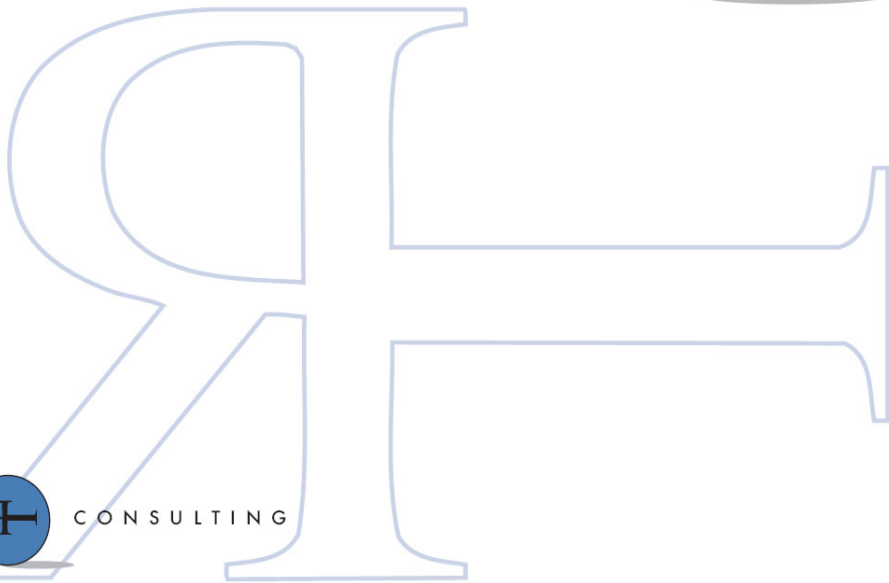


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**“Tourism, competitiveness
and the creation of wealth”**

by Miguel Payeras

“Tourism, competitiveness and the creation of wealth”

by Miguel Payeras^δ

A global environment makes it necessary for mass tourism destinations located in territories with developed economies to compete through the combination of strategy, positioning, innovation and productivity.

Most of the successful tourism destinations, specially the ones based on mass tourism, are still fighting to adapt themselves to this new reality.

Most of the relevant mass tourism destinations worldwide initially were helped by the existence of a gap in income between visitors and residents. Prices were affordable to visitors and costs of operation were mild.

Over time that gap is bridged and innovation and increases in productivity are the only way forward. What made it possible in the past to succeed is no longer enough to grant the creation of wealth for the next generations to come.

As socio-economic success is achieved, a set of good business practices is framed. When change happens, what it did work in the past becomes, if not questioned, a major barrier to transformation. Moreover, success has as a major consequence prosperity and an increase in expectations of all stakeholders. Over time, as the environment changes, without the implementation of substantial transformations, stagnation is at sight.

On the other hand, note should be taken of companies and institutions that have shown leadership in the change of mindset required to create value through innovation. Their contribution to society should be highlighted and acknowledged and when possible replicated.

Re-invention is always a great story to be told and shared.

This article aims at drawing some conclusions on the tourism transformation requirements needed for a successful mass tourism destination to avoid stagnation in the creation of wealth.

The Balearic Islands have a successful story to be shared as a mass tourism destination. Over six decades tourism has been the driving force to higher standards of living. Nevertheless, since 1997 the creation of wealth per capita has stagnated.

Once millions visit a territory, is an increase in the number of visitors the only way forward?

Can a continuous increase in arrivals lead to a stagnant prosperity for residents?

Finally, Balears.t believes there is a new path to prosperity provided a change of mindset is implemented.

