Tourism Cluster in Lisbon

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I. Executive Summary

The present report of Tourism in Lisbon represents an overview of a fast-growing dynamic cluster, in a city rich with natural and cultural endowments.

The rapid growth of tourism in Portugal over the past years coincided with the country’s economic recovery and improving macroeconomic competitiveness, although unemployment and debt to GDP ratio remain relatively high. The report finds that Portugal’s microeconomic competitiveness could improve, particularly in areas of labor productivity, private investments and skilled labor force.

Lisbon tourism boom rides on the wave of a steady growth of tourism industry globally, as well as in Europe, the largest tourist destination. The report finds that Lisbon benefits from strong local and regional demand driven by rich endowments combined with an authentic brand, good access, and a positive reputation. The city has been experiencing steady annual growth recently of around 10%. The rapid growth boosted the local economy, and enabled the growth of related industries, but also revealed certain inadequacies of the tourism cluster, as well as challenges to Lisbon’s authenticity, the source of its competitiveness.

The tourism cluster in Lisbon has the potential to generate higher economic values and distribute them among Lisbon residents. In order to address the challenges faced by the cluster, the report suggests ways to increase the competitiveness of the tourism cluster to make Lisbon a more prosperous city, namely by upgrading the tourism cluster, improving city management, prioritizing data gathering and analytics, developing high-yield tourism and addressing seasonality.
II. Country Context

Endowments

Portugal endowments consist of natural resources, geographical location, population and agricultural area. Located in the Southwestern Europe, bordering the North Atlantic Ocean, west of Spain, Portugal has a privileged geostrategic position as a European Atlantic Hub, and has access to approximately 500 million European consumers. Since joining the European Community in 1986, Portugal’s economy has diversified, contributing to better quality of life for the Portuguese. Portugal’s population is concentrated along or near the Atlantic coast, in Lisbon and the second largest city, Porto. 15.5% of Portuguese population are between 0 to 14 years old, and the main part of the population, 41.88%, are between 25 to 54 years old. Nearly 40% of its territory is agricultural land, and its main natural resources are fish, forests (cork), iron ore, copper, zinc, tin, tungsten, silver, gold, uranium, marble, clay, gypsum, salt and hydropower. ¹

Portugal is also a country that benefits from the Mediterranean climate. Lisbon is the second sunniest European city with a yearly average 2799 hours (117 days) of sunshine²; with beautiful landscapes and beaches, and also places with great historic, religious (ie. Fatima) and cultural heritage.

Macroeconomic Competitiveness

Starting in 2013, after the difficult impact of the sovereign debt crisis, Portugal’s economy has been gradually recovering. A structural reform agenda, led by the national government, is at the origin of this outcome. Its export performance has improved compared to European peer countries, and unemployment rate has fallen. Portugal was also successful in easing fiscal pressures, lowering the public deficit from 11.2% of GDP in 2010 to 4.4% of GDP in 2015. However, fiscal sustainability is

¹ http://ec.europa.eu/eurostat/statistics-explained/index.php/Agricultural_census_in_Portugal
still challenge since Portugal’s public debt of around 130% of GDP today is projected to decline only very slowly, to around 120% by 2030\(^3\). High public debt levels and a banking sector in recovery are currently restricting private investments in Portugal. Despite the improving unemployment rate, joblessness is restraining consumption growth. With inflation under control and external imbalances declining, boosting investment and productivity are key for Portugal’s growth and prosperity in order to enhance Portugal’s standard of living and to achieve sustainable development.

Portugal’s GDP has been steadily increasing (at varying rates) since the recession in 2012, reaching $198 billion in 2015\(^4\). Real GDP growth was 1.4% in 2016, and forecasted to grow at 1.5% in 2017-18.\(^5\) Portugal’s GDP per capita was $30,601 in 2016, well below OECD’s average of $40,040.\(^6\)

- **Composition of Portugal’s Economy:**
  Tourism is the biggest sector of the Portuguese economy, and its relative weight in the economy has grown over recent years, contributed $12.8 billion, or around 16% to the GDP in 2015. Portugal’s economy is also dependent on the exports of automotive parts and electrical machinery, transportation, logistics and business services. (Figure 1). The country has a high gross public debt which was close to 130% of GDP at the end of 2015. Under current plans, public debt is projected to decline only very slowly, to around 120% of GDP by 2030.\(^7\)

- **High Unemployment Rate:** The labor market situation has been improving since 2013. Overall unemployment rate decreased from 16.4% in 2013 to 12.6% in 2016. However, this rate is higher than

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\(^4\) World Bank
\(^6\) https://data.oecd.org/gdp/gross-domestic-product-gdp.htm#indicator-chart
EU’s average unemployment of 8.2% in 2016 (Figure 4). Moreover, youth unemployment in Portugal is alarmingly high, even though it has been declining as well. Almost 35% of Portuguese youth were unemployed in 2014. Overall, 14% were not in employment, education or in training in 2013, putting them at risk of poverty and social exclusion (Figure 2).

