



**TOURISM  
ECONOMICS**

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# **THE IMPACT OF ONLINE CONTENT ON PORTUGUESE TOURISM**

**NOVEMBER 2019**

# **THE IMPACT OF ONLINE CONTENT ON PORTUGUESE TOURISM:**

## **An extension of prior analysis for other European countries**

**Prepared for Google**

by **Tourism Economics (an Oxford Economics Company)**

*This study applies a similar methodology to that in a 2017 report looking at the importance of online content in six European countries: Spain, Italy, Greece, Cyprus, Malta and Croatia. This in turn was an update of a previous report in 2013 undertaken for Google by Oxford Economics focussing on the first three of those countries. This report includes a focus on the size of the impact and recent trends in Portugal, including some comparison to these other countries.*

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# EXECUTIVE SUMMARY

Online interactions continue to rise in importance as a resource for booking and researching travel. Travellers are increasingly looking to online platforms before, during and after trips. Online content is now the most trusted source of travel information and around 80% of global travel is reliant on online research<sup>1</sup>.

By embracing online platforms, business and destinations are better equipped to engage with travellers during the travel planning process. This can drive market share gains and maximise growth.

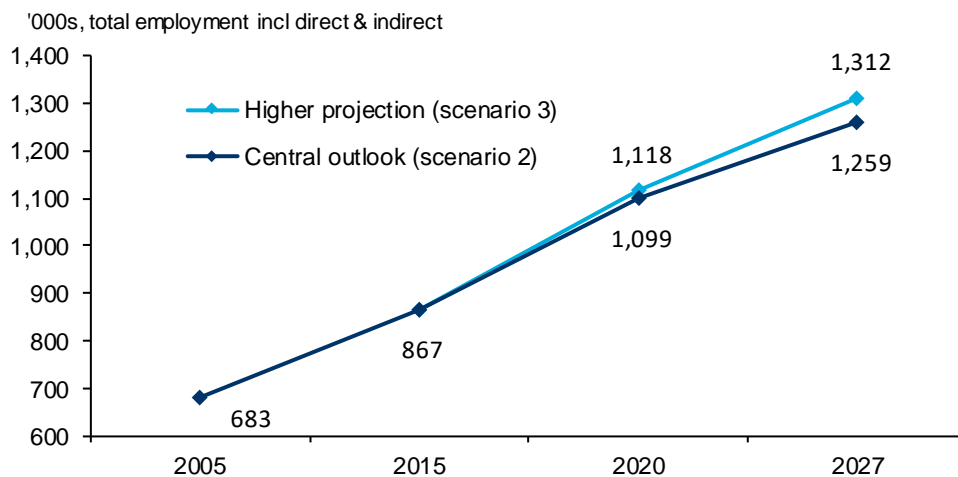
Portugal lagged both competitor destinations and source markets in terms of online provision of tourism services. This was evident in estimation by Tourism Economics in studies of Southern European tourism in 2012 and 2016.

Catch-up has been largely realised in recent years and improvements in digital connectivity generated almost 50,000 new jobs since 2012. This is a significant proportion of the 250,000 new jobs generated in total by tourism over this period (consistent with the annual economic impact research published by WTTC).

Significant opportunities remain for further growth in online interactions to drive tourism performance, including greater outreach to emerging long-haul source markets for Portugal such as US, Brazil and China. This would help to achieve 2027 growth targets in the Portugal tourism strategy.

Higher spending targets would involve the creation of over 50,000 new jobs in addition to those generated by expected organic growth; this can be facilitated by investment in digital infrastructure and skills.

## Tourism Employment Projections in Portugal



Source: Tourism Economics, WTTC, Turismo de Portugal

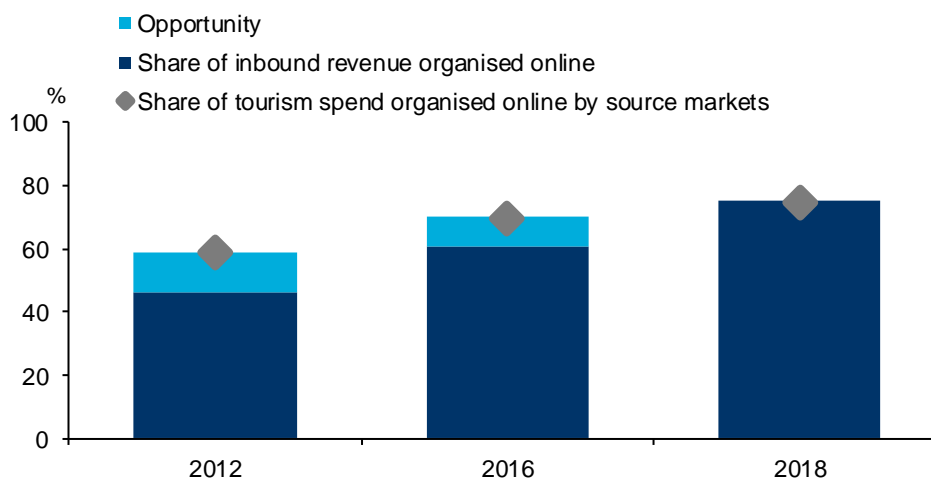
Better digital connectivity and effective use of the data generated by online interactions would also help to boost sector growth and productivity and combat overtourism. An average increase of 5-13% is evident from data innovation.

<sup>1</sup> Visa Global Travel Intentions Study, 2018

Key developments in online interactions in recent years in Portugal include:

- Rapid growth in internet penetration in Portugal, increasing to 80% in 2018 from around 60% in 2012. However, Portugal still lags the EU average by a full 10 percentage points. Of Portugal's six largest source markets, five still exceed Portugal in terms of household internet penetration.
- Tourism businesses in Portugal lagged the EU average in several measures of ICT adoption and the country was ranked lowest in terms of businesses with websites (according to the European Commission survey for ICT Provision and Tourism Business Support portal).
- Portugal has higher rates of social media use than the EU average among both the general population and businesses. This facilitates interactions between travel businesses in Portugal and potential travellers before, during and after trips.
- Travel businesses in Portugal have seemingly by-passed stages of website development to adopt social media platforms in order to better reach potential travellers.
- Progress has been made in addressing the relative weakness of ICT use by Portuguese businesses. Improvements include two comprehensive policy initiatives on digital competencies and digitisation of the economy which were launched in 2017: INCoDe.2030 and Industria 4.0.
- Tourism businesses in Portugal have been quicker to embrace online sales than the wider economy. Two-fifths of accommodation sector turnover is from online sales (including own websites and online travel agencies), compared with only 18% share for all business turnover.
- Portugal has increased online turnover well beyond the share corresponding to domestic preferences. The share of Portugal's accommodation providers undertaking electronic sales has risen to over 80% (this share of provisions is higher than actual sales share). This is higher than the EU average and also higher than in some source markets.
- The travel sector in Portugal has developed beyond catering to domestic markets preferences towards a clearer focus on the needs of potential travellers from major source markets.
- Portugal has closed the gap that was evident in 2012 between online provision and traveller preferences for online booking services and information. This gap had narrowed by 2016 but was fully closed by 2018.

#### Scale of opportunity in Portugal, 2012 - 2018

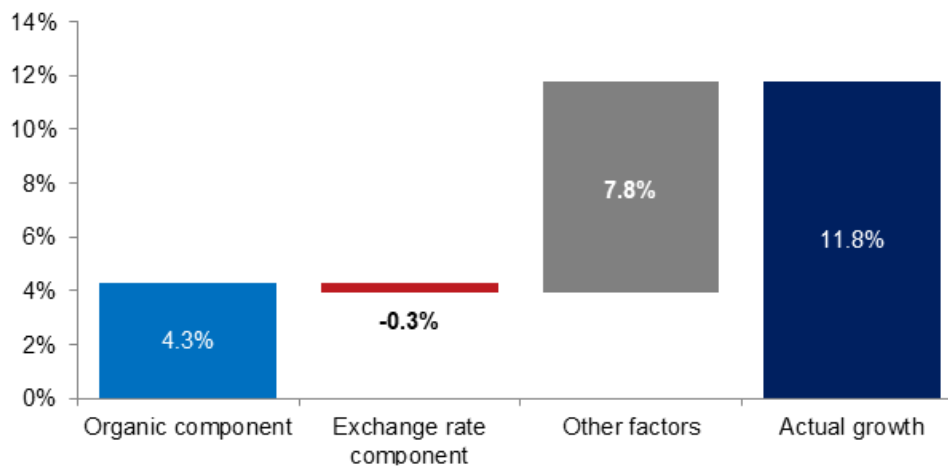


Source: Tourism Economics, Eurostat, Eurobarometer

- Portugal's growth in arrivals has been far higher than would have been expected simply from the expansion of outbound travel from source markets. 'Organic' travel growth, as a weighted average of that from major source markets to all destinations, was 4.3% p.a. in recent years whereas Portugal's arrivals averaged 11.8% p.a. over the same period.
- The realisation of opportunities from increased online presence and digital innovation explains some of this overperformance, as one of a series of improvements in destination attractiveness.
- Total tourism employment (including indirect and induced effects) rose by 250,000 since 2012, according to annual economic impact research published by WTTC. It is estimated that the contribution of the increased digital connectivity generated almost 50,000 of those new jobs.

### Components of Portugal's Growth in Visitor Arrivals, 2012 - 2018

Compound annual growth rate



Source: Tourism Economics

### Recommendations:

- Continue to cater to the evolving needs of current source markets in terms of online preferences, taking advantage of Portugal's relatively strong social media presence, but ensuring the use of the most appropriate platforms and technologies for each market.
- Consider the needs of changing source markets, especially emerging markets such as China and Brazil.
- Invest in necessary skills to take full advantage of online opportunities to increase destination competitiveness
- Ensure that customised training for travel analytics is included within Industria 4.0 or other training programs.
- Ensure full geographic coverage of internet access, including mobile, and increased speeds across all regions in Portugal.
- Diversify Portugal's tourism products to reduce seasonality in visitor arrivals and promote a wider range of destinations in the country.

