

The Moscow Connection:

Putting Russia's Capital on the World Tourist Map



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THE MOSCOW CONNECTION:

PUTTING RUSSIA'S CAPITAL ON THE WORLD TOURIST MAP

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PREFACE

TOURISM IS AN IMAGE-MAKING INDUSTRY FOR A COUNTRY. Today, simply being a successful economy or a megacity does not quite cut it. It is about being a leading-edge innovative center that attracts talent, investors, and tourists, while at the same time remaining a comfortable place to live. The nature of the competition itself is changing, and development needs to be well-balanced.

10.4% of global GDP and around 30% of service exports is what the tourist industry contributed to the global economy in 2018. And by 2029 it is going to grow to 11.5% of global GDP. Every tenth job in the world is related to the tourist industry, while tourism itself provides a significant multiplier effect and drives the development of adjacent industries. In Russia, there are 53 of these industries so the economic impact may be quite impressive. Best practices show the ROI accrued from the promotion of tourism to be 27 times greater than the average cost.

Moscow has everything it takes for the development of international tourism: unique attractions, an action-packed event calendar, competitively-priced hotels and restaurants, as well as a convenient geographical location. In recent years the city has become a lot more accessible and people-friendly; historical and cultural monuments are being restored, parks and other traffic free areas are being renovated and developed, and public transport is being continually improved.

The success of the 2018 FIFA World Cup demonstrated that the city can already offer a world-class tourist product, while its infrastructure has the capacity to sustain a much higher inflow of international tourists. Geoanalytical reports show that the increase in the number of tourists after the World Cup (namely, in September–December of 2018 vs. the same four months in 2017) was 117%, while prior to the championship, i.e. from January through May it was below 13%. Nearly half of all tourists, 47% to be exact, said they were willing to recommend Moscow to other travelers.

This success would not have been possible without the alleviation of the visa regime during the Cup. This was by far the most instrumental factor. According to international studies,¹ the alleviation of visa regulations between countries leads to an increase in foreign tourist inflow by an average of 40%.

1. Artal-Tur, Pallardó-López, Requena-Silvente (2016), Neumayer (2010), Czaika, Neumayer (2017), The Impact of Visa Facilitation in ASEAN Member States, WTTC & INWTO.

To assess Moscow's current competitive positions and its attractiveness for a typical tourist, a survey was conducted analyzing the customer journey of a tourist. The survey covered 3,500 tourists including those who had never been to Moscow and was supported by over 70 interviews with business representatives and industry experts. As it turned out, of the 15% of "potential visitors", who responded to the survey and consider Moscow an interesting destination, only 5% are ready to plan a real trip. The reasons that the survey respondents cited for this can be provisionally split into two main groups. Prejudice—meaning that it is unsafe, too far, or too expensive, and structural barriers that include complex visa procedures, the language barrier, and an adverse geopolitical image.

However, the actual reality of Moscow as a tourist center stands at odds with how the city is perceived by people who have never been to it. It is paramount that the city makes sure to convert the success of the FIFA World Cup into a long-term and sustainable growth in incoming tourist flow and strengthens its position on the international tourist market.

The customer journey of any trip breaks down into five stages:

1. Recognizing the need
2. Planning the trip
3. The trip
4. Impressions during the trip
5. Reviews (post-trip)

The analysis of the experience of 14 leading tourist cities revealed five key success factors that help improve the experience for the customer at each stage.

Five Key Success Factors Of Leading Cities

1. **A unified system of promoting the city on target markets.** It is vitally important to elaborate a solid brand strategy and approach to promotion management, as well as to ensure that the required funding is available to finance the journey. Also, it is necessary to create the brand itself, define a unique value proposition, and determine target markets and tourist segments. Leading cities overhaul their brands once every 5-10 years. Normally, these tasks are handled and coordinated by a specialized agency (e.g., London&Partners, Singapore Tourist Board). The annual budget of this agency equals 0.1-1% of the city's annual tourist revenue. In Moscow today, this budget is about 0.02%.

Cities with established tourist brands spend from USD 14 M (Paris) to USD 40 M (New York), while those who are still working to build their brands spend several times more—Hong Kong with USD 117 M and Singapore with USD 172 M. Moscow, on the other hand, only spent USD 2 M in 2017.

- 2. Improving accessibility for tourists** means first of all, a simplified visa process and well-developed airline services, including flights by low-cost carriers. Efforts need to be continued to relax the visa regime. For instance, it may be feasible to consider the introduction of electronic and on-arrival visas, special medical tourist and student visas, as well as a 72-hour visa-free regime, which will help transit travelers and city-breakers. Expanding the list of countries, whose citizens can be granted visa-free entry, especially those from target tourist markets, is also worth considering.
- 3. Improved service quality.** It is necessary to develop all elements of the tourist product, including transport and public infrastructure, room inventory, and information support. There needs to be a shared tourist information ecosystem, covering supply and demand, and comprised of web portals, information centers, and standardized street navigation. The introduction of a hospitality standard and the creation of parking spaces for coaches should also improve the quality of service.
- 4. The development of tourist attractions.** It is necessary to renovate the existing attractions, create new spots, and stimulate a polycentric approach to tourism development, placing new attractions beyond the historical center of the city.
- 5. A comprehensive tourism development strategy and market monitoring system.** The city tourist strategy needs to become a regularly updated document. There needs to be a multilayer governance model with an effective task distribution system spanning the city administration, promotion agency, and other tourist-related public bodies. For instance, the Mayor's office should be responsible for funding, while the agency drives all marketing efforts. In addition to the traditional sources of data, the system can rely on digital geoanalytical tools, social media analysis, citizen and tourist surveys, price monitoring, and regular inspections of tourist attractions and other facilities. It is vital that the city's event calendar (festivals, etc.) is coordinated with target countries in mind so as to ensure an inflow of tourists during the most convenient periods of time, such as school and public holidays.

Eight Steps To Unlock The Tourist Potential Of Moscow

Within the framework of its study, BCG has defined a target scenario for Moscow's development, which envisages tourism playing a priority role as a key industry for the city's economy. According to this target scenario, Moscow must break the top-10 most visited cities in Europe by 2025, establish an internationally recognized brand, improve the level of tourist services, and increase the input of tourism into the city's economy to 6-8%. Compared to 2018, this scenario assumes more than a doubling of tourist revenues to RUB 1.5 T²; a x1.4 increase in tourist flow to 31.8 million arrivals a year, including an x1.7 increase in the number of international tourist arrivals to 5.9 million people.

2. Including inflation projections.

The scenario also sets forth the development priorities for the city over the next seven years, i.e. the eight steps to unlock Moscow's tourist potential:

1. Promotion on the global market
2. Development of a comprehensive strategy and market monitoring system
3. Improved accessibility by air travel
4. Visa regime liberalization
5. Development of hotels and other types of accommodation
6. Service quality improvement
7. Development of tourist attractions
8. Creation of a tourist information ecosystem

Once detailed out to the level of specific initiatives, the implementation of these eight steps can commence from today. Moscow can significantly improve the efficiency of its tourist industry and challenge some of the world's leading markets, provided it assumes a comprehensive and consistent approach to the implementation of these initiatives. Moscow must become a new unrivaled center of attraction for foreign tourists. All roads shall lead to Moscow.

CHAPTER 1.

NEW COMPETITION

IN THE EXPERIENCE

ECONOMY

TOURISM IN MEGACITIES

INTERNATIONAL TOURISM AS AN INDUSTRY makes a significant contribution to an economy and defines the image of a country. In 2018, tourism already accounted for 10.4% of world GDP and about 30% of service exports¹. One out of every ten jobs is either directly or indirectly related to tourism. Moreover, tourism has a significant multiplier effect and contributes to the development of related industries (in Russia there are 53 of these based on our estimates²). Over the longer term, the impact of tourism on the world economy will continue to grow: in terms of money it will gain an average of 3.7%³ per year, and by 2029, the total contribution of the industry to the global GDP will reach 11.5%.

In 2017, more than 1.3 billion international trips were made in the world, and for each of them tourists went through the same five-stage customer journey.

Recognizing the need. Getting the idea for the trip and selecting the preliminary destination.

Planning the trip. A more in-depth research of the destination, including hotels, logistics, visas

and other possible restrictions before making a final go/no-go decision.

The trip. Arrival in the country of destination, accommodation, meals, travel around the city, etc.

Impressions during trip: Sightseeing and entertainment.

Reviews (post-trip). Discussing the experience with friends and acquaintances, posts on social media and forums. Reviews affect the onset of other customer journeys: one social media post can inspire (or scare off) other tourists.

Tourist behavior megatrends: in search of impressions

As tourists progress through every step of their journey their preferences do not remain static, rather they are influenced by five global megatrends.

TREND 1: GROWING WELFARE

The share of middle and upper-middle class, which accounts for most of the international travel demand in the world, is growing. The generally accepted income threshold, after which the inclination to travel rises significantly⁴, is estimated at USD 35 K p.a. It is expected

1. According to the World Tourism Organization (UNWTO) <http://www2.unwto.org/>, World Travel and Tourism Council (WTTC) <https://www.wttc.org>

2. Federal special purpose program Development of Domestic Tourism in the Russian Federation (2019-2025)

3. The forecast of the World Travel and Tourism Council (WTTC) <https://www.wttc.org>

4. According to a study by Oxford Economics—https://www.ihgplc.com/chinesetravel/src/pdf/IHG_Future_Chinese_Travel.pdf

EXHIBIT 1 | Tourist Customer Journey Model



Source: BCG analysis.

that the proportion of households with this level of income will increase globally from 20% in 2017 to 29% in 2025, with developing countries and in particular China remaining the main „suppliers“ of new tourists. Over the past ten years the flow of tourists from China has tripled and now exceeds 150 million trips per year⁵—more than 10% of the total number of tourist trips worldwide.

TREND 2: INCREASED MOBILITY

Air travel between countries continues to grow as tickets are becoming increasingly more affordable. From 2011 to 2017, the passenger flow on direct international flights increased by 47%⁶, which in turn was driven by the opening of new routes and the increasing share of low-cost airlines.

TREND 3: GROWING ROLE OF THE EXPERIENCE ECONOMY

According to various estimates⁷ over 50% of travelers choose their holiday destinations based on the unique nature of local culture. BCG analyses have also shown that whatever the specific purpose of the trip—be it cultural, educational, entertainment or business —

most tourists seek new experiences, wanting to explore new places and broaden their horizons. This trend, among other things, is driven by the continuous exchange of opinions through social networks, where some travelers share their experiences, while others gather information and draw inspiration for future trips.

TREND 4: DIGITALIZATION

Every stage of a customer journey is now digitized, and so, when choosing their options and making decisions about their trip, tourists explore related websites, blogs and forums, where the amount of information multiplies by the minute. At TripAdvisor alone, as many as 200 new posts appear every minute⁸.

At the planning stage, there are more and more opportunities to book accommodation online⁹, organize logistics, or purchase additional services. Airbnb has revolutionized the daily rental market. The number of active listings on the site has already exceeded 4 million and today equals the combined capacity of the five largest hotel chains in the world¹⁰.

8. How Tripadvisor changed travel / The Guardian <https://www.theguardian.com/news/2018/aug/17/how-tripadvisor-changed-travel>

9. According to Euromonitor International, by 2022 the share of online accommodation bookings will reach 50%

10. <https://www.businessinsider.com/airbnb-total-worldwide-listings-2017-8>

EXHIBIT 2 | Analysis of Tourist Expectations When Choosing a Trip

Question:

"When you were planning your trip, what kind of experience were you looking for?"



● Most pronounced experiences from this type of trip

Source: BCG's international tourist survey in 7 countries: China, Finland, France, Germany, Spain, UK, US

During their trip, tourists use gadgets to navigate the terrain, translate from a foreign language, look for places of interest and make purchases online. After the trip, they post reviews and photos on the same social networks and forums where they planned their journeys initially.

TREND 5: CHANGING TRAVEL FORMAT AND THE GROWING POPULARITY OF URBAN TOURISM

Travel decisions are being made faster and faster and becoming increasingly more spontaneous. Tourists now prefer to travel more often, however, they also prefer to go on shorter trips. For instance in 2017, tourists around the world made an average of 2.5 eight-night-long trips per annum, while in 2015, the numbers were 2.2 nine-and-a-half-night-trips p.a.¹¹ This is largely the result of the growing popularity of the city-break format—short trips, usually up to three days (for example, on weekends or holidays) to visit a city with lots of attractions and a developed tourism infrastructure. Following on from this, the biggest tourist flows are concentrated in major cities. For instance,

in 2017 the top 100 largest cities in the world accounted for 45% of global tourist traffic, while urban tourism growth rates in 2012-2017 were significantly ahead of the global average: 6.3% per year versus 4.9%, respectively¹².

Competing Cities: Key Success Factors

A city is, above all, a communication center. The significance of tourism is growing in parallel with the tendency towards increasing urbanization and plays a major role in megacities. Many travelers build their overall impressions of a country based on just one city.

Competition between cities for global tourist flows is becoming more and more acute. Over the past 5 years, the number of cities with a tourist flow of more than 3 million foreign arrivals has increased from 44 to 70. Moreover, the contribution of tourism to the urban economy is also on the rise. The annual tourist spend on trips to cities like London, Paris, New York, Singapore , reaches as much as USD 20 B.

11. Based on Global Travel Intentions Study Highlights 2018

12. 6.3% p.a. from 2012 to 2017 (4.9% worldwide).
Source: Top 100 City Destinations Ranking 2017 // Euromonitor

But the spoils are not split equally across cities. Based on the intensity and speed of international travel dynamics, we have grouped cities into three main clusters: mature destinations, growth champions, and untapped cities (see Fig. 3).

