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# Developing scenarios for the Norwegian travel industry 2025

Anniken Enger, Kåre Sandvik and Endre Kildal Iversen

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## Abstract

**Purpose** – The Norwegian travel industry faces decline in important international tourism segments and needs an industry wide and future-oriented strategy to face these challenges. Accordingly, a common understanding of future drivers and different scenarios for the industry is needed. The paper aims to discuss these issues.

**Design/methodology/approach** – Using the process of scenario analysis and drawing upon the involvement of the tourism industry, this paper describes the method, drivers, scenarios, and implications.

**Findings** – The research identified six important drivers with predictable outcomes: uneven global economic development, digitalization, climate change, consumer demand – return on time, centralization, and demography. The Norwegian economy and Norwegian politics were the two drivers that stood out as the most significant for the tourism industry, with a very uncertain outcome, and constituted the two axes of the scenarios. This resulted in four scenarios: Money Rules, The Urban Diamond, Opportunities for All, and Master Plan.

**Practical implications** – The four scenarios represent different economic value of international tourism in Norway. The Opportunities for All and Master Plan scenarios represent the greatest economic value for Norwegian tourism. They indicate great opportunities for tourism to become the “new oil” in Norway if the oil economy declines. The two scenarios differ with respect to the degree of governance control vs market liberalization. The scenarios will be used to identify implications and risks for different parts of the tourism industry, and to further explore how governance control and market liberalization may be combined.

**Originality/value** – The research identified six drivers which are significant for the Norwegian tourism industry. This resulted in four scenarios which are used to identify implications and risks for different parts of the industry.

**Keywords** Tourism, Scenario analysis, Norway, Governance control, Oil economy

**Paper type** Research paper

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## Norwegian tourism: a context for the future

The cross-industry project “A knowledge based Norway” (Reve and Sasson, 2012) ranked the Norwegian travel industry as the weakest of the 13 Norwegian major industries. Although the travel industry represents 5 percent of the world’s GDP, 8.5 percent of all global jobs, and is one of the fastest growing industries worldwide (UNWTO, 2012, p. 11), Norway’s share of the global market has decreased from 0.9 percent in 1970 to 0.5 percent in 2011. Contrary to most other markets in the world, including Western Europe, Norway had no growth in incoming tourism from 2010 to 2011 (UNWTO, 2012, p. 4). The travel industry is one of the five strategic industries presently prioritized by the Norwegian Government. It is obvious that the industry faces serious challenges and that the industry needs to change. A need for change has been identified primarily in three areas:

1. development of Industrialized structures;
2. development of unique product experiences; and
3. development of Self-service concepts (Reve and Sasson, 2012, pp. 271-2).

We argue that these implications are correct, but more comprehensive strategic advice is needed to achieve growth and sustainability within the travel industry.

The scenario project was initiated to develop a knowledge-based foundation for the industry's strategic long-term decisions. The tourism industry needs a common knowledge foundation about the future. The complexity of tourism includes multiple industry segments such as airlines, ferries, cruise, railways, hotels, destination marketing organizations, tour operators, agencies, providers of cultural and other experiences, and elements from the creative and culture industries. These industries share common development drivers, but the strategic implications of these may be different for the different industries. The scenario project was designed to identify the significant drivers of the future of Norwegian tourism towards 2025. This project differs from previous scenario projects in that the industry itself now was in the lead of the project instead of external consultants and experts. The main companies and other stakeholders in the industry contributed to the development of the industry's own perception of drivers and potential scenarios to ensure relevance to strategic and policy decisions of firms, investors, and authorities.

### Choice of scenario development design process

Against a background of increasing globalization, the digitalization of information, the international character of tourism and the extremely fast pace of change in society, it is important and increasingly difficult for tourism companies to plan and prepare for the future. The two most common strategies are to plan in a voluntaristic way, assuming that we can choose our future and plan it in a rationalistic way, or to plan in a deterministic way, assuming that the future is determined by certain incidents, typical for prognosis planning. We have chosen to broaden our scope and use a scenario approach, because it enables us to process fundamentally uncertain driving forces in a structured and analytical way, and, on that background, describe certain possible futures for Norwegian tourism. The scenario approach is a holistic method very well suited to gaining insight about what might happen in a given field in the future, and to analyzing the dynamics of change that will bring us there. In addition, the scenario methodology suggests a process approach, which builds a common basis and reality for those involved.

The three most common scenario methods are deductive, inductive and incremental. Deductive scenario structuring is a "process of reasoning by which a specific conclusion logically and necessarily follows from a set of general premises" (van der Heijden, 2005).

One starts by generating the drivers that are supposed to have an effect on the topic in question, then analyzes and sorts these drivers into certain and uncertain driving forces, and, finally, ranges them in order of importance. The scenario logic is then designed as a consequence of the uncertain drivers that constitute the scenario cross. Inductive scenario structuring is a process of reasoning by which a general conclusion is drawn from experience or experimental evidence, from empirical data to theory. One starts by asking what we need to say something about, and then starts to generate future fragments, also called snippets. Next, one considers internal consistency before analyzing and collecting consistent fragments of scenarios. In the incremental method, one takes the desired or expected future as the starting point, and tries to identify the major issues and threats that people are concerned about. Accordingly, one identifies and challenges the assumptions and formulates possible opposite, alternative assumptions, and builds a scenario around the different themes. Our research initially follows the deductive methodology as described in van der Heijden (2005) and Yeoman *et al.* (2012). This scenario model is not intended to predict the future, but rather to use the different stories of the future as a backdrop for making better decisions now, based on what might happen in the future.