## 2. EUROPEAN ONLINE BEHAVIOUR

### KEY POINTS

- The European population is connected to the internet in increasing numbers and frequency - 90% of the EU population, and a similarly large proportion of Portugal's source market population are regularly active online.
- Less than 80% of the population in Portugal are online, with lower daily internet use than in source markets and in some competitor destinations. This is a potentially worrying indicator of low online provision for travelers.
- It is essential to efficiently connect with travelers from international markets online. International travel to Portugal accounts for 60% of tourist arrivals and 80% of tourism spending in Portugal.
- Access speeds in Portugal, on average, are comparable to those in source markets meaning travelers can enjoy the same experience as in their own country when researching or booking travel within the destination. However, there are some significant differences across the country.
- Access to the internet via mobile is increasing and recognizing this rising preference for mobile access is crucial for businesses selling online. Online information and tools should be optimized for mobile searching and browsing. This should be supported by fast mobile internet access; access is currently unevenly spread across Portugal.
- Mobile access can benefit travelers and the Portuguese travel sector, especially if online business strategies are targeted to international traveler requirements rather than the domestic market.
- Social media prevalence is high among the Portuguese population and businesses enabling research by potential travelers, and interactions with businesses before, during and after travel. The prevalence of social media use among the younger generation suggests that this influence will continue to grow.

### 2.1 GROWTH IN EUROPEAN INTERNET ACCESS & USE

Internet access is an important element of global connectivity which has helped to fuel global tourism growth as online destinations can be more easily discovered by potential travellers. Increased provision of information online and increasing ease of access to that information has enabled greater connection between businesses and potential travellers.<sup>2</sup>

More than half of the World's population is now online – over 4.2 billion people – with over 50% of that number emerging since 2008. Within this, the EU is a mature market and in 2018, it is estimated that more 460 million EU residents were online – 1 in 11 global internet users. Europe has some of the highest rates of online penetration in the world. On average, 90% of the EU population have regular internet access, compared with 76% in 2012. The rate of growth is

90% of the EU population is online, compared with 50% of the global population.

<sup>2</sup> See Tourism Economics, The impact of online content on European tourism – an update (July 2017).

The disparity in internet penetration across EU countries has decreased over time.

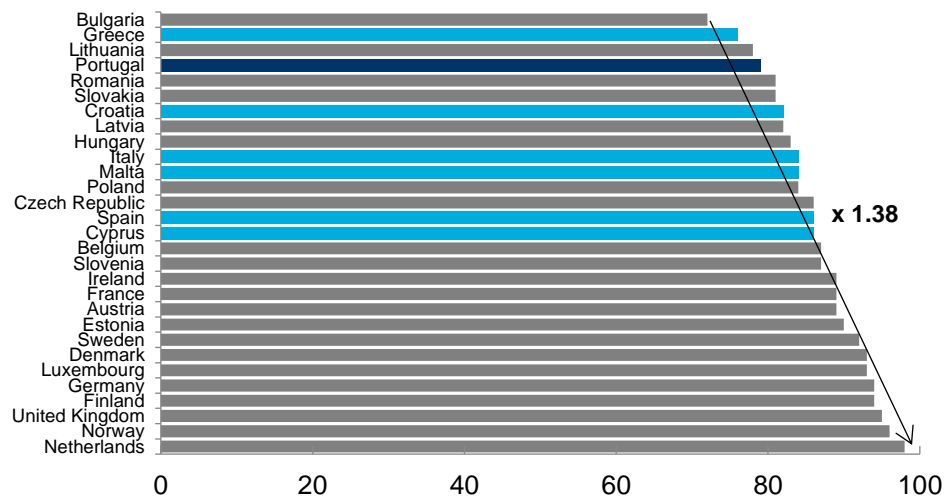
slowing as penetration in Europe approaches universality in many member countries.

As the proportion of Europeans using the internet has increased, the disparity across countries has diminished. The ratio between the country with the highest penetration and that with the lowest in 2004 was 13.5 but in 2018 was less than 1.5<sup>3</sup> as all countries have continued to embrace online usage.

Despite the decrease in cross-country disparity, some variation remains. Internet penetration in Mediterranean countries (including Portugal) typically lags the EU average by a considerable margin. By contrast, North-western Europe has a much higher penetration, led by the Netherlands at 98%.

International businesses which are selling into the largest and wealthiest European markets must match preferred channels for those markets. European tourism performance is largely driven by demand from these large markets with high internet penetration. Tourism destinations should therefore invest in digital channels to reach these markets and meet digital demand.

**Percentage of households with Internet access - 2018**



Source: Tourism Economics, EUROSTAT

**2.2 INTERNET USE IN PORTUGAL AND ITS COMPETITORS**

Internet penetration in Portugal still lags the EU average.

There has been rapid growth in internet penetration in Portugal in recent years, increasing to almost 80% in 2018 from around 60% in 2012. However, it still lags the EU average by a full 10 percentage points (notwithstanding a reduction in this gap over time). This is true of many other Southern European countries, which are also competitor destinations for Portugal. If these countries provide online services to suit the local population then opportunities may be lost to reach travellers from elsewhere in the EU.

Other Southern European countries trail the EU average, though all have increased internet penetration in recent years and have caught up with the average for the bloc as a whole.

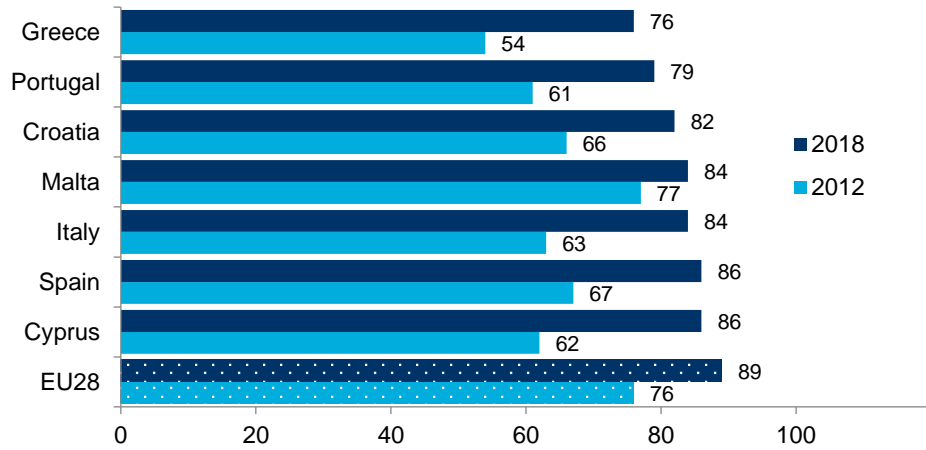
<sup>3</sup> See Tourism Economics, [The Impact of online content on European Tourism \(November 2013\)](#)



Despite improvements, Portugal's internet penetration remains lower than in competing destinations (except for Greece).

Portugal remains among the lowest ranked countries in terms of household internet access. Among the main competitor destinations, only Greece has lower household internet penetration.

**Percentage of households with internet access**



Source: Tourism Economics, EUROSTAT

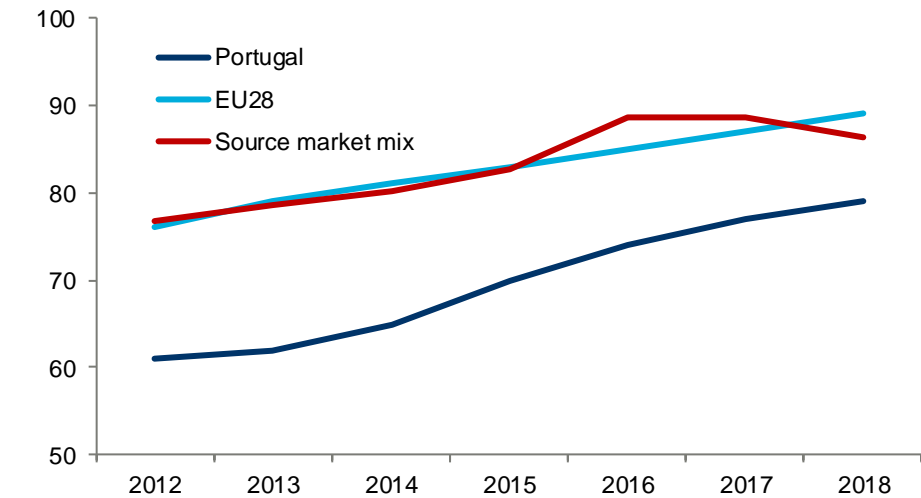
**2.3 INTERNET USE IN PORTUGAL'S KEY SOURCE MARKETS**

Countries with low household internet access have tended to also lag in terms of online business activity. Businesses often match activity, including preferred sales channels, to domestic rather than international preferences.

Travel & Tourism businesses need to focus on preferences among international travellers as these comprise a large proportion of demand and also tend to represent the most dynamic growth audience. Business online strategy should not be matched with just domestic preferences.

Portugal's internet penetration is also lower than in key source markets.

**Household Internet Penetration in Portugal, the EU and source markets**



Source: Tourism Economics, EUROSTAT

Foreign travel accounts for the bulk of Portuguese Travel & Tourism activity and it is essential for businesses in the Travel & Tourism sector to consider the

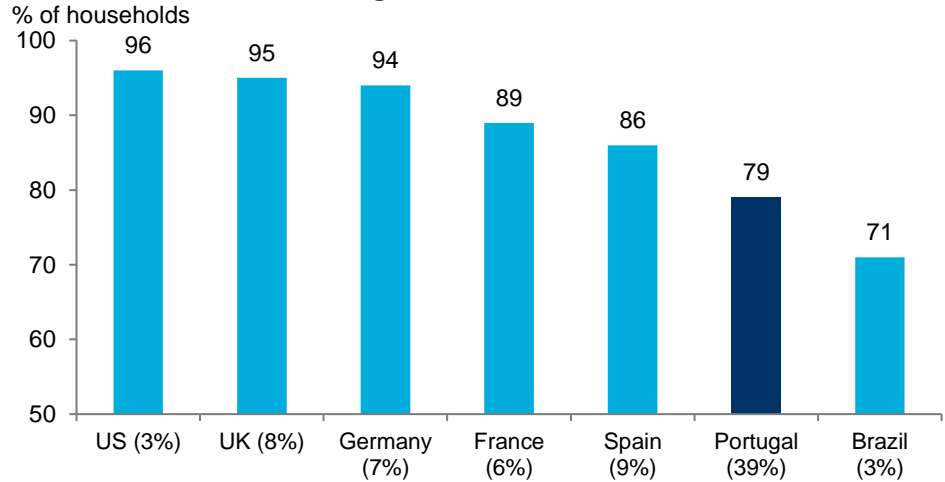
Online strategy should be matched to preferences in major source markets.

preferences of their key international source markets. Around 40% of tourist arrivals are domestic, but this represents only around 20% of spending.

