

**Final Report**

***A Review of International  
Markets, Business, Finance & Technical Assistance Models  
for Ecolodges in Developing Countries***

**for**

**International Finance Corporation (IFC)/GEF  
Small and Medium Enterprise Program**

**prepared by**

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## **Executive Summary**

This study set out to identify market demand, establish a market profile, and determine the key factors for business viability of ecolodges in Lesser Developed countries (LDCs). To achieve this goal, the authors reviewed market literature from origin markets around the world, and undertook a survey with regional market experts to discuss ecolodge development trends in destination countries. A survey of 15 ecolodges was undertaken that were known to be model facilities. In addition, a review of the legal and policy context for ecotourism development in LDCs was performed, a discussion of natural attractions that constitute business drivers was provided, and an investigation undertaken of the technical assistance needs of ecolodges.

### **Global Travel Trends**

The global travel marketplace profiled in Section 2.0 has been strongly affected by security and health crises since September 2001. There was a marked decrease in long-haul travel from Europe, North America, and Pacific Asia, which has leveled the performance of most ecolodges in LDCs in the last 2 years. Nonetheless, major long-term global trends affecting ecolodge development are positive. The large baby-boomer generation (individuals born between 1945-1964) from Europe, North America and Japan will have more leisure time, unprecedented health and longevity, and good financial resources to travel in the next 30 years. The large majority of these highly educated, middle class travelers will seek comfortable lodging that is mid-priced. About 50% of this market will seek to travel independently and 50% will prefer to travel on special interest tours.

The Internet will allow well-managed ecolodges in LDCs to deliver excellent competitive pricing, service and know-how to the special interest market, directly to Free and Independent Travelers (FITs) and tour groups, giving them a competitive edge with educated consumers who look for a high-quality educational content based on local expertise. Studies of the U.S. market reveal a distinct gap between consumer concern about environmental and social issues and their actual behavior when selecting tours or other products, indicating there is a “green skew” in many market surveys and that eco-social concern is not an important market driver.

### **Ecolodge Market**

The ecolodge market profiled in Section 3.0 is driven by a high interest in viewing wildlife. This is the special interest that characterizes this market and makes it distinctive. Other important interests are: admiring scenery, hiking and walking, guided tours, visiting parks and protected areas, and learning about nature and culture. Destinations preferred are Asia for the UK, Latin America for Germans and North Americans, and Oceania for the Japanese. Because ecolodges have only emerged as a category of lodging in the last 10 years, it is difficult to pinpoint the precise demand for this type of accommodation. In Europe, approximately 20-30% of the ecotourism market is seeking to stay in ecolodges. In North America, about 60% of the market seeks to stay in lodges or cabins indicating that that ecolodges are an important accommodation category for this market.

The demand side constraints for this market are security issues, health threats, economic downturns, and seasonality. The supply side constraints for LDCs are the lack of rural infrastructure that limits efficient access to important wildlife viewing areas and the distance of these areas from world markets. Environmental degradation also plays a significant role in undercutting ecotourism potential. Poor government planning of tourism and ecotourism is also a constraint, causing significant ecological degradation of areas that are overbuilt and have insufficient regulations to protect the environment.

## **Ecolodge Business and Finance**

The Ecolodge Business and Finance Study in Section 4.0 investigates profitable ecolodge business models, looking in-depth at a sample of 15 ecolodges in order to determine how they have succeeded in this emerging market. These pioneer businesses, which were designed using ecotourism principles for all aspects of their operations, were selected by the authors as key trend setters, because they are respected, profitable businesses that meet triple bottom line standards, and have been highly innovative in developing a marketable brand for their lodges in their regions. Thirteen of the businesses studied were established by individual entrepreneurs.

