Competitive strategy in sustainability in the tourism industry

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This article is based on the consultancy from Xavier Font, Richard Tapper and Janet Cochrane for the Tour Operators Initiative for Sustainable Development, a United Nations Environment Programme-led initiative to promote corporate social responsibility amongst tour operators, and the EU-funded Tourlink project, promoting European tour operators to develop responsible tourism programs and supporting suppliers to be more sustainable. More information is available at www.leedstourismgroup.com

Find out how companies are promoting sustainability in a highly price conscious service sector to raise quality and secure long term survival.

Abstract.
The tour operating industry is having to take responsibility of the sustainability of its suppliers as part of the quality expected by tourists in order to remain competitive. The evidence for this paper comes from case studies resulting from telephone surveys, interviews and document searches. The theoretical approach is that of using sustainable supply chain management both as a method of corporate social responsibility and a strategy for industry survival. The paper reviews how price wars have forced mass tourism operators to small margins, while ignoring the growing special interest market. Sustainability is now part of quality expectations and the industry as a whole is having to reinvent itself to meet changing demands, while also embedding corporate social responsibility in a way that makes business sense. The price conscious market means that industry wide approach is necessary to raise the standards of tourism products from mass holidays, while the challenge is transferring the experience to less sophisticated and mature markets, where at present there is little evidence of demand for sustainable products, as well as to other service industries where sustainability might not be part of the product quality attributes sought by clients. This paper makes a contribution to the limited knowledge of sustainable supply chain management in the service sector, where most research emphasises environmental issues in manufacturing.

Purpose of this paper/article: This paper demonstrates how the tour operating industry is having to take responsibility of the sustainability of its suppliers as part of the quality expected by tourists, in order to remain competitive.

Design methodology/approach: Case studies resulting from telephone surveys, interviews and document searches. The theoretical approach is that of using sustainable supply chain management both as a method of corporate social responsibility and a strategy for industry survival.

Findings: Price wars have forced mass tourism operators to small margins, while ignoring the growing special interest market. Sustainability is now part of quality expectations and the industry as a whole is having to reinvent itself to meet changing demands, while also embedding corporate social responsibility in a way that makes business sense.

Research limitations/implications: The challenge is transferring experience to less sophisticated and mature markets, where at present there is little evidence of demand for sustainable products.

Practical implications: Industry wide standards are necessary as the lever for change in those industries where short return on investment eco-savings will not be possible, and where the future of a whole industry relies on joint action.

What is the original value of the paper: The paper makes a contribution to the limited knowledge of sustainable supply chain management in the service sector. Most research emphasises environmental issues in manufacturing.
Pull out quotes:

1. A secure income stream, with stable contracts and foreseeable contracting conditions including prices is paramount

2. Do trans-national corporations have responsibility towards working conditions of their employees? Society is increasingly saying yes. The challenge is to use this additional responsibility for competitive advantage

3. Small specialist operators have already contracted suppliers based on quality which includes sustainability. It is the growth of a niche market that is allowing the larger firms to consider sustainability as a competitive strategy

Category for paper/article: research paper/article.

Keywords: tourism, supply chain, sustainability, corporate social responsibility, service sector.
Introduction

The desire to experience the local flavor of places, learn and understand other cultures and traditions is growing. Ecotourism operators are succeeding while larger tour operators selling undifferentiated products are following price-driven, uncompetitive strategies. These large, mass tour operators are finding that introducing more authentic, less commercialized experiences in their holidays is increasing tourist satisfaction. Hence they are experimenting with the type of product changes needed to deliver added quality through sustainability changes that meet customer demands while also promoting their corporate social responsibility.

If this is so obvious, why haven’t tour operators woken up to this reality sooner? The main reasons have been the result of slow changes in the business environment and double standards in customer expectations. Tour operators could offer cheap holidays in the seventies and eighties because destinations were affordable and sufficiently exotic. Spain was extremely cheap in the sixties and seventies, and when living standards increased, tour operators controlled the distribution channels and forced hoteliers to sell to cover variable costs. This meant no reinvestment in the facilities and a slow but sure decline in quality standards. When Spain had no appeal, tour operators opened markets in the then cheaper Greece, and subsequently Turkey, Cyprus, Tunisia, Gambia and so on. The quest was to find cheaper destinations that could be westernized, and where the buying power of the tour operator who could secure a high occupancy rate could force prices down.

