

How to Succeed as a Tourism Destination in a Volatile World

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After the financial crisis of 2007–08, the global economy faced its deepest setback in decades. Although economies have recovered, volatility has remained a key risk to further development—financially, economically, politically, and environmentally. Sovereign debt crunches get worse, political instability is growing in the world's hot zones, and environmental disasters tend to grow more severe in their short-term impacts.

In addition, other forces—less dramatic but no less powerful—continue to reshape the world's future. The ongoing digitization of daily life has sped up the dissemination of news; as a result, consumers are developing more flexible buying decisions and conventional ways of doing business are being fundamentally challenged. Established economies are increasingly feeling the impact of aging populations through the growing pressure on social care systems and the changing requirements needed to meet the mobility, housing, and leisure habits of older people. At the same time, new demand is unfolding in developing regions such as the BRIC countries (Brazil, Russia, India, and China) and beyond, changing the profile of the international traveler. All these changes will have significant impacts on tourism destinations (Figure 1).

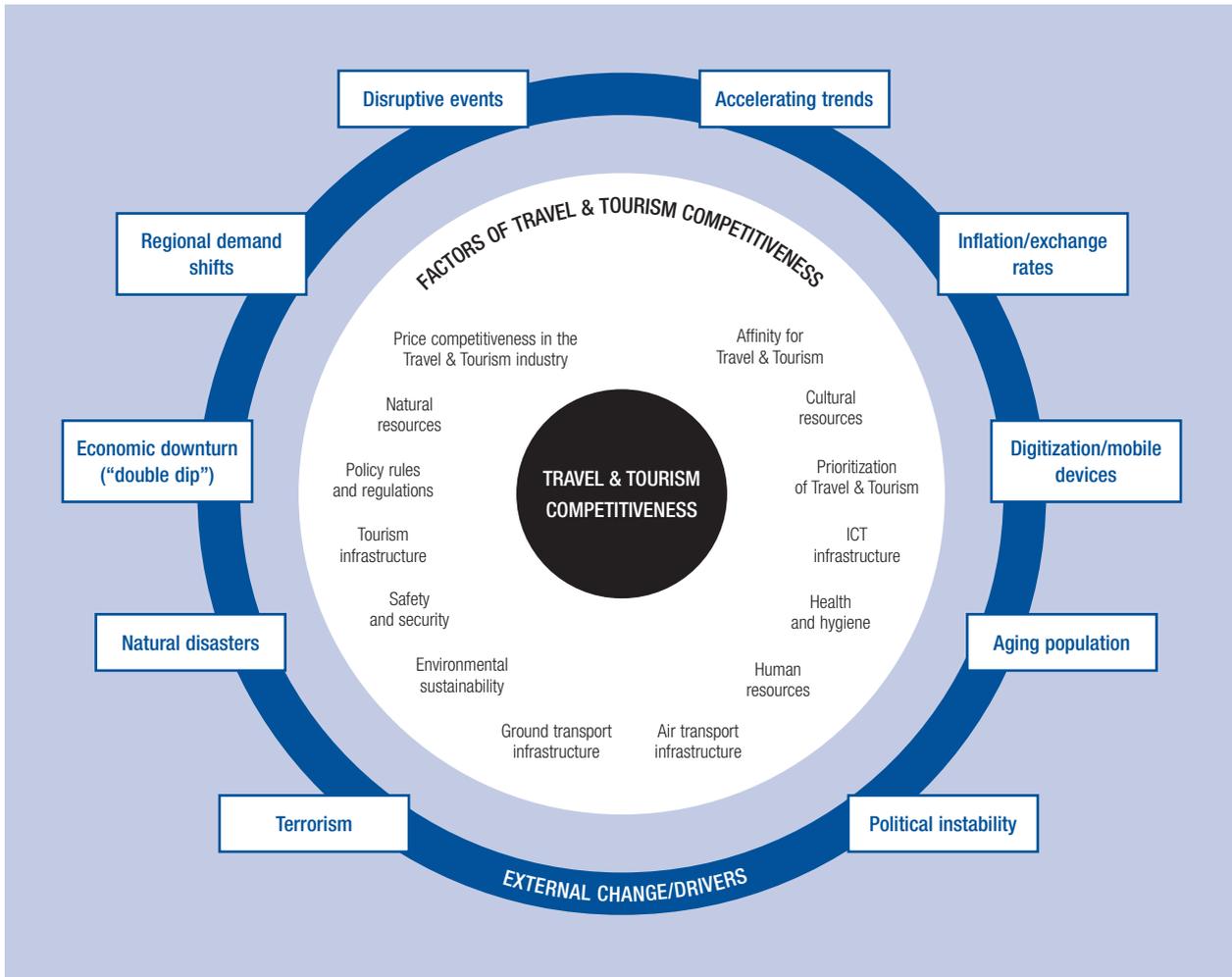
Policymakers responsible for developing and growing their nations as successful tourism destinations face a large variety of change drivers in their home countries and in key tourism source markets. They will need progressively more and more sophisticated methods to nurture the development of the tourism sector successfully by increasing inbound tourism. In a world that is ever more volatile and an environment that is ever changing, new capabilities in tourism management and sector development are vital if an economy is to become more resilient against disruptive events and to prepare for long-term stability.