^δManaging Director, Balears.t

“Turismo, competitività e creazione di benessere”

di Miguel Payeras^δ

Strategie, posizionamento, innovazione e competitività sono elementi che le destinazioni turistiche raggiunte da un turismo di massa, se localizzate in territori con economie già sviluppate, devono necessariamente combinare e saper affrontare per competere al meglio. La maggior parte delle destinazioni turistiche di successo, soprattutto quelle interessate da grandi numeri, stanno combattendo per adattarsi ad una realtà in continuo mutamento. Inizialmente tali destinazioni erano aiutate dall'esistenza di un gap tra i redditi ed il potere d'acquisto dei visitatori e dei turisti: i prezzi erano abbordabili ai visitatori e i costi legati alle attività turistiche basse. Con il passare del tempo questo gap si è annullato, sino al punto che crescita ed innovazione sono diventati elementi necessari da sviluppare per il futuro delle destinazioni: ciò che in possibile era condizione sufficiente per avere successo ora non basta più per garantire la creazione di benessere per le generazioni a venire.

Quando si raggiunge il successo sul piano socio-economico, alcune best practices emergono e vengono codificate; ma quando avvengono dei cambiamenti, ciò che in passato funzionava diviene, se non riformulato, una barriera al mutamento. Il successo, inoltre, ha come maggior conseguenza l'incremento delle aspettative di tutti gli stakeholder coinvolti. Gradualmente, con i cambiamenti che intervengono anche a livello socio economico,

una fase di stagnazione è la diretta conseguenza laddove non intervenga l'attuazione di sostanziali trasformazioni. D'altra parte bisogna tenere conto delle aziende e delle istituzioni che hanno dimostrato capacità di leadership nell'interpretare al meglio il cambiamento necessario per creare valore tramite l'innovazione: il loro contributo va sottolineato e compreso, ma anche replicato là dove possibile. Le re-invenzioni sono sempre delle grandi storie da raccontare e condividere.

L'articolo mira a definire alcune conclusioni legate ai necessari cambiamenti che le destinazioni turistiche di successo dovrebbero adottare apportare per evitare di fermare il percorso di crescita di valore.

Le Isole Baleari hanno una storia di successo da condividere e raccontare come destinazione di turismo di massa. Per sessant'anni il turismo è stato il fattore di spinta e crescita del livello di benessere della popolazione locale. Nonostante questo, dal 1997 la crescita del livello di ricchezza procapite si è arrestata.

Una volta che un milione di visitatori hanno visitato un territorio, l'incremento di quel numero è l'unica soluzione possibile per uscire dallo stallo? Può la continua crescita degli arrivi turistici condurre alla stagnazione del livello di benessere dei residenti? Balears.t crede che un cambio di approccio possa rappresentare la strada per veder tornare a crescere il benessere collettivo.

^δManaging Director, Balears.t

“Tourism, competitiveness and the creation of wealth”

by Miguel Payeras

1. What is tourism?

Let`s start with the beginning.

Far from technicalities, tourism is this fabulous opportunity territories have to create wealth through the visit of temporary residents.

Tourism offers as well a fantastic opportunity to link the primary, secondary and tertiary and quaternary sectors of economy.

Tourism with capital letters should aim at attracting, satisfying and retaining profitable visitors.

In a nutshell, the main features of mature destinations based on mass-tourism are:

- ~ they are more process-driven than customer-driven. As a consequence logistics seems to prevail over any other activity. Moreover, often, mass tourism destinations refer to visitors simply as “people” instead of temporary residents or customers.
- ~ They usually are not much in command of their commercial flows. As a consequence, there is not much direct commercial interaction with the visitor. In most cases seems that all tourism destination activities start at the moment visitors reach the destination. In other words, mass tourism destinations are more the consequence than the reason to generate arrivals!

- ~ They create value through the implementation of economies of scale and through cost management systems.
- ~ They are usually based on a reduced number of tourism products.
- ~ They lack differentiation: what it is offered does not differ much to what other competitors do offer as well.
- ~ They are seasonable: a great deal of the number of visitors happens in a specific period of time, usually depending on weather conditions.
- ~ They are resilient to fluctuating levels of demand. As a consequence, knowledge on the management of systems is generated and implemented.
- ~ They are prone to a better management of environmental resources as not doing so accentuates problems for both visitors and residents.

Going through the exercise of dividing apples by oranges, one can easily get some examples related to number of residents, visitors and the ratio residents/visitors, as shown in the following table.

