

Competing on the Eco Front

For further information:

Jürgen Ringbeck, Dusseldorf: jurgen.ringbeck@booz.com

Stephan Gross, Munich: stephan.gross@booz.com

Booz & Company

04/01/2008

a strategy+business exclusive

Competing on the Eco Front

Environmentally friendly countries have a leg up in the competition for international travelers, but sustaining that advantage takes work.

by Jürgen Ringbeck and Stephan Gross

Why do travelers — be they on business or just visiting — prefer to go to Switzerland rather than, say, Ukraine? It's no surprise: Switzerland offers a much more attractive combination of factors. It's easy to get there and to travel within the country, it's clean and visitors feel safe there, and Switzerland's combination of traditional culture and natural beauty is justly famed all over the world. Yet the continued popularity of Switzerland and other desirable destinations is by no means a given. Maintaining the relative purity of the environment while promoting and growing tourism is critical as competition intensifies among regions to attract the ever-growing number of travelers.

A recent study by Booz Allen Hamilton (part of the World Economic Forum's Travel & Tourism Competitiveness Report 2008) found that environmental factors may determine whether travel and tourism sectors thrive or falter in the coming years. The report evaluated the health of the tourism industry in 130 countries based on 14 pillars important to travelers, private operators, and public authorities — including regulatory framework, infrastructure, and cost to natural, cultural, and human resources. This year, for the first time, the index also ranked each country according to its environmental sustainability. Among the items examined were the stringency of environmental regula-

tions and the extent to which they are enforced, carbon dioxide emission levels, and the percentage of the country's species that are endangered.

The study found a direct correlation between countries that score well on the overall competitiveness index and those that score well on the sustainability component. Switzerland, for instance, is ranked number one overall out of the 130 countries in the index and number two in environmental sustainability, whereas Ukraine comes in at number 100 overall and number 83 in environmental sustainability. That helps explain why Switzerland's travel economy brought in an estimated US\$60.9 million in 2007 and Ukraine's was worth just \$11.3 million, even though Ukraine is almost 15 times the size of Switzerland.

Ironically, a boom in tourism, although desirable, often leads to degraded environmental conditions — and in time to fewer tourists — unless a country takes sustainability seriously. Large numbers of visitors alter patterns of development, impinge on natural resources, tax limited water and food supplies, and create pollution, scaring away future visitors. Just ask anyone who has visited an unspoiled beach and returned a few years later to find the sand eroding thanks to construction, the water spoiled by sewage, and the coral reef decimated by toxins or careless divers.

Jürgen Ringbeck

(ringbeck_jurgen@bah.com) is a senior vice president with Booz Allen Hamilton in Düsseldorf. He focuses on strategy and transformation for companies in global transportation industries, such as airlines, tourism operators, postal and logistics companies, and railways.

Stephan Gross

(gross_stephan@bah.com) is a senior associate with Booz Allen in Munich and the marketing director of the firm's work in global transportation. He specializes in major transformation and turnaround initiatives for transportation organizations, including large privatization and deregulation projects in Europe and the Middle East.

The correlation between environmental sustainability and economic development is much weaker. The U.S. ranks first on the overall economic development component, but just 100th in environmental sustainability, thanks to weak regulatory measures to combat global warming, inefficient energy consumption, and high levels of air pollution in major cities. Kenya, however, is ranked 19th on the environmental sustainability component, but only 102nd in overall economic development, due to low scores in ground transportation (ranked 107th), information and communications technology (108th), and tourism infrastructure (98th).

Improving the environmental sustainability of a country's travel industry is not a simple matter of cleaning up the environment and laying down restrictive laws regulating what such industry players as airlines, resort operators, and developers can and cannot do. The private sector has long been averse to spending additional money to comply with environmental regulations unless a clear business case can be made for doing so. But environmental sustainability will be critical for all countries seeking to improve their travel competitiveness in the long term. The private sector must be induced to become part of the effort and thus to view sustainability not as a threat but as an opportunity. As concern for the environment grows — not least among the eco-conscious and often wealthy travelers countries hope to attract — the quality and sustainability of a country's environment will become part of its global travel "brand." The question is how best to establish, promote, and continuously manage an environmental strategy that forms this brand.

The environmental issues facing the travel industry can be divided into four areas, each of which have differ-

ent effects at the global, regional, and local levels. First, *emissions*, contributed primarily by airlines but exacerbated by air conditioning, heating, and ground transportation, are a long-term, global problem, which individual countries can only ameliorate so much. Second, the impact of deteriorating *natural resources* can be felt on a regional level; it includes everything from scarce supplies of clean water that must be shared among tourists and residents to beaches ruined by overdevelopment. Third, *waste* is primarily a local problem, and unsustainable, short-term solutions to waste management not only endanger fragile ecosystems, they also put tourism at risk in the long run. Finally, *noise pollution* remains a major local issue, especially for the airline industry in neighborhoods located near airports, despite significant improvements in the noise levels of modern aircraft.

