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The future of Japan's tourism:
Path for sustainable growth towards 2020

McKinsey Japan and Travel, Transport and Logistics Practice October 2016

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Preface

Japan's tourism industry is on the verge of becoming a major economic engine for the country. In 2020, Japan will host the Olympic and Paralympic Games and enjoy a global platform for its people, culture, and landmarks. Recently, tourism has been positioned as an engine to solve social challenges in Japan and support economic growth. The March 2015 McKinsey Global Institute report, The Future of Japan: Reigniting Productivity and Growth, described how Japan has the potential to more than double its annual GDP growth, to 3 percent, by increasing productivity. This insight is also applicable to tourism, and this report investigates the challenges and potential impact of several initiatives aimed at addressing obstacles to realizing its inbound tourism goals.

This report is the result of collaboration between McKinsey's Japan office and the firm's global Travel, Transport and Logistics Practice. The research team consisted of Shogo Akimoto, Shohei Ishigami, Minami Maeda, and Yusuke Shimada.

We are grateful for the advice and input of many McKinsey colleagues, including Urs Binggeli, Alex Dichter, Masahiro Komatsubara, Diaan-Yi Lin, and Cheryl SH Lim, all of whom provided insight on travel and tourism. For advice on retail and digital, we relied on Tomohiko Funaishi, Ken Kajii, Paul McInerney, and Okaryo Sho.

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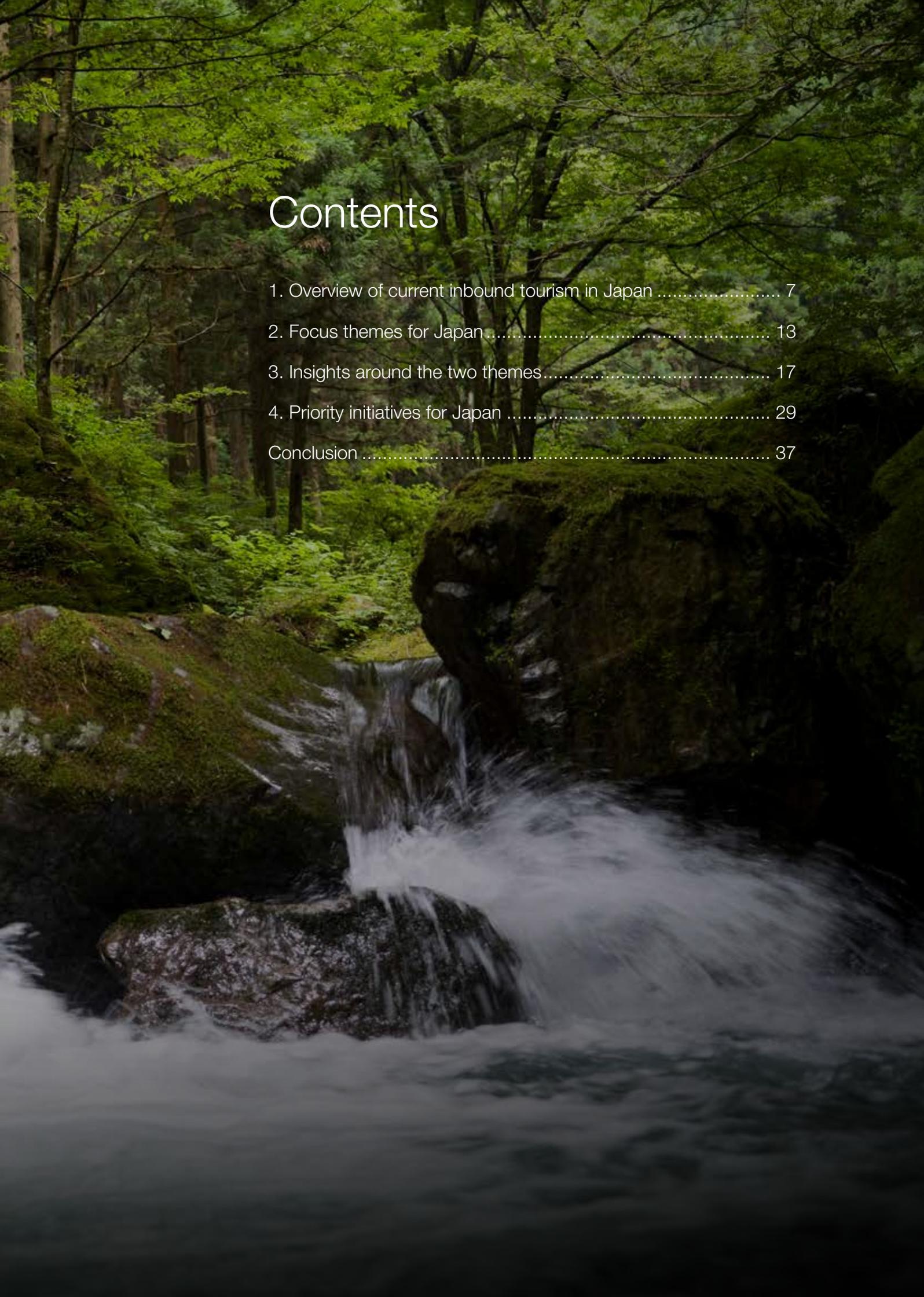
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October 2016

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Night market, Tokyo, Japan.

Executive Summary

From 2011 to 2015, Japan's inbound tourism grew by 33 percent a year,[1] among the fastest rates in the world. This growth was driven in large part by external factors (depreciation of the Japanese yen and China's economic growth) as well as onetime policy changes (airline deregulation and the relaxation of visas for tourists from China, Malaysia, and Thailand) that helped to make the country more accessible to outside visitors.[2] The rewards of bolstering Japan's tourism industry are great: in 2015, international tourists contributed JPY 3.5 trillion (approximately USD 35 billion) to the Japanese economy.[3] Japan's leaders, recognizing that inbound tourism could be a powerful economic engine, have set an aspirational target to double annual inbound tourism from 19.7 million visitors in 2015 to 40 million in 2020. The government also seeks to nearly triple the annual number of visitor nights in non-metropolitan areas[4] to harness tourism as a catalyst for the revitalization of these less-populous regions.[5]

These goals are not impossible to achieve, but ensuring that inbound tourism can grow sustainably will require more robust infrastructure, capabilities, outreach, and internal collaboration. To become a "tourism-oriented country" by 2020 calls for a shift in Japan's growth path.

The March 2015 McKinsey Global Institute report, *The Future of Japan: Reigniting Productivity and Growth*, described how Japan has the potential to double its annual GDP growth to 3 percent (from a steady 1.3 percent experienced from 2003 to 2013[6] by increasing productivity. The report defined three levers to capture this opportunity: global best practices, organizing for discipline and performance, and next-generation technologies.

These lessons are applicable in several industries, including those that serve tourists. This report lays out a road map and specific recommendations to help Japan achieve its goals for inbound tourism growth.

1   統計データ・国籍別 訪日外客数 [Number of arrivals by nationality], Japan National Tourism Organization Statistics, 2011–2015, jnto.go.jp.

2   中国人に対するビザ発給要件 [Relaxation of the visa requirements for Chinese], Ministry of Foreign Affairs of Japan, January 2015, mofa.go.jp. 「観光立国の実現に向けたアクション・プログラム」の取組状況について [Updates on the action program to become tourism-oriented countries], Japan Tourism Agency, September 2015 mlit.go.jp.

3   訪日外国人消費動向調査 [Survey on the behavior of inbound tourists], Japan Tourism Agency, 2015, mlit.go.jp.

4   "Non-metropolitan areas" includes all regions of Japan except Tokyo and surrounding prefectures (Chiba, Kanagawa, and Saitama), Aichi (including Nagoya City), and greater Osaka (Hyogo, Kyoto, and Osaka).

5   明日の日本を支える観光ビジョン [The Development of a Tourism Vision to Support the Future of Japan], Cabinet Office, March 2016, kantei.go.jp.

6   *Japan, World Bank*, worldbank.org/country/japan.

Recent tourism data and interviews to key stakeholders offers a better understanding of the visitor trends and patterns. Analysis reveals three themes that characterize Japan's inbound tourism supply and demand.

1. *Visitor-portfolio imbalance.* Currently, East Asian visitors account for 72 percent of the international tourists visiting Japan each year,[7] a proportion set to increase due to growth in the number of Chinese travelers. Other top-tier destinations have a more diversified visitor portfolio, with a higher ratio of tourists from outside their own region.

2. *Skewed regional distribution.* Currently, 48 percent of tourist stays are concentrated in the major cities of Tokyo, Kyoto, and Osaka,[8] suggesting a significant opportunity for Japan to attract more visitors to locations outside of top urban areas.

3. *Capacity constraints in major cities.* The accommodations and infrastructure of major Japanese cities are already stretched thin. Demand simulations for 2020 (using historical growth rates and applying that against current capacity expansion plans announced) indicate that the country may face up to a 50 percent shortage in accommodation in Tokyo/Kyoto/Osaka, and up to 30 percent overflow in air capacity for Haneda and Narita airports.[9]

Elected officials, policy makers, and other stakeholders recognize the challenge that capacity constraints present for major cities, and they are pursuing a range of strategies (such as easing regulation of vacation rentals and constructing new airport runways) to address this issue. For this reason, this report focuses on the first two themes.

Focus themes for Japan: Influencing visitor portfolio and regional distribution

International travelers are attracted to destinations for many reasons, including iconic sites, affordability, proximity, and familiarity, among others. To highlight the determining factors that could affect the composition of Japan's inbound tourism and travel patterns once in the country, McKinsey surveyed approximately 3,000 travelers from five countries, interviewed experts in Japan and around the world, and assessed case studies globally. Primary and secondary research and analysis sought to determine the factors affecting the composition of Japan's inbound visitors and their travel patterns once in the country. This analysis identified two categories of tourists—Asian and Western visitors. Due to several differences in preference, behavior, and knowledge of Japan, the tourism strategy should be tailored to each of these segments.

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7   統計データ・国籍別 訪日外客数 [Number of arrivals by nationality], Japan National Tourism Organization Statistics, 2015, jnto.go.jp.

8   宿泊旅行統計調査 [Survey on over-night trips], Japan Tourism Agency, 2015, mlit.go.jp.

9   Hotel demand is simulated based on 2011–15 growth of occupied lodging rooms. Air flight demand is simulated based on 2010–14 growth of departure/arrival flight numbers. Supply is simulated based on planned expansion as of 2015. Sources: 宿泊旅行統計調査 [Survey on over-night trips], Japan Tourism Agency, 2015, mlit.go.jp; 週刊ホテル・レストラン [Weekly hotel and restaurant journal], Ohta Publications, June 2015; 暦年・年度別空港管理状況調書 [Yearly report on management conditions of airports], Ministry of Land, Infrastructure, Transport and Tourism, 2010–14.

Visitor-portfolio imbalance

Japan succeeds in converting Asian tourists' awareness of the country into visits. However, Japan trails in converting interested Western tourists to visitors. For example, 40 percent of Western tourists who consider visiting Japan actually make the trip, while 60 percent of Western tourists who consider visiting Thailand do so. This discrepancy is due to several factors, including a relatively lower awareness of Japan's tourism assets, a biased perception of Japan as expensive, an online tourism portal that has could be more effective in catering to users, and a lack of structure around collecting visitors' word-of-mouth praise.

Skewed regional distribution

Overall, Japan's tourism industry is concentrated in major prefectures. However, local regions take in 30 percent less spending per day than urban regions.[10]

Challenges to rebalancing visitor portfolio and regional distribution

A number of specific challenges must be addressed to build on Japan's recent momentum.

Trailing in digitization. Japan's hospitality and travel industries have been slow to implement best-practice digital solutions for inbound visitors, and as a result it lags behind other destinations in attracting visitors through digital marketing.