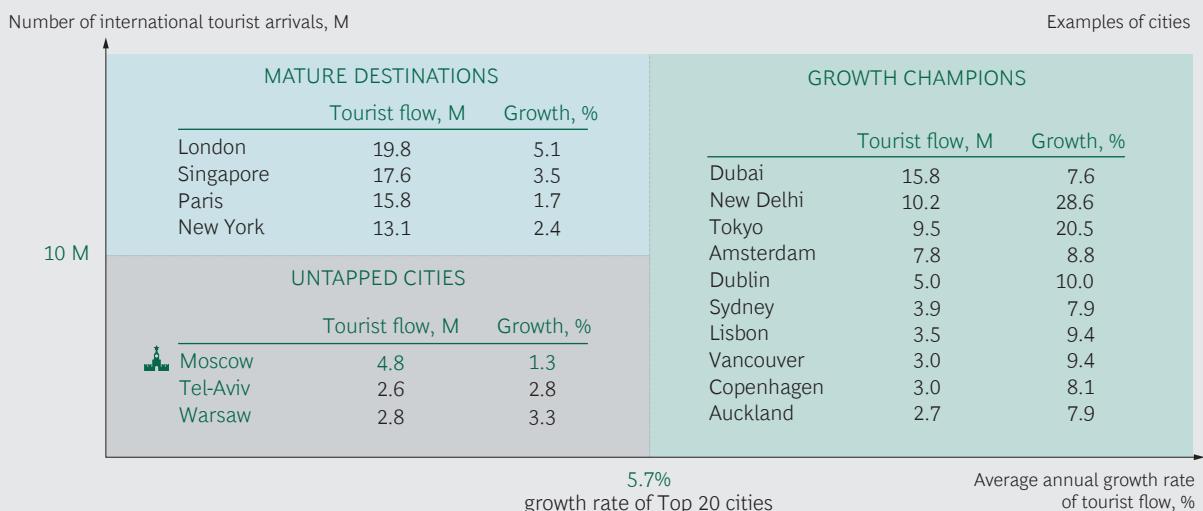
Why are some cities developing faster than others? It takes more than just historical heritage and one-time achievements to ensure sustainable competitiveness. We have analyzed the experience of fourteen major

cities (ten growth champions¹³ and four mature destinations¹⁴) and identified five key success factors — targeted initiatives that address the current megatrends and are designed to improve the city's positions at every stage of the customer journey.

13. Our sample included Dubai, New Delhi, Tokyo, Amsterdam, Dublin, Sydney, Lisbon, Vancouver, Auckland and Copenhagen

14. London, Singapore, Paris and New York

EXHIBIT 3 | City Segmentation by Level and Ratio of Tourist Development



For the criteria we took the number of tourist trips to the city and their growth rates over the past 5 years.

1) Mature destinations

This cluster includes cities with more than 10 million international arrivals per year. The inflow of tourists is already high, and therefore growth rates are moderate (average increase below for top-20 cities in the sample). The group includes the most popular destinations: London, Singapore, Paris and New York.

2) Growth champions

The flow of travelers to these cities is growing rapidly at more than 5.7% p.a., and so is the role of tourism in the economy. This trend cannot be

attributed solely to the geographical location or level of economic development; growth champions are found throughout the world: in Asia (Delhi, Tokyo), the Middle East (Dubai), Europe (Amsterdam, Dublin, Lisbon), North America (Vancouver) and Australia (Sydney). The rapid development of tourism in these cities was made possible mainly due to the strategic approach and the systematic efforts of the city authorities.

3) Untapped cities

This cluster includes cities that welcome less than 10 million tourists a year and grow by less than 5.7%. These cities do not fully realize their tourism potential, but could live up to it, if they adopt the best practices employed by growth champions and mature destinations.

Note: the average annual growth rate of tourist flows for all cities is estimated for 2012-2017

Source: Euromonitor 2017; Moscow City Government; BCG analysis.

FACTOR 1: PROMOTION OF THE CITY ON TARGET MARKETS

To create an efficient system of promotion, growth champions focus on three key components: brand strategy, promotion management, and funding.

For a brand strategy, first the brand itself needs to be developed, along with defining the target markets, appropriate channels and methods of communication. A brand is comprised of three key elements: a rational value proposition (i.e. unique competitive advantages that the city has to offer), an emotional slogan and a memorable logo.

Once the brand is in place, growth champions determine their target markets and tourist segments. They start by focusing on pre-existing markets and then move onto those markets with untapped potential, while their value proposition is adjusted for the individual characteristics and specificities of each of these priority markets. Brands of growth champions are updated every 3-5 years on average so as to adjust to changing tourist preferences and are completely overhauled every 5-10 years.

The promotion of all types of tourism and the coordination of market participants in leading cities is normally tasked to a special agency. For example, in London it is London & Partners, in Singapore—the Singapore Tourist Board, in Paris—the Paris Convention and Visitors Bureau, and in New York—the New-York City's Convention & Visitors Bureau. Such agencies usually have an independent status but are held accountable to the city administration under a commercial contract. For promotion to major target markets, agencies would often open their representation offices there.

Agencies fund marketing campaigns not only from their municipal and public budgets but also via alternative sources. According to our estimates, 10% to 60% of these funds comes from off-budget financing: marketing campaigns co-funded by market players, membership fees, event support services, ticket sales. The total size of an Agency's budget may be up to USD 100-150 M p.a. and is usually equivalent to 0.1-1% of the total tourism revenue for that city.

One of the better examples of a comprehensive approach to promotion is, in our opinion, Singapore (see Fig. 4). Over the past 15 years the city brand has been wholly redefined 3 times, with the latest slogan introduced in 2017 being *Passion Made Possible*. The new slogan evokes positive associations with a passion for everything new, a living, breathing desire to evolve. The promotion of the city is tasked to the Singapore Tourist Board (STB), which is a special development agency. Its total budget in recent years was about USD 154 M, with a promotion unit cost of USD 10 per tourist. STB has offices in 17 target markets, with the approach to promotion carefully adjusted to the needs and preferences of each target audience.

FACTOR 2: IMPROVED ACCESSIBILITY

The accessibility of a city is mainly determined by two components: visa regulations and development of air traffic.

Visas severely restrict all travel, and in the case of city breaks they can become the main cutoff barrier. According to international studies,¹⁵ the alleviation of visa regulations between countries leads to an increase in foreign tourist inflow by an average of 40%. A selective analysis of 12 cases of visa abolishment demonstrated a significant impact on tourist flows: from 20% to a whopping 570% (see. Fig. 5). Despite the fact that in most cases restrictions are softened at a state level, cities can also call for local exemptions, including by the practice of introducing dedicated transit visas for a specific city or region (such measures have succeeded, for example, in China).

The development of air travel is not only about the number of airports and flights, but also the availability of low-cost carriers. LCCs command significant market shares worldwide, with 30% in North America, 37% in Europe, and as much as 56% in South-East Asia¹⁶. Growth champions create the conditions to support low-cost carriers and often serve as their main hubs (the most prominent example being Ryanair's hub in Dublin).

15. Artal-Tur, Pallardó-López, Requena-Silvente (2016), Neumayer (2010), Czaika, Neumayer (2017), The Impact of Visa Facilitation in ASEAN Member States, WTTC & INWTO

16. According to OAG

FACTOR 3: IMPROVED SERVICE QUALITY

The competitiveness of a tourist product is determined by the quality of all its parts, including public and transport infrastructure, accommodation and information support.

In terms of transport infrastructure development, cities create preferences for tour buses, such as providing permission to drive in the bus lanes and additional parking space.

In order to avoid a lack of accommodation space, resulting in critical hikes in occupancy rates during high season, some of the growth champions¹⁷ encourage hotels to increase room capacity. This is achieved through financial and administrative incentives. The incentives include concessional funding, tax exemptions, simplified land allocation and construction permitting processes. Mature destinations such as New York, Paris or London were the first to regulate the daily rental market (AirBnB). They limit the maximum rental period (maximum of

17. Regulations were assessed at the country level:
Japan (including Tokyo), Dubai

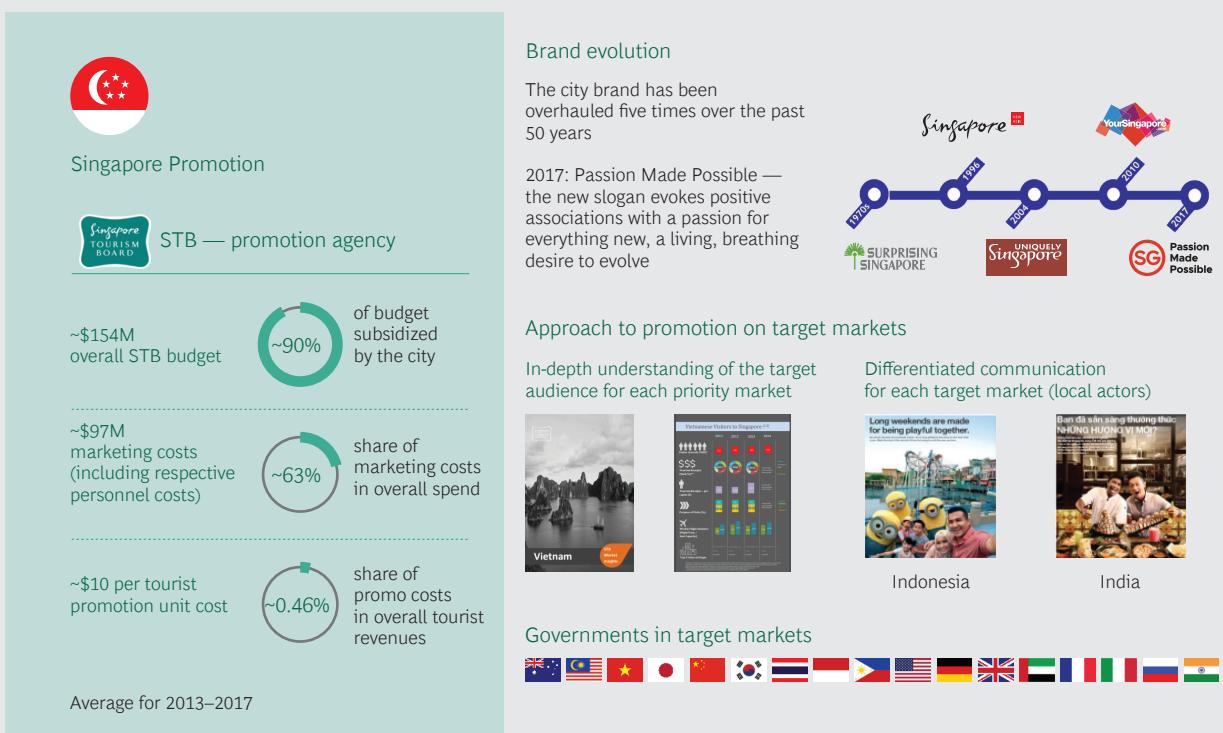
30 to 120 days p.a.) and oblige landlords to go through official registration procedures.

Dedicated ecosystems are established to support info services for tourists, including Tourist Information Centers, city navigation systems, websites and mobile applications. Our analysis has shown that these ecosystems have already been established and continue to develop in all growth champions and mature destinations. City tourist portals and mobile apps provide relevant content, including the city event calendar, free audio guides and suggestions for routes, recommendations on travel planning, integration into social networks, as well as tickets for tours and events. Thanks to a simple and intuitive structure and convenient search filters, they offer comprehensive information on tourism opportunities in the city.

FACTOR 4: DEVELOPMENT OF TOURIST ATTRACTIONS

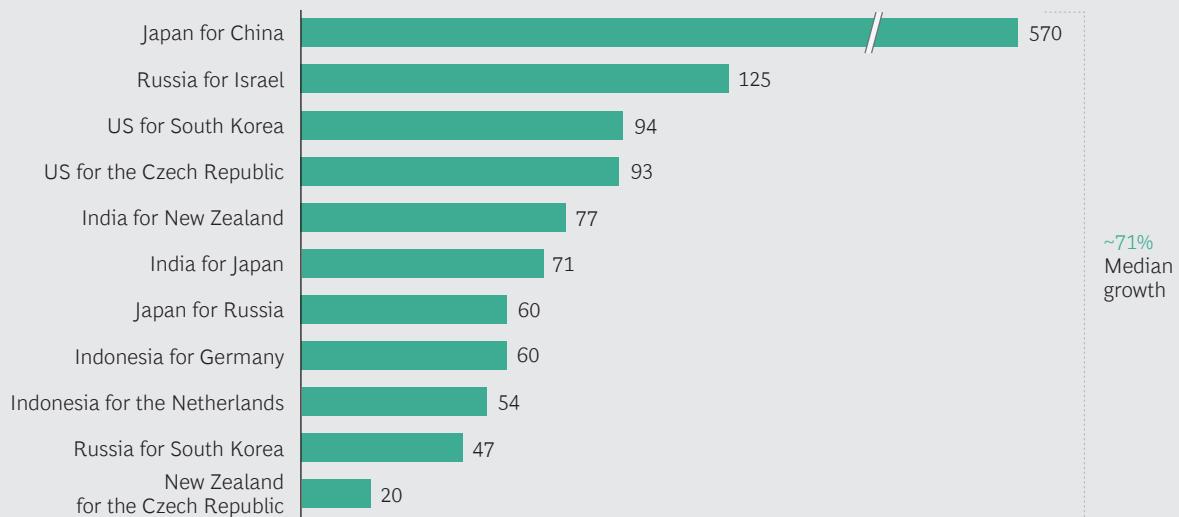
Champions focus on developing all kinds of tourism, but the emphasis is on experience tourism, being the most compelling for all travelers regardless of the purpose of their

