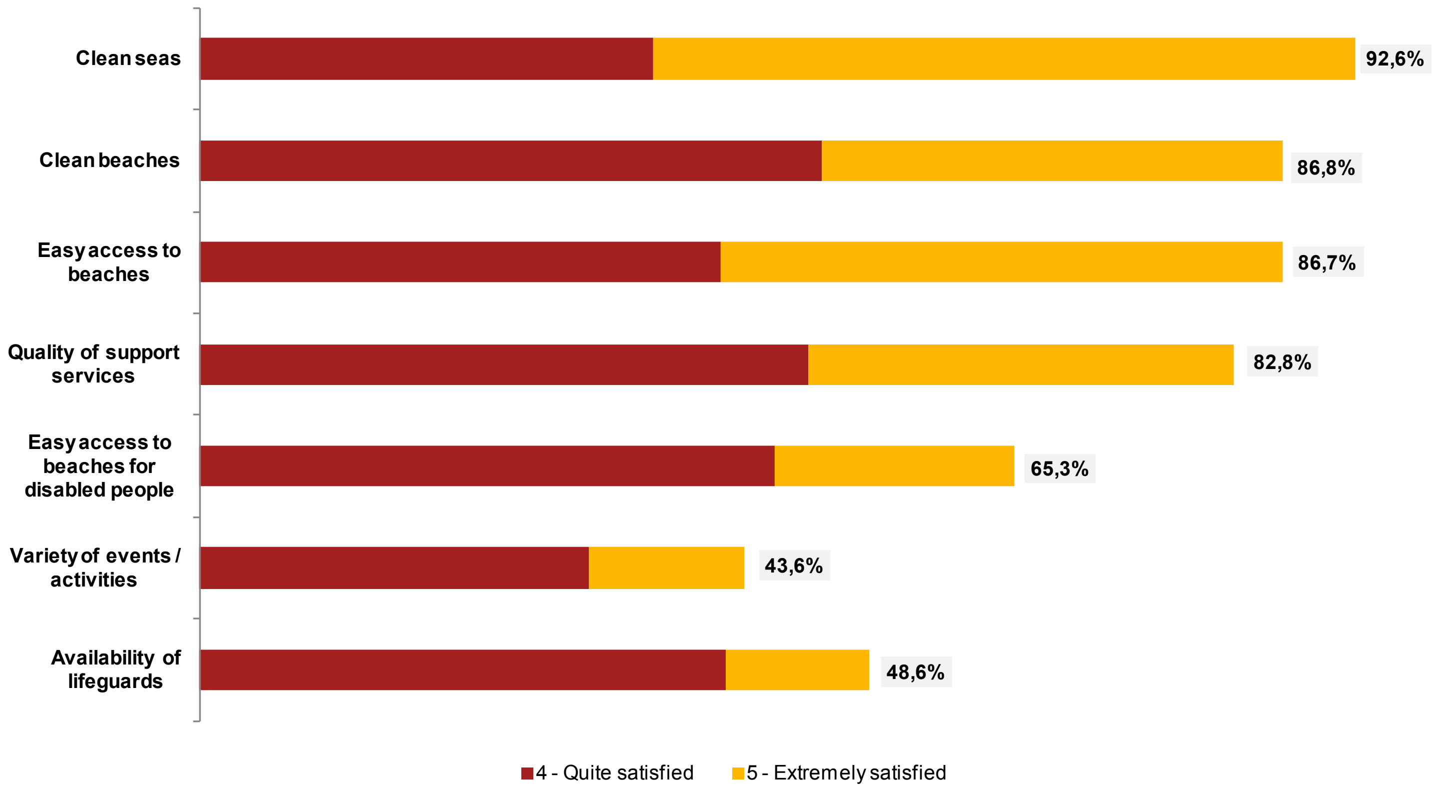
Assessment of the main motive for choosing Cyprus as their ideal holiday destination (scale 1-5)



Regarding the specific attributes of the "Sea and Sun" category, it appears that strong assets of the category include clean seas, clean beaches and ease of access, whilst there is significant room for improvement in terms of lifeguard availability and equipment, as well as the variety of beach events and activities (Table 8).