Foreign travellers are more connected than Portuguese residents and prefer digital services. For instance, potential customers in these countries will be more familiar with online portals and demand a larger variety of complex online services compared with domestic Portuguese tourists. However, the gap between internet penetration in Portugal and in key source markets has narrowed in recent years, with growth in the online population in Portugal. By contrast, the average share of population online in top source markets has stagnated over the past three years.

Of Portugal's six largest source markets, five of them exceed Portugal in terms of household internet penetration (Brazil is the sole exception). The difference in internet penetration is particularly large with the US, UK and Germany – these three countries combined account for almost one third of Portugal's international tourists.

**Internet Penetration In Portugal's Source Markets - 2018**



\* Bracketed figures indicate share of Portugal's visitors in 2018  
Source: Tourism Economics, Internet World Stats, EUROSTAT

The fall in average internet penetration for Portugal's source markets is related to the rise in importance of Spain and Brazil. However, Portuguese tourism businesses should continue to evolve services to meet requirements from these markets as connectivity continues to grow in these countries as well.

**2.4 INTERNET FREQUENCY OF USE, SECURITY AND SPEED**

Frequency of internet use varies across the EU. More frequent use is common in the highly connected Northern European countries.

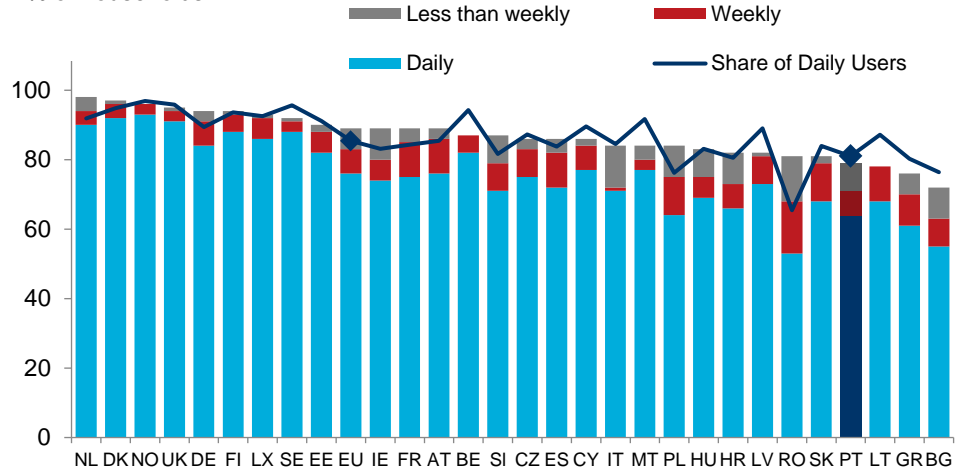
Frequency of use is a further important metric of internet presence which can dictate business provision of services. In several highly connected Northern European countries the population typically make daily use of online platforms. Businesses in these countries are more likely to embrace online content as regular use is perceived as normal. In contrast, in other parts of Europe less frequent internet use is prevalent. For example, in Romania only two-thirds of internet users are online daily.

The proportion of Portugal's internet users going online daily is around 80% (identified by the large blue marker in the chart above). This is lower than the EU average of 85% (smaller blue marker) and Portugal's largest source

markets (the UK, Germany, France and Spain – all around or above the EU average). Compared to other Mediterranean destinations, the share of daily users in Portugal is similar to that in Greece and Croatia, but lower than elsewhere.

**Frequency of Internet Use - 2018**

% of households



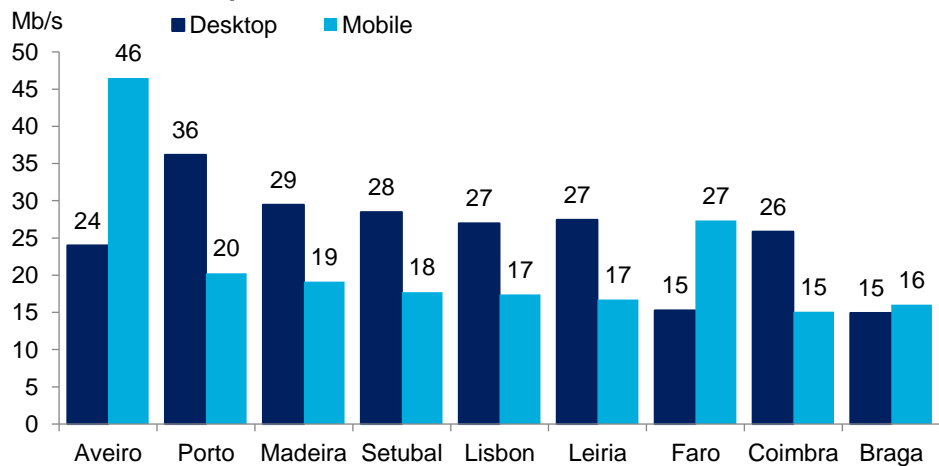
Source: Tourism Economics, EUROSTAT

A potential constraint on internet usage is access speed. Internet speeds vary by destination and the most connected destinations tend to enjoy the fastest connections. Slower internet speeds are an inconvenience for both businesses and customers, and ultimately affect business ability to embrace new digital platforms and strategies for reaching new customers.

The BDRC Continental and Cable study indicates that on average across Portugal as a whole, internet speeds are not significantly out of line with major source markets such as the UK, France, Germany or Spain. As a destination, Portugal is seemingly providing a good online service for travellers.

The speed of internet connection is not a constraint in some key centres, but mobile access is relatively slow in many parts of the country.

**Download Test Speeds, Jan 2018 to Jan 2019**



Source: Bandwidth Place tests

However, while key centres within Portugal such as Porto, Lisbon and the Algarve are well served, this is not the case in other parts of the country.

Mobile internet access is significantly worse in many areas and may act as a constraint on digital consumers exploring less familiar destinations within Portugal. This may hamper efforts to encourage diversification of travel locations. Some parts of the country with particularly poor mobile coverage include rural areas and some of the remoter national parks (although precise figures are not available for comparison in the chart). Aveiro, on the other hand, has exceptionally fast mobile speeds thanks to its 5G project.

**2.5 MOBILE DEVICE ACCESS IN THE EU**

Global patterns of access to the internet are changing with more than 50% of global mobile phone users now able to access the web from their mobile. Recognising the rising preference for access on different devices is crucial for businesses selling online. Online information and tools should be optimised for mobile searching and browsing when selling to the large European source markets (which have the highest proportions of mobile internet use). This is not entirely about European source markets and new, emerging source markets may ‘leapfrog’ technologies. For example, many developing countries have gone from having no telephone landlines and no desktop computer ownership straight to mobile use – i.e. not following the same technological trajectory as the European nations.

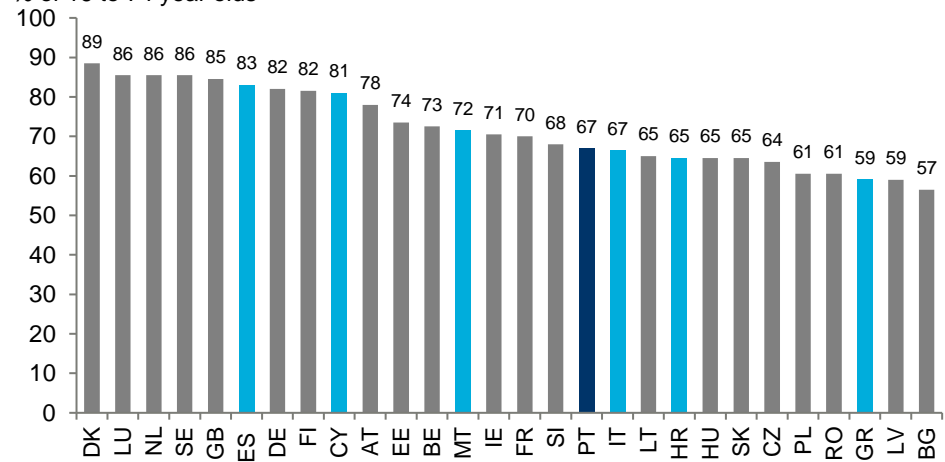
In the Netherlands, Sweden, Denmark, the UK and Luxembourg, over 8 out of 10 adults access the internet on the move through mobile devices. This is also the case in Spain and Cyprus – two of Portugal’s competing Mediterranean destinations. Portugal, at 67%, falls in the bottom half of EU countries, and lags all of its main EU source markets (Spain, the UK, France and Germany) by quite some margin. However, it is not among the worst performers (such as Bulgaria), and is ranked more highly than Greece and Croatia, and comparable to Italy.

Mobile internet access in Portugal is ranked more highly among peers than fixed line access...

...but at 67% mobile internet access, Portugal lags the EU average and its major EU source markets.

**Mobile or Smartphone Access to the Internet - 2018**

% of 16 to 74 year olds



Source: Tourism Economics, EUROSTAT

Tourists are increasingly using mobile devices to research destinations, including while they are travelling. They are also able to purchase tours and accommodation online during their trip. This enables them to interact with social media and review sites, not just before and after, but also during their trip, allowing them to share experiences in real time, and to receive feedback.

Therefore, the increasing use of mobile technology has impacts for both online sales and online research. This also means that it is essential for destinations to have high quality and high speed wi-fi access.

**2.6 SOCIAL MEDIA ACTIVITIES**

Social media allows greater engagement between businesses and consumers and can provide crucial information about travel options. This can help with travel planning and research both before and during trips. By sharing experiences through these platforms, travellers help peers with their own planning, facilitating future interactions.

Coupled with the strong mobile internet access, benefits of social media use are apparent for travellers to Portugal, including increased access to trusted information before and during trips.

Tourism accommodation providers, attractions and restaurants can engage with travellers before, during and after travel, providing a better service for consumers. Prior modelling has shown that those properties with greater engagement are consistently rated more highly by consumers<sup>4</sup>.