Long-established destination-management techniques such as advertising campaigns or the presence of industry fairs are increasingly being displaced. Communicating with travelers online through various direct or indirect channels requires many destination managers and developers to redesign their existing marketing capabilities.

At the same time, destinations need to rethink their positioning among competing countries to prepare for short-term demand shocks and long-term shifts of traveler flows. In the past, a narrow focus on attracting the maximum number of budget tourists in markets such as those of Bulgaria, Egypt, and Spain drove strong growth. However, this focus brings extensive risks, including break-neck competition, environmental exploitation, and unhealthy investment bubbles.

Moreover, investment in infrastructure faces new obstacles. Ecological, regulatory, fiscal, and sociopolitical constraints often hinder ambitious expansion. Large-scale projects are increasingly complex and difficult

Figure 1: Travel & Tourism competitiveness enablers and change drivers



Source: Booz & Company.

to manage. Examples of such large projects that have proven unwieldy are recent European rail and airport projects such as the Berlin airport, which has had multiple problems and delays.

Many destinations are still catering their touristic offerings to very few, mature source markets—and such destinations risk losing touch with tourists from emerging source regions such as Asia, Russia, or Latin America, whose needs differ significantly from those of the typical Western traveler. For example, introducing sophisticated methods of demand segmentation and profiling to attract the growing number of Chinese travelers will become increasingly important.

All these challenges have affected Travel & Tourism (T&T) in recent years, but they have not stopped the overall dynamic in the sector, which is driven by desire to travel abroad, visit foreign places, or just relax. Travel & Tourism remains a strong engine of growth, representing nearly 10 percent of global economic activity if all adjacent services are taken into account. Instability is a new reality that carries opportunities as well as risk. This is why tourism destinations, policymakers, and

private-sector stakeholders need to act decisively to develop the right capabilities to succeed going forward.

SEPARATING DIFFERENTIATORS FROM ENABLERS

The Travel & Tourism Competitiveness Index (TTCI) described in Chapter 1.1 measures a variety of criteria that enable the competitiveness of economies in driving inbound tourism growth—including natural scenery; proper, well-maintained infrastructure; and sound, open-market policies. Some factors qualify a country only to compete for tourists, while others create true differentiation among potential destinations to achieve long-term attractiveness for foreign visitors.

The building blocks of any tourism destination are assets such as natural scenery and cultural heritage as well as properly functioning infrastructure that allows travelers to access a country and move comfortably within it. Without these building blocks, a country cannot compete in the global tourism market. However, these assets require significant investment in terms of conservation (in the case of natural treasures) and maintenance (in the case of physical infrastructure,

which tends to lose value over time). Policymakers need to develop long-term plans in order to best cater for inbound tourism flows. But these efforts alone do not generate true differentiation from other countries that are doing exactly the same thing. To build advantage over competing countries, policymakers and destination managers need to identify and leverage capabilities that make their destination distinctive.