Table 8

Degree of satisfaction (scale 4-5) per tourism category: "Sea and Sun"

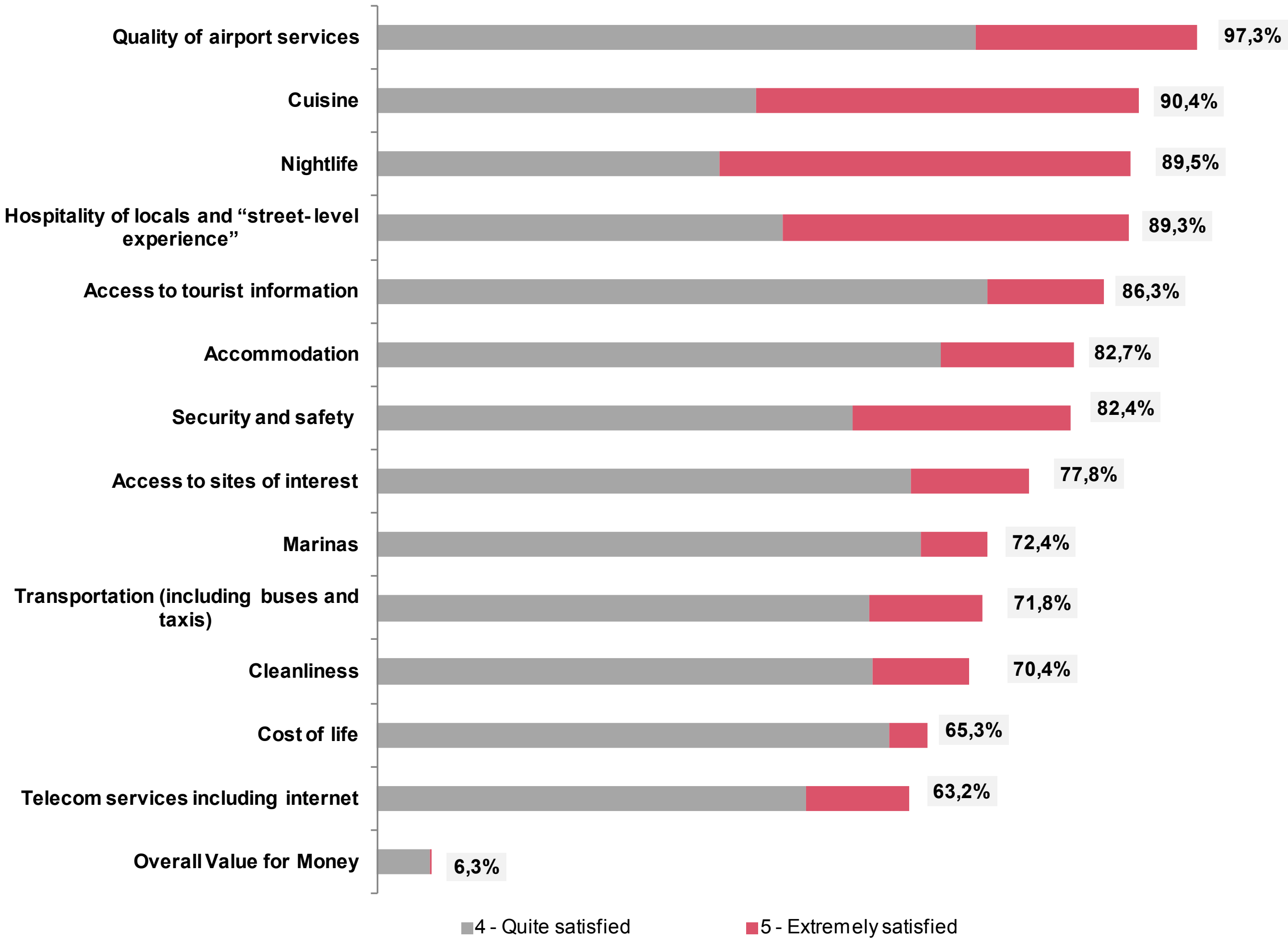


General and tourism infrastructure

The assessment of the satisfaction of tourists in terms of infrastructure in Cyprus and, in particular, its various parameters, brings to light important elements such as safety and "value for money". As expected, "strong assets" which satisfy tourists to a significant degree include cuisine, accommodation (hotels) and hospitality (Table 9).

Table 9

Degree of satisfaction (scale 4-5) – General and Tourism Infrastructure



Airport services and culinary tourism: At the forefront

For a tourist destination, which air travel is essentially the only means of transportation, it is extremely important and pleasing to see that airport services are perceived to be of high quality. This confirms the widespread belief amongst both tourists and local Cypriots that investments made on the airports of Cyprus are an example of best practice and can be considered an important success story. As regards culinary tourism, the results of the study indicate that the Cypriot cuisine is now considered an integral part of the “Mediterranean diet”, as experts call it, and has become an important motive for visiting the island.