### Conducting the development process

The process of developing the scenarios has consisted of four stages. (1) We started with a literature study of scenario studies, certain and uncertain important trends and drivers of relevance for the tourism industry. (2) Then we did extensive research to study the development and current situation of the Norwegian tourism industry. (3) We conducted 17 in-depth

interviews with leaders of the participating companies in the project, using the “seven questions”[1] to map the industry’s most important driving forces. The design of the questions encourages the respondent to think out of the box and imagine what might happen in the future. (4) To identify the scenario cross, we organized a workshop with the participating companies. During the entire scenario process interviews with certain experts in different relevant fields, e.g. environmental experts, technological experts, etc. were conducted to get their point of outside view on trends that might influence the tourism industry. This work is still in progress.

## **Important and certain drivers of industry development**

Through literature review, interviews and workshops, the factors considered to have a significant effect on the tourism industry in Norway were identified. The drivers considered unpredictable are used to build the scenario matrix, while those six that may have a predictable outcome are used to describe the content in all the four scenarios.

### ***1. The uneven global economic development – income polarization***

Migration of industrial production from the western world to countries with lower labor costs is one of the most important drivers of global economic growth. From the year 2000 onwards, the difference between GDP per capita in industrialized countries and developing countries has been reduced (Milanovic, 2009, p. 9). The emergence of a large middle class in China, India and other growing economies contributes to the global tourism export to these countries. Norway has already seen large growth from Asia, but at the same time experiences low to negative growth from many of the volume markets in Europe. The Asian share of foreign commercial guest nights in Norway has increased from 4.8 to 7.7 percent in the period from 2005 to 2013, while the German share has decreased from 22.8 to 17 percent in the same period (SSB, Statistics Norway). Due to the oil and gas industry, Norway has experienced continued strong economic growth relative to the main competing markets, which leads to higher wage costs in Norway than in our competing destinations. The challenge for the Norwegian tourism industry is to increase the quality and value of the tourism product compared to the high level of cost, and to increasingly target markets with economic growth and segments with lower price elasticity.

### ***2. Digitalization***

The exponential growth in technological developments has erased the distinction between being online and offline, we move from being in a face-to-face conversation to going online to check on something, and back to face-to-face conversation. In the tourism industry, social media has contributed to more transparency between supplier and customer, leading to increased competition and greater consumer power. Digitalization changes the value chain in the tourism industry, and whoever achieves consumer confidence is tomorrow’s winner, as confidence seems to unleash purchasing. Norway ranks fifth on World Economic Forum’s Networked Readiness Index (Bilbao-Osorio *et al.*, 2013), and has a strong potential to take lead in online marketing and booking, and also in the digitalization of the tourism experience with mobile apps, digital information, real-time bookings, etc. With its highly educated population and strong technology knowledge, Norway is well positioned for this trend. In addition, the tourism industry needs to lower wage costs, and digitalization and increased use of technology are one possible solution to this challenge, both in marketing and sales, and in the delivery of services and experiences.

### ***3. Climate change***

The Intergovernmental Panel on Climate Change (IPCC) has determined that climate change is anthropogenic, and a temperature increase of below 2°C is no longer realistic (IPCC, 2013). An increase in global temperatures results in higher humidity, and thus more extreme weather. An increase in extreme weather will make the Norwegian tourism product less attractive, as most of Norwegian tourism is nature based. Poor weather conditions will make it difficult to be outdoors, and thus enjoying the scenery and experiencing nature will become less attractive.

However, the Norwegian tourism industry is well positioned in comparison to its competitors. A study shows that with a temperature rise of 4°C, all European countries will be economically affected, and an overall decline in GDP of 0.26 percent annually is expected (Aaheim *et al.*, 2012). Climate change will hit the Mediterranean countries hardest, while the Nordic countries will be best off, and as the only region, the wage level in the Nordic countries will increase. Stricter regulation of CO<sub>2</sub>-emissions will, however, have strong implications for the aviation industry, and might result in a strong negative effect on Norwegian tourism because of its location far from markets and their dependence on air transportation. We assume that the focus on the environment will be prevalent in the Norwegian tourism industry and that we will see a continuing adaption to sustainable development the next ten years.

