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Can inbound tourism fuel Japan's economic growth?

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The country struggles to attract Western visitors, tourists focus on limited destinations, and capacity is already stretched. Addressing these challenges could significantly boost the world's third-largest economy.

Japan's inbound tourism grew by 33 percent a year from 2011 to 2015—among the fastest rates in the world. Yet tourism still represents just 0.5 percent of the country's GDP, significantly lower than for popular Asian destinations such as Thailand (10.4 percent) and developed countries such as France (2.4 percent) and the United States (1.3 percent). The biggest problems? Too few non-Asian international visitors; too many tourists concentrating on the major cities of Kyoto, Osaka, and Tokyo; and significant capacity constraints with regard to accommodation and transportation.

Japan's leaders are aware of the problem, as well as the opportunity. Recognizing that inbound tourism could be a powerful economic engine, they have set an aspirational target to double annual inbound tourism to 40.0 million visitors in 2020, from 19.7 million in 2015, increasing total inbound-tourism revenue to ¥8.0 trillion (\$79.0 billion), from ¥3.5 trillion, over the same period. Indeed, we believe the country's tourism industry is at an inflection point where an effective strategy to attract international tourists could have an outsize impact for years to come. Our new report, *The future of Japan's tourism: Path for sustainable growth towards 2020*, investigates the challenges and potential impact of several initiatives that address obstacles to realizing the country's inbound-tourism goals.

Tackling three major challenges

Although Japan is the world's third-largest economy—trailing only the United States and China—it remains a mystery to many tourists. While hosting the 2020 Olympic and Paralympic Games will provide a global platform to showcase its people, culture, and landmarks, action is required now. For the tourism industry to overcome barriers and achieve its target of doubling annual inbound tourism by 2020, the country's public and private sectors must come together to address three primary issues:

1. **The lack of non-Asian visitors.** International travelers are attracted to destinations for many reasons, including iconic sites, proximity, and familiarity. Yet Japan has a significant imbalance in its portfolio of visitors: non-Asian visitors accounted for just 16 percent of international tourists to Japan in 2015. The country struggles to convert interest from Western tourists into actual visits, especially when compared with visitors from other Asian nations (exhibit). That

may be partly because Western visitors simply aren't sure what they can see in Japan, even though they profess interest in the country's major tourism assets once informed about them.

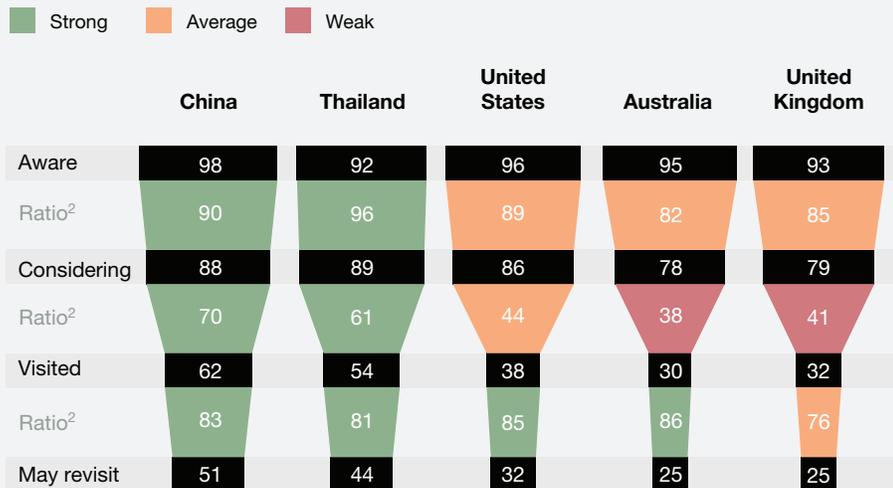
2. **Skewed regional distribution.** Three prefectures—Kyoto, Osaka, and Tokyo—dominate visitor itineraries, accounting for 48 percent of tourist stays. These three major cities account for 60 percent of inbound-tourism expenditures, despite comprising only 28 percent of the Japan's GDP. This suggests a sizable opportunity for the country's other regions.
3. **Capacity constraints.** Accommodations and infrastructure in major Japanese cities are already stretched. In fact, demand simulations for 2020 indicate the country may face an accommodation shortage of up to 50 percent in Kyoto, Osaka, and Tokyo, as well as an air-capacity overflow of up to 30 percent for Tokyo's Haneda and Narita airports.

Correcting Japan's visitor-portfolio imbalance and skewed regional distribution requires addressing several root causes, including a perception of high cost, low awareness of tourism assets, and a limited service model in local regions. The common challenge is that cooperation between the public and private sectors in many areas—for example, aggregating tourism data and providing an end-to-end experience—is limited, if not nonexistent.

Exhibit

Japan attracts Asian tourists, but it lags behind other countries in converting non-Asian tourists from 'considering' to 'visiting.'

Performance relative to other top destinations, by visitor source market, %¹



¹Survey sample size = 3,077.

²Ratio of tourists remaining at each stage.

To succeed in meeting the country's goals for inbound tourism, a public–private partnership (PPP) should be established, modeled on global best practices. Once formed, the PPP should pursue a road map built around five levers:

- **Strengthen the Japanese destination-management-organization (DMO) model.** Japan's 80 DMO candidates can be expanded to deliver even greater impact, strengthening the service model in local regions.
- **Build a platform to support tourists' end-to-end customer experience.** An integrated online data platform could serve as a mechanism to capture and analyze information about tourists, including purchasing behaviors and preferences. These data could be used to offer a rich, personalized customer experience.
- **Support hotels and sightseeing spots in building inbound-tourism capabilities.** Many hotels and tourism assets would benefit greatly from support by related businesses and government agencies to address issues such as the language barrier and inefficient purchase processes.
- **Embed foreign visitors' viewpoints in marketing and promotion.** Members of the PPP, including the Japan National Tourism Organization and Japan Tourism Agency—which both employ nearly 100 percent Japanese staff—should ensure the viewpoints of tourists are sought out when designing and implementing marketing and promotions.
- **Enhance online promotion to make tourists ambassadors.** Japan can ensure its online portal showcases its tourism assets as effectively as possible and offers opportunities for the collection and dissemination of word-of-mouth praise.



By bringing stakeholders together through a public–private partnership, Japan can make progress in increasing its attractiveness to many different traveler segments while also addressing the underlying obstacles to growth in inbound tourism. The conditions and timing are right to launch the country into the top tier of tourism-oriented destinations—it just needs coordinated, strategic action. □

[Download the full report on which this article is based, *The future of Japan's tourism: Path for sustainable growth towards 2020*, on McKinsey.com.](#)

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