**Microeconomic Competitiveness**

- **Labor Productivity**: Labor productivity in Portugal is low in comparison to the OECD average. By measuring productivity as GDP per hour worked, Portugal’s workers are 47% less productive than those in the United States, compared to the OECD average of 26% less (Figure 3).

- **Private Investments**: Growth remains sluggish due to very weak public and private investment. High public debt at 130% of GDP, has limited public investment. In addition, a highly leveraged corporate sector and high uncertainty has put pressure on business investment, which is integral for growth. According to the Survey on the Access to Finance of Enterprises (SAFE), access to finance is the biggest obstacle to investment in Portugal (Figure 4).

- **Emerging Start-Up Sector**: it is a small sector (US$18.5m in venture capital deals were done in Portugal in 2016) supported by a specific financing system and a competitive tax environment. Notwithstanding, Portugal’s affordability, human capital underemployed and Brexit are likely to support its growth. Portugal added 35,500 new companies in 2015, a record year for startup businesses. However, “the survival rate of startups in Portugal is still low when compared to other countries.” Firms aged 0-2 years-old represented 6% of all firms in Portugal, better than Italy’s 3% and Chile’s 4%, but lower than U.S.’s 8% and Turkey’s 12%.

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8 “Portugal - Economic Forecast Summary (November 2016) - OECD,” n.d.
11 Ibid.
• **Research and Development:** it represents 1.3% of GDP lower than OECD’s average of 2.4% (Figure 5) but within the average of other in the South of Europe countries (Spain, Italy). Additionally, there is low cooperation between SMEs and research institutions\(^{12}\). The Government has been trying to raise the quality of research by partnering with strategic programs in science, technology and higher education, which brings together Portuguese and foreign universities, including MIT, Carnegie Mellon University and the University of Texas at Austin. A need exists to incentivize academic research to collaborate with industry to improve the cooperation between research and business sector.

• **Insufficient Skilled Labor:** About 45% of Portugal’s working age population have attained upper secondary education. This rate is much below OECD’s average of 77% (Figure 6). According to a survey conducted by WEF, managerial skills remain low since professional managers are insufficiently hired into managerial positions. Improving skills is crucial to raising productivity, including through the continued expansion of adult education, training and vocational education.

### III. Tourism Cluster Analysis

**Tourism Overview**

• **Global Tourism:** In 2016, international arrivals grew by 3.9%, and travel and tourism’s contribution to world GDP outpaced the economy for the sixth consecutive year (rising to a total of 10.2% - US$7.6 trillion). Notably, 2016 demand for international tourism remained robust despite incidents and attacks in major cities such as Paris (2015) and London (2016). For 2017, Europe is expected to grow between 2% and 3%, lower than the 3% - 4% overall average for the world, and significantly behind the highest growth regions - Asia and the Pacific, and Africa both at 5 to 6%.

Tourism Cluster in Lisbon

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• **European Tourism**: With 608 million international arrivals in 2016 – twice as many as nearest challenger Asia and the Pacific - Europe is the largest tourist destination region in the world. While Europe has always been popular, the freedom of movement brought about by policies adopted following the creation of the EU dramatically increased travel. Airline liberalization, resulted in the emergence of low cost carriers, and significant growth in air travel. Between 1995 and 2014, the number of passenger kilometers within the EU for air transport increased by 74% compared with a worldwide rise of 23%. In 2016, the eight EU destinations in Southern and Mediterranean Europe, led growth at 8% overall. Portugal (+13% through November), led the group’s results, fueled by strong demand from European source markets, partly due to the perceived security and stability in comparison to destinations elsewhere and a focus on online marketing.

• **Portugal Tourism**: Portugal is a coastal nation with 1,794 km of coastline located at the western end on the Iberian Peninsula. The Portuguese territory also includes a series of archipelagos in the Atlantic Ocean (the Azores and Madeira), which are strategic islands along the North Atlantic. The country has many world class beaches throughout its long coastline, many with great condition for surf. Portugal borders Spain (on its northern and eastern frontiers: a total of 1,214 kilometers). This proximity could provide Portugal easy access to large numbers of visitors, as Spain ranks third in the world for international visitor arrivals. UNESCO has granted World Heritage status to 21 locations in Portugal, including historic centers, archaeological sites, cultural landscapes, natural parks and intangible heritage. In addition to the capital city of Lisbon, Portugal has numerous attractive small cities including Porto, Sintra and Cascais and beach and golf focused tourism in the South, in

14 UNWTO European Union Short Term Tourism Trends, Volume 1 2017-1
15 Wikipedia
16 UNWTO
17 Visitportugal.com
Algarve. The distribution of small cities could facilitate a dispersion of tourism services and benefits throughout the country.

International visitor arrivals to Portugal reached 10 million in 2015\(^\text{18}\), a 10% rise from 9 million international visitor arrivals in 2014 according to UNWTO. In 2015, revenue from travel and tourism increased by 9.3\% to reach €11.4 billion\(^\text{19}\), representing about 7\% of Portugal’s GDP and 45\% of total value of service exports.