Tab. 1 - Residents, Visitors and Ratio Residents/Visitors in Balearic Islands and four other destinations

| Destination | Residents (R) | Visitors (V) | Ratio (R/V) |
|-------------|---------------|--------------|-------------|
| Mallorca* | 873.414 | 12.584.041 | 14:1 |
| Ibiza* | 133.702 | 3.363.290 | 25:1 |
| Menorca* | 94.875 | 1.378.733 | 14:1 |
| Formentera* | 10.757 | 1.300.000 | 120:1 |
| Andorra | 76.098 | 8.000.000 | 105:1 |
| Vatican | 932 | >5.000.000 | >5.000:1 |
| Las Vegas** | 596.424 | 40.000.000 | 67:1 |
| Venice*** | 270.660 | 22.000.000 | 81:1 |

Source: Balears.t . Notes: (*)In the case of the Balearic Islands, the number of arrivals does not include any of the millions of visitors that arrive as a result of a call any at of the main Balearic Ports. (**) The number of visitors to Las Vegas does include US visitors. (***)The Central Quarters of Venice have an R/V ratio of 365:1.

2. Does tourism intensity mean social prosperity?

The question is simple, can a territory enjoy a spectacular tourism intensity without having as a result an increasing prosperity over time?

That seems to be the case of several successful tourism destinations worldwide.

Let's try to understand why.

Over time as a result of success costs and expectations grow faster than productivity putting prosperity at risk as more visitors are

needed to create the same amount of wealth. Others, the only country group growing!

Bad news.

The chart based on UNWTO data (Tab. 2) shows that in 1950 the top 5 leaders in international arrivals accounted for 71%, almost three quarters of global demand. 60 years later, in 2010, the top 5 group accounted only for the 31% of the 940 million of international arrivals.

Tab. 2 - Diversification of destinations

| Rank | 1950 | Share | 1970 | Share | 1990 | Share | 2010 | Share | | | |
|------------|-------------------|-------|--------------------|-------|--------------------|--------|--------------------|-------|--------|--|-----|
| 1 | USA | 71% | Italy | 43% | France | 39% | France | 31% | | | |
| 2 | Canada | | Canada | | USA | | USA | | | | |
| 3 | Italy | | France | | Spain | | China | | | | |
| 4 | France | | Spain | | Italy | | Spain | | | | |
| 5 | Switzerland | | United States | | Austria | | Italy | | | | |
| 6 | Ireland | 17% | Austria | 22% | Mexico | 18% | UK | 14% | | | |
| 7 | Austria | | Germany | | Germany | | Turkey | | | | |
| 8 | Spain | | Switzerland | | UK | | Germany | | | | |
| 9 | Germany | | Yugoslavia | | Canada | | Malaysia | | | | |
| 10 | UK | | UK | | China | | Mexico | | | | |
| 11 | Norway | 9% | Hungary | 10% | Greece | 9% | Austria | 11% | | | |
| 12 | Argentina | | Czechoslovakia | | Portugal | | Ukraine | | | | |
| 13 | Mexico | | Belgium | | Switzerland | | Hong Kong | | | | |
| 14 | Netherlands | | Bulgaria | | Yugoslavia SFR | | Russian Fed | | | | |
| 15 | Denmark | | Romania | | Malaysia | | Canada | | | | |
| Others | | 3% | Others | | 25% | Others | | 34% | Others | | 44% |
| TOT | 25 million | | 166 million | | 436 million | | 940 million | | | | |

Source: UNWTO, 2011.

On the other hand, Others, went in six decades from an insignificant a 3% in 1950, to a 44%, almost half of global demand.

In other words, even successful destinations will find it difficult to grow at global rates over time. That is, percentagewise even ranking leaders will get diluted year after year as time goes by.

3. Why mature mass tourism destinations face the risk of stagnation?

It is a long list but relevant issues might be:

- ~ the lack of a strategic vision for the territory as a result of being successful in the near past.
- ~ Unresolved challenges of a globalized socio-economic environment.
- ~ The lack of focus on customers.