EXHIBIT 4 | Singapore: An Example of Successful Promotion



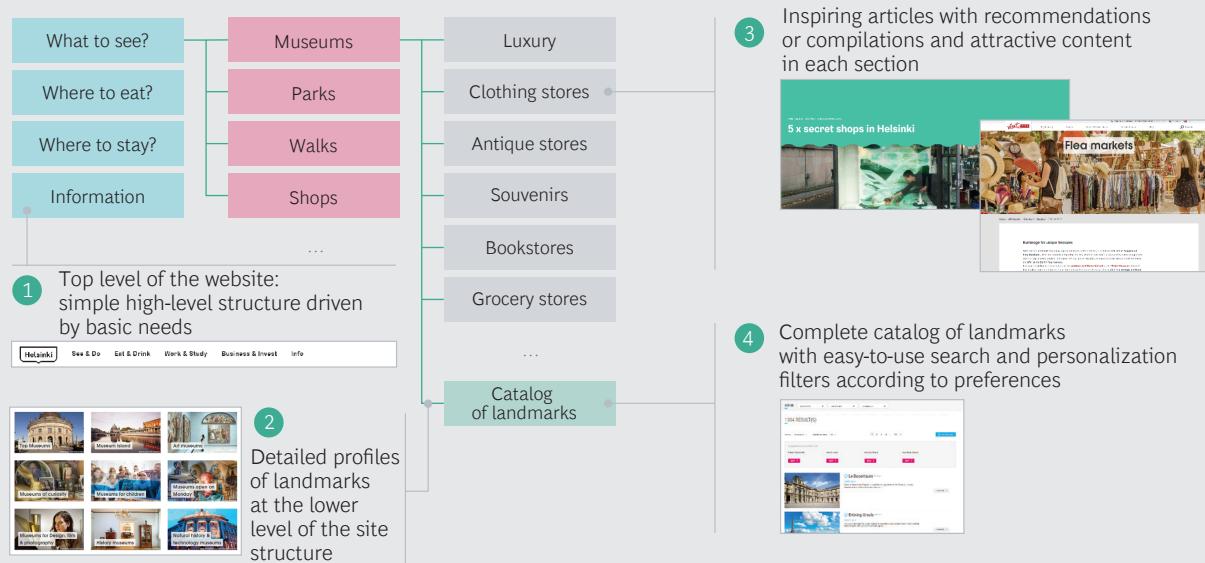
Source: Singapore Tourism Board, BCG analysis.

EXHIBIT 5 | How Changes in Visa Regulations Affect Growth of Tourist Inflow (%)



Source: Euromonitor; UNWTO WTTC; BCG analysis.

EXHIBIT 6 | Example Structure and Contents of Growth Champions' Web-Portals



Source: BCG analysis

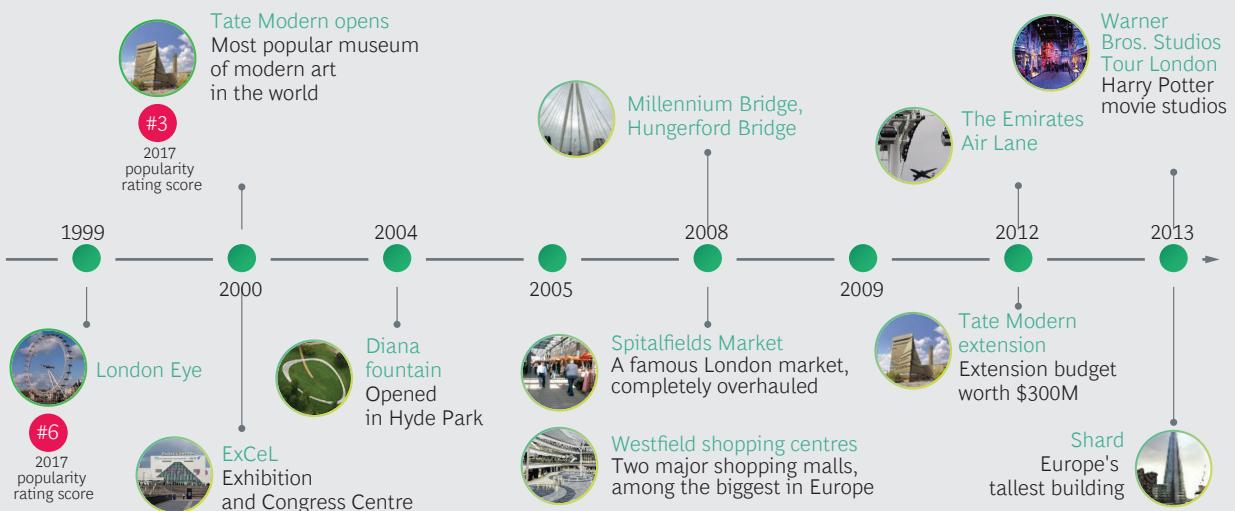
trip. Three levers can be used to develop experience tourism: renovating existing attractions, creating new attractions and territorial diversification by placing attractions in new areas of the city.

Renovation of the existing attractions can include both planned restoration work to prevent wear or modernization of varying scales to enhance comfort for tourists. Examples of such modernization initiatives are the exten-

sion of ramps for the disabled or the construction of the Pyramid of the Louvre in 1980 to increase the throughput capacity of the entrance to the museum.

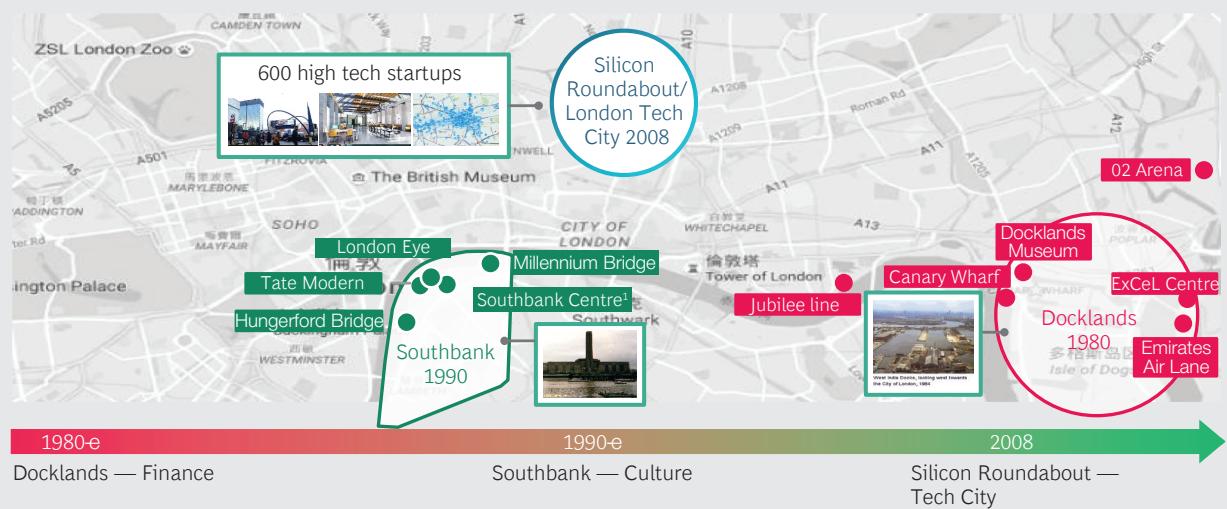
The main way to increase tourist interest is to create new attractions on a regular basis. The scale can vary from small projects, such as a fountain or a park, to one-of-a-kind megaprojects such as new buildings or installations. For example, London regularly commissions new

EXHIBIT 7 | Examples of New Attractions in London



Source: BCG project experience.

EXHIBIT 8 | Example of Clustering in London



Source: BCG analysis.

¹ Includes the Royal Festival Hall, Queen Elizabeth Hall, Hayward Gallery etc.

projects, with 11 new attractions having been created since 1999. These include the Tate Modern gallery and the London Eye which are among the top 10 most visited attractions in the city.

The practice of territorial diversification and decentralization suggests that new attractions should be moved to previously undeveloped

tourist areas. This approach helps major tourist cities to disperse streams of tourists and develop the urban environment outside the center. (See Fig. 8: creation of 2 new tourist clusters and a technology district in London — Docklands, Southbank, Tech City).

Overall, cities spend significant resources on the creation of new high-potential attractions.

EXHIBIT 9 | Growth Champions with Integrated Development Strategies



Source: official strategy documents and city websites; BCG analysis.

According to our estimates, investments in megaprojects can reach up to USD 0.5-2 B¹⁸.

FACTOR 5: COMPREHENSIVE TOURISM DEVELOPMENT STRATEGY AND MARKET MONITORING SYSTEM

The last overarching success factor is a comprehensive tourism development strategy. By comparing growth champions, we can identify three core components of such a comprehensive approach.

A regularly updated documented strategy. Eleven out of the fourteen growth champions and mature destinations that we reviewed have documented strategies or development programs that are kept in the public domain. In addition to tourist flow acceleration measures, such strategies include principles of sustainable development in order to harmonize the interests of citizens and tourists and preserve the cultural and natural heritage.

Multilayer governance model. First of all, at the city level, there is a formally established link between the municipal administration and the promotion agency. The administration

provides overall governance and distributes grants and subsidies, while the agency is responsible for implementing the marketing strategy, portal support, and other information systems, while also analyzing the dynamics of the market. Secondly, city tourism management is coordinated with countrywide governance and sometimes macroregional policy, with city-specific KPIs aligned with KPIs for the whole country.

A monitoring and reporting system with achievements and detailed analysis of market development. Objective data can be obtained from both traditional sources (largely, sociological surveys), as well as modern digital geoanalytical tools¹⁹ and social networks analytics. To ensure that the city tourism industry is in line with established principles of sustainable development, population surveys are conducted and real estate and service prices are monitored. Also, the condition of the most popular tourist attractions is inspected on a regular basis.

18. Based on the analysis of the design and construction documents for Dubai Creek (Dubai), Burje Halifa (Dubai), Europa City (Paris), Gardens by the Bay (Singapore)

19. Analytical tools for big sets of data on precise geographical location

CHAPTER 2. MOSCOW: UNTAPPED POTENTIAL FOR INTERNATIONAL TRAVELERS

MOSCOW IS RUSSIA'S LARGEST CITY AND transport hub, with the most advanced infrastructure and a huge cultural heritage. While in the 2000s the city was considered mainly a business capital, in recent years there has been a surge in the development of cultural, educational, and event tourism.

Meanwhile, out of 23.5 M tourists, who visited Moscow in 2018, only 23% were foreigners, and only 14% came from countries outside of the CIS. In terms of average annual growth rates, international tourism also lags behind domestic travel: 3.6% against 8.3% in 2012–2018¹. As a result, when compared with the world's megacities Moscow falls into the group designated as 'untapped cities'.

To determine why Moscow lags behind champions in terms of growth, and to identify the key problem areas, we conducted a number of studies.

First, we analyzed what Moscow has done to advance international tourism since 2011, when the last urban tourism development program was adopted. We have compared Moscow's efforts with the best practices of growth champions and mature destinations at each stage of the customer journey.

Second, we surveyed international travelers, covering both those who had visited Moscow, as well as those who had never been to the city. We then benchmarked the results of the survey against each stage of the customer journey.

The analysis suggests that in spite of the huge scale of this undertaking, it was mostly focused on the development of just one stage of the customer journey and so has prevented the city from unlocking its entire tourism potential.

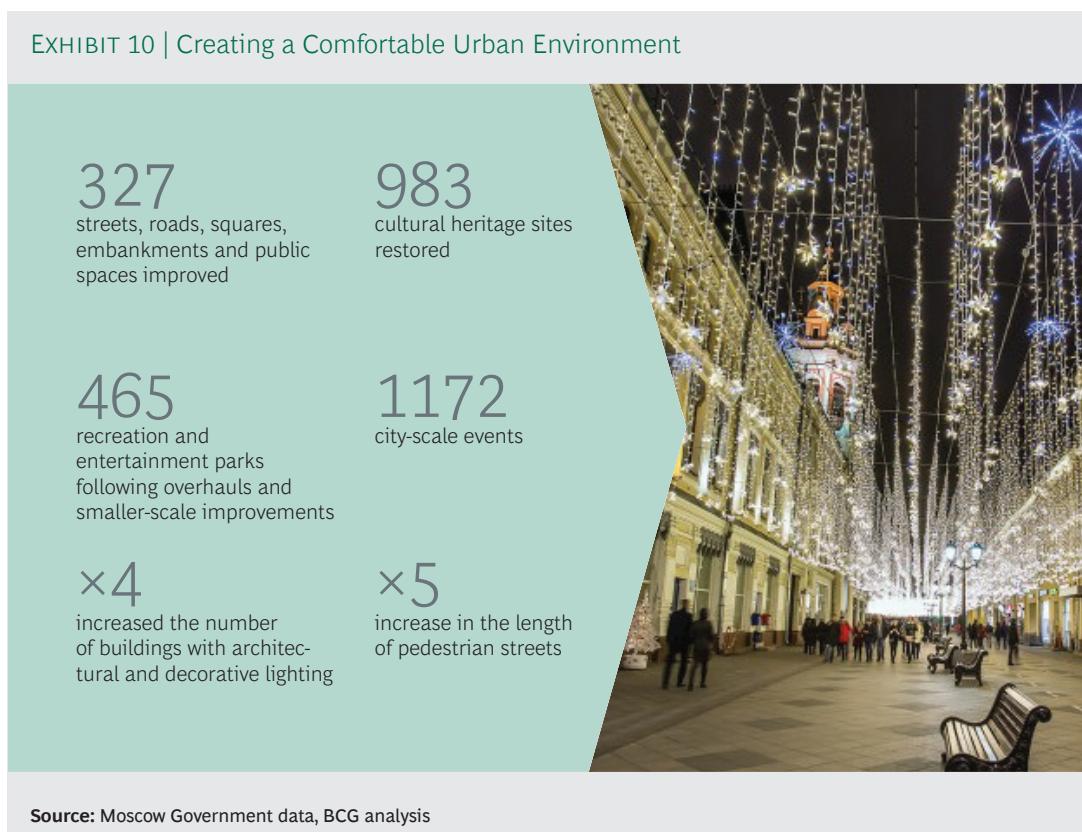
Achievements: comfortable urban environment and new experiences

Moscow has developed a lot in recent years. The image of the city has changed drastically, with newly emerging attractions and a busy event calendar. As many as 327 streets and public places and 465 parks have been renovated to ensure a more comfortable urban environment. The total stretch of pedestrian streets has increased five-fold since 2011, making Moscow the #7 most walkable city in the world and #2 city in terms of total area of parks vs. overall urban environment². The number of bike rental stations has quadrupled since 2013³.