#### **4. Consumer demand – return on time**

To develop the tourism product in line with the tourists' needs it is necessary to know the tourist trends. We have identified a number of trends, one of which is especially highlighted, namely "return on time". Despite the fact that we today have less working time and more leisure time than ever before, time is perceived as a scarce good, and consumers are obsessed with getting the most out of the time spent (Andreassen *et al.*, 2012). This might be partly due to the fact that globalization and digital development expose the consumers to an endless amount of offers, temptations, lifestyles, trends and choices. The challenge is to distinguish between "nice to have" vs "need to have". Holidays are certainly one of the biggest temptations on the internet, and very visible through a number of channels such as newspapers, life style magazines, special interest portals (e.g. for skiing, trekking, off road biking, bird watching, etc.), sites such as Tripadvisor, different "visit-pages", etc. This trend leads to an expectation of efficiency in all stages of the buying process, both before, during, and after a journey. It also creates a need for intermediaries, i.e. someone who systematizes the information to make it more accessible and simplifies choosing. Our hectic lives in the industrialized world also create a counter-trend that increases the demand for relaxing holidays, in the form of "slow travel", "digital detox", different forms of retreats, etc. Norway has a good opportunity to deliver on this trend, because of the vast and easily available nature, and because of the high digital competence and network availability in the society that set the ground for development.

#### **5. Centralization**

Urban residents in 2009 accounted for more than half of total global population, up from 33 percent in 1960 (WHO, 2009). Today, the number of urban residents is growing by nearly 60 million every year. In 1990, < 40 percent of the global population lived in cities, but as of 2010, more than half of all people lived in an urban area. By 2030, six out of every ten people will live in a city, and by 2050, this proportion will increase to seven out of ten people. This urbanization is associated with a shift from an agriculture-based economy to mass industry, technology, and services. There are more jobs, better infrastructure, better health care, education, culture and entertainment facilities in urban areas. For the tourism industry, this trend might lead to a greater demand for peace and quiet, clean air, water and nature. People living in bustling cities will have a greater need for peaceful scenery to unwind, and nature-based holidays are Norway's core product.

#### **6. Demography**

To understand Norway's tourism markets, there are two important variables to consider, population growth and age composition. Population growth expresses market size and age composition expresses the segment size and displacement. Population trends are positive and population is expected to grow in Norway's main markets, including the inbound market, towards 2025, with the exception of Germany and Russia (United Nations (UN), 2012). Continued strong growth from China and decrease from Germany are expected, because of rapid population growth in China and population decline in Germany.

Within the next few years, for the first time in history, globally older adults above 65 years of age will outnumber children less than five years of age (UN, 2012). All markets for Norwegian tourism will consist of a more elderly population, but there are considerable variations in how this will affect the various markets.

In markets with strong population growth, this has less practical significance for Norwegian inbound tourism. However, in markets with population decline, as the German one, this will cause a shift in the age composition of inbound tourists, and thus a shift in the demand for certain types of tourism products. Aging population will most likely result in a decline in demand for skiing and other activity holidays, but also roundtrips by car will decline. The demographic change might lead to an increased demand for city breaks and organized holidays such as cruises. The aging population provides an opportunity for Norway to take a position in segments that have more time at their disposal than employed people. On the other hand, many customers in these segments are price sensitive, and Norway is a high cost country for tourists, so this is a challenge for the tourism industry.

### Important and uncertain drivers of industry development

Through the interviews, workshops and analyses by the scenario team, two drivers were identified as the most significant for the tourism industry, and also with a very uncertain outcome: Norwegian economy and Norwegian politics.

#### *Vertical axis*

Norway has a very oil dependent economy. The oil industry and its suppliers shape an economy that is divided into two separate spheres; the offshore industry vs the land-based industry. Part of the land-based industry thrives on the offshore industry, and that includes part of the tourism industry as well. This is for the most part companies in the big cities, which also have the additional advantage of a populous local and domestic market. The tourism companies located outside the bigger cities have a smaller local market, and rely more on the internationally exposed tourist market. Norway's economic growth contributes to Norwegians spending more on their leisure activities including traveling. The rising price gap between Norway and destinations abroad, however, leads to a larger proportion of Norwegians traveling abroad and a smaller proportion of foreigners coming to Norway. Stronger economic growth in Norway compared to other European countries means a double wage pressure in the tourism industry. On the one hand, high labor costs weaken the tourism industry's cost competitiveness towards alternative destinations, and on the other hand, the tourism industry's low wage level weakens the industry's competitiveness towards other industries in attracting competent labor.

This economic situation will prevail as long as there is oil and gas in the North Sea or Barents region, the oil price is high, and the demand continues. However, the question is how long this situation will last, and thus represents a great uncertainty. In the opposite side of this economic axis we have the situation where oil has become too expensive to extract, CO<sub>2</sub>-taxes are high, and innovation within new cleaner technology and energy sources has decreased the demand for oil and gas. Norway will still be a rich country because of its Government Pension Fund, but will have a weak economy. The focus on other industries, among them the tourism industry, will grow. In this restructuring situation for the Norwegian economy, we will see higher unemployment, a reduction in wages and depreciation of the exchange rate. Rapid loss of income from oil and gas would put the Norwegian economy in a state of "Dutch disease", a term coined after the economic turmoil caused by rising and falling revenues from gas in the Netherlands in the 1970s and 1980s. Dutch disease describes a situation where considerable revenues from the sale of natural resources suppresses the traditional exporting industries, and when these resources are exhausted and revenues stop flowing, and, finally, the economy is left without significant export industries. In the Netherlands, the reduction in income from natural gas led to several years of low economic growth and rising unemployment. In scenarios 1 and 2, the Norwegian economy is still a strong oil economy, and the possibility for a smooth restructuring towards a viable economy after the depletion of the oil and gas resources is still open. In scenarios 3 and 4, oil production has come to a sudden end before any serious political attempts to restructure the economy and restrict the wage level generated by oil production. In these scenarios, the economy experiences the consequences of "Dutch disease" with falling demand, rising unemployment and a need to build up new export industries.