- ~ Sticking to a reduced portfolio of tourism products instead of building a structured and well managed set of value tourism products of their own.
- ~ Often to confuse renovation with innovation.
- ~ To favour more tangible investments than investments in worthy intangibles including branding.
- ~ To have stakeholders who believe more in bilateral claims than in cooperation.
- ~ They seldom value data and information. Specially, global rankings or best practice indicators.
- ~ They do not worry much about change, specially new behavioural customer trends.
- ~ In some cases, the lack of leadership and ambition as a result of comfort.

Without differentiation there is only room for economies of scale in costs and for a positioning based mainly on price. That makes it possible for high cost destinations to compete with others that enjoy milder or more affordable costs.

4. From a developing to a developed territory

The tourism has made it possible for many tourism destinations to achieve higher standards of living.

In the case of the Balearic Islands tourism has propelled the transition from a developing

economy in the mid 50's to a prosperous developed economy at the end of the XX century. Tourism has helped achieve better salaries, better jobs, better infrastructures, better health systems, better education to a wide range of individuals as well as to the building of a more tolerant and diverse society.

Essentially development brings better infrastructures of all kind as well as having individual and collective rights better granted. Developed economies value more and make a more intensive use of knowledge than natural resources.

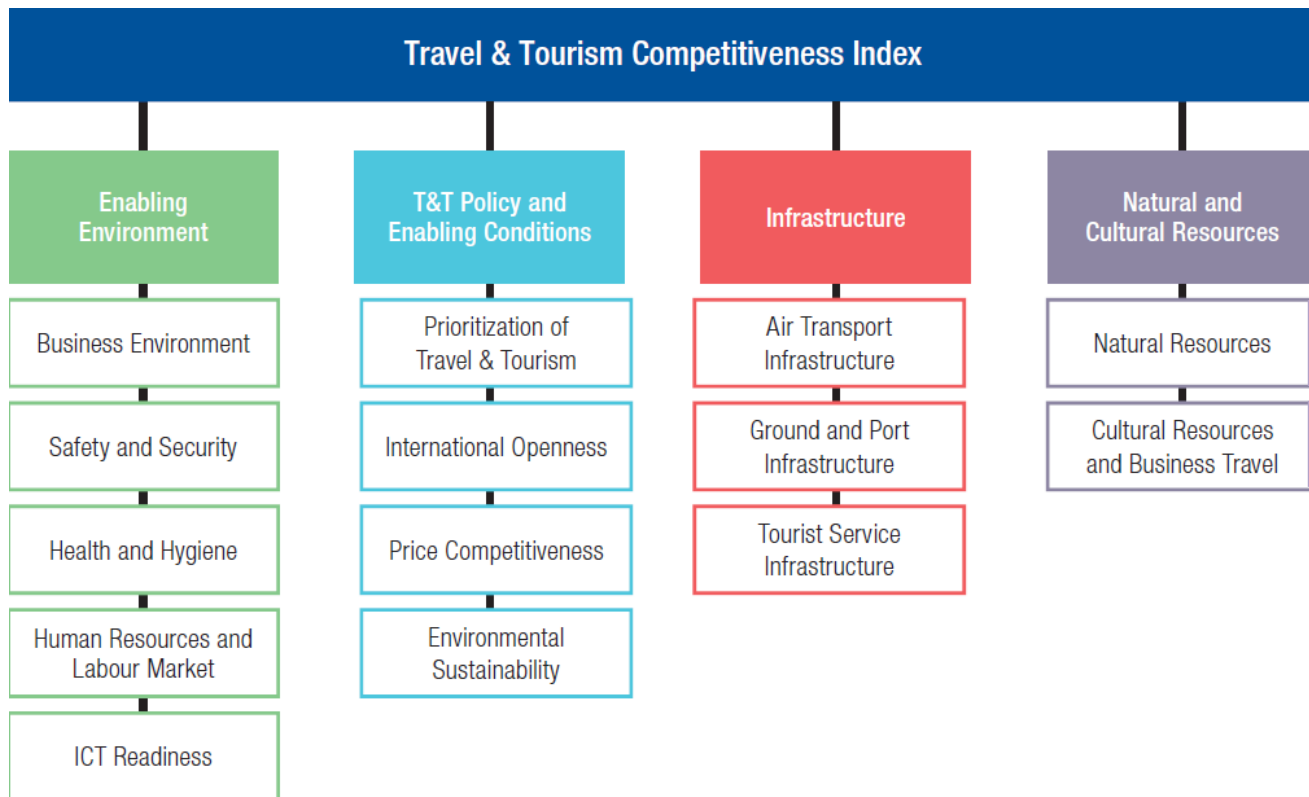
5. How can an entity or a territory compete with others with lower costs?