This chapter examines the connection between T&T competitiveness (as measured by the TTCI) and a score on how dynamic and stable inbound tourism has developed in a given country (Travel & Tourism Stable Growth Performance Score—see Box 1) over the past five years.

An examination of the 20 highest- and lowest-ranked economies in the TTCI shows which pillars of tourism competitiveness have proven to be most effective in driving stable inbound tourism growth (Figure 2). For example, a high score in the TTCI indicator *Affinity for Travel & Tourism* also means a high score in stable growth performance of tourism development in recent years. These factors are true differentiators that create a strong stable growth record in the inbound tourism industry.

The results reinforce the idea that policymakers have the means to steer their tourism destination toward resilience against short-term shocks and prepare for long-term stability by focusing on certain areas where leading countries stand out over their underperforming peers. Best-practice policies and sector-development strategies from highly competitive tourism destinations have proven successful in weathering the economic downturn and preparing for more volatility going forward. Each country should identify its specific key areas of tourism opportunities and align its policy focus around these core capabilities. These differentiators are diverse—reflecting a mixture of international travel needs and experiences—and range from reestablishing the trust of visitors after periods of instability and maintaining price competitiveness in uncertain market surroundings to making sustainability a winning factor and turning an affinity for tourism into successful destination development.

We have identified the 5 (out of 14) pillars from the TTCI that are correlated most closely with our Stable Growth Performance Score (Figure 3); in the remainder of this section we describe them in greater detail.

Building on their existing *Affinity for Travel & Tourism*, policymakers should aim to generate a positive climate for tourism and tie tourism businesses closely to the overall economy—apart from large-scale investments or infrastructure expansion. Going forward, fully supporting local communities, small businesses, and individual entrepreneurs will be key to converting openness to foreign visitors into developing touristic services that collectively make a destination distinctive.

Box 1: The Travel & Tourism Stable Growth Performance Score

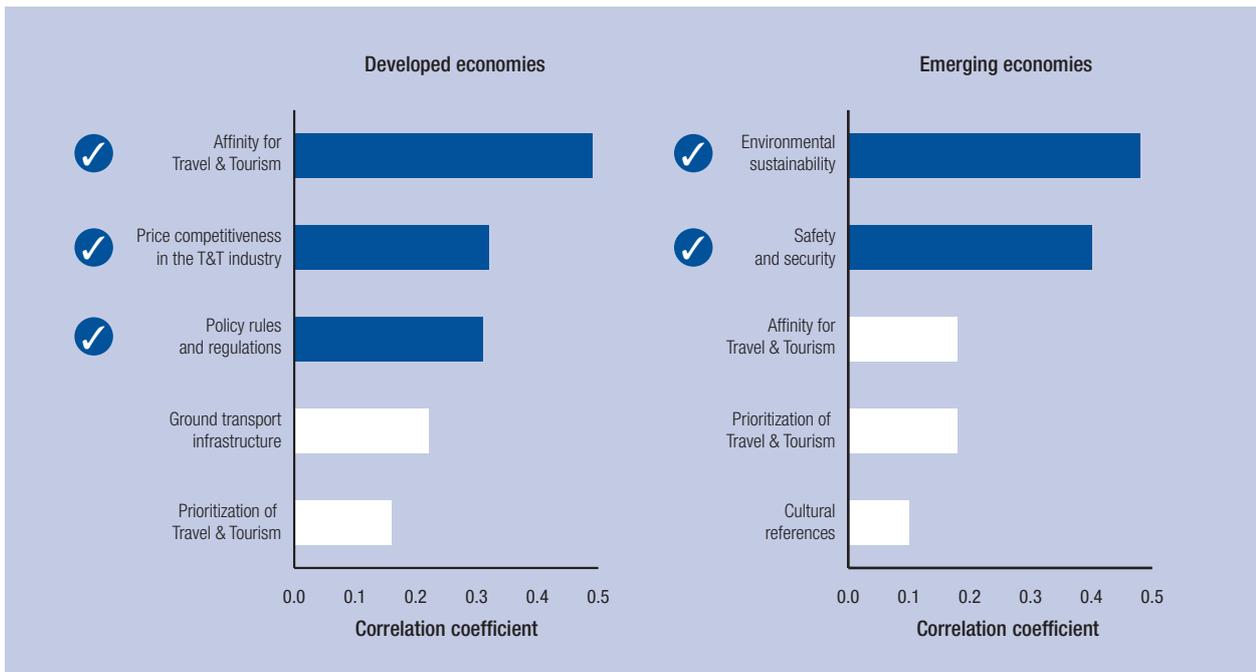
Booz & Company has calculated a Travel & Tourism Stable Growth Performance Score based on international tourist arrivals data from the World Tourism Organization in a sample group of 74 most-visited countries in 2011 as the foremost measure of inbound tourism performance. We define *stable growth performance* as the simple average of inbound tourism growth (the compound annual growth rate in the period of 2007–11) and the volatility of growth (the standard deviation of annual growth rates in the same period) per economy. Economies with high growth rates and low volatility rates score high, and vice versa. To differentiate competitiveness enablers for destinations with developed and developing tourism, we have focused on the 20 highest- and lowest-ranked economies in the Travel & Tourism Competitiveness Index (TTCI) based on the 2008, 2009, 2011, and 2013 editions. For each of these two groups, we have calculated the correlation factor of their TTCI pillar scores with our Stable Growth Performance Score.