Portugal is among the top 10 tourism destinations in Europe (as measured by arrivals), but it only accounts for 3\% of the number of nights spent by tourists in Europe (Figure 7). Spain, Italy and France have long been the top three destinations. According to Eurostat, professional and business travel to Portugal in 2014 accounted for 10\%, while personal travel to visit friends or for holidays and leisure accounted for

![Trips to Portugal by Purpose](chart)

**Trips to Portugal by Purpose**

- **Visits to friends and relatives**: 45\%
- **Holidays, leisure and recreation**: 40\%
- **Professional, business**: 10\%
- **Other (health treatment)**: 5\%

*Source: Eurostat*

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\(^{19}\) “Statistics Portugal, Instituto Nacional de Estatística,” n.d.
85% combined. Travel into Portugal for pilgrimage (Fatima) and health treatments represented 5% of all the trips.

On average, tourists in Portugal spend EUR 35 a day on total consumption expenditure (excluding accommodation) made by a visitor or on behalf of a visitor for and during his/her trip and stay, according to Eurostat. This amount is much lower than comparable markets. Tourists in Italy spend EUR 57 a day and EUR 39 in Spain and Croatia. However, Portugal’s rate is higher than Greece’s EUR 29 a day.

**Lisbon Tourism**

Lisbon benefits from strong local and regional demand driven by robust endowments combined with an authentic brand, good access, and a positive reputation. In 2017, Lisbon was elected the 2017 Ibero-American Capital of Culture, and the influential travel publisher *Lonely Planet* ranked Lisbon 8th in its’ *Best in Travel, Top Cities* list. The top source markets for visitors are United Kingdom, Germany, Spain, France and the Netherlands. A robust festival and events calendar draws repeat visitors from Portugal and the region. In 2015, Lisbon benefited from the fact that countries with a comparable offering to France, Turkey, Egypt and Tunisia (which were hit by terrorist attacks) saw booming international arrivals. Spain, Greece, Portugal and Italy, in particular, attracted growing numbers of visitors. Despite having good access, Lisbon has not drawn significant numbers of visitors from long haul markets. One

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22 Euromonitor International ‘Top 100 City Destinations Ranking’ 2015
theory for this is lack of cooperation with other European destinations to attract long-haul visitors who seek multi destination European travel.

Travel & Tourism is indisputably of strategic importance to Lisbon. According to a study by Lisbon Tourism Association, tourism sector is significant to Lisbon, contributing 14.5% of the city’s GDP in 2015 with an approximate value of EUR 6 billion and employing 80000. The occupancy rate has been increasing steadily, reaching 74% in 2016. Along with the increase in occupancy, the city also saw an increase in revenue per available room (RevPAR) (Figure 8). Lisbon is one of the European cities with the highest occupancy growth potential. However, Lisbon’s rate of Euro 73 per night puts it in the lower end compared to other European cities.

Tourism Competitiveness Analysis

A. Current Lisbon Tourism Strategy:

The growth in Lisbon tourism is credited to the city’s focus on the development of cultural tourism products as well as the private sector’s increasing investments in hotels and restaurants in addition to a change from offline marketing to online marketing campaigns. Lisbon’s municipality has been stimulating public-private sector collaboration to enhance the city’s cultural offerings. This collaboration is exercised through the Lisbon Tourism Association whose composition includes public sector officials, business associations and individual associates in a total of 23 members. The association focuses on improving the attractiveness of key tourism assets and attractions, such as museums, exhibits, concerts and convention centers. These improvements are funded through the Lisbon Tourist Development Fund which was created with revenues generated by the tourist tax to

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24 BNP Paribas Real Estate - “Lisbon gets its Game On!: Hotel Market Snapshot of Lisbon, Portugal,” November 2015
25 Ibid.
26 https://www.visitlisboa.com/about-turismo-de-lisboa
promote projects that enhance the experience of tourists and the quality of life of the Lisbon.

Specifically, the focus areas are as follows:

- The creative economy: with emphasis on event such as Creative Hubs Forum 2015, Lisbon Architecture Triennale, and Lisbon Fashion Week
- Marine (sea) economy: cluster which in part aims to make the city a key cultural and tourism destination
- The Lisbon Historical Stores Program: aimed to promote local trade and traditional shops of Lisbon
- The Lisbon Shopping Destination Project: part of the strategy for the promotion and revitalization of the city trade and aims to bridge the gap between the tourism (on the rise) and trade and consumption, taking advantage of the international demand, in a time when the internal market has strong restrictions on consumption.

**Current Focus:** The Strategic Tourism Plan for the Lisbon Region notes that Lisbon's key tourism segment is couples aged 35-54 looking for short city breaks, and that the city is not as successful in attracting tourists for other reasons. Tourist attractions with the potential to create a higher-grade value proposition are currently at various stages of development. Communication and promotion have focused on mass markets, with 'variety' as the positioning. However, the current model of growth in tourism is eroding Lisbon's competitive advantage. The rapid growth in the number of visitors attracted to Lisbon might strain the offerings that the city provides and endanger its authenticity. In the end, uncontrolled mass tourism destroys the core things that made a city attractive to tourists in the first place: the unique character of the local culture. The flood of tourists in Lisbon is attracting several businesses whose objective is to make a quick profit by selling cheap products. As a result, the city and businesses have not been able to break out of the cycle of attracting and providing for low-cost

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27 Entidade Regional de Turismo da Regiao de Lisboa 2015-2019
travelers. There have been attempts to enhance Lisbon’s offerings by building golf courses in proximity to the city to attract international golf visitors who are a high-yielding segment.