Nightlife & Street- level experience: Entertainment and authenticity offer unique experiences

Nightlife, entertainment and authentic street-level experience are interrelated concepts. The high degree of satisfaction among tourists seems to confirm the importance and attention attached to these concepts in the national tourism strategy of the island, especially with regards to quality and added value. It is a fact that contemporary tourists are in search of a unique and authentic street-level experience and not ready-made tourism products. Cyprus seems to be in a position to satisfy these requirements. It is, however, imperative to stay alert, be imaginative and avoid complacency.

Security: A strong competitive advantage

The study has revealed the importance of Cyprus as a "safe destination", a positive element for tourists, which complements "Sea and Sun" and the special interest of tourism categories. This feeling of safety among tourists in Cyprus becomes of greater significance if we take into account the unrest and instability of neighbouring competitive destinations. It should, however, be noted that the study does not reflect on the changes brought about by the Eurogroup's decision of 15th March on the "haircut" of deposits in Cyprus, nor the extent to which initiatives to mitigate the impact on reservations, arrivals, etc. have been efficient.

Value for money: An issue which continues to raise concern

Despite the fact that tourists are fully or to a large extent satisfied with the general and tourism infrastructure in Cyprus, unfortunately only a low percentage of 6.3% have replied that they felt their holiday in Cyprus was value for money. ***This may be due to overcharges, to certain isolated incidents or to the low standard of service or even the absence of services which would add value, without involving a very high cost.*** Improving the perceptions of tourists with regards to value for money will help enhance their satisfaction for the destination and increase the probability of re-visiting Cyprus again.

Enriching the tourism product

Casinos: What is it that tourists want?

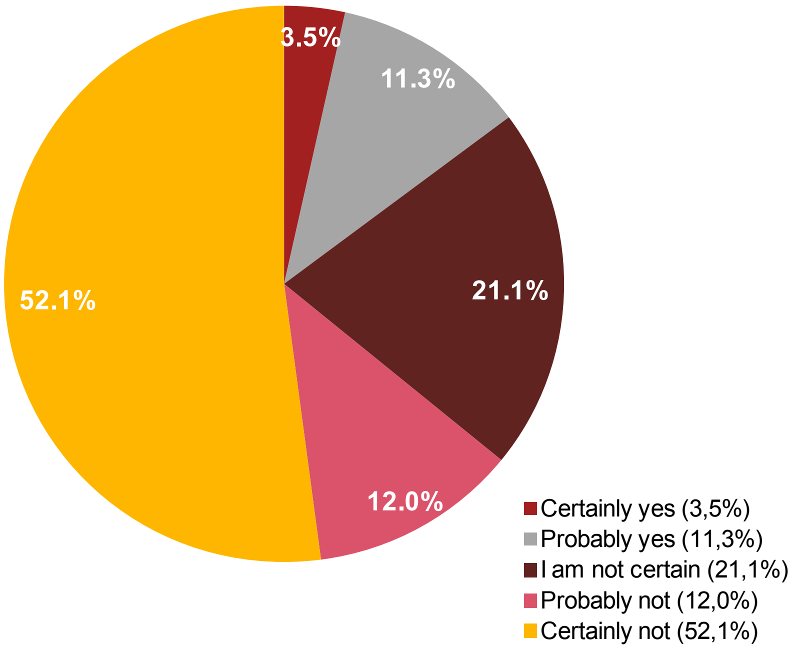
The operation of casinos has been a conflicting and contradictory issue for several years. Our study has recorded the views of tourists and provides very important information, indicating the existence of trends and perceptions which are often different to those of local stakeholders in the tourism industry.

At first glance, the study confirms that the tourists that Cyprus currently aims to attract are not a target group for casinos (Tables 10 and 11). A closer look at the findings, however, reveals that even amongst existing tourists, a significant percentage of 30% (cumulatively) (Table 12, “certainly and probably yes”) are positive towards such an enrichment. In other words, of the 2.5 million tourists that visit the island on a yearly basis, 750,000 could be a target group for casinos.

Nevertheless, the main finding is that there are prospects for attracting a new tourism “market”. It is extremely important that the operation of one or more casinos creates the proper supply that will address the corresponding demand, so that the necessary investments are viable and profitable, mainly for the destination itself.

