

## No. 2: Boosting local inputs into the supply chain

**In essence:** This brief outlines approaches to revising a tourism business supply chain in order to increase sustainability and local content. Three approaches are discussed: ad hoc initiatives to source a new product locally; a corporate review of purchasing, suppliers, and procurement policy; and a multi-stakeholder approach involving small businesses, established operators/hotels, government, and facilitators to build linkages between tourism and the local economy. Adapting procurement is not easy but can have enormous development impact while enhancing the tourism product.

Tourism operations generally source their food, materials, and services from wherever is cheapest, most reliable, most easily accessible, and of assured quality. Often this means from distant large suppliers and *not from local small enterprises* or from poor entrepreneurs. One important way to develop local business linkages in tourism and to increase the development benefits of tourism is to boost the role of local small enterprises in supplying tourism operations. Given that tourism operations must remain competitive and ensure quality for their customers at all times, how can this be done?

Reforming the supply chain is a PPT strategy that has enormous potential development impact. Yet it is also one that is difficult and sensitive because procurement is integral to core business functions, and shifting to new suppliers, of any kind, invariably involves risk, staff investment, and a commitment over time.

International examples illustrate three broad approaches to reforming supply chains:

***i. Ad hoc action to create and source a new product or service locally.***

It is often possible for a tourism venture to combine a commercial need for product development with responsible intentions to stimulate local enterprises by developing new local products. This may be by adding local cultural excursions into guest itineraries (see brief 5 on excursions), incorporating a theme night for local food into the menu (see brief 3 on agricultural-tourism linkages), switching to distinctive locally-made mementoes for complimentary room gifts, or setting up new in-house services (e.g. massage, hair braiding, baby-sitting).

This approach does not usually affect relations with existing suppliers. However, it requires investment in business development and marketing to ensure that the initiative meets quality standards and is commercially sustainable, and is thus able to benefit both the small entrepreneurs and the tourism business.

***ii. Company action on internal management, supplier networks and direct business relationships.***

A tourism business - whether a hotel, resort or tour operator - may decide to review its procurement practice and change its business-to-business relationships. For example, it may engage with its suppliers to encourage and assist them to be more responsible; shift suppliers to increase sourcing from local, small, or otherwise prioritised enterprises; or develop entirely new products that can be sourced locally (see brief 5 on local excursions, and brief 3 on agricultural linkages).

The three broad steps are required for sustainable supply chain management:

- establishing a Sustainable Supply Chain Policy and Management System;
- supporting suppliers in reaching sustainability goals;
- integrating sustainability criteria into suppliers' contracts.

The approach recommended by the Tour Operators' Initiative for integrating sustainability into the supply chain is described in Box 1 below.

## **Box 1: The Tour Operators' Initiative (TOI) for Sustainable Tourism Development: Steps for integrating sustainability into the tour operators' supply chain**

### **1. Establish a sustainable supply chain policy and management system**

For a tour operator, effectively integrating sustainability into its supply chain will require the establishment of a coherent company policy and accompanying management system that set clear targets and actions for economic, environmental and social performance. Basing this system on already existing internal processes will help keep down the costs of implementation and promote integration within a company's overall operations. Key elements of a successful sustainable supply chain policy include:

- A **sustainability action plan** for improving the economic, environmental and social sustainability performance of suppliers and integrating the implementation of the policy into existing company management systems;
- A **baseline assessment** of tourism service suppliers, to assess strengths and weaknesses in their current performance on sustainability, determine priority targets and actions, identify areas for improvement, and generate a baseline against which to measure progress over time and review and modify the sustainable supply chain policy and action plan; and
- A **system for monitoring and reporting** on progress (as measured against the initial baseline), to ensure that goals have been achieved, identify any potential problems at an early stage, promote transparency, and share results internally and among external stakeholders.

### **2. Support suppliers in reaching sustainability goals**

Tour operators are well-placed to support suppliers in improving their economic, environmental and social performance. As tour operators deal directly with potential customers, they understand their clients' growing demands for high quality and sustainability. They also often have access to technology and information that smaller suppliers may have difficulty obtaining on their own. Because tour operators deal with a wide range of different suppliers, they can more easily gather information on a variety of best practices and facilitate the sharing of experiences amongst suppliers.

There are a number of ways that tour operators can help enable their suppliers to improve their sustainability performance and meet set sustainability criteria and targets. The appropriate mix of support measures for each company and supplier will depend on data collected during the baseline assessment and the approach that the company has chosen to adopt for implementing its sustainable supply chain strategy. Possible support measures include:

- **Raising awareness** on sustainability issues amongst suppliers and demonstrating why sustainability performance is important;
- **Providing technical support** to suppliers on how to improve their sustainability performance, particularly in areas that have been identified as priorities; and
- **Offering incentives** to sustainable suppliers by recognising and rewarding improvements on key environmental, social and economic issues.