1. In 2012–2017 the average annual growth rates were 1.3% for international tourists and 8.6% for domestic tourists.

2. Gamma geoanalytics, BCG project team analysis
3. Source: Moscow government; mos.ru

EXHIBIT 10 | Creating a Comfortable Urban Environment



Source: Moscow Government data, BCG analysis

Renovation and maintenance works were implemented at 983 different sites, including the Cathedral of Christ the Savior, Gorky Park, and the Bolshoi Theater. The VDNKh complex is also undergoing renovations. Major new attractions include the Zaradye park, Moscow-City, Mosquarium, and the Moscow Cathedral Mosque.

From 2011-2017, Moscow held more than 1,170 cultural, entertainment and business events, which were attended by 62 million people⁴. Free-admission city festivals were held every second day on average, which is comparable to festival frequency in Berlin.

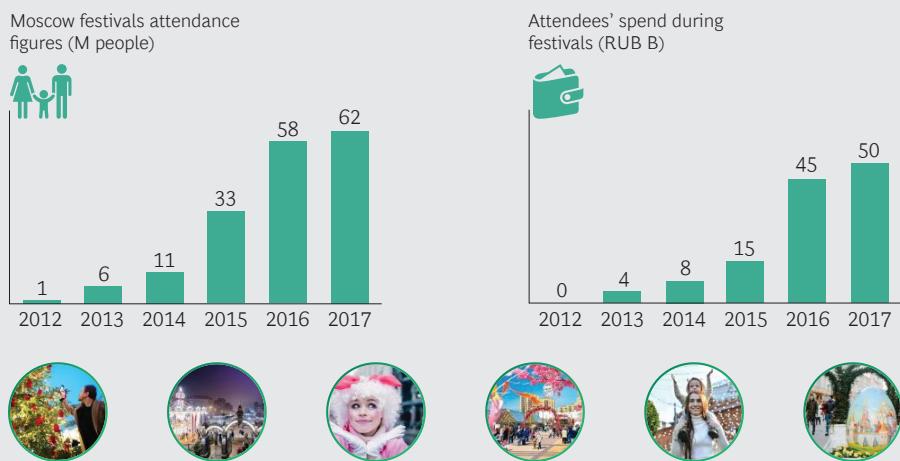
4. Source: Moscow City Government

EXHIBIT 11 | Development of Tourist Attractions in Moscow in 2011-2021 (plan)



Source: BCG analysis.

EXHIBIT 12 | Moscow's Busy Event Calendar



Source: Moscow Economic Development Dept. data; Moscow Seasons website data.

One of the biggest events was the Moscow Seasons festival, which was comprised of a series of special fairs and street events. The 2018 Christmas festival alone drew 14.5 million people⁵.

The success of the 2018 World Cup demonstrated that the city can attract tourists en masse and has the capacity to host a much greater flow of international travelers. However, if we benchmark the efforts made against the basic stages of the customer journey and compare them with the known success factors of growth champions, it becomes evident that many of the necessary factors have not yet been taken into account in improving the perception of the city among tourists.

For instance, no efforts have been made towards the territorial diversification of tourist attractions. More effort is required with regards to the digital ecosystem. The first two stages of the customer journey, namely Recognizing the Need and Planning the Trip, where tourists make their final go/no-go decision, have not been covered sufficiently. In fact, there was no comprehensive strategic approach. For a short period of time, the

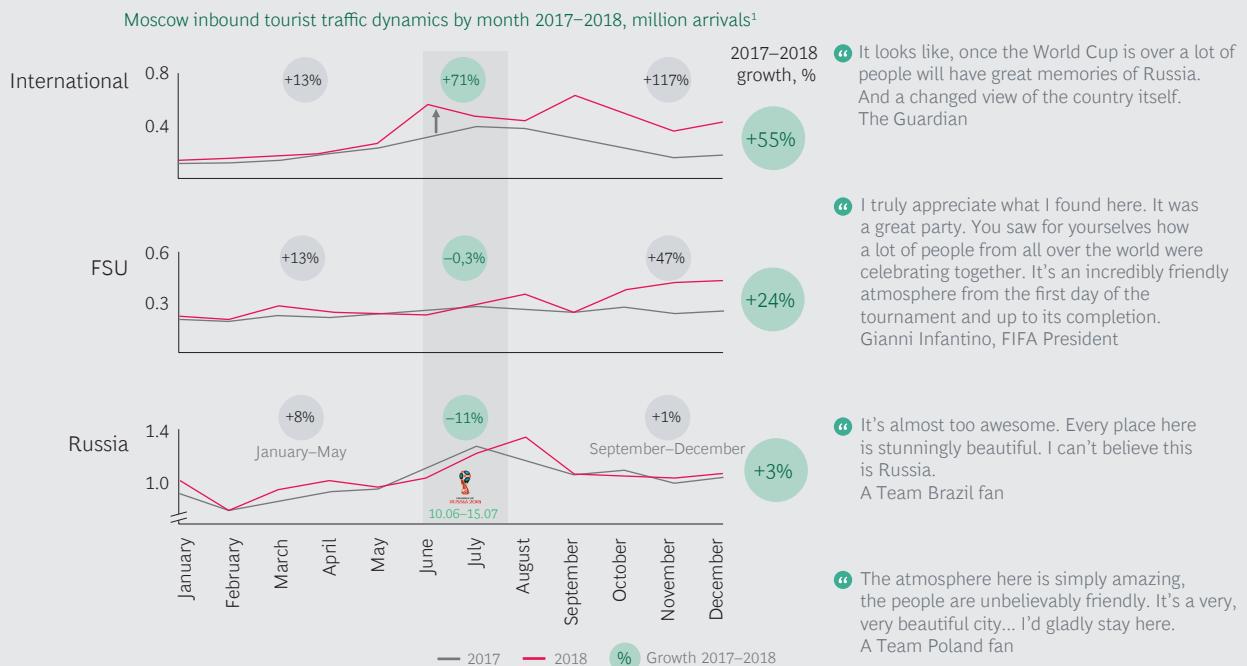
World Cup partially offset the lag behind best international practices with active promotion and temporarily relaxed visa regulations. According to BCG's geoanalytical data, the number of foreign tourists after the World Cup (September-December 2018 vs. the same period in 2017) grew by 117%, while prior to that (January to March 2018) it was under 13%.

However, as evidenced by the sporting mega-events (World Cup, Olympic Games) which have been held in China, Canada, South Africa, the UK and Brazil over the last 10 years, the increase in tourist traffic at the time of the event often turns out to be short-term and requires considerable effort by the city in order to convert the influence of mega-events into long-term sustainable growth (the best example is the acceleration of tourist traffic in London after the Olympic Games thanks to a large-scale marketing campaign).

The results of the analysis show that Moscow has undertaken considerable effort and the city has become more comfortable, but these improvements are mostly directed at Moscow citizens themselves and partly at domestic tourists. The outward image of Moscow has remained largely unchanged, and little progress was made in resolving the issues experienced by foreign travelers.

5. Source: <https://sao.mos.ru/news/news/detail/7723910.html>

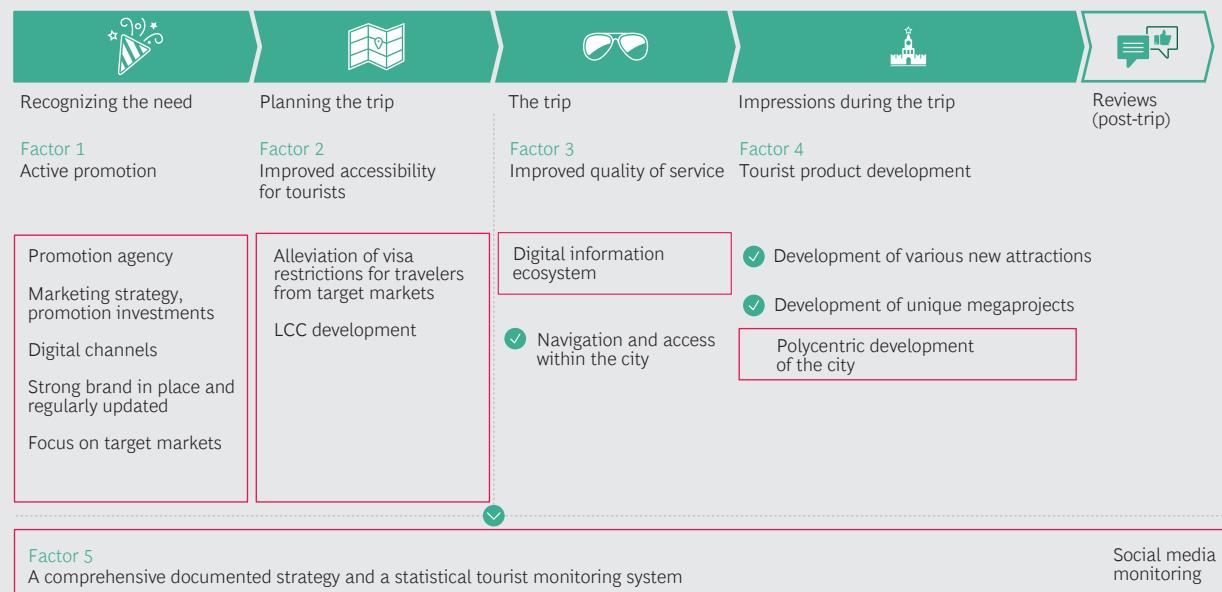
EXHIBIT 13 | FIFA World Cup Helped Grow Inbound Foreign Tourist Flow: Dispelled Myths, Top-Notch Tourist Product, and Vivid Positive Emotions



Source: Source: BCG analysis.

¹ Estimation based on geo-analytical data.

EXHIBIT 14 | Comparison of Efforts Undertaken by Moscow and Growth Champions at All Stages of the Tourist Customer Journey



Source: BCG analysis.

Unresolved Issues: Accessibility, Service Level, and Prejudice

We conducted two surveys to determine to what extent the issues identified affect international tourists. Over the course of the first study we surveyed 800 tourists who have been to Moscow, while our second study covered 1,600 foreign travelers who went to Europe but did not visit Moscow.

AFTER THE TRIP TO MOSCOW: WONDERFUL EXPERIENCE, BUT POOR ACCESSIBILITY AND SERVICE

Tourists see Moscow as a very beautiful city. When answering the open⁶ question, “What did you like most about Moscow”, tourists invariably list the main attractions: Red Square (18%), the Kremlin (8%), key museums (6%), churches (5%) and the underground (5%). Limited as the set from the “mandatory program” is, this did not prevent the respondents from giving Moscow a very high NPS (i.e. the willingness to recommend the city to other travelers) of 47%.

Responses to the opposite question ‘What did you like least of all about Moscow?’ varied a lot more. Complaints about weather and traffic jams aside, some tourists cited passing through border checkpoints as one of the less pleasant experiences: respondents found the visa and customs regulations too complicated, while officers of these services did not seem

to care much for tourists. The traveler experience was also affected by the language barrier (13% of respondents), unfriendly locals (7%) and a lack of public toilets (6%).

To sum up these observations and assess them through the lens of customer journey; although tourists find Moscow to not always be the most accessible and sometimes uncomfortable city, the experience of the trip and the tourist product itself offset this negative effect.

MOSCOW PRIOR TO THE TRIP: INTERESTING, BUT TOO MANY NEGATIVES

Despite the fact that 15% of “potential visitors”, who responded to our survey consider Moscow an interesting destination, only 5% are ready to plan a real trip. When prompted as to why, respondents highlighted a number of reasons that prevent them from seriously considering Moscow as a priority tourist destination. We have assessed the reasons that were mentioned most often and divided them into two groups: structural barriers and prejudices.

We have found that prejudice with regards to Russia can be categorized into three main groups: safety, distance and prices.