Table 10

Probability of visiting a casino in Cyprus (if there was one)



Other suggestions by tourists

It appears that maritime tourism needs to be further developed since, according to tourists, short cruises to nearby destinations (25.2%) and the operation of marinas (14.7%) would enrich the tourism product of Cyprus. At the same time, a significant percentage of 36.7% considers that such an enrichment can be based on thematic experiences of special Interest tourism categories. A low percentage of 10% requests the development of traditional culture in hotels, making special reference to the lack of communication with hotel staff. This is due to the fact that they were unable to obtain accurate information on the sights and history of Cyprus as well as other local/traditional events (Table 11). The specific finding is combined with the percentage of 89.3% of tourists who were highly satisfied with the hospitality of locals and their street-level experience (Table 9).

Table 11

Which additional features would, in your opinion, enrich the tourism product of Cyprus?

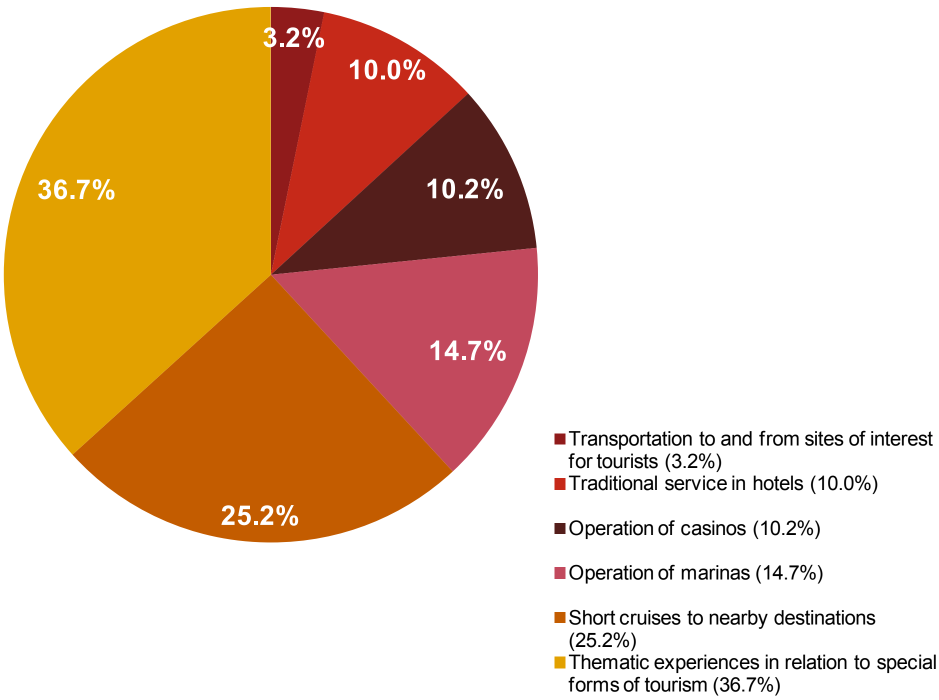
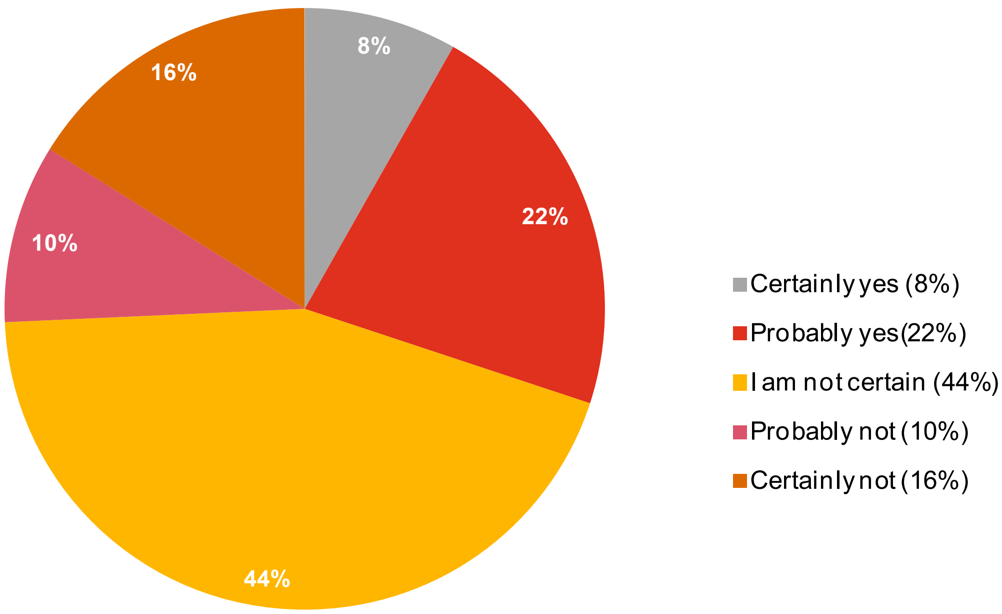


Table 12

Would the existence of a casino in Cyprus be acknowledged as an additional service to the overall package of services on offer?