The answer might lie on the combination of: strategy, value creation, positioning and productivity.

Surprise! Being cheaper does not mean being more competitive overall.

Every two years the World Economic Forum (WEF) publishes its Travel & Tourism Competitiveness Report: the following figure presents the set of factors and policies that enable the sustainable development of the tourism sector.

Fig. 1 - Travel and tourism competitiveness 2015 index framework



Source: WEF (World Economic Forum).

It is a fact that European countries have been leading the ranking since its first monographic report of 2007. 2015 is no exception, as presented inside the table 3, and Spain, France and Germany are at the top. All three are developed countries with high costs in global terms.

Moreover, none of the developing countries with milder or more affordable costs makes it to the top 10. The leaders in the ranking have at least over 100 other countries that are cheaper: how can that be? The combination of business environment, infrastructures, governance and innovation makes it possible.

In other words, value must be the answer.

Tab. 3 - World ranking of travel and tourism competitiveness per area

| | Rank | Country | Price competitiveness | | Rank | Country | Price competitiveness |
|---------------|------|--------------------|-----------------------|--------------------|------|------------|-----------------------|
| EUROPE | 1 | Spain | 105 | MEDITERRANEAN AREA | 1 | Spain | 1 |
| | 2 | France | 139 | | 8 | Italy | 133 |
| | 3 | Germany | 126 | | 15 | Portugal | 104 |
| | 5 | United Kingdom | 140 | | 31 | Greece | 113 |
| | 6 | Switzerland | 141 | | 33 | Croatia | 101 |
| | 12 | Austria | 132 | | 36 | Cyprus | 111 |
| | 14 | Netherlands | 130 | | 39 | Slovenia | 96 |
| | 23 | Sweden | 134 | | 40 | Malta | 106 |
| LATIN AMERICA | 28 | Brazil | 81 | | 44 | Turkey | 96 |
| | 30 | Mexico | 55 | | 62 | Morocco | 47 |
| | 42 | Costa Rica | 91 | | 67 | Montenegro | 84 |
| | 55 | Puerto Rico | 63 | | 72 | Israel | 136 |
| | 81 | Dominican Republic | 110 | | 83 | Egypt | 2 |

Source: WEF (World Economic Forum), The Travel & Tourism Competitiveness Report, 2015.

A global competitive environment makes it necessary for all entities operating in high cost environments to create value, to position themselves in a differentiate manner, to be as effective as efficient and, above all, to cooperate in an open and structured way to benefit all members of society. In other words, competitive advantages are built not born.

Tab. 4 - Autonomous communities of Spain

| Rank | Community | Global Indicator |
|------|------------------|------------------|
| 1 | Madrid | 114,2 |
| 2 | Basque Country | 113,3 |
| 3 | Catalonia | 112,7 |
| 4 | Andalusia | 106,8 |
| 5 | Canary Islands | 103,3 |
| 6 | Balearic Islands | 101,8 |

Source: WEF (World Economic Forum), The Travel & Tourism Competitiveness Report, 2015

6. A new value chain for smart destinations

We live in an era where the simple combination of territory, tourism resources and tourism products is not enough to explain the creation of wealth on a territory through the action of non-resident demand.