More recently the destination has moved away from traditional advertising toward media relations. The website www.visitlisboa.com has been upgraded to focus on experiences available in the destination rather than just scenery and attractions. However, Lisbon lacks a strategy and marketing plan to develop a high-quality offer around the concept of “Authentic Lisbon” beyond the traditional cultural activities (museums, exhibitions) or low-cost offers. Current efforts are focused on implementing industry ‘best practices’, such as building an amusement park and adding more museums.

B. **State of Cluster Development**

<table>
<thead>
<tr>
<th>Related and Supporting Industries</th>
<th>Core</th>
<th>Supporting Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Retail, Health services</td>
<td>Travel agents</td>
<td>Government and Regulatory</td>
</tr>
<tr>
<td>Food suppliers</td>
<td>Tour operators</td>
<td></td>
</tr>
<tr>
<td>Banks, Foreign Exchange</td>
<td>E-tourism</td>
<td></td>
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<tr>
<td>Real Estate</td>
<td>Cultural, sports &amp; recreational services</td>
<td></td>
</tr>
<tr>
<td>Creative Industries</td>
<td>Restaurants / Night Life</td>
<td></td>
</tr>
<tr>
<td>Wine and Culinary Industries</td>
<td>Transport</td>
<td></td>
</tr>
<tr>
<td>Cultural Institutions / Infrastructure</td>
<td>Airlines / Cruises / subway / buses</td>
<td></td>
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<tr>
<td>Conservation/ Restoration</td>
<td>Accommodation</td>
<td></td>
</tr>
<tr>
<td>hotels, hostels, Airbnb</td>
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</tbody>
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The tourism cluster in Lisbon comprises the government (Turismo de Portugal, and the Municipality of Lisbon), private sector, educational institutions, related industries, as well as a number of Institutions for Collaboration (IFCs).
• **Turismo de Portugal**: The Secretary of State for Tourism is located within the Ministry of the Economy. Turismo de Portugal I.P. is the National Tourism Authority. It is responsible for implementing tourism policy at a national level and reports to the Secretary of State for Tourism. Turismo de Portugal oversees the promotion, improvement and sustainability of tourism activities, operates a network of 12 hospitality and tourism schools, and coordinates the activities of 17 promotion teams in source markets. The Committee for the Strategic Orientation of Tourism brings together the ministries directly or indirectly related to tourism in order to ensure interdepartmental coordination in the implementation of the National Tourism Strategy. The total budget of Turismo de Portugal was EUR 252.4 million in 2015, including a promotional budget around EUR 47 million.28

• **Association of Hotels of Portugal (AHP)**: combines more than 600 members, ranging from small to large hotels, representing more than 60% of the hotel industry in the country. Through annual congresses, research and studies, AHP promotes exchange of knowledge, innovation and excellence in the hotel sector.

• **National Restaurant and Catering Association**: Restaurants are represented by the AHRESP, which was established 120 years ago. The association is the largest business association in the country, integrating and representing multiple sub-sectors, including catering, beverages, accommodation, hospitality, rural tourism and local accommodation.

• **Regional Tourism Promotion Agencies (ARPT)**: non-profit, private associations which bring together government and private companies. They engage in international marketing in co-ordination with Turismo de Portugal, with whom they have a contractual relationship.

• **Lisbon Tourism Association**: is Lisbon’s ARPT. In 2015, the Association created the ‘Fund for Tourism’, funded in part by a 1 Euro levy collected on each room night sold in all visitor accommodations – hotels, inns, Airbnb, etc. The City also contributes funds from related sources (such

28 OECD Country Profile- OECD TOURISM TRENDS AND POLICIES 2016 © OECD 2016
as rents paid by restaurants using public owned space) for a total budget of about 12M EUR per year.

The Fund for Tourism is governed by the Association and decisions are made collaboratively by the public and private sectors. The Fund is currently being used to develop/refresh experiences for visitors, with a priority placed on cultural products such as museums, festivals and exhibitions. This commitment to a collaborative approach to tourism development is a factor supporting Lisbon’s tourism competitiveness over the long term.

The City of Lisbon has undertaken a number of initiatives aimed in part at developing Lisbon as a destination. The Lisbon Historical Stores Program and the International Shopping Destination Project are examples. Care must be taken to ensure that Lisbon retains and nurtures its strength as an authentic destination when these types of initiatives are undertaken.