### Horizontal axis

As for any other industry, the policy framework represented by legislation, regulations and public policy instruments affects the tourism industry, and especially its international competitiveness. The two most important and uncertain policy areas are the regulation of what type of products the industry should be allowed to sell and the labour regulation laws that govern the use of labour. Regulation of products can be divided into regulation regarding the commercial use of nature and culture; and regulation regarding the supply of goods and services (alcohol restrictions, safety, etc.). Today the tourism industry is one of five industries prioritized by the government, along with oil/energy, shipping/maritime, marine/seafood and environmental technology. One important question is whether the tourism industry will continue to be one of the focus areas for the government towards 2025.

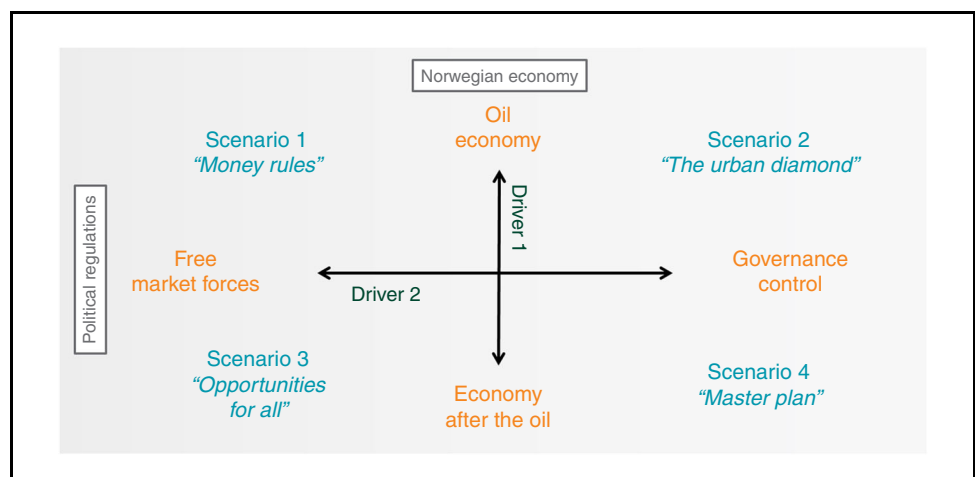
Another important question is whether we will see a liberalization of the Working Environment Act to make it easier to use part time employees, or a liberalization of the Directive on Temporary Agency Work to make it easier to employ foreign workers, or if there will be stricter regulations to control immigration to Norway. Moreover, a third question is whether we will see a greater liberalization of the use of motorized vehicles (snowmobiles, heli-skiing, water scooters, etc.) in protected areas, or if we will see an increased interest in nature protection and prohibition of extreme sport tourism.

In one end of this political axis, we have strong regulations. This end is characterized by high ambitions in state planning and political control. The government can and will use regulations and public policy instruments to control commercial development. Fiscal policy is also seen as an effective means to control the business cycle, for example in the form of counter-cyclical policy when economic activity is low. In the other end of the axis, we have a liberalistic society where the free market forces regulate the economy. At this end, there is little faith that the government can and should manage business development. Instead, it is particularly important to remove regulations and bureaucracy in the business sector as they are seen as barriers to growth and profitability. The authorities are also concerned that the regulatory framework should be general, and not industry specific, so that capital and economic resources flow to where they will provide the highest returns. Industry neutrality is thus prevailing in this end of the spectrum. The government is concerned that Norwegian businesses should have a general competitive framework, and that Norway should be attractive to international investment.

### The scenario cross

Norwegian economy and Norwegian politics form the two axes of the scenario cross and provide the framework for four different scenarios as shown in Figure 1.

**Figure 1** Scenario matrix and driving forces



### *Scenario 1: "Money rules"*

In this scenario, oil production fuels the Norwegian economy while a neoliberal political regime seeks to remove any obstacles for the export industries. The oil price has been increasing over the last ten years due to more complicated development of renewable energy than expected, with the consequence that oil is still indispensable for the global energy supply. The Norwegian economy has continued to grow and Norway is a high-cost country with a correspondingly high wage level. The tourism industry faces a challenge in recruiting labor, and is taking advantage of the liberalization of migration rules by making extensive use of cheap foreign labor. Norway is not reliant on the tourism industry for employment, and thus, the government has minimal focus on the industry.

The strong economic growth contributes to higher interest rate levels, a stronger currency and higher wage growth than abroad. This development is both a sign of positive development in the Norwegian economy and a big challenge for the exporting industries, including the tourism industry. The politicians are aware of the difficult competitive conditions of the export industries and place emphasis on providing these industries with the best possible regulatory framework, trying to remove any kind of obstacles to economic growth and profit. The politicians' focus is on improving the struggling export industries' competitiveness. Their means to do this are tax reductions, deregulation and liberalization. They reduce taxation of firms and goods, and they remove special taxes such as the tax on alcohol and tax on agricultural imports.