Inadequate in data organization. Japan does not currently employ an integrated online data platform, including customer relationship management (CRM), to support its tourism activities.

No organization of "ambassadors." Japan does not fully harness the potential of satisfied visitors to help convince others to visit Japan and to revisit Japan themselves.

Lack of service/monetization model in local regions. Japan has yet to establish a unique service model in local regions to maximize tourism revenues.

Insufficient customer-driven perspective. Japan's tourism marketing lacks perspective from foreigners and does not tailor promotions to target segments.

Lack of regional coordination. Since each Japanese city and town pursues its own tourism agenda at the expense of broader coordination, they are missing an opportunity to redesign the region's tourism routes to feature assets that could attract more visitors.

Limited public-private coordination. Many of Japan's peers have staged successful tourism campaigns through partnerships between public and private entities. Japan has yet to capitalize on the coordination of such entities.

Absence of a change champion. Japan does not have a clear tourism champion to spearhead initiatives, secure funding, mobilize private and public stakeholders, and develop tourism assets.

Each of these areas represents an opportunity for Japan to make progress in enhancing its capabilities and the effectiveness of its outreach to foreign tourists.

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10 Urban regions refer to Tokyo, Kyoto and Osaka, and local regions refer to other prefectures. 訪日外国人消費動向調査 [Survey on the behavior of inbound tourists], Japan Tourism Agency, 2014, mlit.go.jp.

Resolution: Priority initiatives for Japan

Drawing visitors from foreign markets is a complex undertaking that involves hundreds (if not thousands) of stakeholders. The task is too monumental for one entity to manage effectively, so a public-private partnership (PPP) should be established to manage Japan's inbound tourism initiative. To succeed in increasing inbound tourism to 40 million by 2020, the PPP must be modeled on global best practices: clear leadership; a substantial level of coordination; frameworks to promote the "plan, do, check, adjust" cycle; targeted activities; peripheral industry involvement; and advanced technologies.

Once formed, the PPP should pursue a road map built around five key levers:

- Strengthen the Japanese destination management organization model

- Build a platform to support tourists' end-to-end customer experience

- Support hotels and sightseeing spots in building inbound tourism capabilities

- Embed foreign visitors' viewpoints in marketing and promotion

- Enhance online promotion to make tourists ambassadors

These priority initiatives, implemented in a phased manner with metrics to track progress, will enable Japan to overcome existing barriers and achieve its target of doubling annual inbound tourism by 2020.
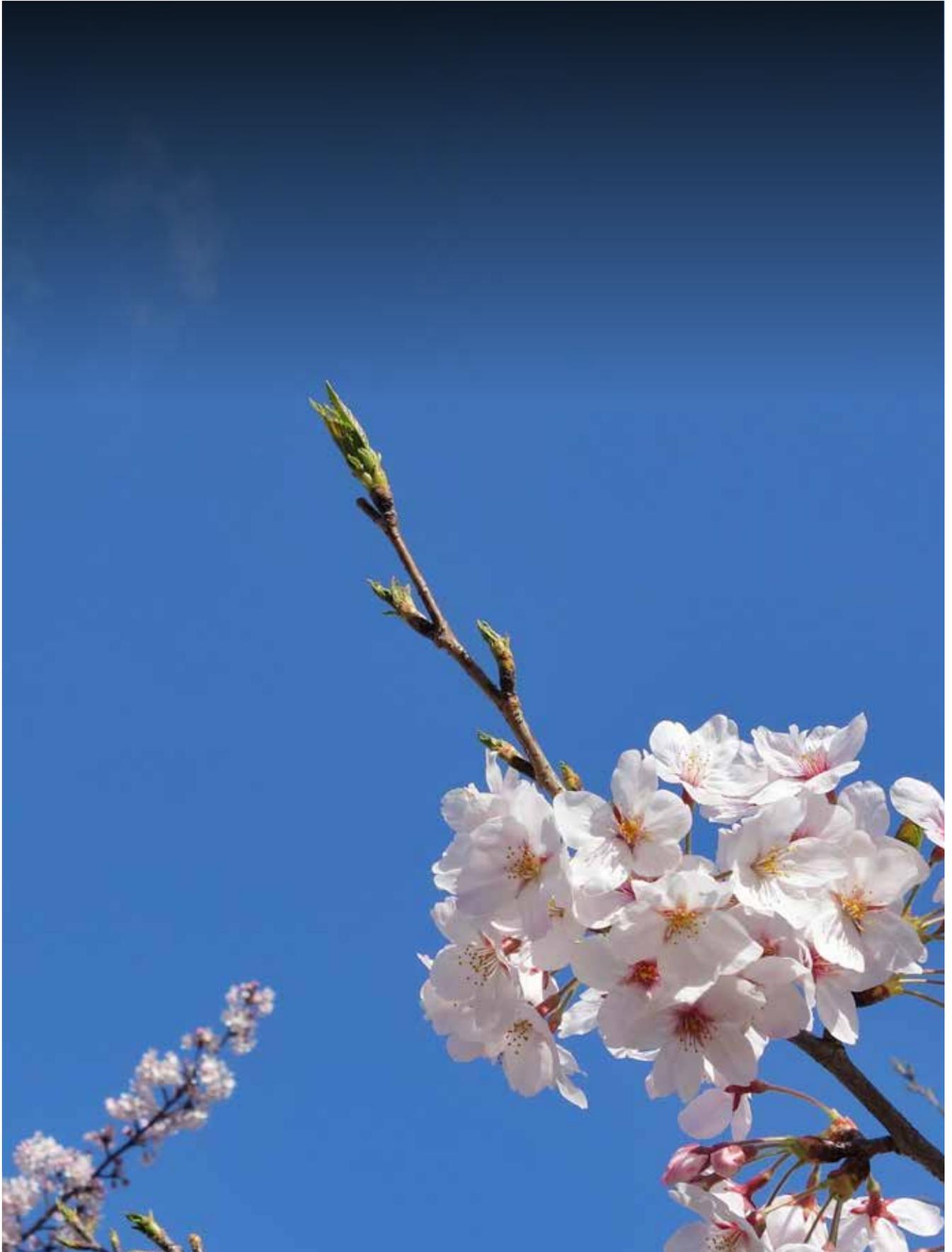
Aerial view of Mount Fuji.

1. Overview of current inbound tourism in Japan

Japan is an important global hub of commerce, technology, cuisine, popular culture, and shopping. In recent years, it has been riding a wave of rising tourism. After relative stagnation from 2006 to 2010, Japan's inbound tourism grew by 33 percent a year from 2011 to 2015.[11] In 2014, Japan was ranked 22nd among all destinations by number of inbound tourists,[12] and it should move up several notches when 2015 figures are released. Given the exponential growth in tourism income over the same period, the Japanese government recognizes that inbound tourism could be an important engine of economic growth and regional revitalization. However, the impact of tourism on Japan's GDP is still relatively low: tourism income represents just 0.5 percent of GDP, significantly lower than popular destinations in Asia such as Thailand (10.4 percent) and developed countries such as France (2.4 percent) and the United States (1.3 percent).[13]

Indeed, inbound tourism is well positioned to be a core element of the Japanese government's efforts to achieve its economic GDP growth target of JPY 600 trillion in 2020 (from the current level of JPY 500 trillion).[14] Beyond the topline monetary gains, the government is also seeking to use inbound tourism as "an engine to prompt interaction and vitalize outlying areas by capturing inbound demand,"[15] thereby reinvigorating non-metropolitan areas[16] around Japan.

To mobilize resources and focus energy in pursuit these goals, the Japanese government has set ambitious inbound tourism targets (Exhibit 1). Specific metrics to track progress include the number of inbound tourists, total expenditures by inbound tourists, cumulative nights spent in non-metropolitan areas, and number of inbound repeat tourists. The government seeks to double (or more) each of these annual figures by 2020.

The government's targets are achievable only if the country maintains the breakneck pace of growth that was driven previously by policy changes and external factors. First, in 2013, the Japanese government ratified and implemented an "open sky" agreement, which increased the limits on arrivals and departures in Tokyo metropolis (Haneda and Narita) from 0.5 million flights in 2010 to 0.7 million flights in 2013.[17] This airline deregulation had its desired effect, with the number of flights into Japan's six largest airports growing 18.4 percent from 2010 to 2013.[18]

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11 統計データ・国籍別 訪日外客数 [Number of arrivals by nationality], Japan National Tourism Organization Statistics, 2006–15, jnto.go.jp.

12 *International tourism, Number of Arrivals,* World Bank, data.worldbank.org.

13 *International tourism, receipts (current USD),* World Bank, data.worldbank.org; *Gross domestic product 2014*, World Bank, 2015, databank.worldbank.org.

14 600 兆円経済実現に向けて [To achieve the economic target of JPY 600 trillion], Cabinet Office, Council on Economic and Fiscal Policy Working paper, April 2016, cao.go.jp.

15 観光立国実現に向けたアクション・プログラム 2015 [Action program 2015 for tourism nation], Ministry of Land, Infrastructure, Transport and Tourism, June 2015, mlit.go.jp.

16 "Non-metropolitan areas" includes prefectures other than Aichi, Chiba, Hyogo, Kanagawa, Kyoto, Osaka, Saitama, and Tokyo.

17 産業政策提言 [2013–14 Industry Policy Proposal], Japan Federation of Aviation Industry Unions, 2014, jfaiu.gr.jp.

18 Six largest airports represent the airports which the International Air Transport Association ranks as Level 2 or 3 (congested airports): Chubu, Fukuoka, Haneda, Kansai, Narita, and New-Chitose.
暦年・年度別空港管理状況調書 [Yearly report on management conditions of airports], Ministry of Land, Infrastructure, Transport and Tourism, 2010–13, mlit.go.jp.

Exhibit 1. The Japanese government aims to double inbound tourism by 2020.

2015 actual   2020 target

Number of inbound tourists, million	Total expenditures by inbound tourists, ¥ trillion	Cumulative nights spent in regions,[1] million nights	Number of inbound repeat tourists, million
40.0	8.0	70.0	24.0
x2.0	x2.3	x2.8	x2.1
19.7	3.5	25.2	11.6
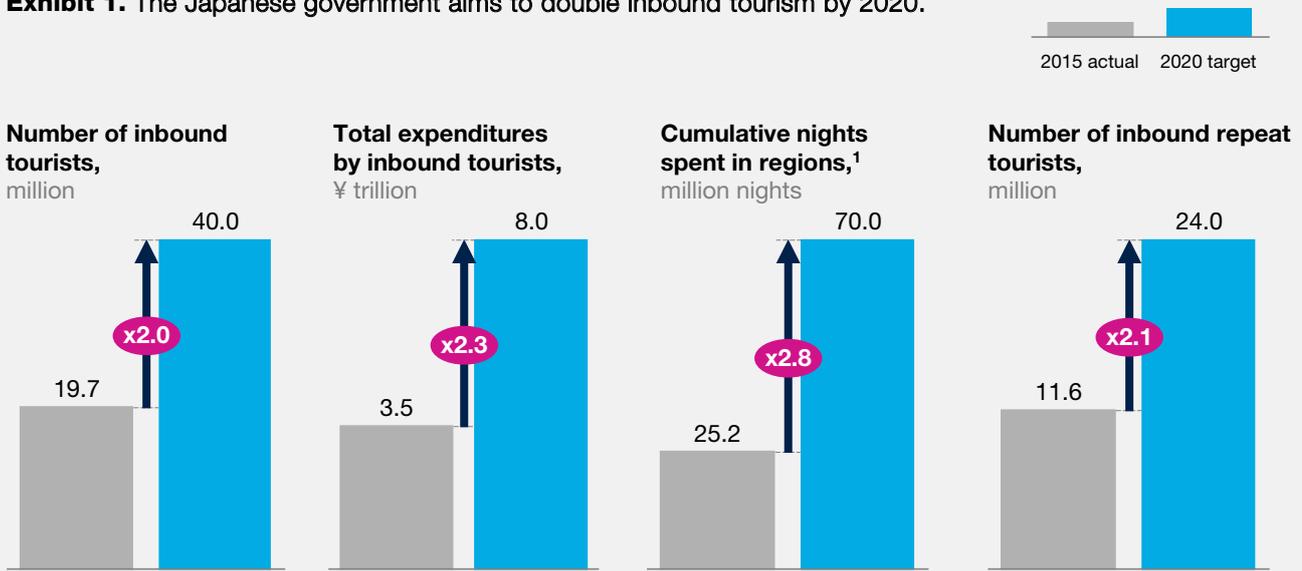
1 "Regions" includes prefectures other than Aichi, Chiba, Hyogo, Kanagawa, Kyoto, Osaka, Saitama, and Tokyo.