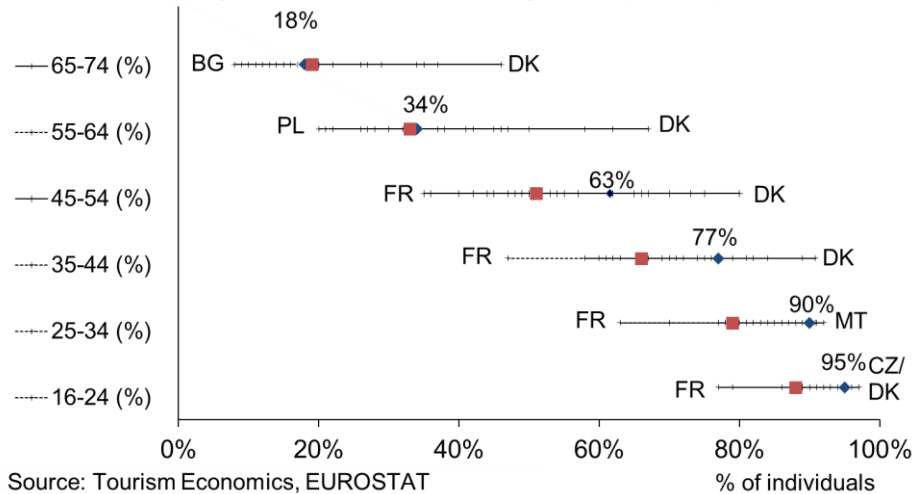
Social media platforms not only create a two-way engagement process but also give properties an opportunity to improve service in areas identified by consumers. Highly-rated properties will be able to charge premia, providing a financial incentive to drive quality and service. Properties which fail to attract high ratings tend to lose market share and can be forced out of business.

Social media is a vital tool for engagement between consumers and businesses before, during and after trips.

Portugal has higher rates of social media access than the EU average facilitating travel planning.

**Social media use by age cohort, 2018**

Red squares: EU 28 values  
Blue diamonds: Portugal's social media use in that age cohort (labelled).



Social media use varies more by age than by country within the EU, however Portugal has higher rates of social media use than the EU average at all ages. Social media has become an important tool for interactions among the younger generation and over time, the current societal and generational differences in attitudes to social media will fade. Portugal is well placed to take advantage of growing social media interactions, from a current high base.

<sup>4</sup> [The Global Economic Contribution of TripAdvisor](#), Oxford Economics 2016

## 3. DIGITAL BUSINESS IN PORTUGAL

### KEY POINTS

- Portuguese business is not well suited for online booking, but developments are facilitating online research, which is an important area for tourism.
- Portugal had the smallest proportion of tourism businesses with a website in the EU, and relatively low use of some other key technologies - including online banking (second lowest in EU). This may have constrained some online booking activity in recent years, but not necessarily online research.
- Social media use is relatively high, facilitating travel research and vital interactions between travelers and businesses before, during and after trips.
- Recent policy initiatives, including Industria 4.0 indicate that Portugal recognizes the importance of tourism and online interactions and continued improvement in connectivity are helping to realise the growth opportunity.
- Data innovation boosts productivity with an average increase of 5-13% evident in studies. Data generated by online interactions can be used to better understand potential travelers and predict behavior. This can be used to manage peak travel demand and reduce seasonality as well as increasing geographic dispersion.

### 3.1 LOW ICT USE IN PORTUGAL

In order to meet consumer expectations, businesses in the tourism sector need to make effective use of available technologies. There has been a historic tendency for larger businesses to seize the opportunities and dominate online sales channels. However, with increasing ease of access and the proliferation of new platforms, SMEs can more easily compete by continuing to integrate technologies and providing tailored services to their consumers. Leveraging the correct online platforms can create a more level playing field for smaller market participants.

Portuguese tourism businesses lagged the EU average in several key metrics of ICT adoption in a 2017 report. Portugal was ranked the lowest country in terms of businesses with websites<sup>5</sup> according to the European Commission survey for its ICT Provision and Tourism Business Support portal (using data from early 2016).

However, more recent data on accommodation business sales online indicates rapid growth in as some of these connectivity issues have been addressed. Rising use of other platforms, such as online travel agencies, may also be part of the growth. The 2019 World Economic Forum Travel & Tourism Competitiveness Report also confirms some improvement as Portugal has risen to be the 38<sup>th</sup> ranked country in terms of ICT readiness, overtaking Italy

Meeting consumer expectations requires the sector to make effective use of available and trusted technologies.

<sup>5</sup> Portugal also ranks among those EU countries with the lowest share (2.4%) of professionals with specialised ICT skills (as a percentage of total employment, compared to an EU average of 3.7%).

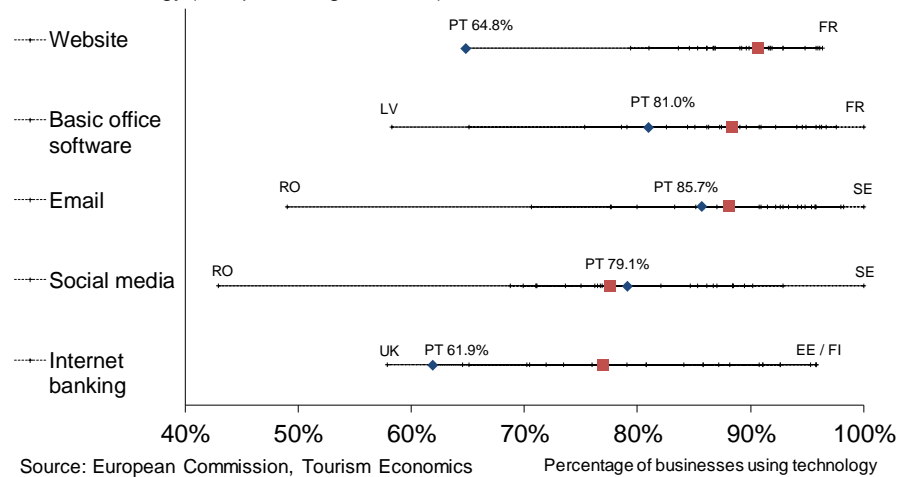
Portugal's EU source markets all make greater use of technology than Portugal and may limit online booking.

on this measure. However, this ranking still lags some other competitor destinations and crucially is lagging behind key source markets.

However, Portugal's rank in social media usage was well above the EU average in the 2017 report, with almost 80% of tourism businesses in the country using social media. This may offset the lack of company websites and has allowed potential travellers to find trusted information, even if they cannot book online. In the graphic below each cross on the lines represents one of the 28 member states of the EU. The technologies are ordered by overall use by tourism businesses across the EU. Portugal lags the EU average on each of these measures, with particularly low website use relative to peers.

### Use of different technologies by tourism businesses

Red squares are EU 28 values for that technology and diamonds are Portugal's utilisation of that technology (with percentage labelled).



### 3.2 RECENT IMPROVEMENTS

Some progress has been made in addressing the relative weakness of ICT use by Portuguese businesses. Notable improvements include the two comprehensive policy initiatives on digital competencies and digitisation of the economy which were launched in 2017: namely INCoDe.2030 and Indústria 4.0. The former ([www.incode.2030.pt](http://www.incode.2030.pt)) aims to enhance digital literacy and employability alongside increasing Research & Development in all areas associated with the digital transformation of Portugal. Indústria 4.0 encompasses measures for further increases in the digital participation of both the public and private sectors.



## INDUSTRIA 4.0

Indústria 4.0 has been praised by the European Commission for being tailored to Portugal's bottom-up requirements for improving ICT use among its businesses.<sup>6</sup> However, the Commission did express some concerns about the absence of mechanisms to ensure private funding.

The key features and aims of the program include the following:

- Improve public Wi-Fi services and better analyse tourist behaviour.
- Introduce a tourism data integration platform, a single counter (to manage the interaction between the various entities in the T&T and public sectors, reducing the dispersion of data by creating a single channel of information) and a Digital Forum.
- Provide uniform communication of Portugal's digital brand on public platforms. This is expected to result in synergistic gains in content and technology for the Portugal brand (including by standardising graphics and content across different geographic levels).

The programme also aims to establish:

- A Centre for Innovation in Tourism – this will bring together the public, private and academic sectors, and the creative industries.
- A Tourism Digital Academy, which will transfer theoretical and academic knowledge into practical training programmes resulting in digital certification.
- An 'accelerator for incentives' to digitise tourism including an application guide, the different possible frameworks and a roadmap.

### 3.3 DATA INNOVATION & PLATFORMS

Data innovation supports tourism growth and improved visitor management.

Beyond simply doing business online, data innovation and the use of new platforms also supports growth in tourism in destinations as shown in recent research<sup>7</sup>. Better knowledge of traveller needs can improve targeted advertising and help to focus product innovation, especially when considering different and changing source markets.

Data innovation is particularly relevant when considering the increased use of online platforms in recent years. Around 61% of travellers download travel-related apps before their trips, while 87% of millennials say that their smartphones are their most essential travel item.<sup>8,9</sup>

Benefits from data innovation are available for businesses, consumers and destinations. For instance, data innovation has been demonstrated to boost productivity in a number of studies – overall, the average increase has been found to be between 5% and 13%.<sup>10</sup> High quality analytics improve both productivity<sup>11</sup> and consumer experience.

<sup>6</sup> EC Digital Transformation Monitor, Portugal: Indústria 4.0 (May 2017)

<sup>7</sup> Tourism Economics & PATA, Data & Digital Platforms: Driving Tourism Growth in Asia Pacific (2018)

<sup>8</sup> Visa Global Travel Intentions Study (2018)

<sup>9</sup> PATA Youth travel Report: Stepping Out of the Crowd (2016)

<sup>10</sup> OECD: Data-driven innovation for growth and innovation (2015); Bauer, Lee-Makiyama, van der Marel and Vershelde: The costs of data localisation (2014); Brunjolfsson, Hitt, Kim: Strength in numbers: how does data-driven decision-making affect firm performance? (2011); NESTA, The analytical firm: estimating the effect of data and online analytics on firm performance (2014)

<sup>11</sup> OECD, Data - driven innovation for growth and well-being (2015)



Productivity growth of 5-13% can be realised from better use of digital data.

The benefits of data innovation are particularly clear for tourism due to the importance of demand from international markets. This innovation can also help to more effectively capture demand from changing source markets. These benefits are potentially larger for smaller firms, as technology allows them to more easily compete in international markets.

There are some positive developments within Portugal in this area, including the Travel BI data platform developed by Turismo de Portugal which is a useful starting point for data analysis for smaller companies, or regional bodies, which cannot carry out effective analysis alone.