Addressing these problems holistically, not just in the short term but in sustainable ways, requires strong public-sector leadership that often involves stringent regulations to prevent long-term damage to a country's travel resources and reputation. A successful regulatory framework needs to encompass every aspect of how the travel industry may affect the environment, including emissions, natural resources, waste, and noise, and it must be driven by penalties and legislation that set clear standards and targets for carbon emissions, recycling, and utility usage. No regulatory policy will work, however, unless governments make sure policies are actually implemented and follow up to determine that they are having the desired effect on corporate and individual behavior.

The country of Montenegro offers an example of how such a regulatory framework can work in practice. Montenegro voted for independence from Serbia less than two years ago, yet it is already experiencing a

tourism boom. Hoping to avoid the kinds of problems caused by mass tourism in its more established Mediterranean neighbors, the country has put together a program for developing its travel industry that has sustainability, protection of nature, and ecotourism at its core. It includes transparent emissions taxation schemes, such as levying a surcharge on the emissions of cars entering the country; land use requirements designed to allow for the growth of tourism without jeopardizing natural beauty; and policies intended to attract investors with long-term perspectives, operating expertise, and a sensitivity and commitment to the impact of national tourism development.

Environmentally friendly projects that typically must be led by the private sector, such as transportation infrastructure, alternative energy production, and waste management, too often languish unless the government can convince companies to participate, either through regulation or, better yet, through incentives. When California enacted legislation to force the state's largest industrial polluters to reduce their greenhouse gas emissions by 25 percent by 2020, the state created a carbon market that lets clean energy producers sell carbon credits to polluters who could not or would not reduce their emissions. The state also committed \$3.2 billion to fund a drive to install solar panels on a million rooftops by 2018. Its largest corporate solar-power installation is now in operation at Oakland International Airport; it fuels 80 percent of the facility's energy needs.

Of course, the best solution is to come up with a win-win for both the private and the public sectors, and for the environmental sustainability of a country's travel industry overall. Rare as it may be, it can be done. In a determined effort to preserve its unparalleled cultural heritage and landscape, the Tuscan region of Italy has erected regulatory barriers to the construction of large resorts and provides incentives for restoring old farmhouses into small lodges for tourists. Italy is a prime example of a country that must work to improve the environmental sustainability of its travel industry. It ranks 28th in overall travel competitiveness, but just 39th in overall environmental sustainability, and a worrisome 113th in the sustainability of the development of its travel industry. The country has an outstanding global travel brand; tourists flock by the millions from all over the world to visit its exciting cities and beautiful countryside. Yet the results of the World Economic Forum report suggest that Italy must work harder to preserve its cultural and natural heritage — otherwise, its

attractiveness as a destination may decline as other countries enter the global battle for international tourists.

Nearly every country in the world has something to offer the curious traveler, whether in terms of culture, history, or natural beauty. The factor that will make the difference between those countries that welcome visitors from around the world and those that languish will be the way attractions are developed, marketed, and preserved, not only for current travelers but also for future generations of tourists. The countries that develop, implement, and maintain a sustainable tourism strategy today will be the winners of tomorrow.+

Resources

Viren Doshi, Gary Schulman, and Daniel Gabaldon, "Lights! Water! Motion!" *s+b*, Spring 2007: How to revitalize the crumbling infrastructure on which so many countries' travel industries depend. www.strategy-business.com/article/07104

Volkmar Koch, Jürgen Ringbeck, and Stefan Stroh, "Travel 2.0," *s+b Leading Ideas Online*, 2/5/2008: The travel industry needs to develop a keen understanding of customer habits and tastes. www.strategy-business.com/leadingideas/li00061

Jürgen Ringbeck and Stephan Gross, "The Importance of Being a Must-See Destination," *s+b Leading Ideas Online*, 5/8/2007: How a strong travel and tourism sector contributes to a country's overall economy. www.strategy-business.com/leadingideas/li00024

World Economic Forum, *The Global Competitiveness Report 2007–2008*: An analysis of the global competitive environment. www.gcr.weforum.org/

World Economic Forum, *The Travel & Tourism Competitiveness Report 2007*: View last year's report to examine how the travel competitiveness of countries changes over time, sometimes rapidly. www.weforum.org/en/initiatives/gcp/TravelandTourismReport/index.htm

World Economic Forum, *The Travel & Tourism Competitiveness Report 2008*: Essential reading for anyone concerned with promoting the travel industry, or just being a tourist. www.weforum.org/en/initiatives/gcp/TravelandTourismReport/TravelTourismCompetitivenessReport2007/index.htm

The International Air Transport Association Web site: The airline trade association's insider take on its contribution to environmental sustainability. www.iata.org/whatwedo/environment/sustainability.htm

strategy+business magazine
is published by Booz & Company Inc.
To subscribe, visit www.strategy-business.com
or call 1-877-829-9108.

Originally published as “Competing on the Eco Front,”
by Jürgen Ringbeck and Stephan Gross.