On the world’s safest cities rating,⁷ Moscow scores higher than New York, Paris, London,

6. You can pick a maximum of any 3 words

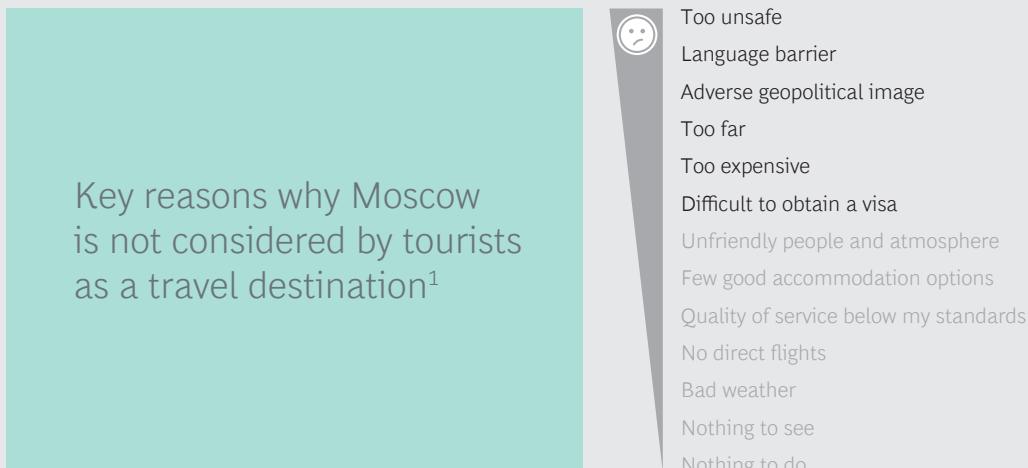
7. According to Numbeo 2018

EXHIBIT 15 | Impressions from a Trip to Moscow: Setbacks

Rude subway personnel	People do not help tourists	Irritability	Very little respect for the individual at the border checkpoint at the airport, people are being sent for additional checks	Some people at customs are not very friendly or helpful
Intolerance towards visitors			Bureaucratic approach at the airport when checking the visas	Complicated customs procedures
Some police officers are not very friendly			Difficult to obtain a visa	Incompetent personnel
Language barrier affects the ability to find one's way around the city	Most people do not speak English		The city is not well-equipped for people with disabilities	Queues to many museums
Signs only in Russian	No entertainment in English	Russian Consulate in Milan not interested in tourists	Unfriendly service at restaurants	Merchants cheating customers

Source: BCG survey of foreign tourists in Moscow Questions: Why would you not recommend Moscow to your friends / acquaintances / colleagues? What did you like the least about Moscow?

EXHIBIT 16 | Key Reasons Why Moscow is Not Considered a Travel Destination by Tourists



Source: BCG international tourist survey in 7 countries.

¹ Question: What are the key barriers preventing you from considering Moscow as a leisure destination?

Rome, and Barcelona. The Russian capital is among the top-5 most well-lit cities worldwide and within the top-10 cities with highest CCTV coverage (the city has already installed over 160,000 surveillance cameras).

Average nightly rate for a budget tourist stay (accommodation, food and entertainment) in Moscow is 1.5 times lower⁸ than in most comparable cities.

In terms of flight distance, Moscow is comparatively closer to Europe than Vancouver or Singapore and much closer than Sydney or Auckland. For Asia-to-Europe transit, Moscow could become a stopover alternative to the Middle Eastern hubs. According to our estimates, 3 million passengers en route from Europe to Asia could reduce their flight time by 10-20% if traveling via Moscow. For instance, flying to Europe from Beijing, Seoul or Tokyo via Moscow would be 4-5 hours faster than via Dubai and Qatar and 2 hours faster than through Istanbul.

The fact that tourist prejudice has no ground in reality does not mean that there is no need to extend Moscow's air accessibility or improve safety within the city itself. However,

the primary focus should be the root cause: poor awareness on the part of tourists as to the real state of affairs.

The three remaining obstacles to visiting Moscow are structural in nature: the city's negative image, complex visa procedures, and the language barrier.

The fact that Moscow has a negative geopolitical image (which, strictly speaking, cannot be attributed to a city), as well as the three biases from the previous group, we associate with a lack of awareness. Indeed, our analysis showed that Moscow is not represented in the popular rankings for the best places to travel (see Fig. 16). We studied a sample of search query results only to find that there are virtually no detailed reviews of Moscow online. Thus, with no fact-based perspective of the city, potential tourists formulate an impression based on common stereotypes and biases about Russia.

Russia has a visa regime with most of the developed countries of Europe, the US, Canada, Japan and Australia, however obtaining a Russian visa is an expensive and time-consuming process. We carried out a semantic analysis of TripAdvisor posts (some 10 thousand posts from 2016-2018) only to find out that 12% of publications associated with Mos-

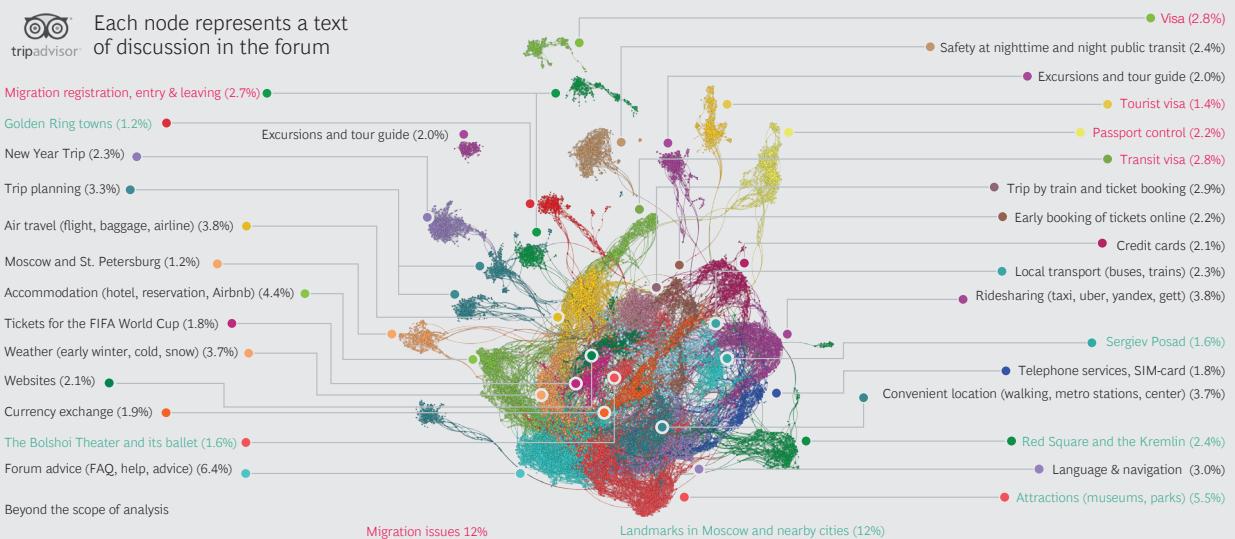
⁸ Excluding the cost of air travel, according to priceoftravel.com

EXHIBIT 17 | Moscow is Not Present in Ratings and Reviews of the Best Tourist Destinations



Note: the tag cloud reflects the frequency of mentions of the cities represented in the rankings and reviews of tourist destinations.

EXHIBIT 18 | Semantic Analysis of TripAdvisor Posts about Moscow



Sources: Quid, TripAdvisor; BCG Center for Innovation Analytics.

Note: network is based on ~10K posts. Posts from TripAdvisor's Moscow Travel Forum beginning 2016 or later. The data was filtered to remove messages of appreciation, TripAdvisor staff reports, links to websites, etc. Only the main topics of the clusters are shown. % indicates % of articles in the network clustered in each topic.

cow deal with the topic of Russian visas or immigration laws—this is the same share as the discussion of all Moscow landmarks put together.

The third barrier—language—manifests itself in the inability to navigate using Cyrillic, understand streets signs or restaurant menus,

ask for directions or deal with service personnel (see Fig. 18). The communication issue is nothing new: according to statistics⁹, only 20% of Muscovites speak English, while experts that we interviewed claimed there was a lack

9. <https://www.levada.ru/2014/05/28/vladenie-inostrannymi-yazykami/>

EXHIBIT 19 | Language Barrier: Survey Results



'Troubles understanding the signs'



'Difficult for foreigners to find their way on the subway'



'Signs only in Russian'



'Most people do not speak English'



'Language barrier affects the ability to find one's way around the city'



'Few entertainment options available in English'

What did you like the least about Moscow? You can name up to three things. (Open question with no more than 3 responses)

Source: foreign tourist survey in Moscow (N = 1073).

of foreign-speaking guides during high season. The city has made some progress in terms of navigation: a certain percentage of signs were made bilingual, PA announcements on the underground are now given in English and an English navigation system has been developed. Yet, structural barriers remain: there are no unified transliteration and translation standards (different names in English can be used for one and the same landmark), while the entire translation process is run by several different agencies.

Interestingly, none of the comments, biases or barriers discussed in this chapter, have anything to do with tourist attractions themselves or the experiences of travelers. All the barriers are cluttered around the early stages of the customer journey: the lack of information affects the 'recognizing the need' stage, visas affect planning, while the remaining service-related issues affect the visit itself.

CHAPTER 3.

MOSCOW 2025:

A CITY FOR RESIDENTS AND TOURISTS

Vision 2025: Securing the Success of the World Cup

The biggest event for Moscow in 2018 was the FIFA World Cup. Some 3 million tourists including 2 million foreign travelers visited the city during the championship (put that into context, the total number of foreign visitors in Moscow in 2018 was 5.5 million). Temporary public transit navigation and tourist information centers were set up throughout the city, and Nikolskaya street became an unofficial fan zone right in the heart of Moscow.

For a short period of time, Moscow became a major tourist center changing the perception of millions of visitors. Many of them were surprised to find no particular proof of the popular bias of the allegedly cold and inhospitable Russians, nor a lack of modern infrastructure and inflated prices. Suffice it to recall a couple of English fans who made a YouTube video dismissing the popular myths and, in particular, admiring the possibility of ordering a ‘normal cup of tea’ pretty much anywhere—not the case, they claimed, for most other cities. Obviously, Moscow needs more goodwill ambassadors of this kind.

We have defined a target scenario for Moscow’s development, which envisages the priority role of tourism as a key industry for the city’s economy. Under this scenario, by 2025, Moscow will enter the top-10 of most visited cities in Europe, develop a recognized inter-

national brand, improve the quality of tourist services, and double the input of tourism into the economy. To achieve this target vision, we have identified priority areas for the development of the city for the next seven years. When choosing these areas for development, we considered Moscow’s disparities compared to growth champions, as well as expert opinions on the applicability of best international practices. Each of the eight steps we recommend serves one of two interconnected purposes: it will either remove barriers, or improve Moscow’s position along the entire customer journey, while detailing down to specific initiatives will help launch them from today.

Role of City Administration: Conductor, Promoter, and Partner

The structure of the tourist industry is very fragmented, including multiple small and medium-sized private players from different service sectors which require coordination and support from the regulator. This is why one of the key global trends is for the state to become actively involved in the promotion and standardization of the tourist market: special tourist promotion agencies are being opened and hospitality standards are developed.

In the future, the Moscow administration will need to address an important requirement: creating the conditions for the development

EXHIBIT 20 | Eight Steps Towards Target Vision 2025



Source: BCG analysis.

of individual tourism in addition to group tourism. Individual tourists receive no support from travel agencies, and it is these primarily who complain about the issues described in the previous chapter.

The steps and initiatives we propose are part of the city administration's mandate. However, implementing these measures in full will require a reliable partnership with professional market players, as the regulator cannot replace private companies. The role of the regulator on the tourist market is similar to that of an orchestra conductor: it sets the pace and the grid coordinates but does not interfere with the individual players. Some of the proposals, such as relaxing visa regulations or developing federal tourist attractions, will not be possible without the support of the central authorities.

8 Steps to the Realization of Tourism Potential

STEP 1: PROMOTION ON THE GLOBAL MARKET
Promotion on the global market will need to improve the following key elements:

Creating the Visit Moscow promotion agency as a standalone operation accountable to the city administration. The Agency will be re-

sponsible for the promotion of all types of tourism and cooperation with key market players. Its budget should be around 0.5–1% of the city's tourism-generated revenue, similar to those of growth champions¹.

City brand development. The structure of the brand's target value proposition should combine both historical landmarks and new attractions. Moreover, efforts should be made to debunk the most popular myths and biases about Moscow among the international tourist community. One of the key messages should be: *Moscow is a safe and affordable city that is just several hours away*.

Focus on target markets and development of digital channels. We have identified 20 priority countries which have been taken from two groups: major markets and growing untapped markets (see Appendix 2). The communication strategy needs to be adapted for the target market specifics. The marketing communication should focus on social networks and more introductory tours for opinion leaders should be organized.

1. According to our estimates, as of today Moscow's agency budget is 0.02% of the total tourist income

STEP 2: IMPROVED ACCESSIBILITY BY AIR TRAVEL

Improving the accessibility by air travel shall involve the following measures:

Joint marketing campaigns with airlines to promote air travel to Moscow, including by subsidizing promo tariffs, providing comprehensive tourist offers and co-financing marketing expenses.

Stimulating new flights to Moscow preferably in partnership with foreign airlines, including temporary preferential tariffs for airport services.

Creating conditions for the development of low-cost airlines in line with international best practices: reduced fees, compensation of operating costs, minimum revenue guarantees.

STEP 3: RELAXED VISA REGULATIONS (JOINTLY WITH FEDERAL AUTHORITIES)

Recommended steps towards relaxing the existing visa regulations will include:

Simplified and faster visa process. Potential options: abolish the invitation system, introduce 'visas on arrival', bring into effect an electronic visa, and develop a simplified visa procedure for special types of tourism (medical, educational, etc.)

Introduction of a 72-hr visa-free regime in Moscow. This measure will help stimulate transit travel and city breaks, which seldom last longer than three days.

Expanding the list of visa-free countries. Proposals can be developed separately for individual citizens and tourist groups. The key factor is to lift restrictions for travelers from target markets.