Source: Meeting of the Council for the Development of a Tourism Vision to Support the Future of Japan, March 2016

Around the same time, another policy change made it easier for tourists from China, Malaysia, and Thailand to visit Japan. In 2014, the Japanese government declared that visitors from Malaysia and Thailand no longer needed a visa to visit Japan. This move was followed, in 2015, by an easing of visa requirements for Chinese tourists; whereas they were previously granted onetime-use visas, Chinese citizens above a certain income level can now get five-year visas with no restrictions on where they can visit.[19]

These policy changes coincided with two key external factors that combined to create the ideal conditions for a rapid increase in Japan's inbound tourism. One catalyst was the depreciation of the Japanese yen by 30 percent compared with the US dollar from 2012 to 2015.[20] The other was China's enormous economic growth of approximately 17 percent a year (in nominal figures) from 2009 to 2013.[21] During this time, Chinese outbound tourism more than doubled.[22]

19 The income level requirement for five-year visas is RMB 100 thousand or above. 中国人の日本への自由旅行、最低年収約190万円必要 [Chinese individual travel to Japan requires a yearly income of JPY 1.9 million], Jinminmo -> 人民網日本語版 [People Japanese version], January 2015, j.people.com.cn.

20 USD 1 = JPY 80 in 2012 but JPY 110 in 2015. 観光白書 [White paper on tourism], Japan Tourism Agency, 2015.

21 China's real GDP from the period is 9 percent. *China*, World Bank, data.worldbank.org.

22 *International tourism, number of departures*, World Bank, data.worldbank.org.

As a result of these policies and external factors, Japan led its peers[23] in overall growth of inbound tourism, expanding 129 percent from 2010 to 2015, a record pace. (Denmark had the next-fastest growth over a five-year period, when its inbound tourism increased by 93 percent from 2004 to 2009.) But to hit its 2020 targets, Japan will need to increase its number of visitors by a total of 103 percent from 2015 to 2020. This growth would mean Japan will bring in as many tourists in 2020 as Turkey—currently ranked sixth in the world by number of inbound tourists—does today.[24]

If Japan continues to attract its current market share of international travelers to Asia, estimates indicate that the country will draw an additional 10.9 million tourists in 2020 compared with 2015. This increase will be due to natural growth in tourism across the continent. However, even when combined with the 2015 baseline of 19.7 million tourists, this increase won't be enough to achieve the 2020 target of 40 million foreign tourists (Exhibit 2). The goal therefore should be for Japan to perform "best in class" when compared with other Asian destinations such as China and Thailand while improving its share of international tourists to the region.

Exhibit 2. To achieve the 2020 target, Japan must improve beyond expected market-size growth.

Number of inbound tourists,
million
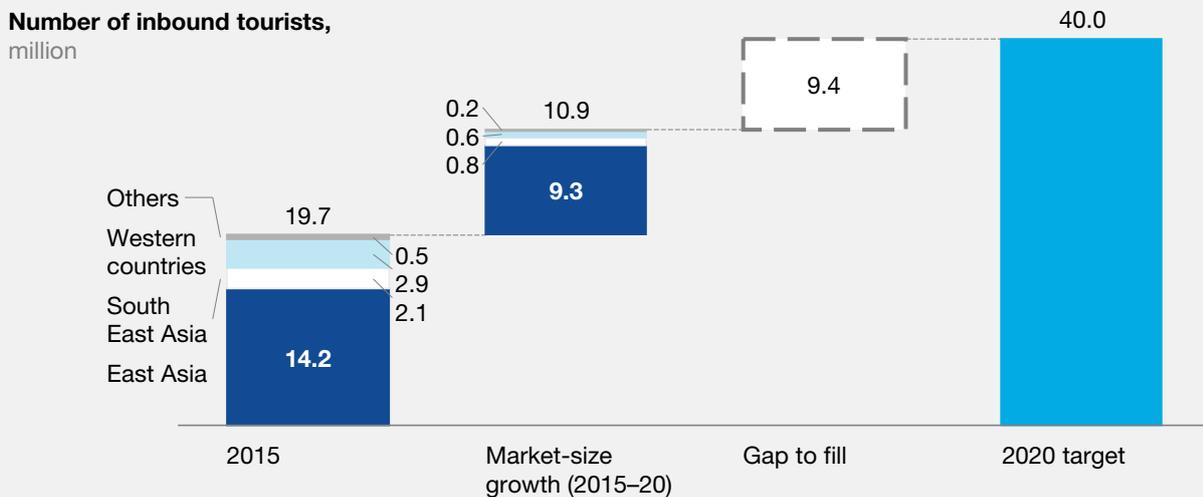
1 Extrapolated using the compound annual growth rate (CAGR) of the number of outbound tourists by source market, 2009–14. CAGR for China 2008–13.

Source: Japan National Tourism Organization; UN World Tourism Organization; World Bank; McKinsey analysis

23 Destination with at least 10 million arrivals in 2014. Source: *International tourism, number of arrivals*, World Bank, data.worldbank.org.

24 *International tourism, number of arrivals*, World Bank, data.worldbank.org.

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Japan finds itself at a pivotal moment—where an effective strategy to attract international tourists could have an outsize impact on the country for years to come.

So today, Japan finds itself at a pivotal moment—where an effective strategy to attract international tourists could have an outsize impact on the country for years to come, particularly with the Tokyo 2020 Olympic and Paralympic Games on the horizon. (See sidebar "International events must be harnessed for sustained growth.") As Japan looks to the future, it has further growth potential that could be unlocked through an ambitious, sure-footed path forward. This report examines Japan's key themes and challenges and lays out a road map and specific recommendations to help the country achieve its growth targets for inbound tourism.

Aerial view of the National Stadium area, Tokyo.

International events must be harnessed for sustained growth

Winning the right to host international events such as the Olympic and Paralympic Games is usually met with celebration and rosy forecasts of the economic impact that awaits. However, the experiences of several destinations demonstrate tourism growth from such events isn't automatic; in fact, the host city and country must implement continuing initiatives to increase tourism in the ensuing years (Exhibit).

As part of the run-up to the London 2012 Olympic and Paralympic Games, London mounted a four-year (2011–14) campaign to build awareness of Britain's attractiveness as a tourism destination. Its leaders focused on seven themes: culture, heritage, sports, music, countryside, food, and shopping. The country formed a public-private partnership (PPP) to drive several initiatives, and the campaign succeeded in building on interest in the Games to attract visitors in the years that followed. The United Kingdom's success was driven by meticulous planning, a large-scale marketing strategy encompassing both traditional and digital advertising, and internal communication and collaboration among the governing bodies and the teams heading the initiatives.[25]

Exhibit. Countries that host the Olympic Games and other international events see mixed momentum in tourism growth.
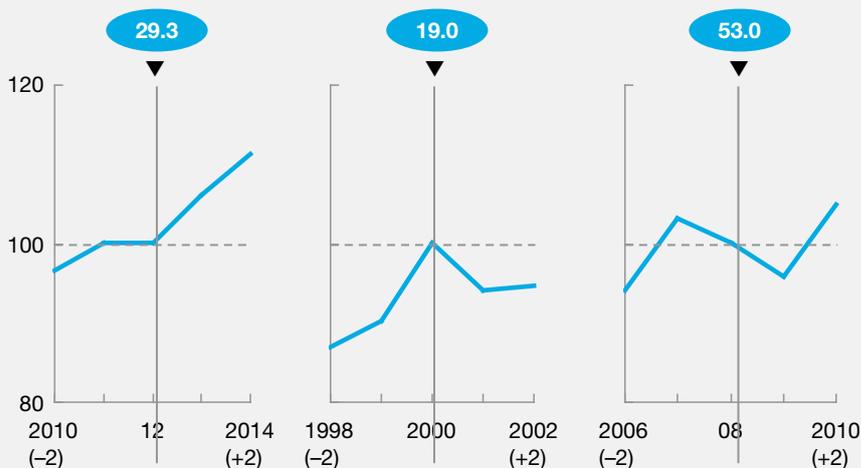
Tourists in the event year, million

Growth before and after the event	Growth only before the event	No significant growth
London Olympic Games (2012)	Hannover Expo (2000)	Beijing Olympic Games (2008)

Number of tourists to venue country,
index (Event year = 100), million

29.3 19.0 53.0

120

100

80

| 2010 (–2) | 12 | 2014 (+2) | 1998 (–2) | 2000 | 2002 (+2) | 2006 (–2) | 08 | 2010 (+2) |

Source: World Bank; press search; McKinsey analysis

Other destinations have not been so successful. Expo 2000, held in Hanover, Germany, demonstrated a clear ability to bring increased tourism leading up to the event. However, the German National Tourism Board found it challenging to maintain this momentum once the expo concluded.

China hosted the Beijing 2008 Olympic and Paralympic Games, but data show that its inbound tourism grew only slightly. The mixed results of Germany and China to use these international events to achieve sustained growth were due in part to external factors, such as the attacks of September 11 right after the expo and earthquakes and riots in China. They also reveal the importance of strategic planning to fully capitalize on these events. As such, Japan should look to the United Kingdom as an example of how to harness the exposure offered by hosting the Olympic and Paralympic Games.

25 "Our GREAT story so far—international," Visit Britain, visitbritain.org.

An aerial view of the historic village Shirakawa Go.
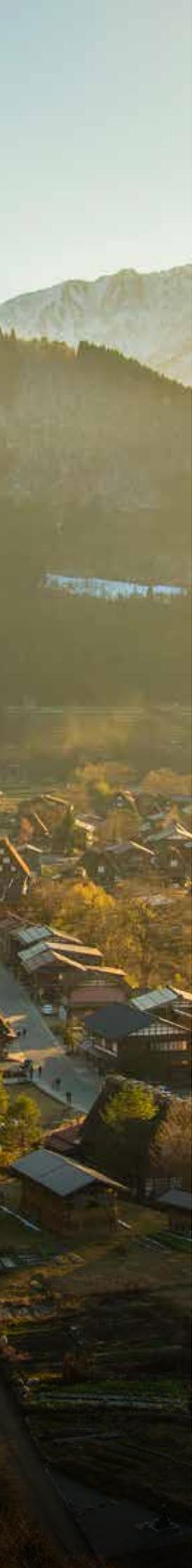
2. Focus themes for Japan

While Japan has recorded impressive growth in tourism in recent years, it will not be possible to generate similar returns by pulling the same levers. To identify specific actions to increase inbound tourism—as well as Japan's overall economic growth—going forward, data on Japan's tourism performance was compared with other destinations to identify global best practices and digital solutions that could improve productivity. For Japan to achieve sustainable tourism growth, three themes that will affect its inbound tourism supply and demand—visitor-portfolio imbalance, skewed regional distribution, and capacity constraints—must be addressed.