Promotion of tourism in Cyprus

Promotion & marketing: Significant space for improvement

Perhaps the most important element which came out from this study, is the inadequate use of one of the most efficient means of promotion and creation of brand image for tourism purposes, which is none other than the internet. Despite the fact that almost one out of three respondents stated that the internet affects their decision in choosing a tourist destination, (with the first choice being the recommendations of family members and friends who are also influenced by the internet to a large degree) (table 13), the websites of Cypriot tourist organisations in Cyprus (including social media) do not seem to enjoy the desired traffic. It is indicative that 85% of their respondents stated that they have not visited the official sites of the Cyprus Tourism Organisation whilst, 66,8% did not visit any other official websites (table 14).

Table 13

Which is the most important element that has helped you choose Cyprus as a holiday destination?

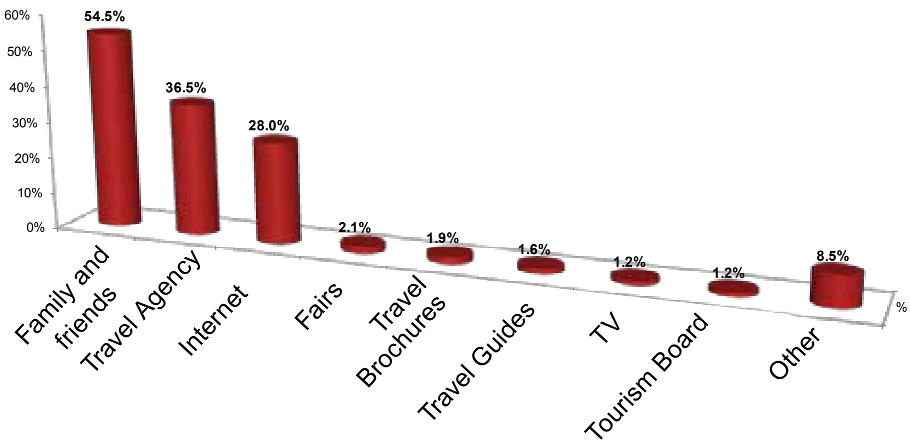
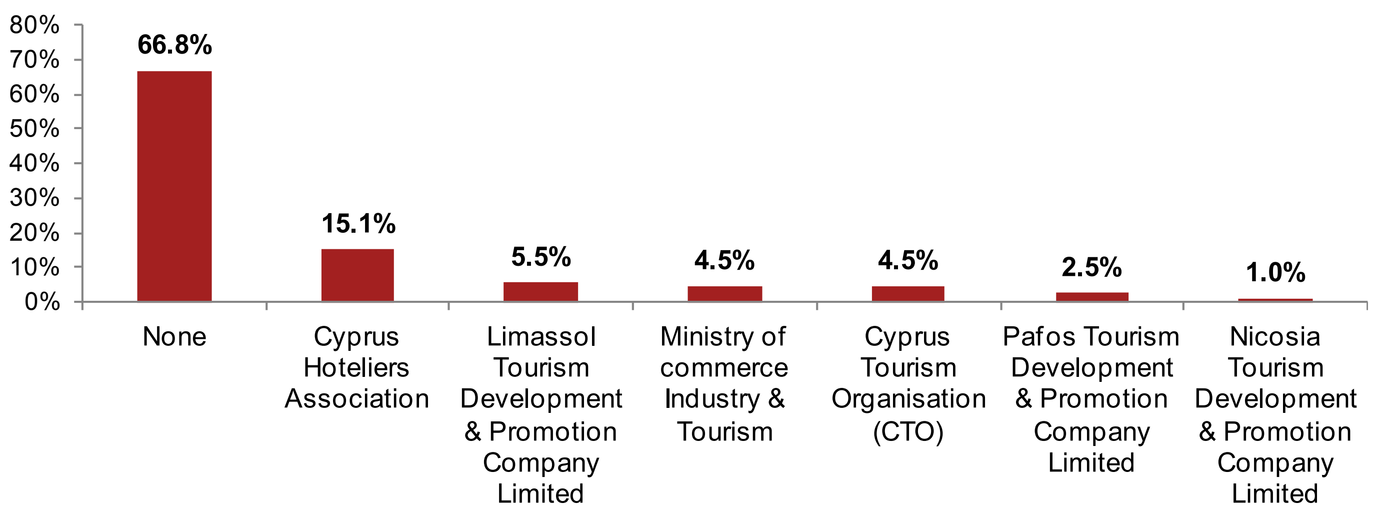