In addition, encouraging tourists to return requires a holistic view of the traveler lifecycle rather than one-size-fits-all campaigning. Australia, for instance, connects young people to its country by offering “work & travel” opportunities through various local businesses; as these travelers mature and have more money to spend, they want to return.

Policymakers need to strengthen their core area of competence—*Policy rules and regulations*—with a clear focus on long-term approaches to tourism development combined with agility in reacting to short-term changes. To realize the full potential of the tourism sector, it will be critical to lower existing entry barriers in terms of infrastructure or visa regulations, drive private-sector investment through further liberalization, and empower local communities to participate in the tourism value chain, as well as establish cross-border cooperation with other destinations. For instance, Ireland has launched a national program called “The Gathering Ireland” through which businesses, sport clubs, cultural establishments, and local authorities are asked to showcase ideas on how best to attract travelers to the country—with the ultimate goal of promoting an economic revival after the crisis with tourism as one of its cornerstones.

Price competitiveness will certainly remain a key differentiator across a variety of dimensions. On the macro level, exchange rate fluctuations will continue to be a major and unpredictable factor that influences travel behavior. These fluctuations will have a particularly severe impact on destinations that focus on “budget travelers” who are less loyal to specific destinations than they are keen on finding inexpensive traveling opportunities. Today, tourists enjoy near-perfect

Figure 2: Top five T&T competitiveness enablers by impact on stable growth, developed and emerging economies



Sources: UNWTO 2012; World Economic Forum various years; Booz & Company analysis.

Note: The data show the correlation of factors of the Travel & Tourism Stable Growth Performance Score and the Travel & Tourism Competitiveness Index (TTCI) score. Only the highest correlation results are shown for the 20 highest- and lowest-ranking economies according to the TTCI. Check marks indicate those categories we consider to be differentiating in terms of T&T competitiveness and growth.

price-versus-quality transparency through user-generated online reviews. Tourism planners need to make pricing for inbound tourism more flexible and should ease access to a country by tax reduction if and when needed. They should also support local investment and entrepreneurship with financial incentives such as investment aid or other support measures. Destinations and private businesses need to respond both to bargain seekers and to increasing demand for more sophisticated travel experiences in order to best leverage their touristic assets. Turkey, for example, has excelled in establishing itself as a mainstream destination for many Europeans (especially travelers from the United Kingdom but also those from Russia); at the same time, it has diversified its touristic offerings, leveraging its diverse culture, history, and natural scenery.