Visitor-portfolio imbalance

A majority of Japan's inbound tourists hail from the surrounding region. Asian tourists constituted 84 percent of Japan's international visitors in 2015, and East Asian tourists— those from China, Hong Kong, Korea, and Taiwan—accounted for approximately 72 percent[26] of the country's total that year. At the current trajectory, East Asians will account for 78 percent of total inbound tourism by 2020,[27] due largely to continued growth in the number of Chinese tourists visiting Japan and an increase in disposable income that can be spent for travel at increasing frequency.

This lack of diversification and increasing dependence on Chinese tourists poses risks to Japan's tourism industry. Indeed, destinations that rely too heavily on a few markets are vulnerable to shifts in behavior and preference. Further, a change in the political environment or other developments could disrupt the tourism industry.

Many of Japan's peers have been more successful in attracting tourists from outside their region. The United States and Thailand, for example, each draw more than a third of their international tourists from other regions, compared with Japan's share of 16 percent.[28] To achieve Japan's goal of sustainable growth, its tourist portfolio should be diversified by attracting Western travelers while also catering to the majority of its tourists: those hailing from East Asia.

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26 国籍/ 目的別 訪日外客数 [Number of inbound tourists by nationality/purpose], Japan National Tourism Organization Statistics, 2015, jnto.go.jp.

27 Assuming continuation of current growth in past five years. 国籍/ 目的別 訪日外客数 [Number of inbound tourists by nationality/purpose], Japan National Tourism Organization Statistics, 2015, jnto.go.jp.

28 国籍/ 目的別 訪日外客数 [Number of inbound tourists by nationality/purpose], Japan National Tourism Organization Statistics, 2015, jnto.go.jp; *Compendium of Tourism Statistics*, United Nations World Tourism Organization 2013–15, statistics.unwto.org.

East Asians will account for 78 percent of total inbound tourism by 2020.

Skewed regional distribution

Despite the boost in inbound tourism, its benefits have not been spread equally across Japan. Three prefectures—Tokyo, Osaka, and Kyoto—account for 28 percent of the country's GDP but 48 percent of all inbound tourist stays and 60 percent of inbound tourist expenditures.[29] In fact, two-thirds of inbound tourist stays in Japan are concentrated in the top 10 percent of the country's administrative districts (Exhibit 3). Other destinations such as China, Germany, and Italy have succeeded in luring visitors to not just the most popular urban areas but also attractions in local areas. The performance of these peers on this measure offers a target to strive for.[30]

Even when tourists do travel to other administrative districts in Japan, they spend an average of 30 percent less than they do in those three major cities. This pattern translates to missed revenues of approximately JPY 600 billion, money that could be used to build out infrastructure and attract business investment.[31] Since the Japanese government has made it a priority to revitalize non-metropolitan areas, increasing tourism in these areas could be a core element of its strategy.
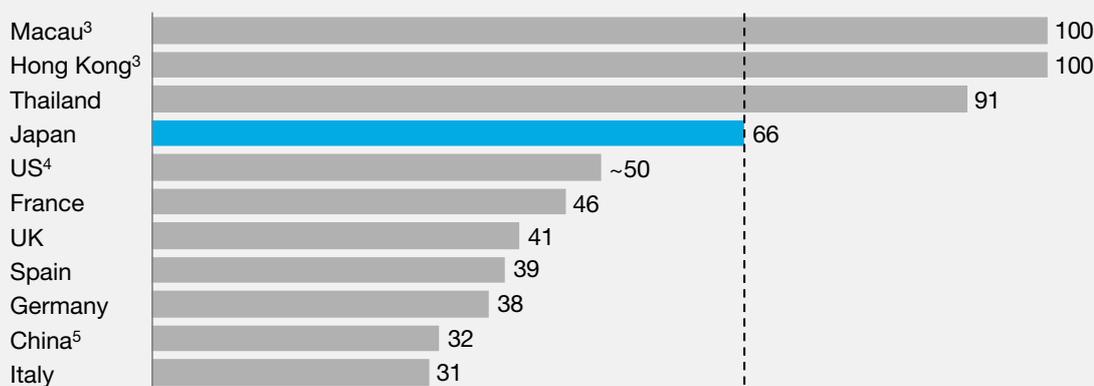
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29 The figure of inbound tourist expenditures is estimated from tourist spend per capita per night and accumulated night spend in hotels which have ten employees or more. 宿泊旅行統計調査 [Survey on over-night trips] 2014, www.mlit.go.jp; 訪日外国人消費動向調査 [Survey on the behavior of inbound tourists], Japan Tourism Agency, 2014, mlit.go.jp; and 県民経済計算 [Calculation of Economy by prefecture], Cabinet Office, 2013, mlit.go.jp.

30 宿泊旅行統計調査 [Survey on over-night trips], Japan Tourism Agency, 2015, esri.cao.go.jp; *Compendium of Tourism Statistics dataset*, United Nations World Tourism Organization, 2013–15, statistics.unwto.org.

31 Estimated from the data of accumulated stays of inbound tourists by prefecture and the average spending per capita per night. About JPY600 billion is estimated from the gap of the total expenditures in the three prefectures and those in other prefectures in 2014 and the figure of 2015 total expenditures by inbound tourists. 宿泊旅行統計調査 [Survey on over-night trips], 2014, mlit.go.jp; and 訪日外国人消費動向調査 [Survey on the behavior of inbound tourists], Japan Tourism Agency, 2014, mlit.go.jp.

Exhibit 3. Compared to Japan, peer destinations distribute more tourists to local regions.

Tourist stays in the top 10% of local destinations,[1] %, 2014[2]

Macau[3]	100
Hong Kong[3]	100
Thailand	91
Japan	66
US[4]	~50
France	46
UK	41
Spain	39
Germany	38
China[5]	32
Italy	31

1 Figures for China, Hong Kong, Macau, and the United Kingdom represent the total number of tourists (including same-day visitors).
2 Data for Thailand, United Kingdom, and China are from 2013. Data for Italy are from 2015.
3 Figures of Macau and Hong Kong are postulated as 100% since there is only one city in each destination.
4 Estimated as 50%–60% based on the number of overseas visitors by the state and that of states tourists visit.
5 Excluding tourists from Hong Kong and Macau.

Source: Department of Tourism (Thailand); Federal Statistical Office (Germany); International Tourism Organization (France); Japan Tourism Agency; National Observatory of Tourism (Italy); National Statistic Institute, Hotel Occupancy Survey (Spain); Visit Britain (UK); UN World Tourism Organization

Capacity constraints

Over the next several years, capacity constraints present a serious obstacle to growth in Japan's tourism industry. Currently, hotel occupancy in Tokyo, Kyoto, and Osaka exceeds 80 percent, and the mix of hotel rating levels isn't optimized to meet the demand for varying price points and experiences. Airport utilization is 95 percent in Haneda and 86 percent in Narita, the country's top two airports by number of domestic and international flights.[32]

Initiatives are under way to address these capacity constraints. For example, government officials are working to ease regulations on vacation rentals of private residences through services such as Airbnb. And in June 2016, the Ministry of Land, Infrastructure, Transport, and Tourism directed local governments to ease restrictions on floor-space requirements. In addition, developers are currently constructing multiple high-end luxury hotels outside of major areas. Airports are also working on the capacity issue; Haneda and Narita will expand capacity by a combined 80,000 flights per year by 2020,[33] and regional airports will waive a portion of the landing fees and encourage low-cost carriers (LCCs) to open new routes.[34] Given these ongoing efforts, this report will focus on the other two themes: visitor-portfolio imbalance and skewed regional distribution.

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32 Assuming continuation of historical demand growth and planned expansion of supply as of 2015. 暦年・年度別空港管理状況調書 [Yearly report on management conditions of airports], Ministry of Land, Infrastructure, Transport and Tourism, 2010–13, mlit.go.jp; 首都圏空港（羽田・成田）の年間発着枠の増加 [Annual increase of landing slots in the Tokyo metropolitan area airports (Haneda and Narita)], Ministry of Land, Infrastructure, Transport and Tourism, November 2013, mlit.go.jp.

33 平成28年度航空局関係予算概算要求概要 [2016 Fiscal Aviation Administration Relationship Budgetary Request Overview], Ministry of Land, Infrastructure, Transport and Tourism, 2016, mlit.go.jp.

34 「観光ビジョン−実現プログラム2016」[Implementation plan for tourism vision 2016], Ministry of Land, Infrastructure, Transportation and Tourism, May 2016, mlit.go.jp.

Bamboo Forest, Arashiyama, Kyoto, Japan.

3. Insights around the two themes

Japan is poised to expand its inbound tourism and cement the industry's role as an even more significant contributor to the country's GDP. The topline challenges that are currently unaddressed—an imbalanced visitor portfolio and skewed regional distribution—are clear. But how did the country get here? What elements are contributing to these results? And how can Japan work to change them? (For more on the research methodology, see sidebar "About the research.")

Visitor-portfolio imbalance

To uncover the root cause of Japan's challenges in attracting Western tourists, research compared its performance with that of peer counties in successfully shepherding potential tourists through destination selection. This process has four steps:

- Know the country as a travel destination

- Have considered visiting the country

- Have visited the country

- Have visited the country and are willing to revisit

Among Chinese and Thai tourists, Japan outperforms the average at every stage of conversion in the tourism funnel (Exhibit 4). It also is above average in converting almost all tourists from visiting to willingness to revisit—that is, once tourists have been to Japan, they are likely to want to revisit no matter where they are from.

Exhibit 4. Japan performs well in attracting Asian tourists, but it lags behind in converting Western tourists from considering to visiting.

○ Ratio of tourists remaining at each stage, by source

⇨ Conversion ratio from one stage to the next

➡ Japan's strengths (>+5% higher than average of other top destinations[1])

➡ Japan's weaknesses (>+5% lower than average of other top destinations)

Funnel performance of Japan by visitor source market, %[2]

	Awareness	Consideration	Visit	Willing to revisit
Asian				
China	98 → 90 →	88 → 70 →	62 → 83 →	51
Thailand	92 → 96 →	89 → 61 →	54 → 81 →	44
Western				
Australia	95 → 82 →	78 → 38 →	30 → 86 →	25
US	96 → 89 →	86 → 44 →	38 → 85 →	32
UK	93 → 85 →	79 → 41 →	32 → 76 →	25

1 Average of Australia, China, France, Japan, New Zealand, Spain, Thailand, the United Kingdom, and the United States.
2 Survey sample size = 3,077.

Source: McKinsey International Tourist Survey, April 2016

Japan lags behind at a key step in the conversion of Western tourists: moving from consideration to actually visiting.

Shibuya crossing, Tokyo, Japan.

About the research

For this report, McKinsey conducted an online survey of approximately 3,000 respondents from five countries: Australia, China, Thailand, the United Kingdom, and the United States. These five countries were selected as representatives of their continent or region because they lead their respective regions in the number of visitors to Japan. Each country contributed approximately 500 respondents, with the exception of China, which accounted for 1,000 respondents. Before administering the survey, potential respondents who had not considered visiting Asia in the past three years and those who could be considered as having a bias based on their occupation (for example, travel agents, hospitality industry employees, airline employees) were screened out. Half of the survey respondents had visited Japan in the past three years, while the other half had considered visiting. To reflect the real proportion of tourists who visited Japan, the responses were weighted.

The survey consisted of around 50 questions in five sections. The first section gauged the attitudes of respondents toward travel and their behavior as travelers. Next, they were asked to elucidate their most recent experience traveling abroad. In the third section, the respondents answered questions about the brand image of Japan, after which they were given a concept test of Japanese tourism assets. The survey finished by collecting basic profile information.

Several output analyses were performed using the raw survey data:

- Funnel analysis to understand the performance of destinations in each stage of the funnel as compared with global and Asian peers. The goal was to pinpoint where in the decision-making process a destination is dropped as well as to understand key attributes that have high correlation to stage conversion (from "consider" to "visit") and how Japan is performing compared with other destinations.