The tourism industry is experiencing political goodwill in terms of deregulation of the use of public goods such as nature and culture, and deregulation of what companies can sell of different activities and products. The government allows the tourism industry to utilize national parks, mountains, coast and forests commercially. Consequently, the tourism industry creates parks and resorts in formerly protected areas. As it is difficult to attract labor, the politicians also make certain changes in the Working Environment Act, moving negotiating power from central to local labor union representatives, which in turn contributes to more flexible job schedule arrangements and dampens wage pressures. This change generates profits for owners and attracts more investors to the industry.

Overall, the tourism industry is bigger and more profitable than it used to be. Lower labor costs, cheaper inputs and a deregulated product market industrialize tourism, and to become competitive we see a greater consolidation in the industry. The tourism industry is mainly developing in the cities due to a strong corporate and local market with high purchasing power. The government does not use any public policy instruments to promote the industry as it used to do, so the regional tourism industry is struggling, with the exception of some strong hubs developing around the main attractions. In these areas, the adventure industry is flourishing due to events and Special Interest Tourism (SIT), Northern lights, helicopter skiing, snowmobiling, ski and sail, Arctic Race, etc. Cruise dominates the coast due to expensive land-based products. The cruise lines own their own resorts onshore. Norway's USP is city and culture tourism, cruise and action tourism. Relatively high prices and a strong currency imply that most tourists still are Norwegians.

### *Scenario 2: "Urban diamond"*

In this scenario, oil production still fuels the Norwegian economy while the political regime is concerned with controlling unwanted effects of strong economic growth. Norway is a high-cost country with a correspondingly high wage level and only the most productive tourism firms survives the tough competition for labor and capital. Norway is not reliant on the tourism industry for employment. The Norwegian economy is growing rapidly, with the same macroeconomic consequences as described in scenario 1. As Norway is getting richer, society is changing. Norway is still the European exception in terms of economic performance, and in other European economies, unemployment levels are high. This implies that people from southern and eastern Europe come to Norway to find jobs. As Norway is getting both richer and more populated, the cities are growing fast and the natural resources are under pressure. At the same time, climate change is unfolding in terms of more rain, storms and unstable weather.



These changes are creating a feeling of insecurity among Norwegians, causing a seeking “back to the roots” towards the perceived “original” Norway. The reluctant attitude towards change manifests itself through politics in different ways. The government is cautious when it comes to spending money over national budgets, because the Norwegian economy is strong with a low level of unemployment. The politicians are aware of the tough environment for the exporting industries in Norway and want to improve their international competitiveness, but without lowering taxes or changing the regulatory framework. Thus, they invest in education, research and governmental programs to help stimulate business innovation.

Population growth and climate change have increased awareness concerning the natural environment, which encourages politicians to regulate the commercial use of nature and land. The increased immigration also distresses many Norwegians. Harder competition for low-income jobs, bigger cities and growing foreign criminal organizations result in increased xenophobia. The politicians respond to popular opinion in different ways. They try to reduce intra-Schengen immigration by making it less interesting to employ foreigners by restricting the use of part-time workers and low-wage immigrants in the travel industry through a tightening of the Working Environment Act. Higher crime levels in the cities lead to, amongst other things, tougher restrictions on alcohol.

Overall, Norway is a high cost country, and the tourism industry is struggling both to attract tourists from Norway and abroad. The tourism industry in the cities thrives because of corporate and local market demand. A low level of public investment in tourism and strict regulations make it difficult to operate tourism outside cities. The mass tourism, the middle market, is gone and high-end, niche markets and self-service tourism dominate. Norway attracts SITs and affluent tourists who want to experience the exclusive Norway. Cruise tourism to Norway is halved due to restrictions. Innovation Norway’s tourism initiative is terminated, and public policy instruments directed at the tourism industry are now routed through culture, environment and agriculture. There is a greater focus on research and development. The industry is getting smaller but the businesses that manage to survive are very profitable.

### *Scenario 3: “Opportunities for all”*

In this scenario, the oil era is over while a neoliberal political regime seeks to remove any obstacles for the export industries. The wage level is decreasing because of economic hardships and a myriad of entrepreneurs are trying their luck in tourism. Norway needs a strong tourism industry to boost employment. Large investments into other forms of energy such as coal, wind and water, as well as investments in renewable energy and new technology in aviation, cars and industry, have brought the oil price down and made Norwegian oil unprofitable. By consequence, the Norwegian economy is in turmoil. The government’s income from oil has come to an end, which implies a tighter financial-political regime. To add to this, the supply industry is also struggling with bankruptcies, relocations and layoffs. The entire economy is severely affected. The Norwegian politicians view the difficulties in the Norwegian economy as a structural problem. The oil, gas, and supply industry receive most of their revenues from other parts of the world and scale down in terms of value added and employment. The politicians’ strategy to meet the crisis is not to stimulate the economy’s demand side with the use of oil money over national budgets, but rather to facilitate a restructuring through improved framework conditions for export industries.