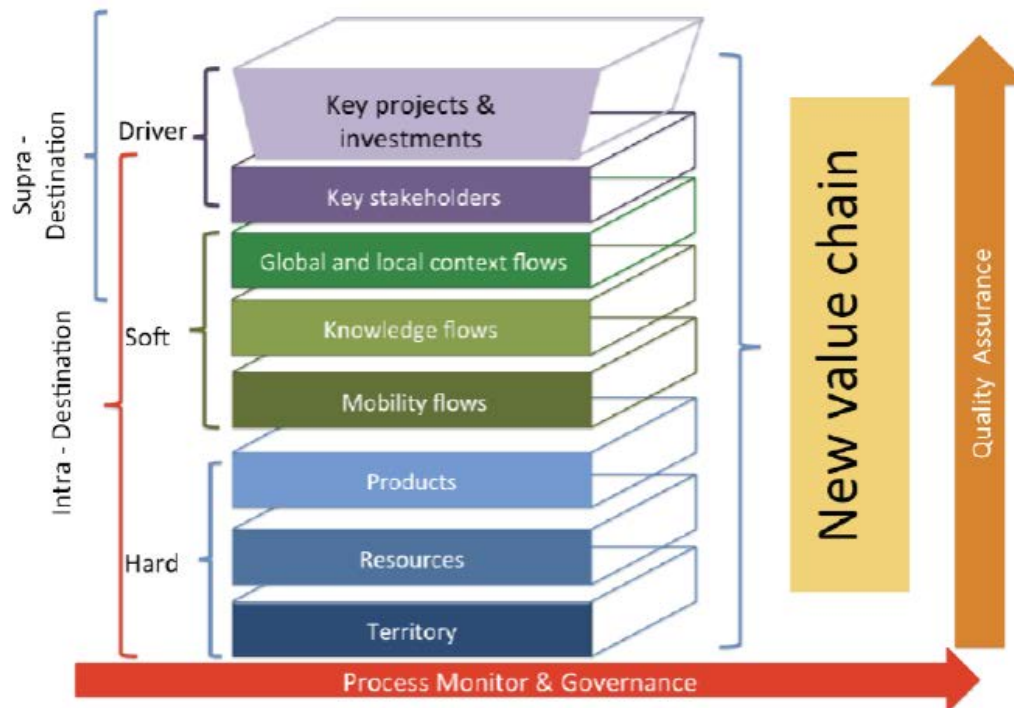
To these tangible resources, states CICtourGune (Donostia-San Sebastián, Basque Country, Spain) –a world leading entity in the research, analysis and modelling of territorial

mobility- one has to add up the flows of knowledge, people and goods. Finally, the strategic project and investments act as the main drivers for the territory.

The graph below identifies the relevant layers of this new approach:

- value chain.
- Intra and Supra-Destination.
- Tangible and Intangible resources.

Fig. 2 - New value chain



Source: CIGtourGUNE, Donostia-San Sebastián, Basque Country, Spain.

To get deeper into this matter is not the purpose of this note, but without taking into consideration all these elements, a territory will not stand a chance to respond successfully to the challenges brought by a globalized world.

Finally, to point out that the creation of wealth on a territory through the generation and management of flows of visitors can not be explained making use of only one variable: number of visitors. Pundits on the matter confirm that Wealth Creation through the flow of visitors is far more complicated than simply the management of “arrivals”.

7. What does it mean to be a smart destination?

To be as a community ready to stand a chance to create wealth for all.

A daunting task is the drawing of a shared vision for the whole territory.

Once a shared vision has been agreed upon, a coordinated action plan followed by all stakeholders is the key to success.

The Pillars of Transformation

At Balears.t we believe that transformation is the outcome of the action and interaction of four levers.

- Knowledge, Technology and Innovation.
- Human Capital.
- Internationalization.
- Sustainability And Social Responsibility.

Knowledge, Technology and Innovation

Undoubtedly these are the three pillars of advanced societies. Knowledge and not resources is making the difference in the XXI century.

The digital and life-sciences revolutions are very clear examples of that.

We all live in an interconnected world with access to instant information as well as high quality digital content, most of it free, with a wide range of possibilities to learn, interact, share or cooperate.

On the other hand, digital marketing has made it possible to convey digital content to global audiences at a cost never seen before.