The survey found that the ecolodge business is small business in terms of revenue generation (over \$100,000 and less than \$3 million annually). Private owners own 100% equity in 4 cases and communities hold 100% equity in 4 cases, with the remainder a mix of equity held between owners, community and investors. In terms of pricing, the ecolodges studied were mid-priced, with 11 falling between \$61-\$200 per night per room. The ecolodges were using some form of debt to finance their operations in 8 out of the 15 cases. The diversity of debt sources is notable; with standard market rate loans, no interest loans from private sources, a debt swap concessionary loan, and market rate loans from 3 separate green funds. Those owners who expressed interest in future debt financing, said their needs were for infrastructure improvements (walkways and towers), expansions to room capacity, and equipment such as boats, engines and generators. No ecolodge mentioned the need for short-term financing for working capital due to the fact that most clients pay in advance.

In terms of start-up costs, profitability, and operating costs; the majority started with less than \$500,000, while the minority started at or above \$1 million. The average cost per room was approximately \$58,000. Costs provided did not account for the amount of time and “sweat equity” invested by ecolodge owners. Community equity arrangements for construction also significantly lowered start-up costs. Ten of the businesses surveyed were profitable, with an average profitability margin of 12%. Return on equity for the 4 businesses that could provide sufficient data was 20%. A time frame of 4-5 years was the norm for reaching profitability. For the ecolodges operating in the black, an operating margin of 21% was average. Personnel expense was 22% of total operating costs on average. Average staff per room was 2.8. Community employment on average was 81%.

Marketing was the area identified which required the most management attention. But marketing costs were just 6-10% of operating costs because of the low cost of Internet marketing for these businesses. Advertising and tradeshowes were identified by many ecolodges as not effective. The North American market represented the overwhelming share of the ecotourism market for the study group. For these ecolodges, 10 out of 14 were successfully booking FIT travelers via

the Internet as their primary source of business, with tour operators representing an important secondary source of reservations.

Triple bottom line strategies were variable, some integrating them into all aspects of their operations, while others using more traditional philanthropic approaches. Community participation and conservation mechanisms were innovative. All owners were committed to using both community and conservation approaches, but none could quantify an impact on the profitability of their enterprise.

### **Ecolodge Profitability**

Key factors for profitability were identified as:

- **Destination** where the ecolodge is located primarily in terms of its wildlife resources, safety and accessibility. Accessibility is defined for ecolodges as being 1 hour from a local airport which has reasonable connections with an international gateway.
- **Value** which is defined by how competitively the ecolodge is priced when considering its design, facilities, location, wildlife resources, and services as compared to other similar destinations worldwide.
- **Interpretation and Activities** in terms of the unique wildlife species to be observed, the interesting activities available, and the quality guiding and interpretation offered.
- **Management** capacity is identified as key in terms of the ability to manage marketing, finances, logistics, human resources, and all systems in an efficient manner.
- **Access to Capital** is named as important, and it is noted by the authors that financing structures that allow for longer term return on investment are the most beneficial.

### **Ecotourism Policy and Legal Framework**

In the Ecotourism Policy and Legal Framework review in Section 5.0, it is found that the government role in ecotourism policy development, regulations, and legal frameworks in LDCs is still largely at the planning and discussion stage. An Ecotourism Policy Gap Analysis demonstrates that national tourism ministries, tourism boards, economic development agencies, and environmental management ministries have few resources devoted to ecotourism as a separate category of business development. For ecolodges, this lack of legal or policy frameworks puts businesses at risk as there is no protection against overbuilding and boom style development; there are extra expenses due to a lack of sewage, waste, water and energy services; and critical wildlife corridors and other important biological resources often lack effective, enforced protection.

### **Nature Based Tourism Attractions**

In Section 6.0, Nature Based Tourism Attractions are reviewed in terms of their contribution to business success. Surveys on what nature based attractions tourists expect do vary according to geo-region. Marine resources are most important for the Pacific region, while jungle trekking and bird and wildlife spotting are considered most important in Southeast Asia. In Africa, game viewing is the most important, while South and Central America are most known for their rain forest attractions. In general, wildlife viewing is rated as the most important activity for ecolodge

travelers. Rating the charisma of wildlife can be very subjective. But it is known that large mammals and congregations of wildlife are rated as highly charismatic by most travelers. Bird watching has very strong appeal, but to only about 10-15% of the ecolodge market. Birdwatchers on tour seek to bird watch for nearly 100% of their activity time. As a result, birdwatchers do not mix well with more general ecolodge travelers, and must be accommodated separately, or given separate activity schedules.