STEP 4: DEVELOPMENT OF HOTELS AND OTHER TYPES OF ACCOMMODATION

Development of hotel infrastructure and other types of accommodation includes the following measures:

Stimulating hotel development and renovation projects. One of the possible financial measures could be the extension of the prop-

erty tax benefits that are due to expire in 2019. Administratively, city-owned property can be re-equipped to operate as hotels. Additionally, it is necessary to develop an industry framework for new hotels that will be placed outside the city center.

Monitoring commissioning of new hotels.

Monitoring needs to cover two dimensions: control over the designated utilization of property (for hotel accommodation, rather than offices or residences) and comfort standards.

Making the necessary regulatory changes.

Construction and renovation of hotels, resorts and other collective accommodation facilities with 50+ room capacity should be filed under a priority investment projects category. Also, measures should be developed to regulate the private individual short-term rental market.

STEP 5: IMPROVE SERVICE QUALITY

Improving the quality of service will require the following measures:

Implementation of hospitality standards.

Visit Moscow could prepare a document defining the recommended minimum service requirements (e.g., foreign language proficiency) and best practice guidelines. Also, a voluntary hospitality service quality certification system can be developed, which could become a qualifying criterion for receiving support from Visit Moscow and the city administration.

Development of parking spaces for coaches.

One of the most acute problems voiced during discussions with market experts was the impossibility of parking tourist coaches at many of the local landmarks during peak hours. The city should provide additional space for parking and strengthen control over misuse of parking space designated for coaches.

Development of a barrier-free environment.

This includes direct measures by the city (ramps for the disabled, elevators at the underground, development of the 'Social Taxi' service) and incentives for private companies. The city should co-finance

such companies and include minimum requirements for a barrier-free environment in the hospitality standard.

STEP 6: CREATION OF A TOURIST INFORMATION ECOSYSTEM

A tourist ecosystem encompasses:

A dedicated web portal. Moscow needs to fill the portal with special tourist offers and translate all internet and mobile resources into the key foreign languages (based on the selection of priority countries)

Increasing the number of tourist information centers. Additional offices can be installed in areas of maximum tourist concentration (e.g. Manezhnaya Square or Nikolskaya Street) as well as in Moscow airports. During the high tourist season and major events the city could also set up temporary centers and attract volunteers.

Street navigation improvements. It is advisable to standardize the rules of transliteration, as well as complete the translation of all signs and address plates in the city center in line with a uniform standard of translation and formatting.

STEP 7: DEVELOPMENT OF TOURIST ATTRACTIONS²

Development of Tourist Attractions:

Reconstruction and modernization of existing attractions. For attractions that are at peak capacity, entrance redesign and renovation need to be explored, along with potential rerouting of foot traffic on the premises. Also, associated infrastructure can be added, such as navigation systems, wifi, museum shops, cafes, etc.

Construction of new attractions. Moscow needs to add new tourist attractions every 1-2 years. To achieve this, a long-term (10+ years) development plan is required that would include Moscow's ongoing projects (Dream Island amusement park, VDNKh renovation) as well as new medium- and large-scale projects (City of the Future

2. Measures for the development of specialized types of tourism are presented separately in Appendix 3

platform featuring the latest Industry 4.0 technologies, smart homes, self-driving vehicles, etc.)

Developing a diversified tourist model for the city. According to BCG's geoanalytical study, the majority of attraction spots are concentrated in the historical center of Moscow. To add new attractions, Moscow will need to choose 2-3 clusters (park areas, VDNKh area) and develop new attraction spots within them.

STEP 8: DEVELOPMENT OF A COMPREHENSIVE STRATEGY AND MARKET MONITORING SYSTEM

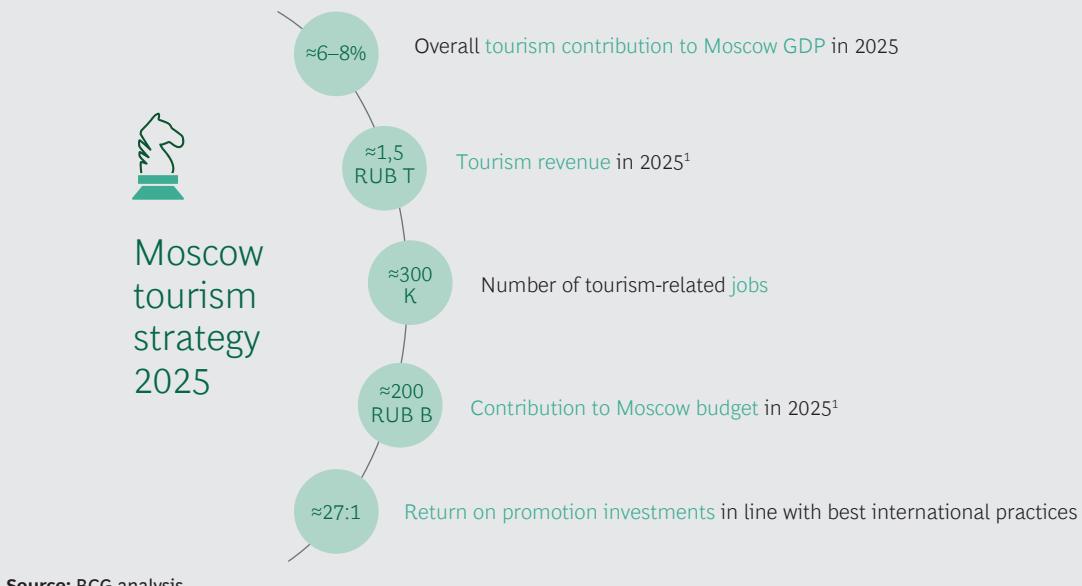
A comprehensive strategy shall include the following key elements:

Updating the Moscow tourism development program. The new document shall formally establish development projects, resources and funding, KPIs, as well as an allocation of roles and responsibilities among participants. Special attention needs to be paid to adhering to sustainable development principles and ensuring a stable and manageable increase in tourist flow and consumption, while also keeping the interests of local residents in mind.

Governance model update. The new model will consist of two levels: the city administration will be responsible for updating strategy, developing regulations and distributing funds and subsidies, while Visit Moscow, under contract with the city, will have to ensure delivery on agreed performance targets (e.g. brand awareness and tourist satisfaction).

Monitoring system improvement. The monitoring system will be used to collect data on all elements of the tourism ecosystem: the number of visitors, room capacity, attendance figures, etc. The two key digital tools will be the semantic data-driven analysis of social media, as well as an improved monitoring of tourist flows using geoanalytical methods (see. Example in Appendix 4). It is also necessary to measure sustainability rates and, above all, ascertain whether local residents are satisfied with the changes taking place.

EXHIBIT 21 | Expected Economic Effect of Implementing the Strategy



Source: BCG analysis.

¹ In current prices

Expected impact

The eight steps above will help Moscow build a new image for itself and Russia overall. According to the calculated base case development scenario, Moscow can significantly improve its tourism KPIs by 2025, provided that the geopolitical and the economic situation in the country does not change.

This means that the overall contribution of tourism to the city economy compared to 2018 can be increased to reach 6-8%, while revenues can be more than doubled to RUB 1,100 B³. The tourist flow could increase 1.4 times to reach 31.8 million arrivals p.a. (Including an x1.7 increase of foreign tourist inflow to 5.9 million people). Moscow may be able to break its way into Europe's top-10 cities with most foreign tourists.

Additionally, the analysis of global best practices shows that the ROI in tourism promotion is on average 27 times higher than the costs.

Conclusion

Moscow is building a new context that will help accelerate the growth rates of international tourism. The 2018 World Cup demonstrated that the Russian capital has a well-developed infrastructure capable of supporting a large number of foreign guests who visit the city with a specific purpose. By eliminating existing barriers and improving its attractiveness as a standalone destination, Moscow can become a comfortable and highly developed international tourist center. We think that the best practices covered herein are fully applicable to Moscow, and combined with the already planned initiatives, will help the city realize its full potential. The impetus for development should be the creation of a new integrated tourism program, as well as the provision of the necessary budget and organizational resources. We are positive that provided all players involved coordinate their efforts, Moscow will make a quantum leap to the top of the global tourism market by 2025.

3. excluding inflation - in 2017 real prices.

APPENDIX 1

EXAMPLES OF INTEGRATED STRATEGIES OF GROWTH CHAMPIONS

EXHIBIT 22 | Selected Elements of Tourist Strategies by Champions

 Tokyo Japan	 Promotion	<ul style="list-style-type: none">• Tourism development is a strategic objective of Japan and Tokyo in the face of economic stagnation:<ul style="list-style-type: none">– The ambition of the state is 40M international tourists by 2020 (20M in 2015)– The ambition of Tokyo is 25M international tourists by 2020 and 30M by 2024• Tourism promotion is the responsibility of Tokyo Convention & Visitor Bureau:<ul style="list-style-type: none">– Target markets — United States, Canada, Australia, Europe– Culture, historical heritage and Japanese cuisine key differentiating promotion elements– Elimination of the stereotype of Tokyo as an expensive destination (including through cooperation with low-cost airlines)– Reputation of being a safe city with a low crime rate (included in Top-10 safest cities in the world, according to Numbeo ranking)• City marketing campaign “Tokyo Wonderland”<ul style="list-style-type: none">– Focus on ample recreation (including active, outdoors), entertainment and shopping opportunities– Emphasis on mixing tradition and innovation– Tokyo brand values: Unique, Excellent, Exciting, Delight, Comfort• Opening of a new terminal at Narita International Airport, with a focus on low-cost carrier servicing• Increase of the number of landing slots at Haneda Airport
	 Air travel	<ul style="list-style-type: none">• Tourist flow 2017 (M ppl) 9.5
	 Service quality	<ul style="list-style-type: none">• Tourist flow CAGR 2012–2017 20%
	 Visas	
 Dublin Ireland	 Promotion	<ul style="list-style-type: none">• Promotion of the city and the country is specifically dealt with by Fáilte Ireland (the organization's total budget in 2016 was ~\$137M) and Tourism Ireland• The target countries for promotion purposes include Canada, USA, Australia, China, India, the Middle East. Preference is given to remote countries: tourists from such countries stay longer and spend more• Marketing campaigns to promote Dublin and other parts of the country — Ireland's Ancient East, Wild Atlantic Way (digital and traditional channels). Campaign budget ~\$22M in 2016• Using the country as location for new Star Wars movies.• Marketing campaign in cooperation with the ‘Star Wars’ franchise• Positioning of Dublin as a business tourism destination
	 Air travel	
	<ul style="list-style-type: none">• Tourist flow 2017 (M ppl) 5.0	
	<ul style="list-style-type: none">• Tourist flow CAGR 2012–2017 10%	
 Dublin Ireland	 Events	

Source: City tourist strategy, BCG analysis.

EXHIBIT 23 | Selected Elements of Tourist Strategies by Champions

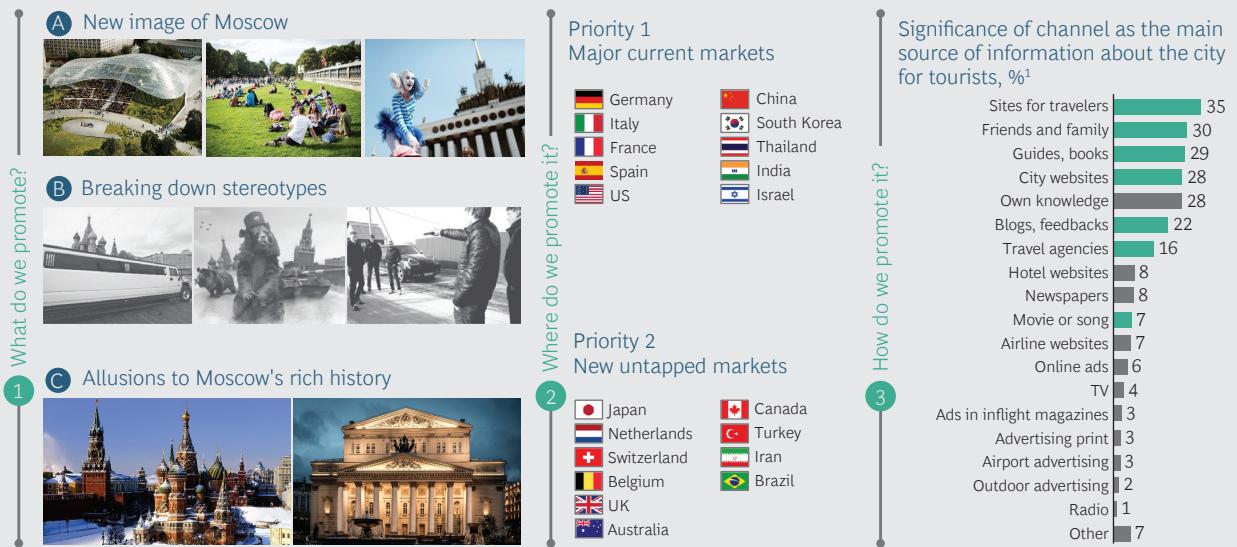
	 Promotion	<ul style="list-style-type: none"> Promotion of the city is the responsibility of Tourism Vancouver; the organization's annual budget is ~\$12M Active promotion of the city for target markets: <ul style="list-style-type: none"> MICE promotion in Canada and the US Promotion of the tourism potential on target markets (including in cooperation with tour operators) — the US, China, UK, Germany, Mexico, Australia, South Korea, New Zealand, Japan Marketing campaigns with a focus on <ul style="list-style-type: none"> Smoothing tourism demand seasonality Elimination of the perception of the city as a remote destination Strengths of the city (nature, adventure, cooking) Using digital promotion channels (Facebook, Twitter, blogs)
	Vancouver Canada	
 Air travel		<ul style="list-style-type: none"> Increase in the number of direct flights in 2016 with a focus on target markets: <ul style="list-style-type: none"> +12 flights to cities in the USA, Mexico +14 flights to cities in Europe +7 flights to cities in Asia and Australia Vancouver Airport passenger traffic growth in 2016 +9%
 Tourist flow in 2017 M ppl	 Events	<ul style="list-style-type: none"> Year-round activities to smoothen seasonality (winter food festival Dine Out Vancouver Festival) Image events, e.g. TED conference Marketing effect of the Winter Olympic Games Major MICE events (congresses, exhibitions.)
 Tourist flow CAGR 2012–2017	 Visas	<ul style="list-style-type: none"> Liberalization of visa regime with Mexico — tourist flow growth in 2016 by 31% (per annum)
	 Economy	<ul style="list-style-type: none"> Devaluation of the Canadian dollar: 1.04 CAD/US in 2012, ~1.33 CAD/US in 2015-17
	 Promotion	<ul style="list-style-type: none"> Promotion of Sydney is directly dealt with by Destination New South Wales (covering an entire region of Australia; budget ~\$114M) indirectly - Australian Tourism Board (2017 budget ~\$130M) Large-scale investments in promotion within the framework of a multi-level system (at the regional and federal level) - one of the highest per tourist costs in the world (~\$33) Positioning of Sydney as a leading tourist destination in Asia and Oceania Seasonal marketing campaigns Love Every Second of Sydney (Beaches, Food and Wine, Nature). Example: 2016/17 summer campaign brought 4.3M visitors to sydney.com and helped to attract ~1.2 million tourists Promotion of Vivid Sydney light festival and Sydney Event Calendar as a whole Adaptation of marketing campaigns for individual markets Partnerships with airlines to promote tourism potential and opening of new routes
	Sydney Australia	
 Tourist flow in 2017 M ppl	 Air travel	<ul style="list-style-type: none"> Sydney Airport is the main hub of major airlines like Qantas Airlines, Virgin Australia, and low-cost airline JetAirways Development of direct air links with Chinese cities (e.g. Chengdu, Kunming)
 Tourist flow CAGR 2012–2017	 Events	<ul style="list-style-type: none"> ICC Cricket World Cup Vivid Sydney (the world's largest light festival; sale of >65K tour packages to international tourists in 2016-17) Taste of Sydney
	 Places of interest	<ul style="list-style-type: none"> Reconstruction of the Congress Centre to host major international MICE events and concerts
	 Economics	<ul style="list-style-type: none"> Australian dollar devaluation by ~35% over the period from 2012 to 2017