Finally, smart destinations can be in command of creating their own storytelling and disseminating it globally.

Are we all taking advantage of all these new opportunities to build a path to prosperity?

Human Capital

It is common in successful tourism destinations to find, at the same time, over skilled and under skilled people.

Why?

The highly efficient execution of processes is necessarily driven by costs and regularly the cheaper the better is the rule.

The need for large economies of scale and the lack of product differentiation has as a

consequence a limited need for medium/highly skilled workers.

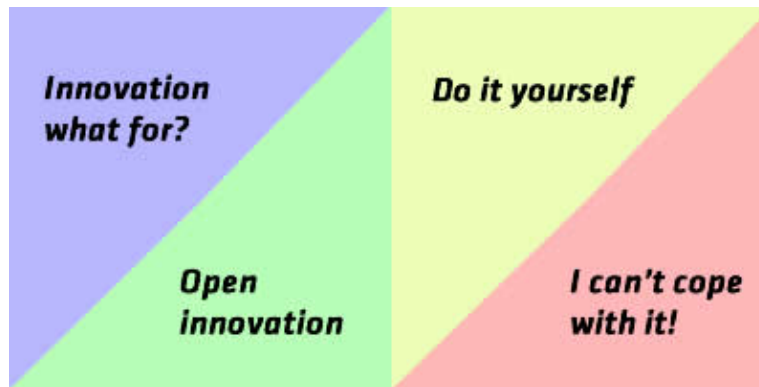
On the other hand, affordable digital training tools are revolutionizing the process of learning at all levels.

Knowledge is just a click away! Again, are we taking advantage of all that?

Internationalization

A strategic approach to the analysis of flows of people, goods, investments and knowledge opens a wide range of opportunities to tourism destinations.

Fig. 3 - Innovation



Source: Balears.t

Sustainability and Social Responsibility

The balance and interdependence between economy, environment, corporations and individuals together with the evidence that resources of all kind are limited and that global

A flow of any kind is always a seed for a partnership in a global world.

In fact a flow is a good example of something shared by two ends.

Open innovation, if wanted, can do the rest!

The open innovation field is what is left after participants who can not or do not want to innovate together (different approach to innovation are presented in the following figure) with the ones not willing to share, have gone their separate ways!

population is growing poses new challenges to tourism stakeholders worldwide.

Indiscriminated use of resources of any kind can kill destinations.

On the other hand, responsible approaches to the preservation of the environment, the search for new sources of energy and new means of transport might bring new opportunities to mature destinations.

Socially, inequality has increased worldwide over the past years, but acting responsibly tourism offers an opportunity to bridge the gap.

All successful tourism destinations have leading entities that have managed to re-invent themselves through differentiation, positioning and innovation. Their achievements should be highlighted and acknowledged and their achievements turned into the driving force to widen the relevance and power of innovation. The storytelling of their territory should include them all. They deserve it!