- Analysis of the Customer Decision Journey, a McKinsey framework that focuses on customers' last trips and what destinations they considered at each of three stages of the tourism purchase funnel (initial consideration, active evaluation, and moment of purchase). The purpose of the analysis is to understand how destinations compare against one another and where, exactly, each drops off.

- Concept test to identify gap of awareness and attractiveness of major Japanese tourism destination. As part of our survey, respondents were asked whether they were aware of a list of Japanese tourist destinations. Pictures and descriptions—general overview, time and cost to get there, and so forth—of these tourist assets were then shared to assess how attractive the assets are (worthy of planning a trip or extending their stay to visit it).

However, the country lags behind at a key step in the conversion of Western tourists: moving from consideration to actually visiting. Just 40 percent of Western tourists who consider visiting Japan actually make the trip, while 60 percent of Western tourists who consider visiting Thailand do so. On an encouraging note, Western tourists who do visit Japan are more satisfied than when they visit other destinations and are more likely to become repeat visitors.

Why does Japan falter at converting Western tourists who are considering traveling to the country to actual visitors? While industry stakeholders point to the lack of infrastructure (for example, Wi-Fi availability and convenient and easily accessible public transit) and the language barrier as areas to improve, these issues were not cited by respondents of our survey. Indeed, those who visit Japan report high satisfaction and willingness to revisit. To have the greatest possible impact on tourism growth, then, the conversion gap on consideration to visit must be closed. Doing so will require enhancing awareness among Western tourists on what Japan has to offer and addressing perceptions of the country across several categories: affordability, awareness of tourist assets, converting website visitors to social media fans, and word of mouth.

Perceived affordability

The affordability of travel is top of mind for tourists from all around the world. According to the survey, the five attributes most highly correlated with converting tourists from "consideration" to "visit" are affordability, good access from their home country, ease of getting around, great food options, and extensive shopping opportunities. Japan trails in its perceived affordability compared with peer destinations.

To illustrate this point, consider Thailand, which enjoys best-in-class inbound tourism compared with its Asian peers and an exceptional rate of converting tourists from "consideration" to "visit." According to the survey, Japan trails Thailand in two of the top five attributes: affordability and having great food options at different price levels, both of which are linked to pricing. While 57 percent of Western tourists surveyed agreed that Thailand is affordable,[35] only 31 percent felt the same way about Japan. Similarly, 65 percent of Western tourists responded that Thailand offers great food options at different price levels, while only 59 percent of Western tourists expressed a similar sentiment regarding Japan. This result could be a matter of either fact (Japan is less affordable) or perception (Japan is seen as an expensive place to visit).

Although cost of living in Thailand is indeed lower than in Japan, one major factor in this perception could be that foreign travelers are relatively less aware of lower-cost lodging options in Japan. The average price of available Japanese hotels on global booking site Booking.com was 37 percent higher than those available on Japanese booking site Jalan. A breakdown of the price tiers of hotels on these two sites further reveals that 55 percent of hotels on Jalan cost JPY 11,999 (USD 120) or less per night—but only 18 percent of hotel offerings on Booking.com are in that price range.[36] This absence of a greater range of options on global sites may exaggerate the expense of visiting Japan.

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35   When prompted with the phrase "Thailand is affordable," 57 percent responded "agree" or "strongly agree."
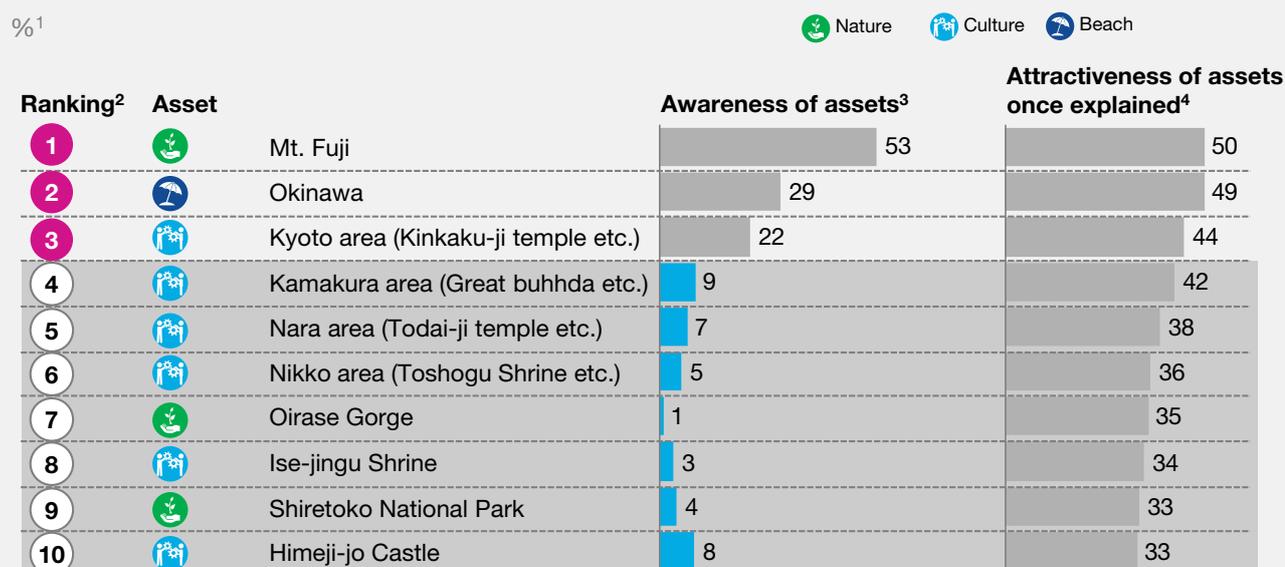
36   Figures as of June 2016 for stays on September 1–7, 2016. Booking.com, booking.com; and Jalan, jalan.net.

Awareness of major tourism assets

Another reason Japan struggles to convert Western travelers is that these tourists are generally unaware of even Japan's major tourism assets (Exhibit 5). The survey tested travelers' awareness of and interest in 36 Japan tourist attractions. These assets are highly rated by global and Japanese sources such as Michelin Travel and *Excellent Japan—A Scenic Portfolio*,[37] and include a representative mix of types: nature, culture, beach, entertainment, and shopping. Surprisingly, many of the sites that Japan residents consider to be "major destinations" are virtually unknown to foreign travelers. Out of the top ten assets that Western tourists found attractive (once they were shown a picture and description), only Mount Fuji, Japan's national icon, topped 50 percent awareness; all others trailed far behind, with most at 10 percent awareness or less.

However, once descriptions of each of the 36 assets were shared, an average of 29 percent of Western tourists found each of the assets attractive enough to visit. For example, before the survey only 9 percent of Western tourists were familiar with the Kamakura area, which—as Japan's political capital from the late 12th to mid-14th century—is home to dozens of historic temples and the Great Buddha, all located just an hour from central Tokyo by train. Once informed of the Kamakura area's attributes, 42 percent of survey respondents judged the area attractive enough to either travel to Japan to see it or to extend their stay. Similarly, just 1 percent of Western tourists were aware of Oirase Gorge—a stunning valley through virgin forests located less than four hours from Tokyo—but 35 percent found it to be a desirable destination once informed. These results suggest that Japan's major tourism assets have high potential to draw more Western tourists to Japan—and that a major obstacle is a significant lack of awareness among tourists in the Western market.

Exhibit 5. Western tourists display low awareness of Japan's major tourism assets—but they profess attraction once informed.

%[1]

■ Assets with less than 20% awareness
▢ Assets with high potential for increased tourism

🌱 Nature   👪 Culture   🏖 Beach

Ranking[2]	Asset		Awareness of assets[3]	Attractiveness of assets once explained[4]
1	🌱	Mt. Fuji	53	50
2	🏖	Okinawa	29	49
3	👪	Kyoto area (Kinkaku-ji temple etc.)	22	44
4	👪	Kamakura area (Great buhhda etc.)	9	42
5	👪	Nara area (Todai-ji temple etc.)	7	38
6	👪	Nikko area (Toshogu Shrine etc.)	5	36
7	🌱	Oirase Gorge	1	35
8	👪	Ise-jingu Shrine	3	34
9	🌱	Shiretoko National Park	4	33
10	👪	Himeji-jo Castle	8	33

1 Survey sample size = 3,077.
2 Ranking of attractiveness out of 36 assets in Japan chosen for the concept test.
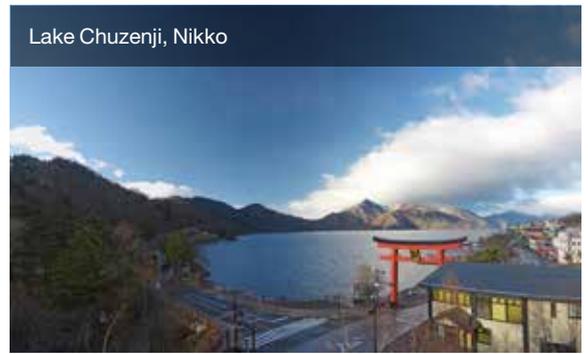3 Percentage of tourists who answered "Know the asset."
4 Percentage of tourists who answered "Core, worth visiting Japan" or "Extend to visit."

Source: McKinsey International Tourist Survey, April 2016

37 美しき日本 *Excellent Japan—A Scenic Portfolio*, JTB Publishing, 2014.

Great Buddha, Kamakura
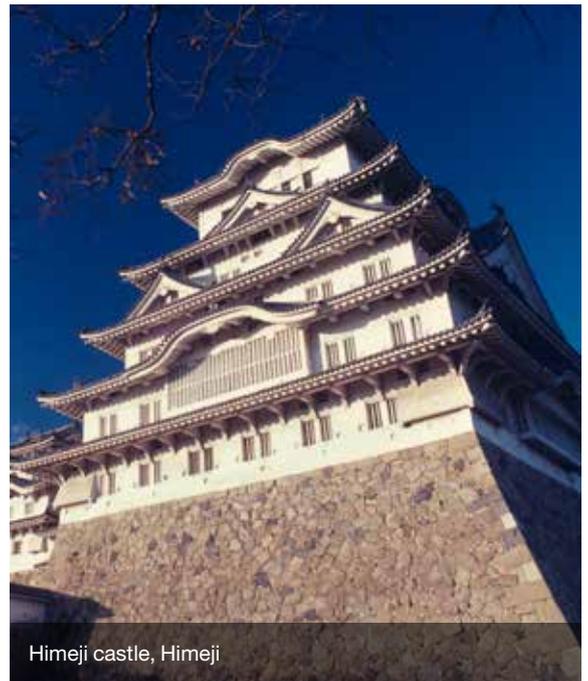

Lake Chuzenji, Nikko

Bakejizo (Ghost Jizo), Nikko

Oirase Gorge, Towada

Kohukuji, Nara

Himeji castle, Himeji

Ise-jingu Shrine, Ise
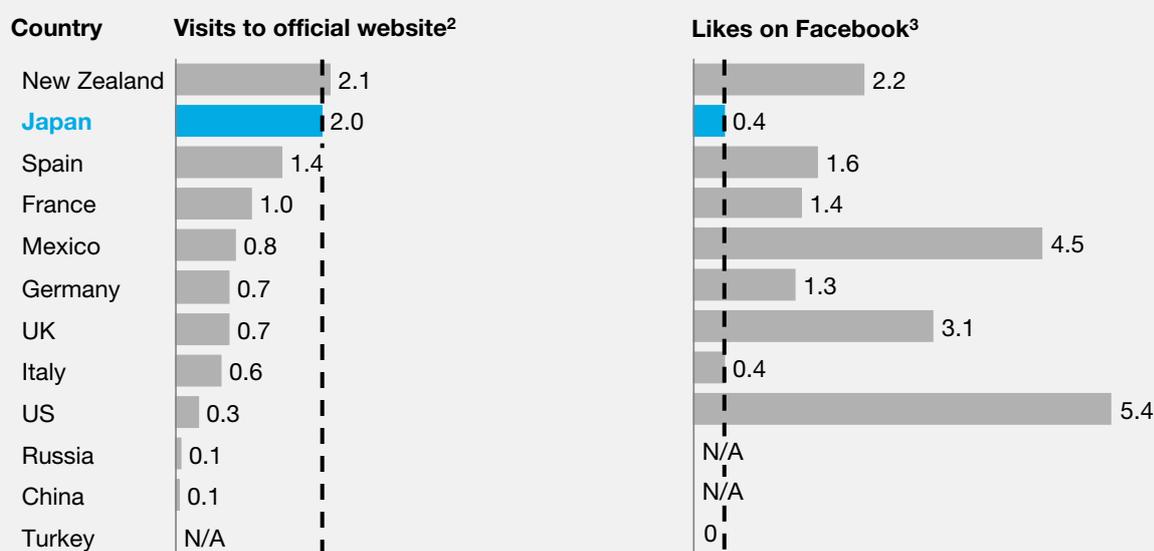

Shiretoko National Park, Shiretoko

Converting website visitors into social-media fans

Western tourists tend to visit several sources when planning a trip, including government portals and third-party travel websites such as TripAdvisor. Therefore, Japan's official tourism website is an important portal through which the government can enhance awareness of Japan's assets and paint a vivid picture of what travelers can experience during a visit to the country.