According to the politicians, the people and capital that used to be absorbed by the oil industry need to be allocated to the most productive usage by the market. Therefore, the government’s solution is to improve exporting industries’ regulatory framework by reducing taxes, deregulating the economy and liberalizing the labor market. The politicians are interested in tourism because it is labor intensive, and thus improve the industry’s regulatory framework. Everyone can now utilize the national parks, the mountains, the coast and the forests commercially. Big hotels and tour operators create parks and resorts in formerly protected areas. There is increasing mass tourism around the main attractions and flourishing theme parks to experience the Northern Lights, Vikings, and the Fjords. The government also removes special taxes such as the tax on alcohol and tax on agricultural imports, helping restaurants and bars to reduce their costs. This gives rise to festivals and events. The government is investing in the construction of airports,

roads and other infrastructure projects. This makes Norway more attractive for international investors and the most profitable parts of the industry are bought by large global tourism companies. The government also changes the Working Environment Act, moving negotiating power from central to local labor union representatives. Local negotiations imply more power to businesses and less power to the labor unions, resulting in more flexible overtime arrangements and lower wages.

In this situation, the international competitiveness of the tourism industry is improving drastically. Since the economy is in a troubled state, the Norwegian currency is weak. The liberalization of the labor market combined with high levels of unemployment makes it easy to recruit workers at a low cost. The tourism industry is now one of Norway's stronger industries, fuelled by foreigners visiting the many nature-based resorts, cruise ports and cities with great nightlife. Numerous people start up their own tourism companies, resulting in an expanding variety of offers to the visitors. Many of the biggest tourism firms thrive, while quite a few do not make it through the first years.

#### ***Scenario 4: "Master plan"***

In this scenario, the oil era is over while the political regime is concerned with controlling unwanted effects of societal changes. The government is using the tourism industry as a device in their Keynesian economic policies. Norway needs a strong tourism industry to boost employment. Extraction of oil in the North Sea is a closed chapter, with the same macroeconomic consequences as described in scenario 3. The economic difficulties and high unemployment contribute to a stronger feeling of community among Norwegians. Ever since the Norwegians discovered oil in the 1970s, the Norwegian economy has been in an exceptional situation. Now, with the oil gone, Norwegians have to rethink how they want their society. This implies acting together as a community, regulating the markets and trusting the government to solve the situation. At the same time, climate change is unfolding.

The chosen political strategy to counter the economic crisis is to boost the economy's demand side by spending much of the Government Pension Fund. The government designs its policies to reduce unemployment as quickly and efficiently as possible. Since the tourism industry is labor intensive, situated all over the country and internationally oriented, it is a perfect candidate for governmental action against unemployment.

The politicians choose to drastically increase the funds spent on international marketing of Norway as a tourism destination, and they transfer a lot more money to local and regional municipalities to help create better local destinations. They prioritize a more holistic organization of the industry and increase public funding for important transportation routes. The government also funds several new signature buildings for national and regional culture in cities and other important tourism destinations. "The Norwegian response" to difficulties also results in stricter regulations in several areas. The politicians strengthen the Working Environment Act to prevent social dumping, which makes it difficult for businesses to utilize cheap immigrant labor. The climate change encourages politicians to tighten regulations on the use of nature and restrict cruise traffic along the coast. The higher crime rate, which has accompanied the high unemployment, is met by policies restricting the use of alcohol. It gets more complicated for bars and restaurants to acquire licenses to sell alcohol, and opening hours are restricted.

The tourism industry is experiencing improved competitiveness in terms of a weaker Norwegian Krone, low interest rates and strong governmental activity in terms of increased funding and large investments in infrastructure and marketing. This leads to an increase in foreigners coming to Norway, but the lack of intra-industry competition and variety of products is dampening the growth. Rural tourism is thriving, and demand for sustainable tourism, authentic, slow living, locally produced gourmet food, heritage tourism, etc. is growing. Norway decides to be the world leader in eco-tourism and authenticity. The structure of the tourism industry is viewed as an important competitive advantage, and the industry is well organized into six regional destination companies, each of which has a few environmentally labeled sub-destinations. Norway is a world leader in digital tourism, has a large share of innovative companies, and highly educated staff.

Cruise is heavily regulated and centered on urban hubs along the coast. The activities offered, are operated by Norwegian experience providers and sightseeing boats.

### Verification and quantification

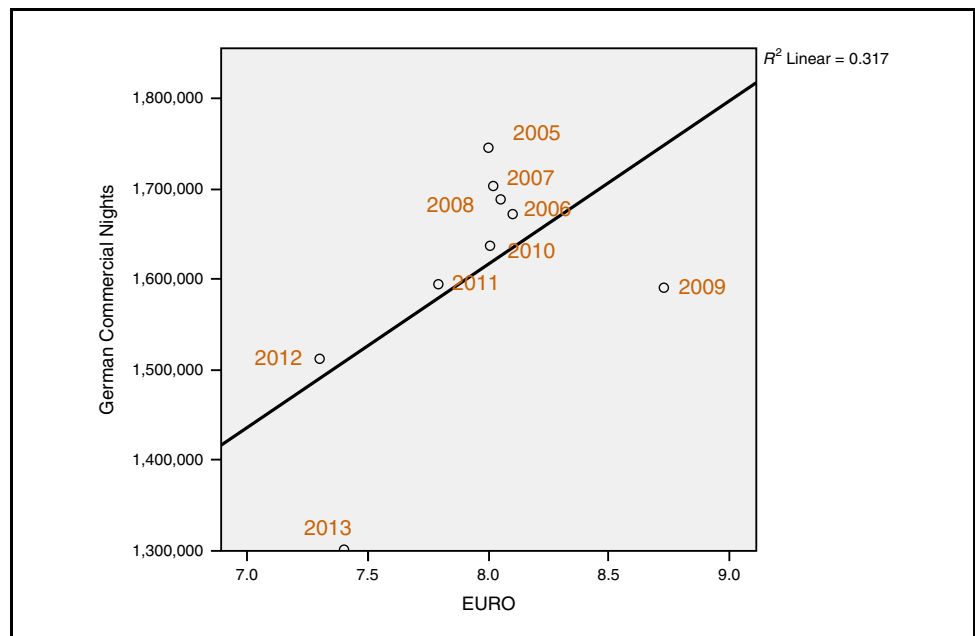
To illustrate some of the main differences among the scenarios, we have used currency level and cruises to Norway, which are two important drivers of registered commercial guest nights in Norway.