C. Tourism Cluster Diamond Analysis

![Tourism Cluster Diamond Diagram]

Factors:
(+ ) Good quality endowments (good weather, natural resources, cultural heritage, strategic localization)
(+ ) Hub airport and connectivity
(+ ) Tourist Service Infrastructure
(+ ) Good quality of infrastructures
(- ) Airport at capacity and heavy local traffic in historical center
(- ) Skilled human capital for tourism (limited availability)
(- ) Tension tourism growth/city inhabitants (challenges Urban Planning)

Demand:
(+ ) Robust events/festivals calendar
(+ ) Safety and Security
(+ ) Sophisticated demand due to a strong, authentic brand (Lonely Planet)
(- ) Seasonality
(- ) Visitor mix: city of something for everyone
(- ) Relatively short length of stay
(- ) Relatively low business tourism

Context for Firm Strategy:
(+ ) T&I Enabling Conditions PT
(+ ) International Openness PT
(+ ) Rule of Law
(- ) IFCs for marketing purposes
(- ) Market failures (Labor, Financial)
(- ) Unfavorable tax system
(- ) Unstable regulatory environment
(- ) Macroeconomic framework

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29 Interview with Deputy Mayor of Lisbon, April 24, 2017, MOC Lisbon Team
1) Factor Conditions:

- **Historical, Cultural and Natural resources**: The authenticity of the city is considered an attractive factor for Lisbon as a tourism destination but the rapid increase in the number of visitors, is creating tensions with residents as well as jeopardizing the authenticity of the Lisbon experience. João Seixas, from New University of Lisbon is “very much concerned with what is rapidly happening to the historical center of our beautiful city. Our estimate is that in the last three years, around one-quarter or even one-third of the housing stock has changed function, mainly toward financial investments and short rentals.” In relation with the environment, and the protection of Lisbon’s endowments, the Lisbon Strategy for 2010-2024, have identified the city regeneration (rehabilitation of vacant buildings and degraded city districts and green spaces, to reverse the depopulation process) as an issue, and also the climate change adaptation – such as flooding or reducing the number of vehicles in circulation and increasing the area of green spaces.

- **Human Resources**: The data suggest that there are not enough specialized professionals in the tourism industry in Lisbon. This is probably due to the fact that Lisbon has only one university offering hospitality education, and the tourism sector has a limited capacity to attract qualified individuals. The annual median salary of a worker in the tourism industry is about 33% less than in the other economic sectors in Portugal which can be explained by the fact that among those working in tourism in Portugal, 58% have only primary education and 12% have high education. The percentage of high education workers is 20% in hotels/accommodation, 54% in tourism agencies and 7% in restaurants.

In 2016, the tourism sector employed (INE) 279.200 workers, an increase of 7.9% from 2015 but most of it is precarious work. Tourism revenues increased by 10% and the hotel industry profits reached a growth of 17% (almost 3 billion euros) the “average net wage of employees was 614 euros per
month”31, one euro less than in 2015. “The spike in fixed-term contracts and other types of contracts could be, first and foremost, explained by seasonality, a traditional obstacle in tourism, which makes companies in the sector hire temporary workers only for the summer season, however, the low season of 2016 achieved the highest growth of the whole year”. 32

• **Capital:** Tourism businesses in Portugal suffer from lack of internal funds, external funds and seed capital to support innovation, since they are perceived as high-risk by the banking systems and other funders33. This negatively impacts the drive for differentiation and creation of new products by local businesses.

• **Health and Safety:** The cleanliness and sanitation conditions are high and in line with the legal standards and regulatory rules imposed by the European. Additionally, Portugal ranks in the tenth place in security, in comparison to other major European cities who were hit recently.

2) **Demand**

The number of overnight international visitors into Lisbon grew at 8.3% CAGR between 2009 and 2015, reaching 3.56 million visitors, staying for about 10 million nights. This makes Lisbon the fourth fastest growing European city in attracting visitors.34 International tourism represents 70% of Portugal’s tourist demand, with the domestic market accounting for the remaining 30%.35 This is great news since it shows that are sophisticated and demanding local customers that focus on segment that can be served for a global audience, like good food, wine, night life, culture. This is crucial for the sustainability of the cluster.

31 http://www.tourism-review.com/portuguese-tourism-companies-pay-less-news5317#rrHA0dzws0Ch5WUT.99
32 http://www.tourism-review.com/portuguese-tourism-companies-pay-less-news5317#rrHA0dzws0Ch5WUT.99
33 OECD – Financing Approaches for Tourism SMEs and Entrepreneurs
3) **Related Industries**: Numerous industries support the tourism cluster and create additional incentives to visit Lisbon. The key related industries are restaurants, hotels and creative industries.

- **Hotels**: Lisbon’s hotel industry has been growing to accommodate the increasing number of tourists. Greater Lisbon’s hotel market had 224 hotels with a total capacity of 23,834 rooms in 2014 (Figure 9). In the first ten months of 2015, it added an additional ten hotels, with 1,100 rooms\textsuperscript{36}. The large majority of Lisbon’s hotel supply is concentrated in the old city center, and characterized by a particularly low penetration rate of international hotel chains.