Effectively utilising data and new platforms requires data analysis, but skills in this area are lagging in the industry. Companies are not making best use of available insights. For example, a 2017 EyeforTravel survey of 450 global brands across international regions found that more than half had either no or only a limited ability to track and understand customers throughout their research and purchasing activity.<sup>12</sup> The 2017 State of Data in Travel Report found that although nearly two thirds of travel organisations now have a research and insights team, a) these tend to be small and b) the range of techniques in use was limited.<sup>13</sup> Similarly, McKinsey have found that that airlines struggle to provide consumers with complete and easy-to-use digital services.<sup>14</sup>

A majority of global travel companies do use analytics in some form. However, as the complexity of the analytics increases, the proportion of businesses utilising the approach falls, such that only around one third of those surveyed use prescriptive analytics (the most sophisticated and ultimately beneficial form)<sup>15</sup>. This is consistent with businesses' responses to why they are undertaking analytics – improving customer experience, although the top answer, accounted for less than 17% of responses, and this can only be done effectively by using prescriptive analytics.

### 3.4 VISITOR DEMAND AND MANAGEMENT

Destinations can benefit from data innovation (including catering to the use of online platforms) in terms of overall demand, which leads to sustainable growth in GDP and employment, and improved ability to manage that demand. The latter includes improved visitor management, such as the ability to direct visitors to secondary destinations, thereby geographically spreading the benefits of tourism and helping to combat 'overtourism' in specific hubs.

For Portugal, this is particularly relevant when considering efforts to diversify tourism beyond the popular Algarve region, Porto and Lisbon, as well as planning to better accommodate seasonal visitor patterns throughout the year. Although the pattern of travel to Portugal is not as pronounced as in some Mediterranean countries, there is an obvious pattern of seasonality – 41% of visits and 46% of nights stayed currently take place within a four-month period.

Data analytics can improve visitor management to reduce seasonality and increase geographic dispersion.

<sup>12</sup> EyeforTravel, Understanding the travel consumer (2017).

<sup>13</sup> EyeforTravel, State of data in travel (2017)

<sup>14</sup> McKinsey, Travel and logistics: data drives the race for customers (2018)

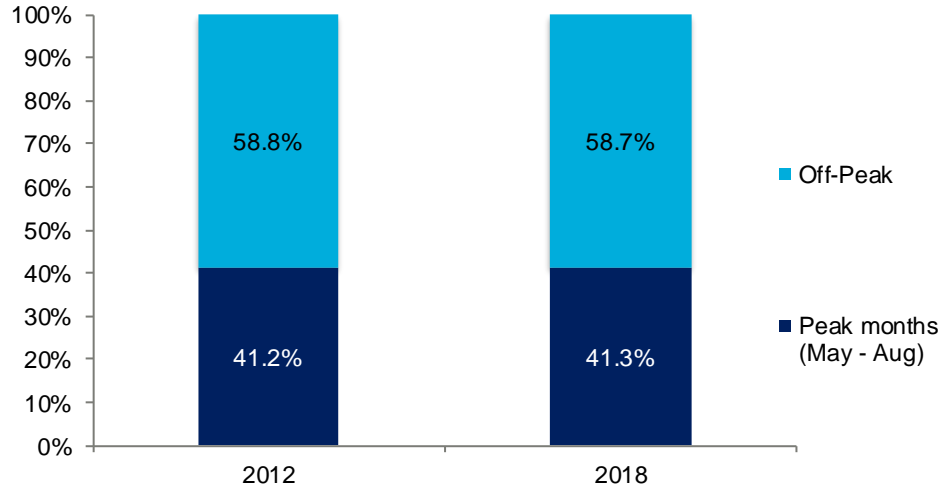
<sup>15</sup> EyeforTravel - The State of Data and Analytics in Travel Report (2017)

Indeed, this issue has been acknowledged as one of the KPIs within the Portugal Tourism Strategy is to reduce seasonality.

Despite huge growth in numbers of visitors since 2012, Portugal’s share of visits in the four peak summer months has barely changed. However, it should be noted that this a less seasonally extreme picture than that found in some other Mediterranean countries such as Greece and Croatia.

**Visits: Peak and Off-Peak Months, 2012 and 2018**

% of annual total



Source: Statistics Portugal (INE), Tourism Economics

Digital data can help to combat over-tourism concerns and assist with testing the impact of policies aimed at promoting less visited regions within the country. Digital data can be used to better understand potential traveller flows and destinations can then provide information regarding potential alternative destinations.

## 4. TOURISM ONLINE SALES AND RESEARCH

### KEY POINTS

- The tourism sector leads the wider economy in the use of online platforms in Portugal as well as across the EU as a whole.
- The online share of tourism sales has increased significantly in Portugal as the number of businesses selling online has increased rapidly, better matching source market preferences.
- Portuguese accommodation providers now outperform the EU average in their online presence, though lag those in some competitors and source markets; there remains opportunity for continued improvement.
- 83% Portugal's accommodation providers are now selling online (through own websites and other third-party providers including OTAs) generating 41% turnover from online sales.
- Online research is still much more important than booking as travelers gain a better understanding of Portugal as a destination from websites and online platforms even if they then book through other channels.

### 4.1 THE ROLE OF THE TOURISM SECTOR IN E-COMMERCE

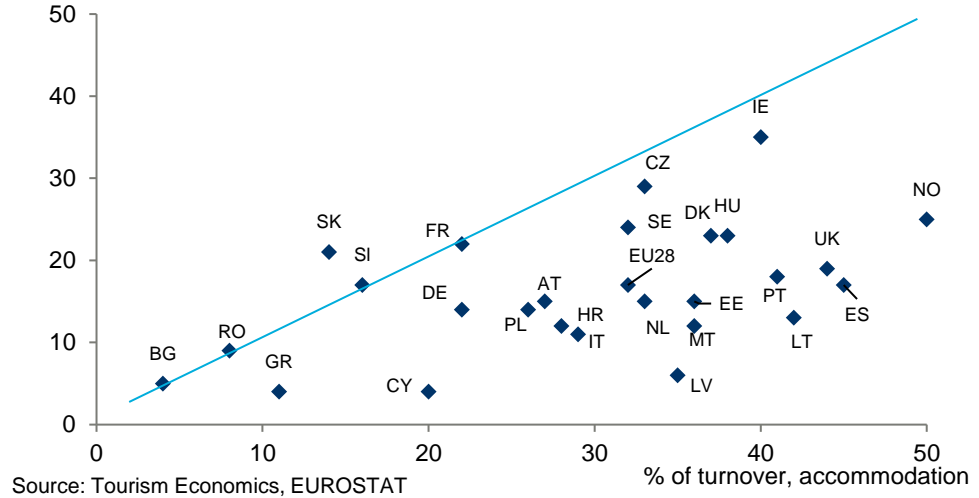
The tourism sector leads other sectors in e-commerce sales in Portugal as well as in most European countries. The e-commerce share of turnover in the accommodation sector is higher than for the wider economy in the vast majority of Europe. This relationship is strong in Portugal, where around 40% of the accommodation sector's turnover is accounted for by online sales through business websites and other platforms including OTAs, compared with only 18% for all business turnover.

The tourism sector has seemingly recognised that enabling online sales provide an effective platform to reach key customers in international markets. Combined with the provision of information for research on other platforms, including social media, this can help to develop relationships with travellers, provide vital data on source market preferences for providers, and offers potential for cross-selling and upselling. The latter is evident in tourism with some increased length of stay for travel researched or booked online.

This positive gap has also increased in recent years, as the Travel & Tourism sector in Portugal has led the wider economy in e-commerce – effectively, Portugal has moved further to the right in the chart below. This is despite an apparent lack of web presence for many tourism businesses (identified in section 3.1), as other platforms may be used. However, this also illustrates that there remains potential for continued growth.

E-commerce is more prevalent in the tourism sector than in the wider economy – both in Portugal and across the EU.

**E-commerce Share of Turnover - Accommodation vs All Sectors, 2018**  
 % of turnover, all sectors



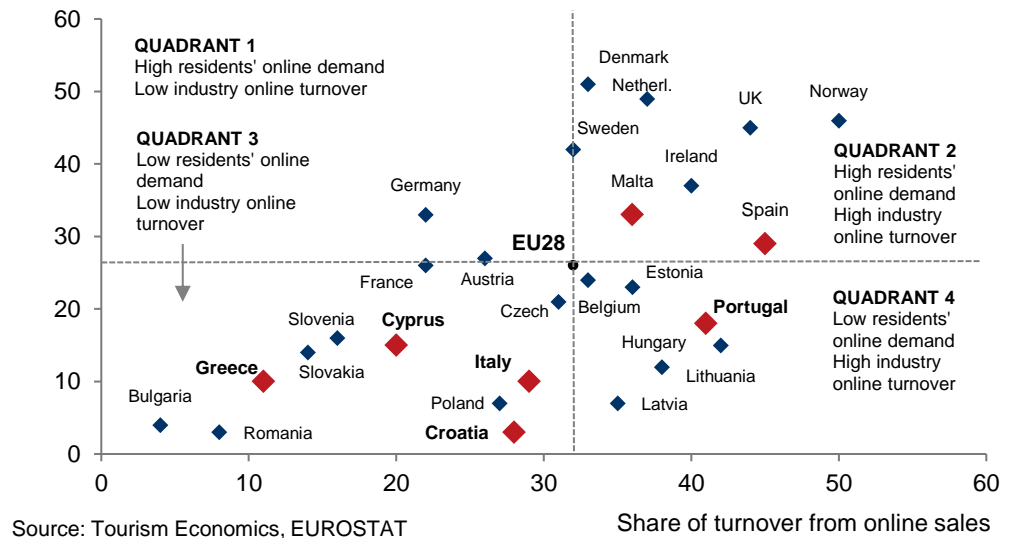
**4.2 TOURISM ONLINE SALES: MATCHING DEMAND AND SUPPLY**

The tourism sector has improved its use of online sales channels in recent years, as businesses have recognised the importance of providing suitable online content to match source market needs. However, the degree of this matching varies notably across Europe.

The below chart shows the relationship between household online purchases of accommodation and the share of tourism revenue generated from online sales. Some markets have embraced online sales more extensively than local demand alone would require, while some others require a greater online focus to satisfy local demand. Overall, though, there has been an improvement in tourism’s use of online channels.

Accommodation businesses in Portugal have improved their online presence in recent years, more than meeting demand from customers for online sales channels.