### **3. Integrate sustainability criteria into suppliers' contracts**

Fully integrating sustainability issues into a tour operator's business practices will require altering the way purchasing choices are made and suppliers' contracts are written. Including sustainability criteria in suppliers' contracts highlights the importance of sustainability issues to the tour operator's core business and ensures that priority issues are addressed with suppliers from the start. Sustainability criteria can be incorporated into suppliers' contracts to set both minimum performance standards that all suppliers of a particular type must meet and further optional criteria that they are encouraged to achieve. Performance against sustainability criteria will need to be monitored and assessed as part of regular reviews of suppliers and improvements can be rewarded by preferentially contracting suppliers that meet the sustainability criteria.

*Source:* Extract from TOI; Integrating sustainability into the tour operator's supply chain, p.2. Available at: [www.toinitiative.org/supply\\_chain/FS\\_Supplychain.pdf](http://www.toinitiative.org/supply_chain/FS_Supplychain.pdf)

TOI involves several leading European tour operators and is hosted by the United Nations Environment Programme. TOI operates through working groups, and develops guidelines and tools for its members for the integration of sustainable tourism principles into their operation. A Working Group on Supply Chain Management was established with the aim of helping tour operators promote sustainability through their supply chain, and specifically with the accommodation providers they contract.

The definition of supply chain is quite different for international tour operators and hoteliers. For the former, their relation with accommodation suppliers is the main component of their supply chain and is the exclusive focus of their supply chain work. For hotels and resorts, efforts to address their supply chain would look at sourcing of a wide range of local products and services, from food, construction, laundry and services. Nevertheless, the strategy adopted by TOI has wider relevance to different types of supply chains.

Spier resort in South Africa provides a practical example of a company taking great strides in reforming its supply chains in order to increase sustainability and local content (see Box 2 below). It has shifted from ad hoc sustainability initiatives, to a thorough review of all its procurement, assessment of suppliers, and carefully prioritised initiatives to establish new local sources of goods and services.

#### **Box 2: Review of procurement at Spier**

Spier resort (Western Cape) is reviewing its procurement policy with a view to increase procurement from businesses that: a) operate according to sustainability principles; b) belong to previously disadvantaged individuals; c) are small, medium or micro enterprises (SMMEs), or d) are local.

Spier has developed a new procurement policy and targets for shifting procurement, and is assessing its 375 suppliers via a questionnaire. This creates the opportunity to consider whether procurement can be expanded from those suppliers that meet key criteria, and/or whether types of procurement have the potential to be shifted to alternative suppliers. Questionnaires returned by suppliers are inputted into a tool developed by PPT to collate the data and represent this in a graphic format for easy reference and analysis. This project is ongoing and currently (November 2004) about 50 questionnaires are being received each week and are being processed.

Much progress has been made this year in identifying local suppliers of goods and services and establishing supply contracts with them. New enterprises include an on-site laundry and a fuelwood cutter and supplier, while lpg supplies are now sourced from a local township supplier. The laundry is already expanding successfully, with eight new jobs created so far. Work is underway for local contracts on organic produce, greetings cards, re-used linen, and bicycles. Spier's experience indicates that the process can involve considerable effort but generate considerable returns in terms of stronger corporate governance, positive recognition, staff motivation, and cost-saving.

Source: [www.pptpilot.org.za/spier.html](http://www.pptpilot.org.za/spier.html)

#### **iii. Partnerships involving public, private and voluntary sectors to stimulate local input to business supply chains**

This third approach to reforming supply chains usually involves tourism businesses (the purchasers), small enterprises (the intended suppliers), and a range of external supportive bodies such as a government ministry, agricultural association, or non-governmental organisation who can assist with enterprise development and with brokering the marketing arrangements between suppliers and purchasers. Several such approaches are described in brief 3 on agriculture-tourism linkages, and another one is discussed in Box 3 below in relation to initiatives of a multi-stakeholder group in Tobago.

#### **Box 3: A multi-stakeholder approach in Tobago**

A new initiative is underway in Tobago to increase local input to the supply chain, working particularly with All-inclusive (AI) resorts. The initiative brings together local hotels, international tour operators, small businesses, and agricultural and business support organisations, with input from the UK-based Travel Foundation.