But prices could not decrease forever. The nineties taught tour operators more than one lesson. First, a more sophisticated Western tourist was no longer just looking for cheap beer by the seaside. The growth strategy had led tour operators to aim for market share as a route to securing lower prices per bed. Vertical integration would solve quality and marketing: few tour operators owned the majority of high street travel agents, the key airlines and even some of the most popular hotels at the destination. Yet the pressure to grow meant that a larger percentage of the capacity was unsold up to two weeks before departure, having to sell below cost to recover some of the investment. The margins for tour operators are about 3% of turnover, well below the average in the service sector. The last straw was low cost airlines and the low cost of property overseas that opened the direct market: if people just wanted sun, they could now get it for themselves.

At the same time a growing market segment wanted to experience authentic exciting places different from home. Small specialist tour operators started to cater for this market, making use of database marketing. Walking, birdwatching, painting, fishing, art tour operators filled the gap. The rise of low cost airlines as well as internet marketing in the late nineties was the final turning point for tour operators who had to rethink their strategy.

The business case for sustainable tour operators: 8 benefits.

The consequence is that the demand for more authentic, more fulfilling holidays associated with the key principles of sustainable tourism is growing. Tourist knowledge of sustainability is on the increase and so is their expectation that it is part of quality. Tour operators must behave sustainably to remain competitive: this industry must sell dreams that fit the trends in society, and the current wow factor is not a full English breakfast in Costa del Sol, but the discovery of cultures and amazing unspoilt places.

The United Nations Environment Programme has been encouraging some of the largest European tour operators to come to terms with structural supply and demand changes, and to move towards implementing corporate social responsibility strategies to support the long term survival of tourist destinations, as well as the survival of the tour operating industry itself. The many case studies that can be found under the Tour Operators Initiative for Sustainable Development show how these tour operators are finding many benefits from adopting specific actions aimed at improving the company’s sustainable performance. Not all the benefits are tangible, and some cannot be measured but they are nevertheless important:

1. Improved service: Supporting the local community, enhancing their economic well-being and contribution to poverty reduction in a destination increases staff morale and satisfaction which results in improved services and later, higher customer satisfaction. Sustainable management makes holiday facilities safer and healthier for employees and visitors.
2. Revenue growth: Acting sustainably and being seen to be sustainable can help increase a company’s income, through securing loyalty of current customers, increased market share, and allowing access to new markets.

3. Cost saving: Sustainable behavior can help reduce operating costs and improve overall productivity and efficiency. Managing sustainably lowers costs by reducing resource use, improving operating efficiency, lowering waste output and avoiding non-compliance fines.

4. Access to capital: Sustainable tour operators can attract capital from banks and investors, as environmental and social screening is becoming a standard as part of lending risk assessments.

5. Human capital: companies renown for their sustainability can retain and attract skills and talent of the company’s employees and contract labor, which are important in determining ability to innovate and compete.

6. Brand value and reputation: A reputation for being sustainable adds value to a company’s brand and strengthens its market position, making it less vulnerable to short term market and economy changes.

7. Risk management & license to operate: companies reduce legal liability by managing compliance and pre-empting relevant legislation. This also helps reduce the likelihood of losses from damage to their reputation by showing pro-activity towards destination sustainability and product quality that can be used as defense in litigation.

8. Pre-empting government regulations: Governments are increasingly under pressure by NGOs, unions and the general public to regulate the business sector. This pressure increases if bad practices are uncovered. Companies developing their own codes of conduct and having independently verified reports are in a strong position to influence any proposed legislation.

What can tour operators do

Tour operators package the services delivered by other companies. In this sense they can only be sustainable if their suppliers are sustainable in the first place. The debate of whether tour operators have responsibility for the wellbeing of their suppliers is ongoing, just as it is in other sectors. Do large supermarkets have responsibility for farming practices? Do timber retailers have responsibility for deforestation? Do trans-national corporations have responsibility towards working conditions of their employees? Society is increasingly saying yes. The challenge is to use this additional responsibility for competitive advantage.