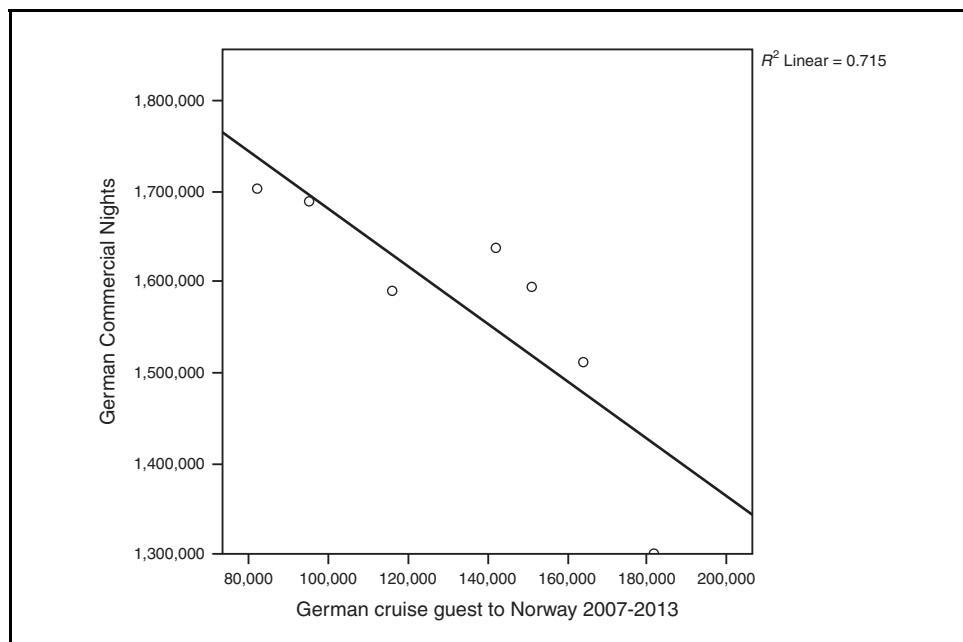
The Norwegian Krone is expected to get much weaker in the beyond oil economy scenario. The difference might be as large as 6 kroner to 1 euro in the strong oil economy scenarios and 12 kroner to 1 euro in the beyond oil economy scenarios. Figure 2 shows the relationship between currency and German commercial nights in Norway. A change of 1 euro significantly corresponds to 180,000 German commercial guest nights. Germany is the largest market for Norwegian tourism and stands for 17 percent of all commercial nights. We use the German "currency elasticity" as a proxy measure for all incoming tourism to Norway.

Second, Norwegian land-based tourism, and accommodation in particular, faces a competitive threat from the cruise industry. Although the cruise industry brings tourists to Norway that would not have arrived otherwise, there is a certain amount of cannibalization, both due to lower prices and more convenient access to Norway's attractive fjords, scenic coast line, and certain sites and cities. The historic relationship is shown in Figure 3 and shows that one German cruise guest to Norway significantly corresponds to three fewer German commercial land-based nights in Norway. We use the estimates for German cruises to calculate cannibalization on foreign commercial nights in Norway. Cruise to Norway has grown by 14 percent each year from 2007 to 2013. If we assume an annual growth of 10 percent, annual cruise tourism to Norway can be estimated to increase from 560,000 in 2013 to two million guests in 2025.

Combining the two demand drivers results in a  $2 \times 2$  matrix that estimates the size of foreign tourism under each of the four scenarios. Together with currency, we see that cruises to Norway indeed affect the key tourism numbers of the four scenarios (see Table I). The numbers are based on published commercial nights by the national census bureau ([www.ssb.no](http://www.ssb.no)), average spending per day per foreign guest (Enger *et al.*, 2013), and spending per foreign cruise guest (Grontmij/Carl Bro, 2010). Scenario 1, Money Rules, is dominated by a low euro (and expensive Krone) and extreme growth in cruises to Norway.