**Accommodation Business Online - 2018**  
 % of individuals buying accommodation online



Some of Portugal's main competitor destinations are likely missing out on sales from customers looking to purchase online.

The upper-right area (quadrant 2) of the above chart indicates countries that are more active online than the EU average, both in terms of accommodation business sales and the local population purchasing accommodation. These include Norway, the UK and the Netherlands. These countries have traditionally tended to be well positioned to benefit from digital connectivity as meeting the large domestic online presence has also provided opportunities to reach international markets.

The lower-right area (quadrant 4) represents countries, including Portugal, where the need to meet the demand of foreign customers has been recognised. Businesses in these countries have made efforts to improve online presence beyond that required by local preferences.

Quadrant 3 reflects countries which may be missing out on sales from the more developed online markets which look to buy accommodation online. This includes some of Portugal's competitor destinations, including Greece, Italy and Cyprus, which have seen little small improvement in recent years (see graph below).

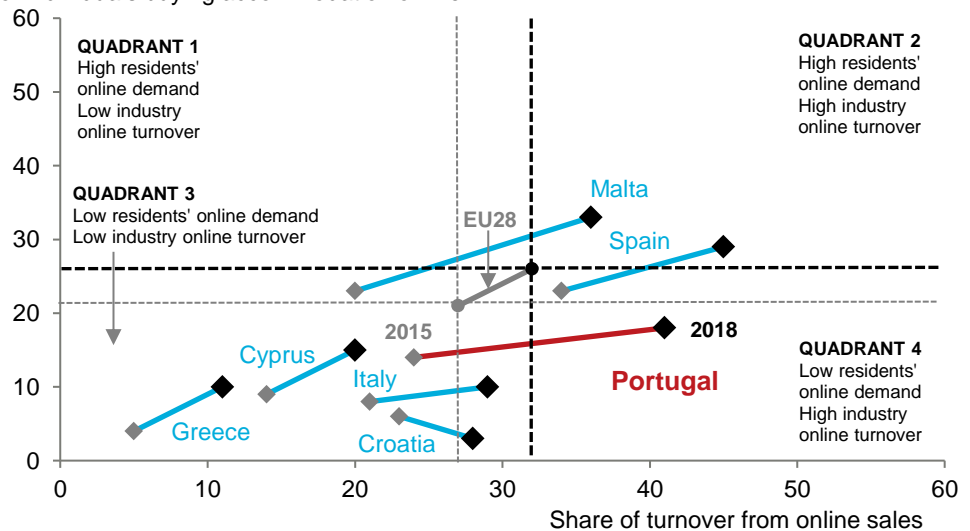
There has been a notable improvement in the online presence of Portugal's accommodation providers in recent years. In the chart below, the grey markers correspond to each country's position in 2015, relative to the EU average (indicated by the grey dashed lines). The 2018 positions and quadrants are shown by the black markers and dashed lines.

Portugal has significantly increased online turnover beyond the share indicated by just matching domestic preferences. Efforts have apparently been made to better meet preferences from international markets. In 2015, Portugal was situated in quadrant 3, and was not meeting online demand from international markets. Since then, the growth in online sales means that it has moved into Quadrant 4, meeting more demand from customers online.

Malta has also improved notably, moving to quadrant 2, where the most developed online markets are situated. Spain also remains in this quadrant.

**Accommodation Business Online - 2015 to 2018**

% of individuals buying accommodation online



Source: Tourism Economics, EUROSTAT

### 4.3 EVOLUTION OF THE ONLINE MARKET

The share of businesses selling online has increased in recent years, though barriers to sale remain. The proportion of online sales for accommodation businesses lags the share of accommodation providers selling online – in both the EU and in Portugal – and the gap between the two has been little changed. By comparison, there is little difference between the two measures for businesses economy-wide.

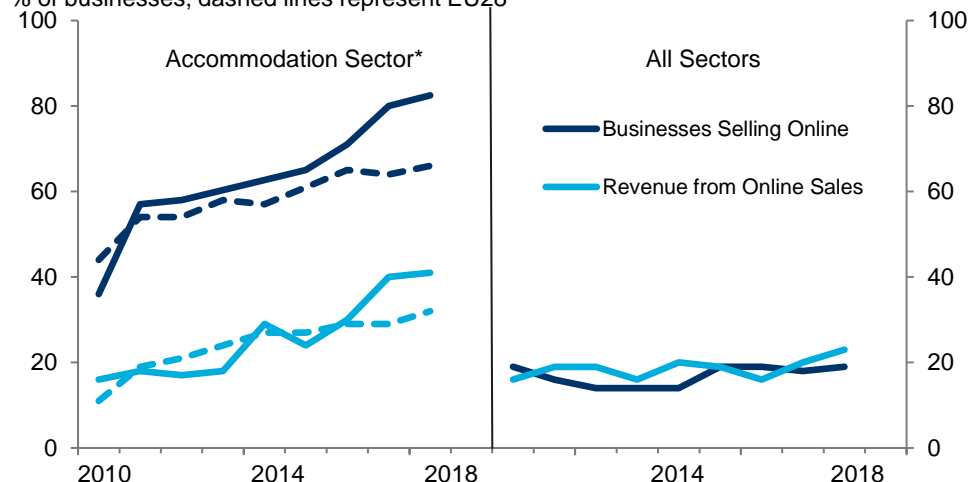
Portugal's accommodation sector has increased online sales presence significantly in recent years, with notable growth in 2016 and 2017. The continued use of third-party platforms including OTAs partly explains this growth; while the shift in promotion strategy towards digital by Turismo de Portugal also played a role.

Following the recent increase, Portuguese accommodation providers have a greater online presence than the EU average in terms of both online revenue and providers selling online. This is despite the low proportion of tourism businesses with websites as businesses are apparently embracing other platforms including social media or OTAs to better reach the market.

Portuguese accommodation providers outperform the EU average and most competitors in their online presence.

#### Online Sales by Businesses in Portugal

% of businesses; dashed lines represent EU28



\*2018 businesses selling online estimated for Portugal  
Source: Tourism Economics, Eurostat

### 4.4 ONLINE RESEARCH AND ORGANISATION

Online research is a wider concept than online sales. Unlike online sales which simply measures the physical booking component of travel arrangements, online research includes any stage of travel planning being researched electronically.

Different forms of online content is deemed by most Europeans to be a highly trusted source of information and has overtaken personal recommendations from friends and family<sup>16</sup>. However, even this distinction has become

<sup>16</sup> A fuller discussion of trust issues is provided in Chapter 4 of the previous report, Tourism Economics, The impact of online content on European tourism – an update (July 2017).

Online content is widely trusted, including reviews and social media content from other travellers.

increasingly blurred in recent years as such communications often now take place online or through social media platforms. Trusted recommendations may now come from friends who the user has never actually physically met. Both online research and personal recommendation tend now to be trusted more than traditional advertising media, which are seen as less independent and less objective.

Research is the primary online interaction between the supplier and consumer of travel and tourism products and services. Across the EU as a whole, the proportion of households researching is higher than the proportion of households booking travel and tourism. This is because travel can be researched online but still booked through more traditional media such as traditional travel agents.

The importance of online research should not be underestimated. Even consumers booking through other channels have increased their knowledge about a destination and likelihood to book from online data sources. The likelihood of booking is increased from online research as information asymmetry is reduced.

As online booking has risen across the EU, the share of travellers just researching, but not booking, online has fallen. There has been a fall in this proportion for Portugal as well, but it remains high as the share of travellers researching travel online remains higher than the proportion booking online.

The high use of social media among the general population and businesses in Portugal enables travellers to effectively research different options relying on trusted information posted by peers. The strong mobile connectivity within Portugal also allows this research during trips, suiting more independent travellers. Travellers are also able to share information about their trip, including videos and pictures on social media platforms in real time, potentially inspiring future travellers to choose that destination.

# 5. THE ACHIEVEMENT IN PORTUGAL AND FURTHER OPPORTUNITIES

## KEY POINTS

- Portugal has caught up with source market preferences for online information. The catch-up opportunity identified in previous years has been met as businesses have increased their e-commerce sales while still providing important information online.
- Almost 50,000 new jobs have been generated in Portugal by the increase in digital interactions in the tourism sector since 2012.
- Portugal's tourism strategy includes ambitious growth targets which would require gains in market share and can be realised by further improvements in online interactions.
- Over 50,000 additional jobs can be created, relative to baseline expectations, by achieving 2027 tourism revenue targets. Increased digital activity can help to achieve these targets.
- Continued rapid growth would also require further changes in the mix of source markets, including a higher share of travel from rapidly growing emerging source markets. Online interactions will help to reach these new markets, while improved analytics will be required to fully understand different traveler requirements.

## 5.1 REALISATION OF CATCH-UP OPPORTUNITY

In 2012, Portuguese tourism businesses were not meeting demand for online information and booking services in major source markets. This provided a substantial opportunity for Portugal to increase tourism growth by increasing their presence in terms of sales and online information. This opportunity in Portugal was greater than that in Croatia and not far behind that in Spain.<sup>17</sup>

This catch-up opportunity was realised over subsequent years as Portugal geared up its travel sector businesses to meet the online needs and expectations of its key source markets.

In recent years, the proportion of tourism enterprises' who are making some sales online has increased sharply. This is partly due to an increase from the 65% of tourism businesses with a website in the 2016 dataset, but is also explained by a growing embrace of third-party platforms such as OTAs.

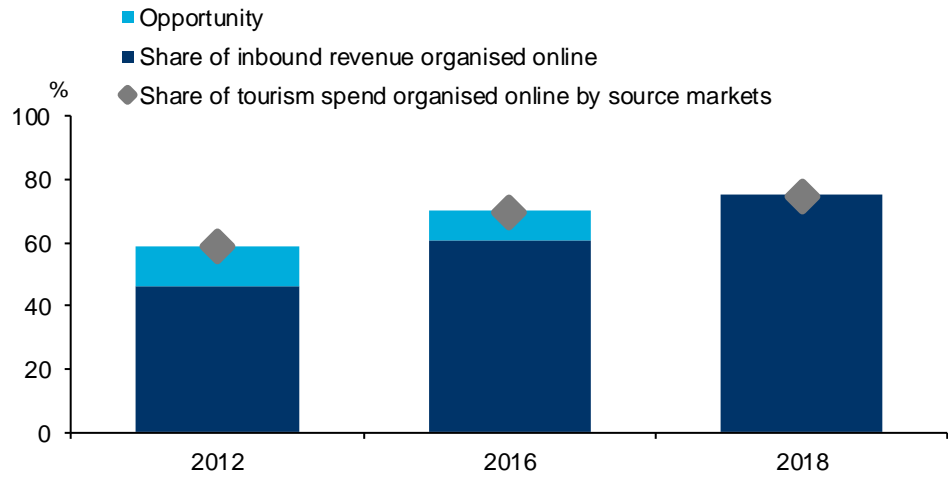
In 2012 there was a substantial opportunity for Portugal to boost tourism growth by increasing the online presence of their travel enterprises.