Finally, developing and fostering more varied forms of travel can transform *Environmental sustainability* from a regulatory burden to a true differentiator for tourism source markets. Policymakers, especially those in developing tourism destinations, should prioritize long-term sustainability to safeguard their natural and cultural assets because “green consumerism” has become a significant buying power in developed markets. Key emerging tourist groups, including the well-traveled retiring baby boomers, are demanding green travel offerings instead of traditional sun-and-beach vacations. A clear focus on greening the supply side of tourism as well as environmental conservation efforts on a national level will generate clear advantages over

competing destinations. Policymakers need to be able to consistently match long-term tourism master planning, short-term interests of multiple stakeholders, and external influences such as macroeconomic events or tourist demand changes to make tourism sustainable—economically and environmentally. To succeed, policymakers will need to manage the bottleneck of natural assets carefully to put economic yield and ecological footprint into a steady, stable state. In Kenya, the Seychelles, and Tanzania, for example, ecotourism has gained traction in recent years, growing from a niche segment to a high-yield volume market. These countries preserve their natural assets for responsible tourism, which drives economic growth on both the national and local level.

It goes without saying that *Safety and security* is clearly linked to inbound tourism well-being just to “stay in the game.” This is especially important in developing regions that suffer from political instability or governmental inefficiencies, which can often result in high crime rates and stunted economic development. The recent Arab Spring movement led to severe drops in visitors to tourism-focused economies, particularly in Egypt and Tunisia; by contrast, Morocco has weathered the crisis considerably well, with only minor drops in inbound tourism, by quickly introducing political reform instead of confrontation and by continuing to focus on its long-term tourism development strategy. However, the battle against crime on various levels—whether in the form of street crime that is evident in deteriorating

Figure 3: Key capabilities that drive T&T stable growth performance

DIFFERENTIATOR	BEST-PRACTICE CAPABILITIES
✓ Affinity for Travel & Tourism	<ul style="list-style-type: none"> • Customer orientation • Openness to foreign visitors • Local stakeholder involvement
✓ Policy rules and regulations	<ul style="list-style-type: none"> • Low entry barriers • Sector liberalization • Private/public sector cooperation
✓ Price competitiveness in the T&T industry	<ul style="list-style-type: none"> • Affordable touristic offerings & hotels • Taxation levels • Purchasing power/exchange rates
✓ Environmental sustainability	<ul style="list-style-type: none"> • Sustainability policies and regulations • Private-sector innovations • Nature conservation
✓ Safety and security	<ul style="list-style-type: none"> • Protection of touristic areas/facilities • Reliability of authorities • Trust-building campaigns

Source: World Economic Forum; Booz & Company.

security for travelers or corruption that affects businesses—will remain an ongoing challenge for many developing destinations in their pursuit of unhampered destination development.

CONCLUSION

To prevail under more volatile market conditions and continue benefitting from a vibrant tourism sector, policymakers should identify and focus on their country's key competitive advantages over other countries and differentiate the traveler's experience in their country from the experience to be had elsewhere. At the same time, they should monitor the shifting trends in international customer origins and profiles. It is important to examine existing destination marketing and tourism development planning in the context of the challenges of a more volatile macroeconomic environment. Established destinations need to pool their efforts on innovations, multi-stakeholder cooperation, and flexibility if they are to respond successfully to demand from emerging regions. Developing destinations should consider effective short-term turnaround strategies to strengthen their T&T sectors and reestablish their attraction for the international traveler by focusing on long-term sector development and making sustainability a core of destination development and marketing.

Despite increasing instability induced by economic, political, and environmental challenges, tourism is expected to remain a significant driver of future economic growth. Policymakers who concentrate on

their countries' most prominent assets and are able to leverage them most effectively are best positioned to turn volatility risks into opportunities for long-term stability.

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