### **Ecolodge Technical Assistance**

In Section 7.0, ecolodge owners were interviewed regarding their technical assistance needs. It was found that business assistance in the form of accounting, financial statements, business planning, assistance with finding investment capital, financial projections, new technologies for energy, waste, sewage and water; market studies, and business systems were in highest demand. While some of the basic accounting services were available locally, most found that more sophisticated advice on business planning for investment capital, market studies and advice on new technologies for waste, water, energy and sewer were lacking. The survey participants report limited NGO capacity in their regions with business development needs and suggest NGOs are best devoted to community training, development and environmental impact monitoring. The authors suggest that technical assistance be designed based on existing private sector expertise via business mentorship programs or using successful businesses to help foster “junior” enterprises. The climate for ecolodge development would best be supported by targeting excellent destinations and identifying entrepreneurs through ecolodge investment workshops or mentorship programs. Further study should be undertaken to identify the best destinations for ecolodge investments and a checklist of considerations is provided.

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## **1.0 Introduction**

### **1.1 Background**

In the past, successful ecolodges have primarily been led by private sector pioneers that worked with energy and creativity to conserve the environment and sustain the well-being of local people while gaining a market that was attracted by their exotic locales, wildlife, birds, and wilderness qualities. No study has ever determined how this community of lodges achieved their goals. This study begins the process of analyzing and classifying successful ecolodge models worldwide to guide the success of future initiatives.

The study of ecolodges began in 1995, at the First International Ecolodge Forum and Field Seminar at Maho Bay Camps, less than 10 years ago. The international definition of ecolodges, as articulated in the The International Ecotourism Society (TIES) International Ecolodge Guidelines was only recently published in 2002. The definition, which is a check list, includes three main components;

- the conservation of neighboring lands
- benefits to local communities
- interpretation to both local populations and guests

Genuine ecolodges have been in operation for less than 10 years, and many have only been profitable for several years. Until now, studies on ecolodges have been unable to look at business models or success parameters, because many lodges were too informal to provide sufficient business background or had not been in business long enough to

become profitable. In addition, there was insufficient understanding of ecolodge standards to evaluate how well ecolodges were meeting triple bottom line standards.

This will be the first study in the world that investigates in-depth the practices of profitable ecolodges in developing countries that meet international ecolodge standards. The results provide a unique glimpse into an emerging industry that is defining its own unique business models; including the market niche it is serving, methods of operation, finance, ownership, and partnerships as well as how these companies meet triple bottom line standards.

## **1.2 Objectives**

This study sought to investigate the:

### **1) highest quality available sources on the market for ecolodges in order to:**

- a) map the characteristics of source markets
- b) define the product mix each regional destination is developing to meet market needs
- c) understand key regional and global market challenges and trends

### **2) business and finance models for ecolodges in order to:**

- a) define the type of finance terms that will help this industry expand & prosper
- b) better understand business strategies and best practices that have led to success and sustainability
- c) review business methods for meeting triple bottom line standards and the related costs and benefits

3) review government policies that presently exist for ecotourism in key destination regions in developing countries

4) discuss what natural attractions distinguish an ecolodge and to what degree these attractions are a part of a profitable ecolodge's business success formula

5) investigate the technical assistance needs for ecolodges in developing countries

## **1.3 Scope Given**

The scope given was to 1) identify market demand, 2) develop a market profile that describes key factors for determining business viability, 3) perform a legal and policy review, 4) develop a business model and 5) define ecolodges by type, market segment, investment climate, success factors, finance structure, etc. 6) present case studies, and 7) identify regions for potential investments.

The Study Objectives as defined in section 1.2 will provide all the information requested in the scope and in addition review key issues about how this information can be used by the development banking and finance community to develop a strategy that will provide a knowledgeable climate of support for the ecolodge business.