Table 14

Which of the following websites have you used as a source of information before your visit to Cyprus?



Making the best possible use of findings

The above findings must be used with the aim to improve the competitiveness of Cyprus as a tourist destination. “Sun and Sea” remain the most important criteria for choosing Cyprus and make up our most valuable tourism product.

We must continue to invest in the viable enrichment of our tourism product and diversify ourselves from neighbouring destinations, which are gaining a growing share on the international market. Moreover, we need to acknowledge the growing use of the internet and make efforts to modernise the e-promotion of Cyprus. Hoteliers and competent stakeholders must also take action in terms of improving “value for money” for visitors.

Finally, by making tourists familiar with the Cypriot culture, through the employment of more Cypriots in hotels and the organisation of excursions offering such cultural experiences, Cyprus can forge a distinct identity of higher quality.

Our aim is to assist the tourism industry and the stakeholders involved, through similar or other types of studies as well as with our professional services, so that Cyprus can enjoy a significant competitive advantage that will help strengthen its economy.

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PwC Cyprus

We are striving to offer our clients the value they are looking for, value that is based on the knowledge that our teams draw from 180,000 experts in 158 countries and based on experience adapted to local needs. PwC Cyprus focuses on two main areas: Assurance & Advisory Services and Tax & Legal Services. We work closely with our clients. We ask questions. We listen. We learn what they want to do, where they want to go. From all our international knowledge we share with them the piece that is more suitable for them and thus we support them on how to achieve their goals.

In the operation of the world's capital markets we play an important role and as business advisors we help our clients solve complex business problems. We aim to improve their ability to manage risk and improve performance. At the same time we take pride in our quality services which help to improve transparency, trust and consistency of business processes.

Our position is strengthened with our almost 1.000 professionals and our offices throughout Cyprus.

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Our Financial Assurance services comprise of statutory and regulatory audit services, which include evaluation of information systems, advisory services for capital market transactions, accounting and regulatory issues for all types of businesses through specialist industry divisions:

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Our Risk Assurance Consulting (RAC) offers expertise on internal audit services, internal controls optimisation, corporate governance and reporting, as well as assurance and advisory services related to security and controls of information technology systems including Enterprise Resource Planning (ERP) systems (e.g. SAP, Oracle, Navision), Project Implementation Assurance (PIA), Computer Assisted Audit Techniques (CAATs), Spreadsheet Integrity and IT Risk Diagnostic and Benchmarking. A particular focus of the team is in supporting the financial services industry on matters related to regulatory compliance, licensing and risk management.

Our Performance Improvement Consulting (PIC) is offering specialist advisory services on strategy and operational effectiveness, process improvement, cost reduction, people and change and sustainability issues.

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Corporate: Advisory Services for tax planning, international tax structuring, mergers and buyouts and other business issues, tax returns administration, agreement with Tax Authorities and obtaining tax rulings.

Personal: Tax planning, completion submission and agreement of tax returns, tax services to expatriates, pensioners and other non-Cypriot individuals.

Indirect Tax Services

VAT: Advisory services for VAT, VAT recovery and VAT minimisation and tax compliance (administration of VAT returns, communication with VAT authorities, agreement of disputed assessments, etc).

Local Compliance Services (LCS)

Our Local Compliance Services are addressed to all type of businesses that carry out local operations. These enterprises cover a wide range of activities and include private and public companies, government and semi-government organisations, foundations, as well as personal and family enterprises. Our services cover the whole spectrum of accounting, tax and VAT compliance, financial structuring and corporate compliance services.

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The legal firm, full member of the PwC international network, offers legal services that cover the whole spectrum of corporate and business law, including advising and representing clients in M&A transactions, re-organizations, European Union law and Competition law, setting up and regulating private companies, setting up joint ventures and other forms of businesses and carrying out legal due diligence.

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