<sup>17</sup> See Chapter 6 of the previous report, Tourism Economics, The impact of online content on European tourism – an update (July 2017).



Portugal has geared up its travel sector to meet the needs of source markets to realise this catch-up opportunity.

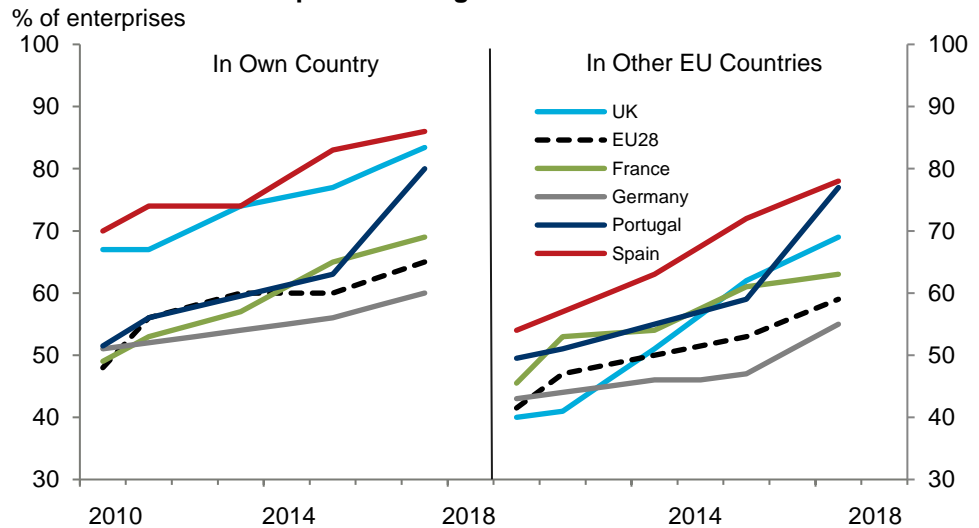
**Scale of opportunity in Portugal, 2012 - 2018**



Source: Tourism Economics, Eurostat, Eurobarometer

The share of Portugal's accommodation providers undertaking electronic sales within the domestic market rose to 80% in 2017 (this proportion of businesses selling online does not correspond to the actual sales share). This was significantly higher than the EU average, and the highest proportion among Portugal's competitors and some major source markets. When looking at sales by providers to other EU countries, Portugal has also improved notably and compares favourably with most source markets and competing destinations.

**Accommodation Enterprises Selling Online - 2010 to 2017**



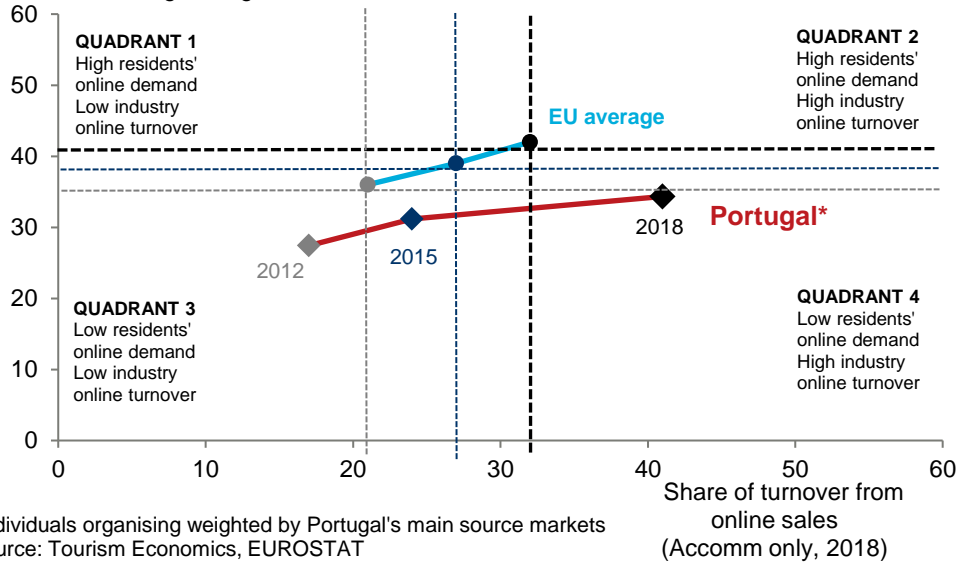
Source: Tourism Economics, EUROSTAT

Portugal's improvement (i.e. realisation of opportunity) since 2012 can also be visualised by using the framework from the quadrant chart in section 4.2. In the chart below, customers' demand for is represented by the percentage of individuals organising accommodation and travel online, weighted by Portugal's source markets (including the domestic tourism market). The improvement in online presence by Portugal's accommodation providers is shown by the large move to the right from 2012 and 2015 (where Portugal was situated in quadrant 3) to 2018 (quadrant 4). Essentially, Portugal's Travel & Tourism sector

developed from catering more to domestic market preferences in earlier years to then better meeting the needs of their source markets currently (many of which have a highly developed online presence). The increase in accommodation providers' online presence compared to the EU average over the period is also clear, especially from 2015 to 2018.

**Accommodation & Travel Business Online - Portugal**

% of individuals organising accommodation & travel services online, 2017



However, it is worth noting that different regions of Portugal have different mixes of source markets. For example, the Algarve is especially reliant on the UK whilst Madeira is especially reliant on Germany. The fact that the country as a whole has met the needs of its visitors does not necessarily imply that all regions have done so.

**5.2 GROWTH OF INBOUND TOURISTS AND THE DRIVERS**

In recent years, growth in tourist arrivals to Portugal has been very strong, including the effects of different factors. As shown in the graphic below, in the period 2012 to 2018, outbound travel from Portugal's source markets expanded at a compound growth rate of 4.3% per annum on average. The extent to which destination performance differs from this form of organic growth is typically due to changes in relative competitiveness and attractiveness. Exchange rates are an important indicator of changing price competitiveness, but in this instance, there has been relatively little impact from this channel<sup>18</sup>, primarily because many of the key source markets are also in the Eurozone.

The strength of Portugal's growth in arrivals means that 'other factors', including non-price competitiveness and attractiveness, have driven a large

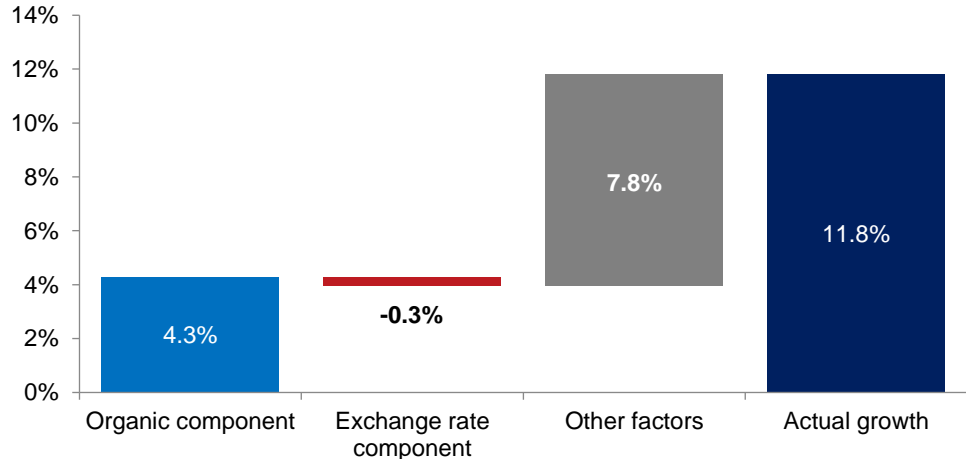
Inbound tourism growth to Portugal has been strong, reflecting a combination of growing source markets and other factors.

<sup>18</sup> Exchange rate effects are estimated according to estimated relationships within Oxford Economics' Global Tourism Model. This has been used to isolate the relative effect of changes in key drivers.

proportion of growth. These factors have had a larger impact on arrivals' CAGR than outbound growth amongst source markets.

Increased online presence and digital innovation has contributed to growth, some other temporary factors may have played a role.

**Components of Portugal's Growth in Visitor Arrivals, 2012 - 2018**  
Compound annual growth rate



Source: Tourism Economics

“Other factors” includes the realisation of existing opportunities via increased online presence and digital innovation, while the Government’s tourism strategy has also likely contributed. However, there are some other possible temporary factors at play, and as a result ongoing growth in tourist arrivals cannot be taken for granted.

For instance, it is possible that potential visitors have substituted Portugal for other Mediterranean destinations such as Turkey and Tunisia due to security concerns. Some neighbouring Western European countries such as France and Spain have also witnessed high-profile terrorist attacks in recent years, which may have encouraged travel to Portugal instead. This ‘displaced visitor’ growth cannot be expected to continue indefinitely.

Indeed, the strong growth of recent years stalled in 2018, with just 0.3% growth in arrivals. In part this reflects the removal of some of the factors which encouraged growth. For example, the perception of Turkey as a stable destination improved and the Turkish lira depreciated, both of which have encouraged travellers to return to Turkey. There was also a significant decline in visitors from the UK. However, there may have been some one-off factors at play as well, such as the extremely hot summer in 2018 and the devastating fires in the Algarve.

As a result of the rapid growth in inbound travel, total tourism employment (including indirect and induced effects) rose by 250,000 since 2012, according to the annual economic impact research published by WTTC. It is estimated that the contribution of the increased digital connectivity generated almost 50,000 of those new jobs.

50,000 jobs have been created since 2012 due to increased digital connectivity.