The work is at the prioritisation stage, but the range of ideas is illustrative of a multi-stakeholder approach. Analysis so far has indicated six obstacles for local businesses that need to be addressed:

- Seasonality of agricultural production, whereas hotels need regularity of supply
- Lack of economies of scale in farming: for example each producer of locally preserved fruit imports expensive packaging from England, rather than buying in bulk
- Training needs: development of management, enterprise, and marketing skills is critical
- Market intelligence: potential small suppliers lack information on the quantity, quality, variety and usage of goods demanded by the tourism sector
- Low awareness of financial products: many small business are unaware of funding sources available to them
- Food production regulations: international standards such as Hazard Analysis and Critical Control Point (HACCP) are a significant barrier to entry because much local production does not meet the standard and could not without prohibitive cost or technical assistance

A great many possible strategies for tackling these obstacles and stimulating local linkages are under discussion, with an emphasis on considering the roles of all stakeholders - customers, properties, local agents, tour operators, and government. Options focus on:

- Developing agricultural linkages: e.g. through work with farmers, local branding, improving packaging
- Stimulating craft and cultural businesses: e.g. develop 'Made in Tobago' branding to include culinary and cultural events; invest in local tour guides
- Creating new businesses: e.g. a mobile greengrocer, hair braiding treatments, sourcing of soaps locally
- Developing markets, incentives, and linkages: e.g. establishing a market information system (database) and monthly farmer/hotelier exchange forum; establishing 'adopt a farmer' schemes to link hotels and farmers, policy reform to offer incentives and tax-breaks for hotels that support local suppliers
- Capacity building: e.g. via a mentoring programme for entrepreneurs, capacity-building in farmers' associations; education for taxi drivers

*Source:* Abdool and Carey 2004: Making All-Inclusives More Inclusive: A research project on the economic impact of the all-inclusive hotel sector in Tobago for the Travel Foundation. Available at: [www.thetravelfoundation.org.uk/documents/All-inclusivesfinalreportJune04.doc](http://www.thetravelfoundation.org.uk/documents/All-inclusivesfinalreportJune04.doc) (accessed May 2004)

### **Combining approaches for supply chain management**

It is important to realise that the three approaches for incorporating sustainability principles into supply chain management outlined above are not mutually exclusive. For example, Spier complements its own procurement review (approach 2) with collaboration with outside agencies (approach 3). Spier is working with a Western Cape supply chain initiative led by the Development Bank of Southern Africa and Price Waterhouse Coopers, which aims to leverage wider change in the region. Spier's own initiatives have a greater chance of success if their new suppliers have access to business development services from government, and have a wider range of tourism clients to sell to.

### **Additional sources of information**

For more information on the TOI's methodology for integrating sustainability into the supply chain visit: [www.toinitiative.org/supply\\_chain/supply.htm](http://www.toinitiative.org/supply_chain/supply.htm). Of particular value is a 'handbook' for tour operators produced by TOI entitled: 'Supply Chain Management for Tour Operators: A handbook on integrating sustainability into tour operators supply chains' (available at [www.toinitiative.org/supply\\_chain/supplychainhandbook.pdf](http://www.toinitiative.org/supply_chain/supplychainhandbook.pdf)). This provides guidance on how to implement its three step strategy and highlights key issues, such as who to involve within the company in developing a supply chain policy, how to set the standards by which suppliers will be judged (process-based or performance-based), how to inform and engage both staff and suppliers, and the importance of monitoring and reporting on progress.

The TOI Working Group on Supply Chain Management has also produced a set of key environmental, social and economic performance indicators relevant to the accommodation sector (i.e. to 'suppliers' in this supply chain), available at [www.toinitiative.org/about/documents/HotelBooklet.pdf](http://www.toinitiative.org/about/documents/HotelBooklet.pdf). These are for TOI members to use in selecting suppliers and negotiating contracts, and for accommodation operators to use in seeking to progress towards TOI standards. At this point the good practice guide identifies the key issues, and provides a number of possible action points, but it does not set specific quantified standards.

These briefs were produced by the Pro Poor Tourism Pilots (Southern Africa) Programme, as a way to share practical international examples of pro poor actions with programme partners and others. PPT Pilots is a 3 year programme funded by DFID's Business Linkages Challenge Fund, facilitating adoption of pro poor practices by tourism companies in Southern Africa.

There are eight briefs so far in the Business Implementation of Pro-Poor Tourism Series. They cover a diverse range of topics from branding to supply chains and tourism-agriculture linkages. Several rely on material extracted from websites of companies and other organisations, which is provided in good faith but cannot be taken as verification of pro poor impact. The briefs were written by Dorothea Meyer, Caroline Ashley and Clive Poultney (first versions produced May 2004, revised versions uploaded December 2004).

Further programme information and the full set of briefs are on [www.pptpilot.org.za](http://www.pptpilot.org.za). Further background on PPT internationally is on [www.propoortourism.org.uk](http://www.propoortourism.org.uk).