Source: City tourist strategy, BCG analysis.

APPENDIX 2

PARAMETERS FOR PROMOTING MOSCOW ON THE INTERNATIONAL MARKET

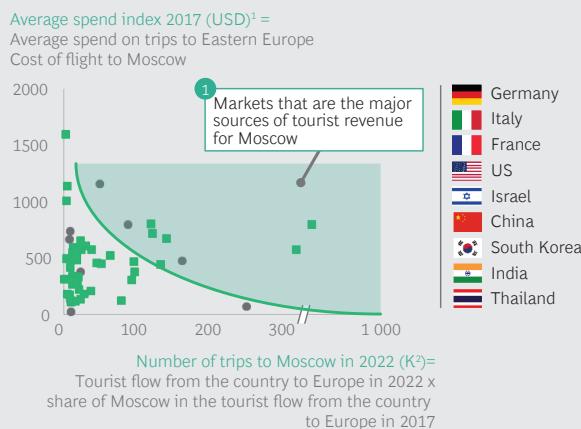
EXHIBIT 24 | Moscow Promotion Parameters



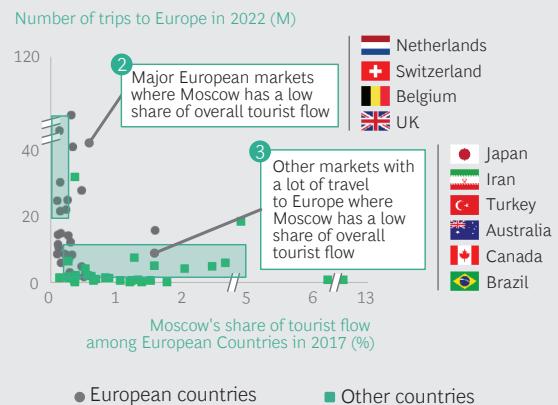
¹ As per international tourist survey (N=1,636).
Source: BCG analysis.

EXHIBIT 25 | Target Markets to Promote Moscow

Priority 1: major sources of revenue — today and in the future



Priority 2: growing markets with untapped potential



¹ The estimate indicator is difference between average tourist expenditure on trips to Eastern Europe and the weighted average cost of flight to Moscow.

² The estimate indicator is the number of trips to Moscow while keeping the current share of Moscow in the tourist flow to Western and Eastern Europe in 2022

Note: the slide shows 70 largest international tourist source countries (used as basis for Euromonitor forecast), not listing Iran due to absence of official statistics

Sources: Euromonitor; OAG; Russian Border Service; BCG analysis

EXHIBIT 26 | Moscow Promotion Potential Partners

Airlines and railway companies



- Strategic marketing promotion agreements (online and printed ads)
- Special offers for stopover tourists ('A night in Moscow')
- Special prices to promote specific destinations

Traveler services



- Promotion on main pages and special projects
- Special products and packages
- Promoting local experiences and out-of-the-box ideas

Travel operators



- Distribution of ready-to-use communication materials
- Co-funding of advertising campaigns
- Developing new non-standard tourist routes
- Loyalty programs (fees for tours sold)

Hotels



- Special offers for stopover tourists (jointly with airlines)
- Participating in campaigns to increase occupancy outside of peak season (e.g. 3rd night free)

Banks and financial services



- Participation in the City Pass program
- Joint promo campaigns for major events

Sources: BCG analysis.

EXHIBIT 27 | Promotion Agency Budget Usually Varies between 0.1% to 1% of Total Tourist Revenue of the City



¹ Based on total foreign tourist-generated income of RUB 131 B and domestic tourist-generated income of RUB 42 B in 2017; based on expected forex rate of RUB 65 per USD 1;

² Includes participation in international tourist conferences, tours for operators and media, and promotion among actual tourists (outdoor placement, etc.) Additionally Moscow spends some RUB 160 M to organize Days of Moscow in other parts of Russia and abroad.

Source: tourism promotion offices (currencies converted based on annual average FX rates); Sydney data is aggregated at the level of New South Wales; MasterCard, zakupki.gov.ru, BCG analysis.

APPENDIX 3

DEVELOPMENT OF SPECIALIZED TYPES OF TOURISM

MICE Tourism Development

In 2016, the global MICE¹ market amounted to USD 850 B, with expected growth rates of 8% p.a. by 2023². It is noteworthy that such events usually attract a wealthy audience, while 40% of visitors return with their families or friends.³ Moscow has all the prerequisites for the rapid development of MICE tourism, including a well-developed air travel network, comfortable hotels and a high level of safety. To ensure the rapid development of this type of tourism the following measures need to be taken:

Improve efficiency and expand the functional capabilities of the Moscow Congress Bureau. Jointly with Visit Moscow, the revamped Congress Bureau must support promotion and assist in the setting up of different events, acting as a one-stop-shop for requests, platforms, and providers. The bureau will also help with budget estimates, inviting speakers, and organizing entertainment programs.

Develop new world-class congress and hotel complexes. Moscow has a deficit of venues with a 1,000-4,000 seating capacity for large meetings and conferences. When developing

new facilities, the city needs to consider the criteria employed by organizers of such events: accessibility, a broad selection of halls⁴, quality hotels and recreation facilities nearby.

Create a specialized web-portal for Moscow's congress venues, which will be integrated into the overall tourist ecosystem. Growth champions integrate the websites of local congress bureaus into their overall tourism portals, providing a comprehensive view of the city's tourist and MICE offer. A congress portal is not just a list of websites. It needs to be able to help people/tourists/someone search for venues by using key parameters, compare them with one another and find them on the city map. Each venue needs to have a detailed profile with directions and contact information, as well as an online request form.

Event tourism development

According to BCG's survey, the majority of people who attended Moscow Seasons this year were mostly passing by rather than planning to attend the festival specifically. Moscow rarely hosts major sporting, cultural or holiday events that could attract a large inflow of foreign tourists. To stimulate the development of event tourism we propose two initiatives:

1. Meetings, Incentives, Conferences, Exhibitions—organization of corporate events
2. Official website of the International Congress and Conference Association (ICCA) URL: <https://www.iccaworld.org/> (query date: 9/26/2018).
3. Source: ICCA, Allied Market Research

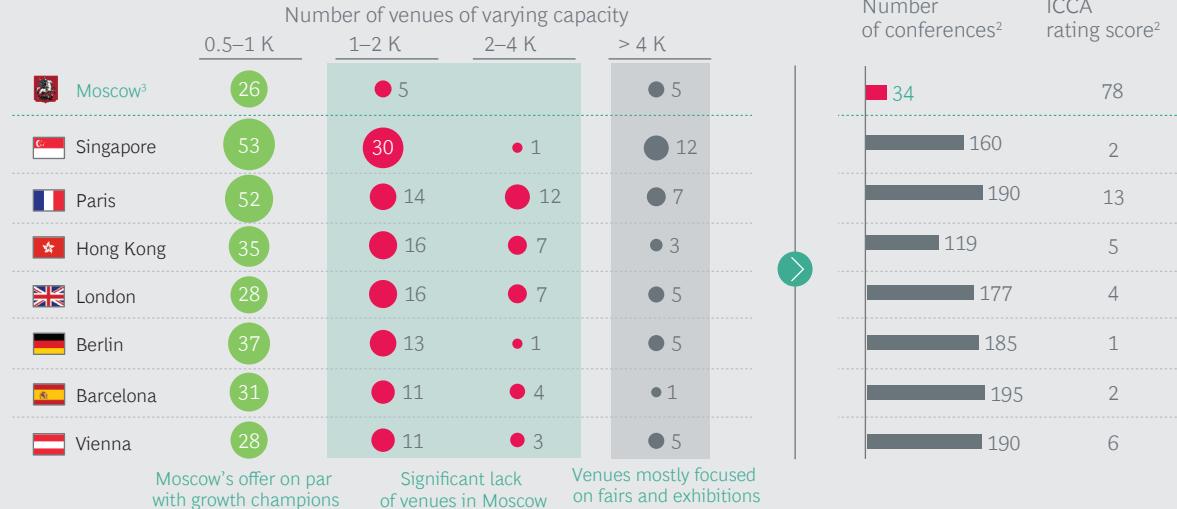
4. Including flagship venues with 1,500 seating capacity, 500-1,000 venues, and smaller auditoriums

EXHIBIT 28 | Mandatory and Motivating Factors of MICE Tourism Development



Source: expert interviews, megacity experience, BCG analysis.

EXHIBIT 29 | Moscow lacks venues for large meetings and conferences with 1,000-4,000 seating capacity¹



¹ Theater-type seating capacity

² International conferences, ICCA 2017

³ Forum Hall and European Hall not included in the analysis, as these venues are mostly used for banquets.

Source: official venue websites, Moscow Congress Bureau, BCG analysis.

Adjust the capital's event calendar. This will help increase the occupancy of hotels during non-peak periods. Possibly some events normally held in August and September could be moved to May, when the occupancy of hotels is minimal.

Organize world-class events. There are three best practice models Moscow could follow. First, it could scale up the already successful formats, such as Moscow Fashion Week, the gastronomic festival, or the Tchaikovsky Music Festival. Second, it could organize events around traditional holidays (such as Maslenitsa—the pre-Lenten festival week) or restore some old events (for instance the Kremlin Tennis Cup). Third, it could create completely new formats, such as international eSports competitions for instance.

Medical tourism development

Medical tourism is a dynamic industry, the size of which on a global scale was estimated at USD 50-70 B in 2016. The expected mid-term growth rates were estimated at 15-25% p.a. This is a relatively new industry for Mos-

cow, but the city has the prerequisites necessary for its development: competitive cost of treatment and high-quality medical services in cardiology, ophthalmology, orthopedics, neurology, IVF, etc.

Developing medical tourism in Moscow will require the following approaches:

Create a special division to promote medical tourism. As is the case with other types of specialized tourism, the promotion should be tasked to Visit Moscow. In addition to direct marketing, Moscow can participate in international fairs, bringing in foreign reporters and opinion leaders.

Launch a specialized web-portal for health care opportunities in Moscow. People visiting the portal should be able to find clinics by field of treatment, check their ratings and relevant statistics, plan their trip step by step, as well as find contact information for the departments dealing with foreign nationals (for clinics that have no such departments, Visit Moscow can serve as the main communication channel). Similar to MICE tourism, the

EXHIBIT 30 | Megacities Around the World Using a Wide Range of Activities to Attract Event Tourists

	Moscow	New York	London	Paris	Singapore	Seoul
	Sales seasons	Sales seasons not aligned	✓	✓	✓	✓
	Fashion shows	Russia- and CIS-level shows	✓	✓	✓	✓
	Trade fairs/exhibitions	Russia- and CIS-level trade fairs	✓	✓	✓	✓
	Sports	One-time international events	✓	✓	✓	✓
	Cultural events	Spasskaya Tower	✓	✓	✓	✓
	Festivals and Holidays	Journey to Christmas	✓	✓	✓	✓
		Thanksgiving Day Parade	✓	✓	✓	✓
		Times Square New Year's Eve		Nottingham Carnival	Christmas fairs	Lotus Festival
				Chelsea Flower Show	Bastille Day	International Fireworks Festival

Source: BCG analysis.

portal needs to be integrated into the main tourist website.