Supply chains operate through business-to-business relationships, and supply chain management delivers sustainability performance improvements alongside financial performance, by working to improve the business operations of each supplier in the supply chain. Tour operators have enormous influence over activities throughout the supply chain, since they direct and influence the volume of business, the destinations and facilities that are used. Tour operators can use this to help in promoting general improvements in sustainability performance as part of good commercial practice.

The steps to apply successful supply chain relationships between companies and their suppliers are developed and implemented according to a defined series of steps common to every industry:

1. to establish a sustainable supply chain policy and management system,

2. to support suppliers in reaching sustainability goals, including raising awareness on sustainability issues amongst suppliers and demonstrating why sustainability performance is important, and

3. to integrate sustainability criteria into suppliers’ contracts and preferentially contract suppliers that meet those criteria.

So what kind of activities do tour operators implement? There are examples of good practice throughout the direct supply chain of tour operators as well as in a variety of tourist destinations but these are only implemented by some companies and many others can learn from them. It will be easiest to implement sustainability requirements in accommodation, because most hotels can make eco-efficiency gains through better management of water, waste and energy. These types of improvements are being promoted by most large tour operators amongst their hotel suppliers, through provision of information, and in some cases through training and awards programmes. However little is done to
promote employee conditions and staff development, despite the fact that the low prices paid by operators have meant hoteliers contract fewer staff and make them work longer hours.

In comparison, it will be most difficult to implement such strategies for transport providers. Transport accounts for the greatest impact in tourism, however it can only partly be managed through switching to less polluting forms of transport or upgrading to more efficient transport. Because of the difficulties in reducing environmental costs, some tour operators use carbon offset schemes (e.g. Future Forests, Climate Care, C Level and Coolflying) which calculate carbon dioxide emissions from air transport and promote offsetting of these generally through reforestation projects, or in some cases through investment in renewable energy supplies. Some tour operators – mainly smaller specialist operators, and some in the high end of the mass market - provide information on these schemes in their brochures and websites and encourage contributions by their customers on a voluntary basis. Other operators - usually at the higher end of the specialist market, and occasionally the mass market - include contributions to these schemes in the price of the packages they sell. The challenge remains that customers do not see a visible short term benefit from this in the way they can see the added advantage of being responsible. This is not one of those products that has managed to position itself as a better quality product for being responsible, such as organic and fair-trade have done.

Sustainability will be most visible in excursions and activities: this is where the tourist can experience first hand the difference. So far it is mainly smaller, nature and ecotourism operators that have made the difference here. For corporates this is going to be a challenge, since their volume of operations is a contradiction in terms with what is usually perceived as the meaning of sustainability. Like the accommodation sector, ground handling and related activities are staff-intensive, and often provide only low-paid jobs with poor working conditions as well as suffering from the seasonality of tourism. However some specialist tour operators, especially in adventure travel and also high-end tours, are addressing this issue by employing and encouraging development of local staff, by offering good employment conditions and job opportunities, and/or promoting visits to community projects or tourism enterprises. This links particularly with tour operators that sell products based around providing more authentic local experiences to their clients. Many tour operators of all types are working with their customers and local suppliers to reduce the amount of waste generated by their tours, and most adventure operators take home all waste materials to prevent litter in the sites they visit. Finally, most tour operators provide an element of customer education on conservation, especially advising customers not to buy products made from endangered species, such as from coral, shells or ivory, which are in any case protected by national and international legislation; and in many parts of the world, tourists diving around coral reefs must first take a local induction programme on how to avoid damage to corals.

However it is those actions supporting food and craft production that will be financially most beneficial to the local economy. The greatest benefit is that by creating strong economic linkages with the production of local crafts and by supporting local agriculture, fewer tourists are needed to create the same overall positive impact in the economy. This is good news for most destinations, but particularly for small islands where for example water is scarce but tourists consume much more water than locals, or where the creation of tourism jobs has meant the loss of traditional livelihoods. However there are many challenges to the promotion of local sourcing since it requires training and technical support and investment - for example in storage and distribution facilities - to meet quality and reliability standards, as well as the development of production and distribution networks to gather supplies from different local producers into the quantities required by hotels.