- **Food and Wine**: Investments in improving the competitiveness of Lisbon’s culinary sector is paying off. There are 3,629 restaurants in Lisbon, among them new style cafes, wine bars and small restaurants offering a range of petiscos (sharing plates) that are popular with tourists and locals alike, making Lisbon a gastronomic destination. Seven restaurants in the city are Michelin star decorated, up from only three restaurants five years ago. Additionally, wine tourism is considered a strategic priority given its capacity to attract tourists, while contributing to the reduction of the seasonality effect. There are 339 firms offering wine tourism services, out of which 24 are in Lisbon\textsuperscript{37}.

- **Creative Industries**: For the past decade, ADDICT, the Creative Industries Agency of Portugal, has been the de facto coordinator for the creative industries in the country. It comprises around 100 members spanning the culture and creative sector disciplines as well as different institutional profiles, including universities, R&D centers, city councils, creative businesses and non-profit cultural organizations.

- **Start-ups**: The City plans on turning Lisbon into a hive for tech startups. The public sector financially supports initiatives such as ‘Lisbon Challenge’ and ‘Tourism Day’. The latter is a sector-

\textsuperscript{36} Lisbon Hotel Market Snapshot, BNP Paribas, November 2015

\textsuperscript{37} O Enoturismo em Portugal, Caraterizacao de offerta e procura” (Wine tourism in Portugal, Characterization of Supply and Demand), Ministry of Tourism, Direction for Strategic Planning, 2014
specific initiative focusing on tech based start-ups with tourism-related activities.\footnote{OECD – Financing Approaches for Tourism SMEs And Entrepreneurs} Between 2014-15, around EUR 5 million was invested in tourism start-ups. However, these initiatives are focused on innovation in tech products as opposed to innovation along a broader spectrum of tourism activities to include not only tech products, but also innovation in services that can further differentiate Lisbon’s tourism offer.

- **Attractions**: In the immediate neighborhood of the city, visitors can find Europe’s largest estuary, a natural park, sandy beaches, seaside terraces, museums, casinos, golf courses and year-round world class surfing and sailing. There are two UNESCO world heritage sites in Lisbon area – Complex of Belem (itself comprising the Monastery of the Hieronymites and Tower of Belem) and the Cultural Landscape of Sintra (Figure 10). This number is larger than in many other European capitals – for example, Barcelona and Madrid have one. In 2017, Lisbon launched a public tender for the design and construction of “New Feira Popular”, the new amusement park to be built close to the city center, targeting both local families and tourists.

- **Convention Centre**: Lisbon is considered mainly as a leisure tourism destination; however, the city has great potential to develop business tourism. Each year, Lisbon has been organizing more events aimed at business travelers – according to the Lisbon Observatory of Tourism, more than 1000 such events were organized in 2014, attracting almost 200,000 participants\footnote{Lisbon Hotel Market Snapshot, BNP Paribas, November 2015}. In the International Congress and Convention Association latest rankings, Lisbon came in the ninth place in the world, with 148 large international meetings held in 2015. Half of all events concern medicine, sciences or technologies. One of the biggest successes in this regard is Lisbon’s Web Summit, which over six years has grown from 400 attendees to over 50,000 attendees from more than 150 countries. The Summit has become “Davos for geeks”, and “Europe’s largest and most important technology marketplace”\footnote{http://www.iccaworld.org/newsarchives/archivedetails.cfm?id=5786}. 

\footnotetext[38]{OECD – Financing Approaches for Tourism SMEs And Entrepreneurs}
\footnotetext[39]{Lisbon Hotel Market Snapshot, BNP Paribas, November 2015}
\footnotetext[40]{http://www.iccaworld.org/newsarchives/archivedetails.cfm?id=5786}
• **Infrastructure/logistics:** According to WEF, Tourist Service Infrastructure ranks in the 10th position. However, airport, ground and port infrastructure ranked relatively poorly at 34th position.

  **Airports:** Airports in Portugal are managed by Aeroportos de Portugal, S.A (ANA, S.A.) on behalf of the government of Portugal under a 50-year concession agreement signed in 2012. ANA, S.A. is a private company 100% owned by the VINCI Airports International, S.A. In 2015, a record 38.9 million passengers passed through Portugal’s airports (+ 11% compared to 2014) with about half of this volume passing through Lisbon International Airport. The Lisbon Airport is now operating at capacity. Recently, the government approved plans for a second international airport in Montijo, focusing on low-cost and medium-haul flights. Passengers arriving at the airport in Montijo will have to travel 8 miles by ferry or 20 miles by road into Lisbon. The City of Lisbon is advocating for the expansion of the Lisbon airport in the short term to handle increased demand. In 2015, ANA launched a route development strategy based on market diversification and aiming to attract new airlines. An incentive system is one of the key tools being used to achieve this strategic objective. Any airline operating out of any ANA airport can join the scheme, except in the case of Lisbon airport, due to constraints of capacity. This scheme is serving to divert demand from Lisbon to other airports in Portugal (e.g. Porto).