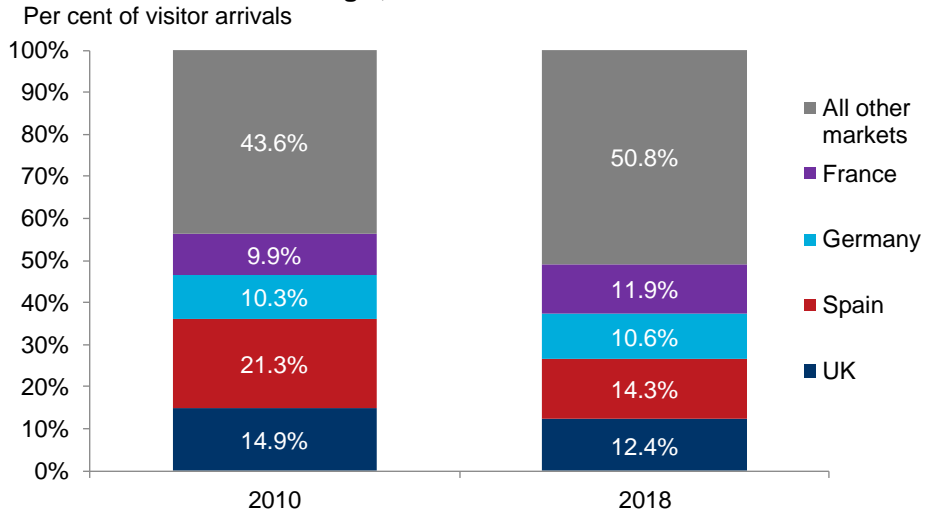
**5.3 THE CHALLENGE OF CHANGING SOURCE MARKETS**

It is important to recognise that the composition of Portugal’s source markets has changed since 2012 and can be expected to continue to change. Portuguese’ businesses online presence and marketing must be tailored to consider the needs of this changing source market mix.

The most established source markets such as the UK and Spain remain prominent, but have become less important as a share of total visitors than they were earlier in the decade. For example, travel from the UK fell in 2018 and contributed to the modest performance in total arrivals. Key drivers of this fall in UK travel include the appreciation of the euro against sterling, as well as the sharper depreciation of the Turkish lira and some increased political stability in that country.

The composition of Portugal’s source markets has changed in recent years, and further changes are likely.

**Source markets for Portugal, 2010 - 2018**



The importance of source markets outside of the major EU countries has grown, while the share of travel from Germany, France and Spain has fallen in the past 3 years (although Germany and France are more important than in 2010). Collectively the share of travel to Portugal from the top four EU source markets (including UK) has fallen by 7 percentage points since 2010.

The rise in demand from non-traditional markets means that, collectively, the top four EU markets now account for less than half of visitors to Portugal. The US remains an important source market within this group of ‘other markets’ and travel has grown especially rapidly in recent years.

Rapid growth in recent years has also been noteworthy from Brazil, while China’s share of visitors, though still small, has also grown significantly. Strong growth from these markets is likely to continue into the long-run given the economic development and continued increase in households able to afford long-haul travel. Visitors from these markets often stay for longer and spend more than visitors from the EU.

China, in particular, is expected to provide an increasing share of future visitors to Portugal (among many other destinations). It is believed that only around

Meeting the needs of new and growing source markets, such as China, is both an opportunity and a challenge.

10% of China’s population hold passports, and “overseas travel has not yet become a national trend”.<sup>19</sup> As such, Chinese visits to many developed countries (among them Portugal) is expected to increase in coming years. The establishment of direct flight links with China in 2017, and the historic links between Macau and Portugal, may also contribute to this growth.

There are additional opportunities and challenges ahead for Portugal’s Travel & Tourism sector.

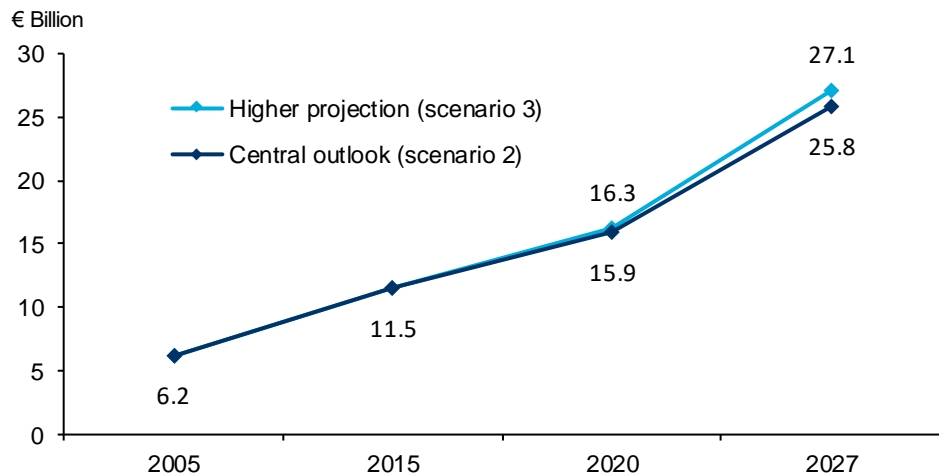
‘Emerging’ source markets, such as Brazil and China, will have their own specific needs. Meeting these needs can be considered both a challenge and an opportunity for Portugal’s Travel & Tourism sector. This can be achieved in terms of language requirements, level of online literacy, and travel patterns or preferences. Given the existing ties between the countries, the Brazilian market may represent a relatively straightforward opportunity to pursue, especially in terms of language requirements. By comparison, attracting visitors from China represents more of a challenge. Aside from the language barrier, Chinese visitors tend to use different platforms and have different tastes and preferences from larger and more established source markets such as the UK.

### 5.4 LOOKING FORWARD

Ambitious growth projections are included within Portugal’s published tourism growth strategy for years to 2027<sup>20</sup>, which would require growth in market share. This is particularly true of the highest of the three growth scenarios in that report (scenario 3), which assumes annual average growth of 6.1% in domestic and foreign overnights for the years to 2027. The central forecast (scenario 2) of around 4% per annum is more closely aligned with Oxford Economics’ baseline expectation and can be largely realised with organic growth from major source markets and a more stable share of demand.

Continued growth in digital connectivity can drive further market share gains and deliver higher target levels of visitation and spend.

**Strategy Projections for International Tourism Receipts in Portugal**



Source: Tourism Economics, Turismo de Portugal

The higher scenario presented in Portugal’s tourism strategy involves an additional €1.3 billion in tourism receipts from international visitors. This would

<sup>19</sup> Dai Bin, head of the CTA in PATA Youth Travel Report: Stepping out of the crowd (2016).

<sup>20</sup> Estrategia Turismo 2027: Liderar o Turismo do Futuro (2017), [https://estrategia.turismodeportugal.pt/sites/default/files/Estrategia\\_Turismo\\_Portugal\\_ET27.pdf](https://estrategia.turismodeportugal.pt/sites/default/files/Estrategia_Turismo_Portugal_ET27.pdf)

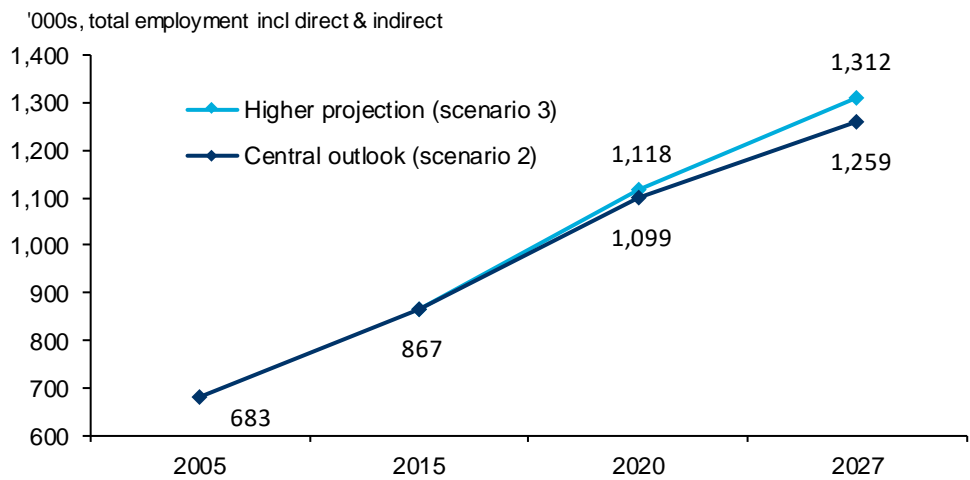
be realised with average annual growth of 7.5% per annum for the years to 2027, up from expected growth of 7.0% per annum in the central scenario.

Higher international arrivals and revenue can be achieved, at least in part, by further increases in digital connectivity and skills within Portugal. This includes better use of digital data to better understand travellers and improve products and services in order to further increase market share.

Higher inbound revenue targets in the 2027 strategy imply over 50,000 more jobs will be created within Portugal than under baseline expectations. This is consistent with the additional €1.3 billion in spending and Oxford Economics' expectations relating to GDP and employment, and consistent with the WTTC annual economic impact research.

Higher targets for international visits and spend will generate over 50,000 new jobs in addition to baseline expectations.

**Tourism Employment Projections in Portugal**



Source: Tourism Economics, WTTC, Turismo de Portugal

Some level of continued investment in digital infrastructure and skills will also be required to even maintain market share. There remains a need to continue to invest in digital networks and new platforms in the tourism sector. While Portugal is currently meeting demand for digital information in source markets, new travellers with potentially different requirements will need to be attracted in a highly competitive global market. Appropriate platforms, including the most widely used social media platforms in those markets, must be adopted.

A further increase in the share of travel organised online in major source markets is likely over the coming ten years as digital travel requirements continue to evolve. Market share gains can be realised by meeting this demand for online information and booking. Greater innovation, including the use of data from online interactions will help Portuguese destinations to better understand potential travellers, develop new products and stay relevant in the dynamic market.

Portugal's different source markets are often not interested in the same activities and different parts of the country appeal to them. For example, Germany is the key source market for Madeira with its interest in nature tourism while the Algarve is the destination of choice for many UK tourists. Evolution of

Evolving source market preferences should be considered in future online provision.

preferences by source market and destinations within Portugal can be better understood through the use of digital data.

International travel to Porto and Lisbon has roughly doubled since 2012, while they have also experienced the most growth in online interactions and searches in recent years within Portugal. These destinations also have better digital infrastructure and travel businesses are able to better engage with the younger travel audience driving a proportion of this growth. This example should be followed by other destinations within Portugal with continued online engagement across the country.