## 1.4 Study Assumptions

As stated in the Terms of Reference for the project, the SME Program is designing an Environmental Business Finance Program to engage financial intermediaries such as banks, leasing companies and microfinance institutions in the financing of SMEs that contribute to the improvement of the global environment and meet GEF operational objectives.

This study's authors are operating under the assumption that the next phase of the IFC/GEF project will encourage private business to take the lead in developing a broader more ambitious plan for ecolodge development in key developing country markets by developing a plan that will;

- Leverage local and foreign investment in ecolodges
- Develop a technical assistance plan that helps develop more successful ecolodge businesses with majority ownership in developing countries and advise on pilot structure for technical support
- Foster a supportive local, commercial banking community that has the expertise to safely support ecolodge industry growth needs
- Define a general scope of need for NGOs and academia that will foster their ability to provide key strategic assistance.

These assumptions are made in order to better define through this report to IFC/GEF how such a responsive development climate for the industry can be developed and designed.

## 1.5 Methods Summary

### *1.5.1 Market research*

The market research components of this project involved primary and secondary data sources. These included:

***Literature reviews:*** a range of survey sources of ecotourist market information were used at both the countries of origin and at the destination, as well as targeting ecolodge visitor surveys. In addition, reviews of the general tourism literature for consumer and global travel and tourism trends were conducted, and an examination of global tourism flows. It was discovered that while systematic data for tourism markets is sparse, it is most available from developed countries, whether inbound or outbound. Fortunately, these are the main sources (generating countries) of ecotourists. It would have been desirable to have information on inbound ecotourists to the developing geo-regions which receive ecotourists. However, even general tourism arrival data available are not recorded systematically, do not necessarily use the same measures, and may not even be available.

**Primary research:** two principal sources of primary information were used: an Ecotourism Market Expert Panel (See Appendix A), and actual ecolodge operators. The purpose of this was to provide a two-pronged approach to obtaining information on inbound markets in the absence of hard ecotourism inbound data. In addition, this enabled us to obtain the kinds of qualitative information that visitor statistics do not supply, and which is a central focus of this study. The ecotourism expert panel was struck with members representing every destination geo-region, to obtain more precise information and observations on destination supply, market segments and demand determinants. (See Appendix A for list of experts) Experts provided information in two ways: responding in writing to a systematic series of framed questions; and participating in a structured telephone discussion, with email follow-up. The ecolodge operator input was obtained in much the same way: through input via written questions, and with telephone follow-up. The experts were selected from a list of possible individuals compiled by the team (who themselves have contacts in every geo-region) the availability of experts for email and telephone interviews during the time frame of this study was also considered. The experts are individuals who either have a history of consulting and market research in the geo-region, or are affiliated with organizations which do this. Ecolodge operators, who were interviewed in detail regarding business and financial matters, were also asked a series of questions about their markets and marketing. The combination of expert and operator sources provided both geo-region-level market information, and lodge-level market information.

**Integration of primary and secondary research:** once the primary and secondary data were obtained, the information was tabulated and collated, and organized to include most of the detail intended to assist ecolodge enterprises showing both the demand side and supply side perspectives, and with sectional summaries of findings.

### *1.5.2 Business & Finance research*

The team in consultation with the IFC selected a group of internationally recognized ecotourism businesses that agreed to provide specific data on the factors that have contributed to their success as businesses. (See Appendix B for list of ecotourism businesses) The criteria<sup>1</sup> used to select the group of ecotourism businesses was based on the field experience of the consultants and industry standards including:

- 1) if the lodges are meeting ecolodge the primary standards articulated by the International Ecolodge Guidelines;
- 2) if the ecolodges are well managed from the viewpoint of international industry leaders such as tour operators which may seek to book such lodges; and
- 3) to what extent these businesses are reaching a substantial market via tour operators or via direct marketing, and successfully running viable businesses over at least a 3-5 year period.