  **Ports:** The port of Lisbon is the busiest cruise port on the Atlantic coast of Europe. Four passenger terminals service more than 400,000 passengers per year, primarily from Britain, Germany and Italy. The port is also a popular departure port for several European cruise itineraries. The City of Lisbon is seeking to expand cruise capacity to handle up to 1,000,000 passengers per year, in part to make up for capacity constraints at the airport. However, these same airport constraints will impact

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41 Aeroportos de Portugal 2015 Annual Report
43 Interview with Deputy Mayor of Lisbon, April 23, 2017, MOC Lisbon Team
44 http://lisboncruiseport.com/port-terminal-lisbon-jardim-tabaco/
46 http://www.cruisereview.com/ports/europe-cruises/lisbon-port-faq.html#b
47 Interview with Deputy Mayor of Lisbon, April 23, 2017, MOC Lisbon Team
how much of the new business can be in the higher value departure port business, compared to the ‘port of call’ business.

4) **Context for Firm Strategy and Rivalry:**

The most problematic factors for doing business in Lisbon are high levels of taxation and inflexible labor market.

- **High Corporate Tax Rate:** With a total Tax Rate of 39.8% (as % of Profit), according to the World Bank’s 2017 Doing Business Report, Portugal levels of taxation are higher than the average of East Asia and Pacific (33.9%) and Europe and Central Asia (33.8%). Croatia, one of the countries considered as a competitor in the Tourism industry, for example, presented tax rates on profit of around 20.9%.

- **Inflexible Labor Market:** According to the Global Competitiveness Index, labor market in Portugal is considered inefficient, and it ranks 98/138 on flexibility measure. Two issues contribute to the rigidity in the labor market: hiring and firing practices and effect of taxation on incentives to work. Additionally, labor costs account for 19% of the total costs of Portuguese Companies. The minimum wage has become increasingly binding and currently exceeds 60% of median wages, compared to Spain (35%) or Greece (45%). Employment protection (protection of permanent workers against individual dismissal) in Portugal remains high, a feature that certainly has affected the creation of companies in the country.

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48 World Economic forum
49 OECD Economic Survey on Portugal
IV. Recommendations

Our overarching goal is to recommend ways to increase the competitiveness of the tourism cluster to make Lisbon a more prosperous city. This requires firms operating in the Lisbon tourism cluster to be able to compete successfully in the global tourism market while at the same time increasing wages and improving living standards for the average Lisbon residents.

1. **Upgrade Lisbon Tourism Cluster:** We suggest that Lisbon move from the current “follow industry best practices and try to offer what other cities offer” approach to an economic strategy based on an overall agenda for creating a more competitive and distinctive position for Lisbon tourism. The positioning should focus on its unique circumstances that enable Lisbon to provide high-yield offer around the concept of “Authentic Lisbon”, generating more value and higher salaries.

Upgrading the infrastructure perhaps leads to immediate gains, specifically upgrading Lisbon airport. Since the airport is operating at capacity, and flights are being diverted away, increasing the capacity to handle more flights and passengers coming into Lisbon, overcomes the infrastructure capacity restriction.

2. **Prioritize Data Gathering and Analytics:** Data usage in the tourism sector increases the sector’s dynamism and efficiency.\(^{50}\) Use of data can enhance city management, inform data-driven policy decisions regarding tourism development in Lisbon, improve tourism marketing and promotion, reduce aggregation costs, and mitigate tourism related nuisances for residents through good and reliable data gathering. The Tourism Association currently does not collect meaningful data on visitors’ activities and patterns, which could assist the Association in developing new, tailored products and aid in making tactical decisions. Data analytics enable the public and private sectors to identify “patterns in

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\(^{50}\) In the Strategic Tourism Plan for Lisbon Region
emerging travel habits and respond within a single season with new offerings which tap into this
demand.”

3. Increase Collaboration with Educational Institutions: Create initiatives to harness
collaboration between municipality, educational institutions and firms. These initiatives should support
research, testing and identifying of new products. They should also focus on improving the quality of
human capital, including setting up an International School of Tourism in Lisbon, to provide advanced
training to local and international students in Tourism, in order to increase the existing skill level and
support R&D with other tourism schools abroad, to bring know-how and innovation to Lisbon tourism
cluster.

4. City Management: focus on reducing the costs of agglomeration (pollution, congestion,
housing restrictions) through mitigation and adaptation that can be efficiently achieved if the city
government sets up a Digital and Data Analytics Unit within the Mayor office. This unit will greatly
assist in transforming local government by providing real time and granular data to the different
services on the needs and the conditions on the ground. The use of big data and digital government
tools will reduce the aggregation costs by improving the management of city services, allowing the city
to manage the mobility of the tourists around the city and promote less visited areas. The historical
center charm and authenticity is being eroded. Lisbon’s people is one of the city’s endowment,
described by visitors as extremely friendly and welcoming but their complaints are rising.