Currently, Japan succeeds in attracting visitors to its official tourism website, with 2.0 million visits in April 2016—the second-most among its peers[38] (Exhibit 6). However, the website's popularity does not appear to translate to creating "fans" on social media. As of June 2016, the Japan National Tourism Organization's Facebook page had garnered just 0.4 million "likes," tying it for seventh among the same group of peers and far short of the United States (5.4 million), Mexico (4.5 million), the United Kingdom (3.1 million), and New Zealand (2.2 million). Both New Zealand and Cape Town, South Africa, offer best-practice examples of converting website visitors into fans. (See sidebars "New Zealand's web portal is set up to impress" and "Cape Town harnesses Facebook for virtual tours of the city.")

Exhibit 6. Japan's tourism website attracts more visitors than many major destinations but is less successful in creating fans on social media.

Performance by official online media targeting tourists of 12 top destinations,[1] million

Country	Visits to official website[2]	Likes on Facebook[3]
New Zealand	2.1	2.2
Japan	2.0	0.4
Spain	1.4	1.6
France	1.0	1.4
Mexico	0.8	4.5
Germany	0.7	1.3
UK	0.7	3.1
Italy	0.6	0.4
US	0.3	5.4
Russia	0.1	N/A
China	0.1	N/A
Turkey	N/A	0

1 List includes top ten countries by number of inbound arrivals plus Japan and New Zealand.
2 Number of visits to English-version page in April 2016. If a country has multiple official tourism websites, the highest ranked one on Google was selected.
3 Number of likes on English-version page as of June 2016.

Source: Facebook; SimilarWeb

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38 According to a comparison of official government websites for tourists. If there are multiple official websites, the highest ranked one on Google was selected. "Peers" refers to the top ten countries by number of inbound arrivals plus Japan and New Zealand. Number of visits are counted via SimilarWeb, similarweb.com.

Fiordland National Park, New Zealand.

Cape Town, South Africa.

New Zealand's web portal is set up to impress

New Zealand's government portal offers a best-practice example of a tourism website.[39] Its front page is particularly effective and features the following information and tools:

- A map with flight times from various continents combats the perception that New Zealand is an isolated location.

- Large, beautiful photos highlight New Zealand's natural beauty as well as showcase specific activities that tourists can participate in during their visit.

- A set of buttons along the bottom of the page enables visitors to share the site on social media, assisting in word-of-mouth marketing.

- A customer-relationship-management system allows visitors to log in as members, personalizing their experience.

- Ads along the side of the page direct visitors to ticket purchases.

Cape Town harnesses Facebook for virtual tours of the city

Social media offer a potent platform to reach audiences in new ways. The challenge is developing a campaign that cuts through the clutter and drives real engagement. Cape Town Tourism, the South African city's tourism arm, developed an innovative Facebook campaign to promote the destination's assets and attractions.[40] In September 2012, it introduced the "Send us your Facebook profiles" competition, which enabled entrants to create a customized five-day holiday and experience Cape Town's less recognized areas through a virtual tour. The price: participants had to share their Facebook profiles.

The promotion was a tremendous success, with 41,000 monthly page visits. Beyond introducing participants to Cape Town's treasures through more than 150 point-of-view (POV) videos, 400 first-person Facebook status updates, and 10,000 POV vacation photos, the campaign also had a tangible impact on tourism, which rose 4 percent. One attraction, Table Mountain, drew the most visitors ever during its 83-year history. Thanks to these results, Travel + Leisure recognized Cape Town Tourism with the award for "Best Overall Use of Social Media" (Convention and Visitors Bureau) at its 2013 Social Media in Travel & Tourism Awards.

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39 "100% Pure New Zealand," Tourism New Zealand, May 2016, newzealand.com.

40 "Case study: Send your Facebook profile to Cape Town," *The Best of Global Digital Marketing*, best-marketing.eu.

Word of mouth

Word of mouth is the number-one source Western tourists use to decide travel destinations, and Japan performs well on this measure: tourists who visit Japan typically bring back good reports to friends and family at home. Among Western tourists who have visited Japan, 83 percent are willing to visit again in the future. However, Japan doesn't collect feedback in a structured way or proactively harness this goodwill as a promotion measure. As the examples of Cape Town and New Zealand demonstrate, social media—in the form of share buttons located on websites—can be a potent tool to amplify word-of-mouth marketing (see sidebar, "New Zealand's web portal is set up to impress").

Skewed regional distribution

Compared with Western tourists, Asian tourists tend to travel outside of Japan's major cities when they visit. Our survey reveals that 91 percent of Asian tourists to Japan visit more than one city (compared with 76 percent of Western tourists), and Asian tourists are 18 point more likely to visit cities beyond the major destinations of Aichi, Chiba, Hyogo Kanagawa, Kyoto, Osaka, Saitama, and Tokyo. This fact, coupled with their volume and share of inbound Japan tourism, means that Asian visitors should be a major focus of initiatives to alter regional distribution of tourism.

Another challenge is that the survey found only limited improvement (11 percent) in Asian tourists' awareness of non-metropolitan tourism assets even after visiting Japan once. As a result, many people who make a return visit to Japan go back to the same destinations rather than exploring new, unfamiliar (and non-metropolitan) destinations. The survey found that most repeat visitors do consider visiting major tourism assets on their next visit—but not necessarily the assets in non-metropolitan areas. Repeat Chinese visitors, for example, listed Hokkaido/Sapporo, Tokyo, and Mount Fuji as their top three destinations for their next visit; repeat Thai visitors chose Mount Fuji, Hokkaido/Sapporo, and Tokyo Disney Resort. These results demonstrate that a more clear articulation of the value of visiting new attractions beyond Japan's primary tourism destinations could increase tourism in these areas.

Notably, the survey found that 95 percent of Asian tourists decide which cities they will visit before departing for Japan. Unfortunately, only 23 percent of Asian tourists are aware of Japan's tourism assets, and most non-metropolitan tourism assets are known to less than 10 percent of tourists. Therefore, Japan might consider focusing on raising tourists' awareness of attractions outside major cities before they leave their home country. According to the survey, tourism assets in non-metropolitan areas that are not known but attractive could be promoted to bring more tourists outside major cities, both for Asian visitors who have been to Japan and those who haven't.

Among Asian tourists who have been to Japan, several tourism assets in non-metropolitan areas demonstrate an outsize opportunity to draw people who were previously unaware they existed. For example, Shiretoko National Park, located on the tip of a peninsula in the Hokkaido prefecture, is known to just 13 percent of Asian tourists who have visited Japan—but once the park was described to respondents, 69 percent indicated it would be an attractive place to visit. Mount Aso, Oirase Gorge, and the Hiraizumi area each present a similar opportunity once they are promoted to prospective tourists, suggesting that these four tourism assets, all outside major cities, have high potential to be linchpins in drawing more Asian tourists to non-metropolitan areas.

Among Asian tourists who haven't been to Japan, the pattern emerges more significantly. Of the six tourism assets with exceptional potential to draw in more tourists if awareness were improved, five of them — Takayama/Shirakawa-go Area, Kurobe Gorge, Shirakami Mountains, Hiraizumi Area and Oirase Gorge — except for Akasaka State Guest House are located outside major metropolises.

Last, even when tourists do travel to destinations other than Tokyo, Kyoto, and Osaka, the money they spend is, on average, 30 percent less (equivalent to JPY 8,000, or USD 80, per day) than what they spend in the three major cities. The majority of this gap results from much lower shopping expenditures.[41] (See sidebar, "New Zealand draws tourists outside major cities through targeted offerings").

Identifying the underlying issues

Although visitor-portfolio imbalance and skewed regional distribution are the focus issues to tackle in order to increase Japan's inbound tourism, it's also critical to understand the root causes. Analysis including interviews to key stakeholders in three areas revealed the underlying issues that must be addressed.

1. Perception of high cost

Japan is losing out to peer destinations on the perception of affordability. The fact that it is possible to visit Japan for a reasonable price is not being communicated effectively, partly because the reservation and purchase process is inefficient and partly because online promotion of low-cost options is insufficient. A contributing factor is that many individual businesses such as hotels cannot operate in English and/or online. The fundamental issue underlying Japan's visitor-portfolio imbalance in terms of the affordability perception, therefore, is that businesses lack support to reform online marketing efforts.

Lake Tekapo, New Zealand.

New Zealand draws tourists outside major cities through targeted offerings

New Zealand has successfully pursued strategies to promote and monetize tourism assets in local regions as well as in cities such as Auckland and Wellington. Its government portal offers a packaged tour that includes visits to destinations outside major cities, with a wide range of choices: a 45-minute "Lord of the Rings Workshop Tour" for NZD 25; "Rafting Day" tours for NZD 199; and a 16-day Lord of the Rings self-drive vacation for NZD 2,990.[42]

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41 Estimated from the data of accumulated stays of inbound tourists by prefecture and the average spending per capita per night. 宿泊旅行統計調査 [Survey on over-night trips], Japan Tourism Agency, 2015, mlit.go.jp; 訪日外国人消費動向調査 [Survey on the behavior of inbound tourists], Japan Tourism Agency, 2014, mlit.go.jp.

42 "100% Pure New Zealand," Tourism New Zealand, May 2016, newzealand.com.

2. Low awareness of tourism assets

Despite the presence of attractive tourism assets in Japan, information about them and their appeal is not well communicated to tourists. This low awareness contributes to both the visitor-portfolio imbalance and the skewed regional distribution of tourists.

Several challenges are at work. To start, the currently available websites don't provide potential visitors with a clear, compelling image of what it's like to travel to Japan, partly because tourism content and promotions are not designed from the viewpoint of foreign tourists. Furthermore, compared with other destinations, Japan's visitors report high satisfaction via word of mouth—but these individuals are not being turned into "ambassadors" for the country. Finally, there is no platform for providing new information to promote repeat visits—for example, an official app or follow-up communications to promote assets that visitors did not see on previous trips. Three fundamental issues thus underlie the world's low awareness of Japan's tourism assets: the lack of a strong foreign perspective in organizations that manage inbound tourism marketing (for example, the Japan National Tourism Organization [JNTO], Japan Tourism Agency [JTA], and regional tourism agencies); the absence of a platform to capture word-of-mouth praise; and the need to develop a platform to manage repeat visitors.

3. Limited service model in local regions

The promotion strategies that work for urban areas are not necessarily effective for local regions. However, areas outside the most visited prefectures have not established a service model that is differentiated from urban areas. They have also fallen behind in offering basic infrastructure, including online and English operations. Both of these factors are complicated by confusion around the service model that should be provided. Thus the fundamental issue underlying the dearth of service models in Japan's local regions is a lack of resources and capabilities in those regions.