**Figure 2** The impact of currency on German commercial nights in Norway



**Figure 3** The impact of German cruise to Norway on German commercial nights in Norway**Table I** Foreign tourism in Norway under the four scenarios

	Currency:	Free market forces 2,000,000 annual cruise guests		Government control 650,000 annual cruise guests	
		Numbers of commercial nights	Commercial value	Numbers of commercial nights	Commercial value
Oil economy	EUR = 6	1,450,000	kr10,900,000,000	5,500,000	kr13,600,000,000
Beyond oil economy	EUR = 12	6,070,000	kr20,140,000,000	10,120,000	kr22,840,000,000
<i>Commercial value</i>					
Value cruise guest	kr4,000				
Value other foreign guest night	kr2,000				

This scenario has fewest commercial nights and only a value of about NOK 10.9 billion in 2025. Scenario 2, The Urban Diamond, with low euro and strong regulations on cruises that keep cruises at the 2013 level (650,000 guests), has the second lowest number of commercial nights and economic value (NOK 13.6 billion). This best represents today's numbers.

Scenario 3, Opportunities for All, is the combination of beyond oil economy and free market forces and has the second highest number of commercial nights and a commercial value of about NOK 20 billion. The best scenario is number 4, Master Plan, with an inexpensive Krone and strong governmental control. This scenario has the highest economic value of NOK 22.8 billion. Despite the use of only two exogenous variables and the use of simple linear calculations to quantify the content of the scenarios, the numbers give an idea of the magnitude of the scenarios on Norwegian tourism in 2025.

### Scenario probability, preference, and implications

The scenario that best represents today's situation is probably also the most likely scenario for 2025. According to a vote among the participating industry executives, the most likely scenario was Scenario 2, Urban Diamond, with a strong oil economy and restrictions on unwanted tourism including restrictions on further cruise tourism growth. However, scenario 2 is a scenario

that is likely to stimulate growth in the urban areas and a slow decline in the rural areas, and thus, a decline in international tourism to Norway. Scenario 3 is, however, the most wanted scenario according to the vote among executives, where oil may become less important to the Norwegian economy and less restrictions on tourism business conditions are necessary, and thus, both likely to stimulate industry wide entrepreneurship and growth. Scenarios 1 and 4 were voted “biggest threat” by the executives. Table II shows the possible classification of the four scenarios according to their likelihood and economic impact of international tourism in Norway.

The implication of the four scenarios is a next step to add further operationalized value to both the dimensions and the four configurations of scenarios. The most important scenarios are those that characterize the “beyond oil” situation. Although the simple simulation shows that tourism will double its economic impact on the Norwegian economy if “beyond oil” occurs it also shows that the same value creation in tourism can be made in highly different ways. Equifinality can be accomplished through national regulations on one hand and liberalization on the other. Norway’s approach to tourism has traditionally been through focus on regulations and governmental coordination. Our simulations show that a more dynamic and global market adaptive approach generates an almost equal value creation in the Norwegian tourism industry. Norway has an attractive nature located close to large central European markets. The adaptations to cruise markets, in an aggressive market-oriented way, may increase Norway’s share of the growing Northern European cruise market. The sacrifice might be the cannibalization on land-based tourism that lacks relative competitive advantage (e.g. hotel accommodation) and the regional acceptance of more “free-riders” among the commercial foreign actors (i.e. cruise companies) operating in the Norwegian tourism industry. Norway’s adaptation to new forms of tourism to supplement, and partly, substitute current forms of tourism is a challenge today, and may be a more crucial challenge the next ten years. We advocate a holistic approach to assess these pros and cons to simulate the overall economic impact rather than sub-optimization, and an open-mindedness to trends of tourism to adapt to future forms of tourism and to develop new and unique land-based Norwegian forms of tourism. Strong governmental regulations might hamper the dynamics of the Norwegian tourism industry, and thus, might be a short-term strategy for economic impact in tourism.

The Norwegian tourism industry can affect the outcome of the scenarios, for instance, differently from the linear projections outlined in Table I. The implications for businesses, organizations and government within each of the scenarios are yet to be developed.

### Reflections on validity, purpose fulfillment, and further extensions

The scenarios are developed and verified by top managers with a relatively short-term planning horizon. The inclusion of more experts on each of the important drivers would be important to reduce validity uncertainty. Moreover, inclusion of current and potential investors in the tourism business could also be used to verify drivers and scenarios, since this group might focus on future and long-term industry development and profit growth more than top managers of running operations.

The scenario process has been centered on likely drivers and the dynamics of the tourism sector. This ensures a trustworthy set of scenarios that are relevant to the decision makers’ current knowledge needs. This focus could potentially be extended to include industry shocks (e.g. global health crisis, wars) and new vacation experience approaches (e.g. 4D, simulators, cruise-in-air, cruise-under-sea, etc.) that challenge how we know tourism today. Although this scenario project only targets 2025, we believe it is important to capture emerging trends and niches in addition to those trends that affect the volume tourism categories ten years from now.

**Table II** Scenario likelihood and economic impact

	<i>Economic impact of international tourism in Norway</i>	
	<i>Least efficient?</i>	<i>Most efficient?</i>
Most likely?	Sc2 Urban diamond	Sc3 Opportunities for all
Least likely?	Sc1 Money rules	Sc4 Master plan

## Note

1. Clairvoyant, good scenario, bad scenario, inheritances from the past, important decisions ahead and priorities, constraints in the system and changes that need to be made, epitaph.

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