5. Develop High-Yield Tourism and Mitigate Seasonality: The tourism strategy should prioritize
growing the high-yield business segment and product offerings (conferences, golf, fine dining tourism)
and focus on value (e.g. $USD spent by tourist) not volume (no. of tourists/year). The strategy should
also focus on creating events in low seasons to grow demand. New products and services need to be

51 Big Data - The Impact on Travel & Tourism, World Travel and Tourism Council, April 2014
52 For instance, visitors could download an app that would send them real-time updates on what attractions have less visitors at any given
time. If an attraction has too many people, the city (through the app) could send all the app’s users a discount alert of 50% to visit other
attraction far away. These technological products could be developed in the incubators set up by the city in a partnership with Lisbon
Technical Universities with seed money allocated by the Government.
developed by R&D business schools and tourism schools to attract a high-yield visitor mix while leveraging digital marketing channels and techniques. There is a potential to link more effectively with the ICT start-up community to gain competitive advantage. Depending on Lisbon’s competitive advantage (15th place in the world for conventions and congresses) and its position in ICCA (International Congress and Convention Association), Lisbon should focus on business travelers, particularly in winter/spring months when occupancy rate is the lowest, reducing seasonality impact and creating sustainable jobs in tourism. Investment is required to build adequate auditorium and complementary rooms. Hospitality schools should develop and support R&D efforts focused on cultural resources and business travel. More efforts should be focused on integrating cultural and creative goods and services into tourism products of excellence to add value, preserve authenticity, safeguard heritage, and develop a unique tourism brand.

6. **Leverage the Emerging Start-up and Entrepreneurship Sector**: Entrepreneurism and start-up initiatives and agencies that promote innovation (IAPMEI) and startups (Startup Lisboa) could position Lisbon as a dynamic and creative city, where artists, artisans, and entrepreneurs could converge in a stimulating and affordable environment. This could be a magnet for a certain kind of tourists that could be targeted, and would also help build Lisbon’s image and Portugal’s soft power (currently ranked 21st in the world, also rising over the past years).
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Mr. Adolfo Mesquita Nunes – Former Minister of Tourism of Portugal – April 26, 2017.

Disclosure

Filipe Alfaiaate is from Portugal.
VI. Appendices

Figure 1: Portugal Exports of Top 14 Clusters (2015)

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitality and Tourism</td>
<td>$12,862</td>
</tr>
<tr>
<td>Automotive</td>
<td>$6,987</td>
</tr>
<tr>
<td>Transportation and Logistics</td>
<td>$6,565</td>
</tr>
<tr>
<td>Business Services</td>
<td>$5,204</td>
</tr>
<tr>
<td>Food Processing and...</td>
<td>$4,579</td>
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<tr>
<td>Oil and Gas Production...</td>
<td>$3,818</td>
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<tr>
<td>Upstream Metal...</td>
<td>$3,521</td>
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<tr>
<td>Apparel</td>
<td>$3,062</td>
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<tr>
<td>Plastics</td>
<td>$2,795</td>
</tr>
<tr>
<td>Paper and Packaging</td>
<td>$2,653</td>
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<tr>
<td>Production Technology...</td>
<td>$2,429</td>
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<tr>
<td>Textile Manufacturing</td>
<td>$2,313</td>
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<tr>
<td>Vulcanized and Fired...</td>
<td>$2,261</td>
</tr>
<tr>
<td>Footwear</td>
<td>$2,118</td>
</tr>
</tbody>
</table>

Source: International Cluster Competitiveness Project, HBS

Figure 2: Unemployment rate in Portugal and EU. (2008-2016)

Figure 3: Low Labor Productivity in Portugal with respect to the US (2014)

Labour productivity is measured by GDP per hour worked.

Figure 4. Access to Finance in some EU countries (2016)

Survey on Access to Finance (Index scale 1-10)
Figure 5: Low R&D investment in Portugal as a share of GDP compared to OECD

R&D as % of GDP in 2015

Source: OECD, Main Science and Technology Indicators database.

Figure 6: Working age Population with at least upper secondary education in EU (2015).

Percentage of working age population having attained at least upper secondary education, 2015

1. Working age population: 25-64 years-olds.
Upper secondary education corresponds to the final stage of secondary education in most OECD countries.
Tourism Cluster in Lisbon

May 2017

Figure 7: Night spent in the Top 10 tourism destination in Europe by non-residents in 2014

![Top 10 tourism destinations in Europe - nights spent in the country by non-residents](image)

- Netherlands: 3%
- Portugal: 3%
- Croatia: 5%
- Greece: 6%
- Germany: 6%
- Austria: 7%
- UK: 9%
- France: 11%
- Italy: 16%
- Spain: 22%

Source: Eurostat

Figure 8: RevPAR evolution in some EU cities (2010-2014)

![RevPAR evolution in some EU cities (2010-2014)](image)

Source: MKS Hospitality Database

Figure 9: Hotel Supply Evolution in Greater Lisbon (2010-2018)

![Hotel Supply Evolution in Greater Lisbon (2010-2018)](image)

Source: Turismo de Portugal, BNP Paribas Real Estate Hotels

Figure 10: Lisbon’s Main Tourist Attractions (2013-2014)

![Lisbon’s Main Tourist Attractions (2013-2014)](image)

Source: Turismo de Portugal, BNP Paribas Real Estate Hotel France