□ □ □

The connective tissue across all three categories is that cooperation between the public and private sectors in many arenas—for example, aggregating tourist data and providing an end-to-end experience—is limited, if not nonexistent. No clear entity has taken the lead in preparing for and accelerating inbound demand. In most cases, inbound tourism is a low priority compared with domestic or outbound demand, resulting Japan without the capabilities or infrastructure to accommodate inbound tourists, especially English-speaking tourists.
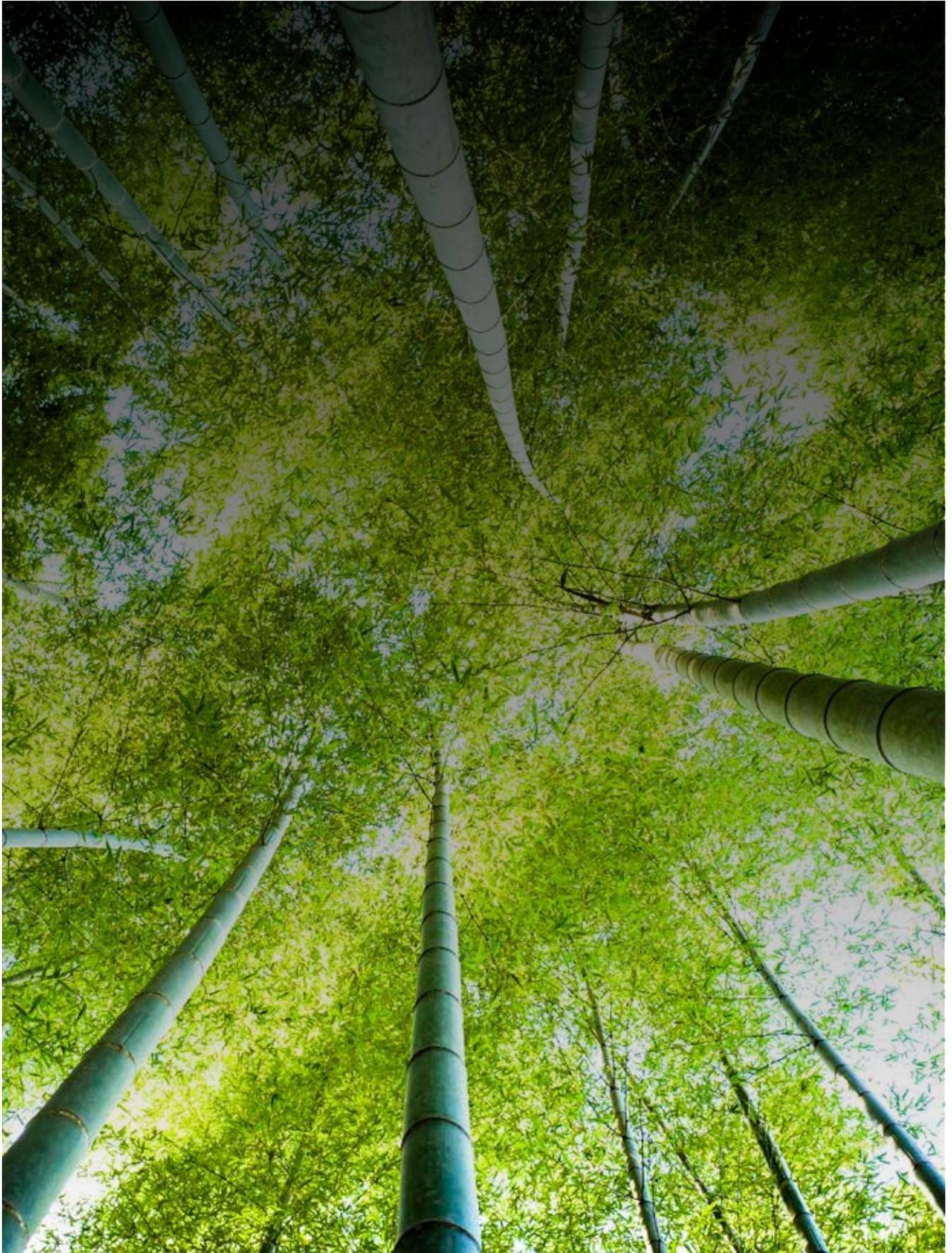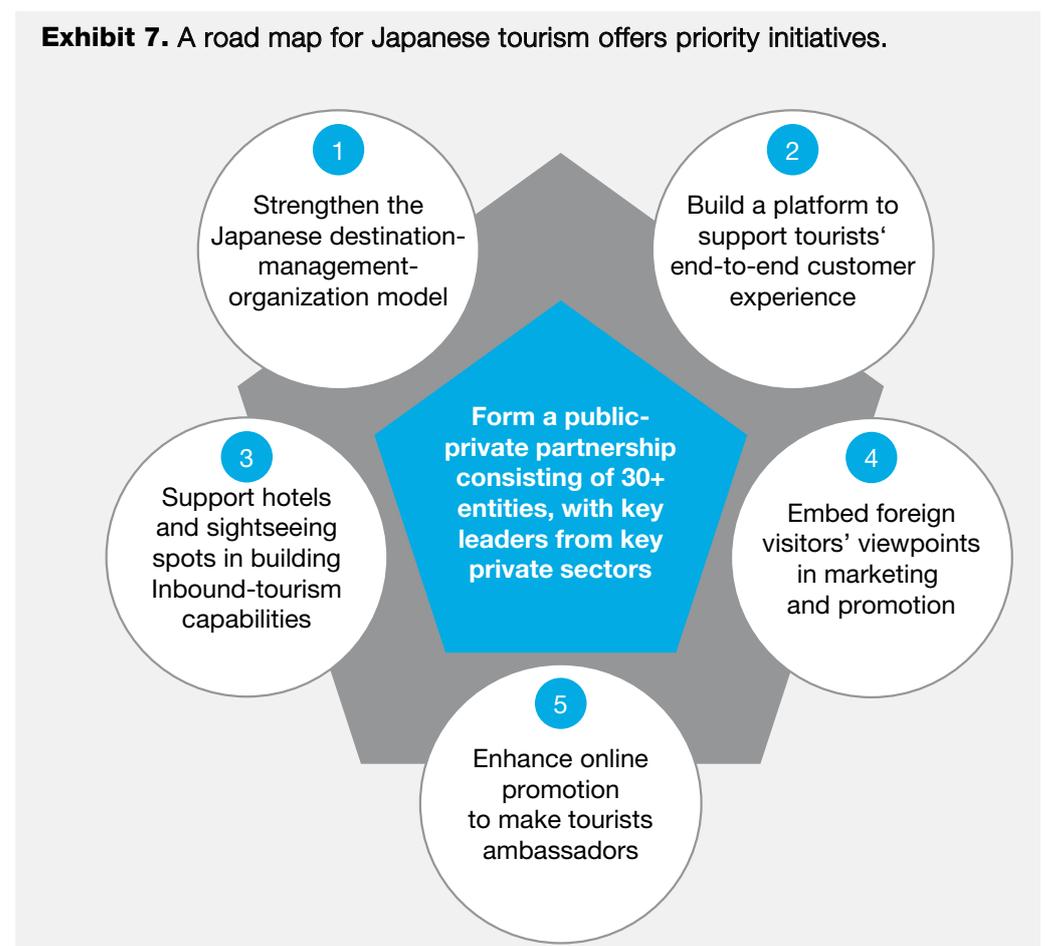
4. Priority initiatives for Japan

Inbound tourism to Japan is growing—but to reach the government's goal of 40 million inbound tourists in 2020, the year of the Tokyo Olympic and Paralympic Games, decisive action is needed. This report has described how organic growth of Japan's market size will add an additional 10.9 million tourists by 2020—but that still leaves a gap of 9.4 million visitors. Both public and private players have started to address inbound demand. For example, the Japanese government released a concrete plan on what needs to be done going forward.[43] An airline company has begun to build a cross-industrial platform to further monetize inbound demand by, for example, creating an online shopping mall that uses the platform. However, the full impact of many strategies have not yet been realized. The road map presented below is designed to help address underlying issues and fill the gap (Exhibit 7).

As a first step, a PPP should be established. This consortium would be charged with managing five levers that will support and enhance Japan's engagement with prospective inbound tourists. To track progress toward the ultimate objective of increasing inbound tourism to 40 million by 2020, the PPP should develop concrete milestones and action plans to implement these levers.

Exhibit 7. A road map for Japanese tourism offers priority initiatives.

1 Strengthen the Japanese destination-management-organization model

2 Build a platform to support tourists' end-to-end customer experience

3 Support hotels and sightseeing spots in building Inbound-tourism capabilities

4 Embed foreign visitors' viewpoints in marketing and promotion

5 Enhance online promotion to make tourists ambassadors

Form a public-private partnership consisting of 30+ entities, with key leaders from key private sectors

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43 観光ビジョン実現プログラム2016 [Tourism vision realization program 2016], Japan Tourism Agency, May 2016, mlit.go.jp.

Form a public-private partnership

Tackling the largest underlying obstacle to growing Japan's inbound tourism—a lack of leadership and coordination across the industry—will require a sustained effort to influence potential visitors across the Customer Decision Journey. No one entity has the scale and reach to make an impact on its own. The pool of potential visitors is simply too large and the channels of engagement too varied. Implementing an effective, comprehensive strategy, therefore, calls for a broad-based effort that seeks to harness the resources and energy of all stakeholders, including both government agencies and private-sector organizations that directly or indirectly benefit from increased tourism.

Today, government agencies and private-sector businesses interact with travelers on a regular basis, but they typically do not coordinate their actions or share information with other organizations across the network sufficiently. While some airlines, travel companies, and other stakeholders have begun forming collaborative partnerships, these relationships have not yet taken root in industries and entities where inbound demand is a low priority or where capabilities are lacking. In many cases, government agency staff and budgets are allocated on a yearly basis, so maintaining the focus and resources to implement ongoing measures has proved difficult.

Given the sweeping array of touchpoints with potential tourists, coordination, transparency, and collaboration are needed. Therefore, the formation of a PPP whose sole mission is to increase Japan's inbound tourism is an enabling factor for the five levers. Stakeholders that stand to benefit—such as airlines, airports, travel agents, hotels, infrastructure businesses, ryokans (Japanese-style hotels), IT companies, and other peripheral industries—should be tapped to join this consortium, make connections with other players, and create platforms that strengthen Japan's inbound tourism industry.

Five elements of success, based on research on case studies of PPPs from around the world, were identified.

Clear leadership

The formation of a PPP is predicated on the concept that an alliance will achieve more than a single player could. However, strong leadership is still required to ensure success. Private-sector entities, given their long-standing interest in the success of business initiatives, should take a leading role in the consortium. This model has delivered results in other destinations. Air New Zealand spearheads collaborations with the country's tourism agency and other entities and also makes an effort to include key messages in its interactions with customers. For example, the airline's safety videos feature New Zealand' top tourism destinations, a clever and efficient way to promote the country's assets to tourists.[44]

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44 "North Americans encouraged to experience Spring in the South Island," Air New Zealand, July 2011, airnewzealand.co.nz; *Safety Video*, Air New Zealand, March 2016, youtube.com.