Above all it is a secure income stream, with stable contracts and foreseeable contracting conditions including prices is paramount, both to facilitate the necessary investments by the supplier, and to cement the trust in the relationship. This is not unique to the tourism industry, but it is crucial in a sector where seasonality has usually limited the economic contribution that tourism can make to the local economy. The experience from these cases shows that any tour operator projects require time for companies to build knowledge and develop relationships, and tour operators tend to require a steady and significant volume of operations with a supplier or destination if they are to make a significant contribution and expect changes in local operations. Three conditions in the tour operator-supplier relationship are particularly important for the success of supply chain initiatives: long-term partnership, fair pricing and a consistent volume of operations.
Industry wide approaches

Despite the many examples found of good practice across the sector, these are patchy and the majority of operators are still not acknowledging their responsibility. However in recent years good practice has moved on from being an issue of few committed companies to becoming a concern for industry associations. Here is where the next key steps can be taken, and three experiences are reviewed.

In Holland, the tour operator association Algemene Nederlandse Vereniging van Reisbureaus (ANVR) has implemented a pragmatic program that requires members to:

- appoint and train a responsible tourism co-ordinator;
- develop and implement a responsible tourism policy;
- report annually to ANVR on at least one sustainability measure per each of five areas (accommodation, transport, recreation/excursions, consumers information and internal sustainability); and
- not offer travel products that are forbidden according to the developed list of irresponsible travel products.

ANVR has developed training materials to support tour operators as well as an examination for each responsible tourism co-ordinator in every tour operator. This has meant that nearly 200 Dutch tour operators now report on their corporate social responsibility. Based on this experience, the Federation of Tour Operators in the UK has developed a similar programme which also includes socio-economic requirements. What is unique about the UK case is that these tour operators have agreed on a standardised set of sustainability requirements for accommodation providers, and through the EU funded Tourlink project these tour operators are checking the compatibility of certification programs against the tour operator requirements. This means for the first time sustainability standard will play a role in purchasing for tourism, in the way this has happened in the timber industry through the Forest Stewardship Council.

The challenge here now is to determine not only sustainability requirements, but responsibility towards meeting them. In this respect it is useful to review the Tour Operators Initiative for Sustainable Development, a United Nations Environment Programme initiative that has developed a methodology that puts emphasis on helping suppliers to meet the requirements made to them. The emphasis is on working with current suppliers by helping them, rather than replacing them with other companies. The expectation long term is that the responsibility to meet the standards, and to prove that these are met through independent third party certification, will be passed on to the supplier, just as it happens with fair trade, organic or other labels. The fact that in the meantime tour operators are taking steps towards facilitating improvement and creating a level playing field is to be commended.

Key lessons about sustainability strategies

Despite all these efforts, tourism is starting from a fairly low base. There are boundaries to what can be achieved, and many challenges ahead. Tourism, just like any other industry that is trying to move towards organic, sustainable, responsible practices, will have to find products that are clearly better and make consumers feel good. The additional price to be paid will determine the percentage of the market that can shift towards more responsible holidays. Key lessons are summarized below:

- This is a very price sensitive market, but low prices paid by customers only allow covering variable costs of servicing customers in the short term. Poor planning and increasing quality of life at the destination mean most places will be spoiled relatively quickly. Higher prices are needed to pay for the real cost to the destination of catering for tourists.
- Responsible tourists share destinations with those that look for no-frills home-from-home experiences. Taking no action means that responsible tourists will always want to go to new quiet places, whereas the infrastructure created for them will open the doors for higher volume lower price tour operators, creating a vicious circle of development.
- Small specialist operators have already contracted suppliers based on quality which includes sustainability. It is the growth of a niche market that is allowing the larger firms to consider sustainability as a competitive strategy.
• The immediate sustainability actions are quick wins that the client appreciates. Customer communication at the moment is based on feel good issues: promote quality local restaurants, and more interesting excursions and activities. Tourists do not want problems, they want enjoyable solutions: few tour operators mention the environmental impact of flying, and even fewer offset carbon emissions or offer more sustainable forms of transport.

• Tour operators are providing information to accommodation providers on how to make eco-savings. This is the most successful part of the supplier development strategy adopted by many of the large tour operators, because tour operators can justify not increasing the price paid to hoteliers but still demand more quality.

• Few large companies are prepared to go beyond easy steps, because an industry wide approach is needed. If industry is changing, it is because they have joint problems that can only be solved with joint solutions. Market demand towards more authentic products and unspoiled destinations cannot be serviced without taking responsibility of the current holiday hotspots and simply moving further away.