Help medical institutions in obtaining international certificates. Certificates are an important criterion when selecting a clinic, which is often associated with high quality treatment. Moscow only has two JCI-certified clinics, which is the common standard for medical tourism. To put this in perspective, in Thailand there are 64 JCI-certified clinics. Considering that a lot of top-quality medical centers in the city are state-owned, it would appear feasible to start the certification process with them.

Educational tourism development

Foreign students are one of the most profitable segments of the tourist industry. Educational programs usually last longer than the average tourist trip. Moreover, students are often visited by relatives and friends, which also contributes to the city's tourist revenues.

Moscow's key advantage in competing for foreign students is the high quality of higher ed-

ucation: Russia ranks #5 in Europe in terms of the quality of higher education.⁵ We propose two initiatives to realize the full potential of educational tourism:

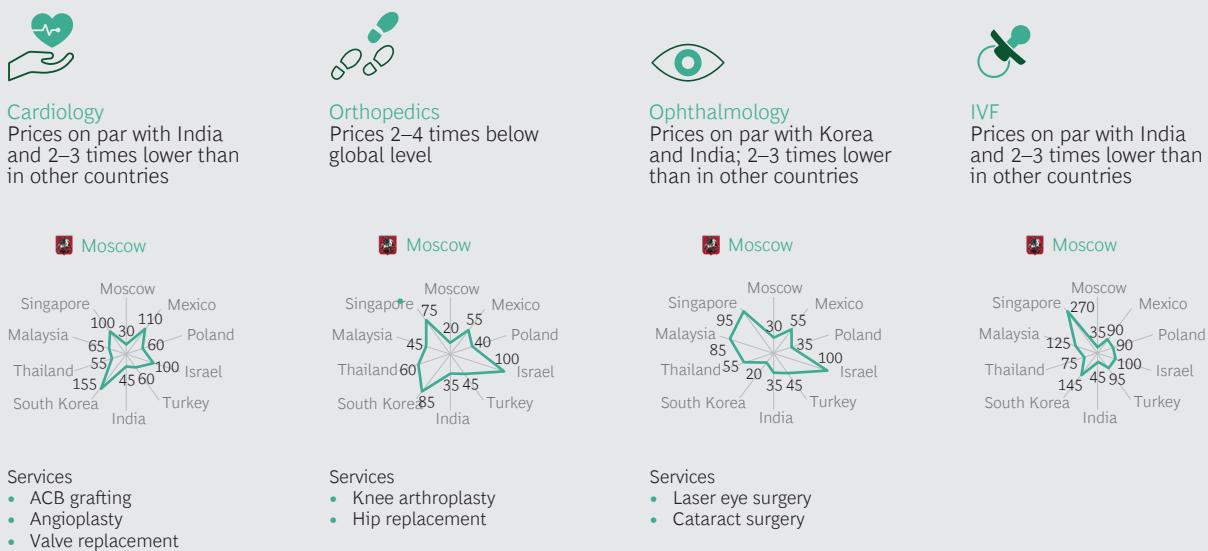
Promote Moscow's educational tourist attractiveness through Visit Moscow. The tourist portal needs to have a dedicated section with ratings of schools and lists of programs available in foreign languages (this can be achieved through integration with Russia). Visit Moscow could also promote Russian language studies and organize exchange programs for foreigners already studying the Russian language.

Develop the children's summer camp market. Research shows that the demand for developmental teaching and summer camps, even within the country, is only partly satisfied⁶. The city can advise existing camps and open new ones. For example, there is the idea of creating a children's educational and recreational cluster inside the New Moscow area.

5. Study.EU 2018 rating

6. Based on ASI research - <https://asi.ru/projects/8284/>

EXHIBIT 31 | Prices for Basic Health Services in Moscow are 2-3 Times Lower than Around the World



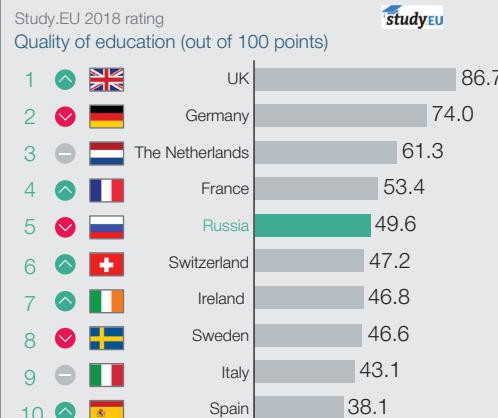
Note: assessment based on analysis of international aggregator prices for medical services and quotes of Moscow's leading clinics including Botkin, Sechenov, Pirogov, Sklifosovsky, Bakulev, Fyodorov, Vishnevsky, Bourdenko, EMC, Medicina, Mother and Child, etc.; global prices for 2016 and 2017 and Moscow prices for 2018; cost of services in Moscow assumed at 100%

EXHIBIT 32 | The Quality of Education—is the Key Prerequisite for Russia's Active Participation in the Competition for International Students

Top 5 reasons for selecting Moscow as place to study

	Quality of education ¹	56%
	Safety	37%
	Cost of Living and Education	31%
	Multiculturalism	30%
	Climate and Weather	25%

Russia scores #5 in Europe in terms of higher education quality



Cost of education in Moscow for foreigners is a lot less than in the leading English-speaking countries



Note: www.study.eu; Navitas; OECD; StudyinRussia.ru.

Our analysis shows that Russia can develop a competitive offer in Math, IT, and natural sciences.

Shopping Tourism Development

Shopping tourism is one of the most popular and fastest-growing segments in the world, which is especially popular in China and other Asian countries. Moscow's key competitive advantages in this segment are the low exchange rates of the national currency, the abundance of shopping malls and a developed Tax-Free system. At the same time, the number of outlets in Moscow lags behind leading European cities.

We propose three groups of measures to help promote shopping tourism:

Promote Moscow as a destination for shopping tourism in China. Chinese tourists are unique as they allocate on average 40% of their travel budget exclusively for shopping. Visit Moscow can promote shopping opportunities in Moscow, with a focus on Chinese tourist preferences, and create a dedicated

section on the web-portal with a map of shopping malls and links to online shopping.

Generate an integrated sales calendar. As of today, Moscow does not plan major seasonal sales in advance (i.e. 6-12 months beforehand), which makes it impossible for tourists to plan their trips around these sales dates.

Further develop the Tax Free system. This includes developing relations with merchants, encouraging them to join the Tax Free system, and simplification of tax refund and validation procedures at customs.

EXHIBIT 33 | Needs of Chinese Travelers

Critical factors		Availability of premium goods		Availability of familiar and well-known brands		Large choice of perfumes and cosmetics
Rationale	Chinese travelers are the backbone of global premium consumption; moreover two thirds of these premium products are purchased abroad	According to a BCG survey Chinese tourists are very brand-aware, and it is paramount that the brand is known to them	Surveys by global operators claim that the most popular duty free category among Chinese travelers is perfume and cosmetics			

Source: BCG analysis.

APPENDIX 4

EXAMPLE OF MARKET MONITORING WITH GEOANALYTICS

BCG HAS DEVELOPED AN ONLINE ANALYTICAL platform for the Government of Moscow that helps answer the most important questions about the development of tourism:

“How many tourists visit Moscow and where are they from?”

- Number of arriving tourists by day and country of origin;
- Comparison vs. previous periods.

“What do tourists do in Moscow?”

- Locations and events attracting tourists;
- Likely purposes of trip (based on locations visited).

“Where do tourists stay and for how long?”

- Types of accommodation, number of tourists for each type;
- Duration of stay (days).

The use of the platform helps:

- Identify target markets to promote Moscow as a tourist destination and assess the efficiency of promo campaigns/ROI;
- Assess the attractiveness of selected events for tourists and plan Moscow’s calendar, as well as adjust tech infrastructure during events;
- Plan the development of urban infrastructure

EXHIBIT 34 | GeoAnalytics Successfully Tested in Real-Time During the FIFA World Cup 2018

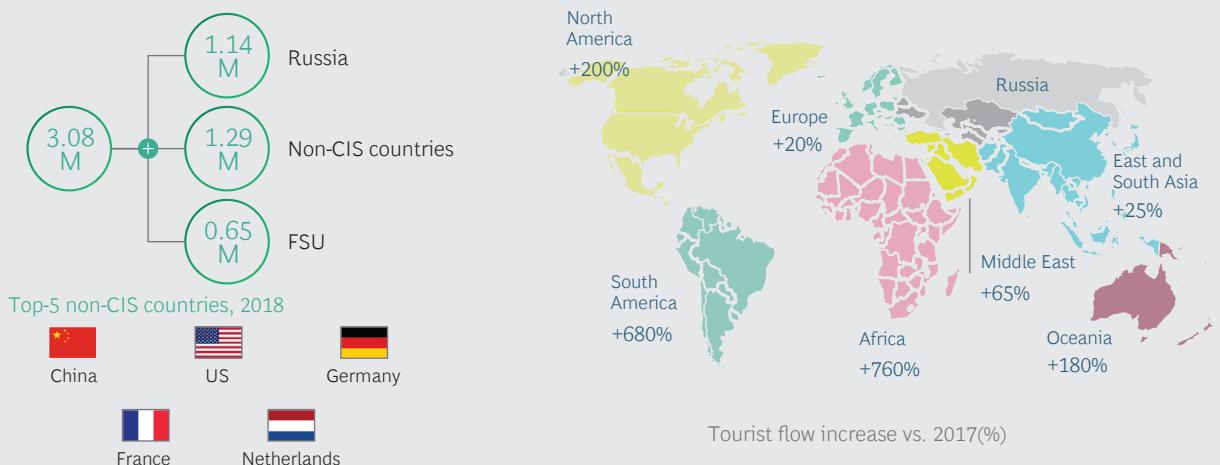


¹ Data lag is 1 day for sightseers and transit (<24h in Moscow) and 2 days for tourists (>24h).

Note: only one of the potential panels—for the countries participating in FIFA World Cup—is presented; similar analytics were prepared for other countries and Russian regions.

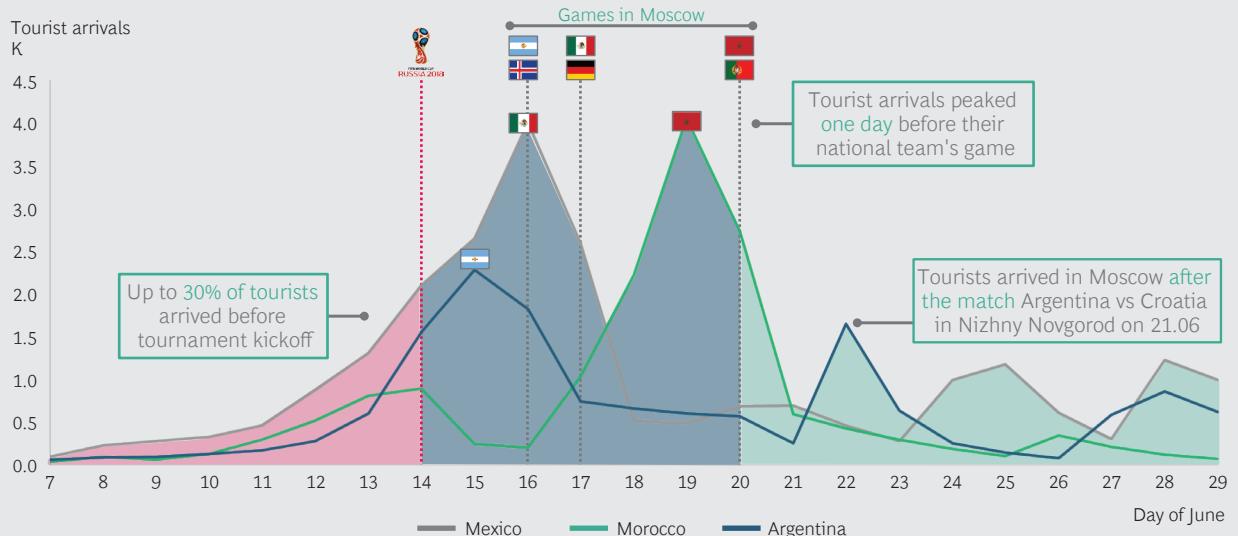
EXHIBIT 35 | Example of Advanced Analytics: Dynamics of Tourist Arrivals by Country of Origin

Tourist flow during FIFA World Cup, M
'tourists' category (spent at least 24h in the city).



Note: analysis conducted for "tourists" category "(spent at least 24h in the city)

EXHIBIT 36 | Example: Mexican, Moroccan, and Argentinian Tourists Arrival Dynamics



Note: analysis conducted for 'tourists' category (spent at least 24h in the city).

NOTE TO THE READER

Credentials

The authors of this report would like to thank the representatives of international organizations, government officials and corporate executives, industry experts, whose interviews were of great help in the preparation of this report: The Moscow City Government and its subordinate organizations, St. Petersburg Congress and Exhibition Office, Tourism Development Center of the Republic of Tatarstan, Tourist Information Center of Kazan, Russian Travel Industry Union, Intourist - ThomasCook, TUI, ITE, Academservice, Continent Express, Tari Tour , Inters, Alian, BMMT Sputnik, Interstate Hotels & Resorts, AZIMUT Hotels, RZD Tour, City Sightseeing Moscow, BBus, oneFactor, Cushman & Wakefield, Market Guide Agency, Russian Union of Industrialists and Entrepreneurs, Federation of Restaurateurs and Hoteliers of Russia, Russian Hotel Association, World Without Borders, Association of Guides and Interpreters, Guides and Tour Managers, Mostourpool, Moscow Association of Passenger Fleet Shipowners.

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