Frameworks to promote the "plan, do, check, adjust" cycle

As with any strategic plan, a PPP requires frameworks that establish a timeline and ensure proper monitoring of quantitative goals and measures. Most destinations struggle to measure return on investment of tourism marketing, but some have found success. New Zealand's tourism agency, for example, has a department that collaborates with private-sector companies to monitor and quantitatively evaluate the impact of marketing efforts.[45]

Targeted activities

It is difficult for a PPP to succeed if it tries to do too much at once, operates with a scattered scope, or allocates resource opaquely. Not every issue can be fixed simultaneously, and so success depends on selecting targets, setting priorities, and ensuring messages are transmitted in areas of specialization. New Zealand identifies specific segments and then shares marketing collateral tailored to each segment (for example, information on its rivers for those visitors interested in fly fishing).[46] As a result of these activities, the destination has succeeded in attracting a broader group of tourists due to its unique branding.

Peripheral industry involvement

While the core tourism stakeholders should be involved in this collaboration and are in a natural position to drive progress, peripheral players are also crucial to building a robust, effective consortium. For example, the hospitality industry directly benefits from tourism, but other related industries—such as retail, entertainment, and infrastructure—should also be part of the effort. In New York, tourist-attraction committees are composed of members from a range of industries, including the arts, retail, restaurants, and entertainment.[47] It is important that all entities involved have some kind of business incentive such as a subsidy in the early stages.

Advanced technologies

Data analytics have had a huge impact on a range of industries, and these tools can be combined to support efforts to boost tourism. Customer information and other data can be shared among industries via the cloud in order to hone approaches to tourists. For example, Barcelona's city council collaborates with the private sector to offer an app that provides tailor-made routes through popular attractions and offerings. These customized plans are based on individual preference and real-time information such as weather and traffic by linking social media and mobile-phone apps.[48]

Timeline and example goal: From now to 2018, more than 30 entities from various industries across the country (such as airlines, hotels, and technology) and government ministries should form a consortium.[49] This PPP's initial goals could be to plan and execute at least five projects with different private-sector executives. The PPP can then focus on implementing the action plan, monitoring progress, and expanding to new companies and industries.

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45 Tourism New Zealand, June 2015, tourismnewzealand.com.

46 "Ten great trout fishing rivers in New Zealand," newzealand.com.

47 *2014 Annual Summary*, New York City Government, March 2015,nycgo.com.

48 "Mobile app helps tourists discover the best of the world's leading smart city," Microsoft Internet of Things, November 2015, blogs.microsoft.com.

49 Number of entities refer to other similar consortium intended to have at least one representative company from each related industry sector. Tokyo Brand Promotion Council is also composed of 30 industry groups although it is at prefecture level.

Five levers to drive inbound tourism

Once the PPP is established, it should activate five levers aimed at increasing inbound tourism.

1. Strengthen the Japanese destination-management-organization model

The lack of a service model in regions outside Japan's most major cities is a pivotal issue that could constrain the growth of Japan's inbound tourism. We have described how local regions need additional resources and capabilities to promote tourism assets. The good news is that a network is already in place that could be strengthened to meet this challenge.

Japan currently has 80 destination management organizations (DMOs) candidates, which will be critical players in gaining a better understanding of the country's tourism demand and supply.[50] These organizations can be expanded to deliver even greater impact by functioning as "travel agencies" that offer tours, collaborating among themselves, and—with the support of JTA—implementing measures such as marketing and legislation on a national level. This cooperation will be crucial to ensuring that the expansion of Japan's tourism industry revitalizes local regions.

Several factors will also be key to success. Sufficient scale, including a budget of approximately JPY 500 million and a scale of 500 affiliate members, will enable end-to-end activities.[51] Securing sources of income, ranging from tax revenue, venue entree fees, government funds and proceeds from tour operations itself, is also essential. The involvement by corporations in activities that affect tourists will ensure such efforts can be implemented at scale. Training will ensure staff are prepared to monitor progress and track results. And collaboration among the DMOs will provide a platform to share best practices and drive cross-regional initiatives such as establishing transportation routes or offering tour planning.

It will be vital for private-sector members of the PPP to apply their services, knowledge, investment, and talent to strengthen Japan's network of DMOs. Some companies have already begun to provide these resources through service provision or temporary transfer, aiming to capture new business opportunities in local regions. For example, the Inland Sea, SETOUCHI Tourism Authority, often cited as leading regional DMO in Japan, has as CEO the former Chairman (now board adviser) of West Japan Railway Company, and the COO is a former editor-in-chief for Jalan, one of the major online hotel-booking sites in Japan. These executives provide the organization with private-sector knowledge, experience, and an extended network of business contacts.[52]

Timeline and example goal: From now to 2018, PPP stakeholders should clarify roles, organizational structure, and implementation plan for JTA, local regions, and DMOs. As a start, this group should establish more than ten best-practice use cases outside of Tokyo, Kyoto, and Osaka. Candidates should be of a sufficient size (more than 250,000 annual inbound tourists).[53] As a next step, the PPP could aim to facilitate the rollout of 100 best-

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50 日本版DMO候補法人登録一覧 [List of nominated organizations for Japan DMO], May 2016, mlit.go.jp.

51 Based on the average size of DMOs around the world. *2015 DMO Organizational & Financial Profile Study*, Destination Marketing Association International, 2016, destinationmarketing.org.

52 The Inland Sea, SETOUCHI Tourism Authority, setouchitourism.or.jp.

53 *2015 DMO Organizational & Financial Profile Study*, Destination Marketing Association International, 2016, destinationmarketing.org.

practice DMOs, each of which is capable of attracting 250,000 inbound tourists, and build a platform for information sharing and collaboration among those DMOs. The government could facilitate such efforts by providing resource (training and talent matching), budget (subsidy to support ramp-up phase), and technology (database and applications to support implementation)

2. Build a platform to support tourists' end-to-end customer experience

The report identified that previous and repeat visitors to Japan are not re-targeted with new suggestions of places to visit. Doing so could both increase overall tourism and also help distribute travelers to more of Japan's tourism assets, including those in local regions. An integrated online data platform is used by destinations such as New Zealand (see sidebar "New Zealand's web portal is set up to impress"); in Japan, such a platform could serve as a mechanism to capture and analyze information about tourists, including purchasing behavior and preference, and use data to offer personalized end-to-end travel-support information compiling service providers (including transportation, lodging, restaurant, local events), to provide a rich customer experience in Japan. The Ministry of Economy, Trade and Industry has begun working with IT companies to develop and implement such a platform.[54] To best serve Japan, the platform should be agile and able to gradually expand the service domain and players involved, including start-ups.

Timeline and example goal: From now to 2018, members of the PPP should work together to design the ideal customer journey and define the required information, targets, and operating model. Once the framework is in place and implementation has begun, the PPP should collect feedback on its marketing efforts. An achievable goal could be to collect at least 10 million users by 2020.

3. Support hotels and sightseeing spots in building inbound-tourism capabilities

As discussed earlier, Japan's affordability is not well communicated and many hotels and tourism assets currently struggle to attract tourists from overseas. Major reasons include a language barrier, a lack of online reservations, and inefficient purchase processes. These organizations would benefit greatly from support by related businesses and government agencies to address these relatively minor (but hugely consequential) issues. Members of the PPP would be excellent candidates to begin this initiative. In early stages, subsidies could offer an effective method of promoting involvement.

Timeline and example goal: From now to 2018, related businesses should collaborate to share and implement best practices across a range of needs, from helping hotels establish an online presence to streamlining purchase processes. This effort will include creating and sharing guidelines on building the capabilities to serve the needs of inbound tourists (for example, having Wi-Fi, providing sufficient information on websites and signage in English and other languages). The PPP will function as a collaboration platform, connecting regional small and midsize businesses with support from larger corporations in major regions and facilitating requests for public-sector support if necessary. An achievable goal could be to ensure more than half of Japanese facilities and hotels be able to cater to and accommodate foreign tourists by 2020.

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54 IoT, AI, ロボットに関する経済産業省の施策について [METI policies on IoT, AI, and robots], Ministry of Economy, Trade and Industry, February 2016, activeictjapan.com.

4. Embed foreign visitors' viewpoints in marketing and promotion

Increasing Westerners' awareness of Japan's tourism assets is a critical element in expanding and diversifying Japan's inbound tourism. The current staff of JTA and JNTO is nearly 100 percent Japanese. In order to provide the right message in appealing way to target tourists, a foreigner's, or, more broadly, customer's viewpoint is crucial. Other destinations do this by employing foreign staff to tourism agencies, or organizing overseas advisory group. France, for example, organizes 250 experts and fans of France across the globe to support tourism promotion.[55] As such, members of the PPP should employ more foreigners in their process of building model courses, website visuals, and content, all with the goal of making Japan's tourism assets more attractive to visitors from other destinations. JNTO and JTA could also benefit from greater collaboration with industry leaders from overseas, which the PPP can achieve by identifying and reaching out to these leaders to understand their views and needs. Events such as the World Forum on Sports and Culture on 2016 will be a good opportunity to establish such relationships.

Timeline and example goal: From now to 2018, JTA should consciously work to ensure the viewpoints of tourists are sought out in the design and implementation of marketing and promotions. JTA and JNTO could start by hiring several foreigners, including one from Europe, one from the United States, and one from Asia outside Japan. A worthwhile goal could be to ensure that by 2020, JNTO has foreign workers in local regions and the organization's overall staff is 25 percent non-Japanese; at its current size, this figure would translate to approximately 30 people.[56]

5. Enhance online promotion to make tourists ambassadors

Another underlying issue that contributes to visitors' low awareness of Japan's abundant tourism assets involves a dearth of opportunities for previous Japan visitors to share their positive travel experiences. As such, the country is not benefitting from previous visitors, who could serve as word-of-mouth "ambassadors" to spread the word and increase Japan's organic popularity among global travelers. To address this challenge, the PPP should ensure Japan's online portal showcases its tourism assets as effectively as possible and offers opportunities for the collection and dissemination of word-of-mouth praise. Further, the promotion of tourism of assets could be tailored to the preferences of specific source markets—for example, nature and cultural attractions for Chinese tourists.

Timeline and example goal: In collaboration with PR agents and IT companies, a targeted promotional plan should be developed and implemented, with the goal of increasing the number of visitors who become word-of-mouth ambassadors for Japan. One interim goal that could be used to mark progress would be to become the number-one country in terms of Facebook "likes"—which would require increasing from the current threshold of 0.4million to around 5 million.

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55 Meeting of the Council for the Development of a Tourism Vision to Support the Future of Japan, March 2016.

56 "業務内容別の職員数" [Number of staff by department], Japan National Tourism Organization, January 2015, jnto.go.jp.

Timeline: A phased approach

The implementation of the road map defined in this report should proceed in phases. Since collaboration among stakeholder groups is a critical element, the first stage of each initiative must focus on assembling the relevant entities and forging consensus on the path forward. As part of this process, entities for the PPP and each of the five levers should clearly define roles, the organizational structure, goals, and timelines for achieving them.

Japan will host several major international events through 2020—including the 2016 World Forum on Sports and Culture, the 2019 Rugby World Cup, and the 2020 Olympic and Paralympic Games. These events can act as natural deadlines to achieve progress, promote results, and recalibrate strategies as necessary.

Conclusion

Although Japan is the third-largest economy in the world (trailing only the United States and China), international tourists are still not fully aware of the country and its assets.[57] Japan has many rich natural and cultural assets that extend far beyond its three major urban areas, but it needs to ensure that tourists across the world have a greater awareness of all it has to offer. For the tourism industry to flourish, public and private sectors need to come together to deliver a great experience for visitors.

The government is currently working to turn the tide and accelerate Japan's GDP growth, and tourism will be a key industry in this endeavor. Under the guidance of a newly formed public-private partnership, Japan can make simultaneous progress in increasing its attractiveness to many different traveler segments while addressing not just surface-level challenges but also the underlying obstacles to growth in inbound tourism. The conditions and timing are right to launch Japan into the top tier of tourism-oriented destinations; what's needed now is coordinated, strategic action.

57   *Gross domestic product 2014*, World Bank, April 2016, databank.worldbank.org; *Japan*, World Bank, June 2016, data.worldbank.org.

Tokyo, Japan