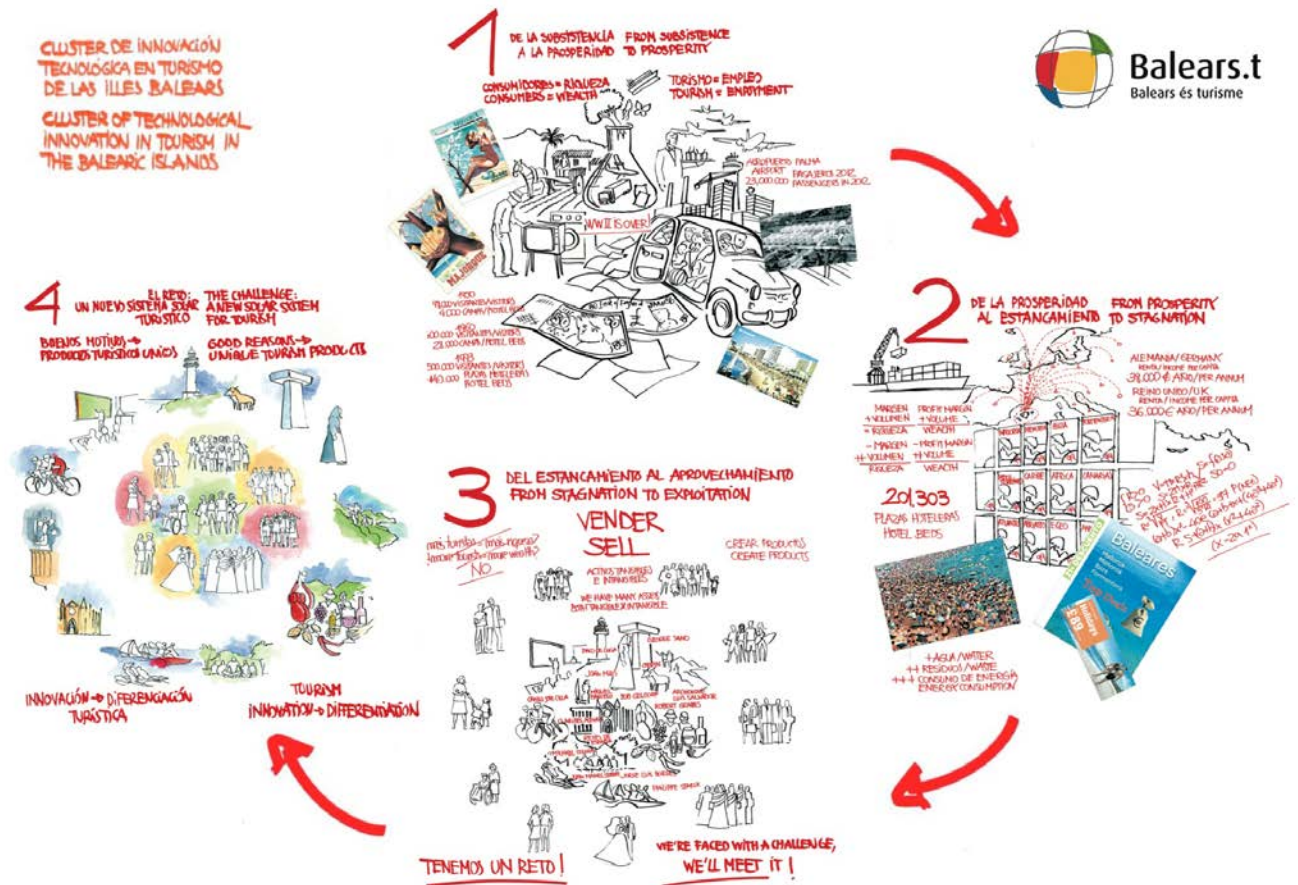
8. What are the key features of the leading tourism innovators?

- ~ They are focused on their customers.
- ~ Prospective customers have changed their behaviour significantly. In the digital age, customers take advantage of mobility and of the access to information as never before. They make their own decisions after searching, sharing, reading or comparing different options. Often they express and share their opinions.

- ~ They are able to create new products, positioning them and selling them. They do not rely on other entities to create their commercial flows. They try to do it themselves or at least of being in command.
- ~ They know how to differentiate themselves.
- ~ They do not want to be one more in the crowd. On the other hand, they work hard to be their best version of themselves.
- ~ They are not afraid of questioning themselves on whether their market segment is the right one. If not, they act accordingly. Should that happen, that is for any kind of organization a daunting task indeed!
- ~ They are open to new challenges. In other words they are driven by innovation. They do not simply follow the footprints of others ahead, they are ahead making the footprints on new paths that create value for themselves and for society as a whole.

In the end, a new age of prosperity is at reach provided communities from successful tourism destinations change the way they feel, think and act.

What are we waiting for?



Balears.t

Balears.t is the Cluster for Technological Innovation in Tourism of the Balearic Islands. A not-for-profit private association aims at contributing to the transformation of tourism in the Balearic Islands through collaborative projects making use of knowledge, technology and innovation applied to tourism. Currently Balears.t has over 30 entities from the fields of business, research and government willing to contribute to the transformation of the tourism in the Balearic Islands.

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