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<sup>1</sup> An exception to these criteria was made for one ecolodge not yet in operation. It was included in the study group due to its interesting start-up and finance experience.

### *1.5.3 Legal & Policy review*

The Legal and Policy Review section was carried out through secondary research from the following sources: 1) the 2002 results of the TIES UNEP regional meetings for the International Year of Ecotourism in Southeast Asia, South Asia, Central America, and Andean South America, 2) The 2002 *Summary of Regional Preparatory Conferences* for the World Ecotourism Summit by Pam Wight on Ecotourism Policy and Planning, 3) the 2002 *World Ecotourism Summit Final Report* section on Policy and Planning from the World Tourism Organization and UNEP, 4) Ecotourism Policy Case Studies from Chile, Ecuador, Brazil, and South Africa from national government, donor, and NGO sources written in 2001 and 2002. (See Appendix D for Policy Summaries)

### *1.5.4 Natural Attraction Assessment*

The Natural Attraction Assessment was derived from previous studies of activity preferences of ecotourists in developing countries, comments from business owners of profitable ecotourism businesses, comments from several well-known ecotour leaders, and the general experience of the authors based on visits to successful and unsuccessful projects worldwide.

### *1.5.5 Technical Assistance Assessment*

The Technical Assistance Assessment was derived from interviews with international ecotourism project managers (with international management positions) and Green Loan Fund managers at The Nature Conservancy and Conservation International. Comments on the expertise of NGOs to provide local technical assistance were also requested from the ecolodge owners interviewed for the project.

## **2. Travel Trends Influencing Ecotourism Demand**

This chapter deals with trends of many different types, all of which will influence or impact ecotourism markets: trends in the destination geo-regions; trends at market origin countries; and global trends related to consumer niches, trends, and preferred travel destinations.

### **2.1 Trends Affecting Ecotourism Destination Countries/Regions**

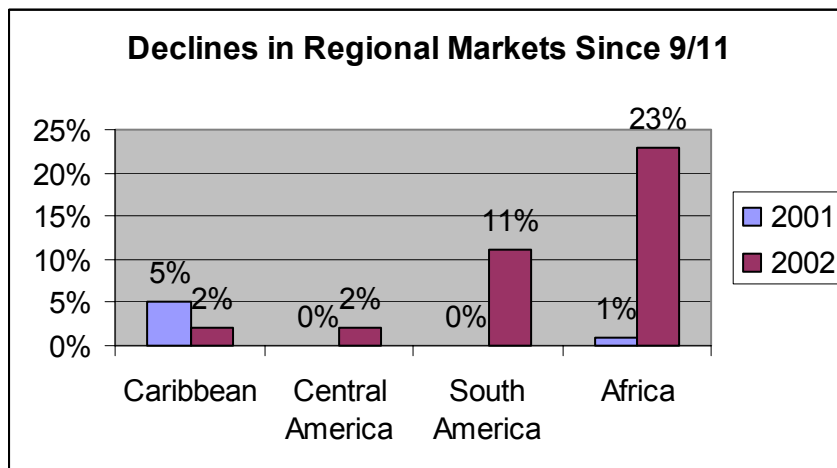
Until September 2001, global travel trends had been on the rise for years, with a 9% annual growth rate recorded by the World Tourism Organization from 1988-1997. At that time 10% of the total global population was traveling with over 1.6 billion trips per year. Nature destinations were faring particularly well. Many important ecotourism destinations were experiencing double digit average annual growth between 1986 and 1998 (e.g., Ecuador 17%, Costa Rica 32%, Belize 25%, Botswana 19%, and South Africa 108%).

Countries that were known to be stable, with well-developed wildlife parks and destinations, and only modest infrastructure were prospering and attracting significant foreign exchange through nature-based tourism in the 1990s. South Africa's entry into the tourism market in 1994 had stunning success, largely because of the country's highly respected and well managed wildlife parks. This case example of a country without significant tourism until 1994, demonstrates without doubt that well managed, accessible, wildlife parks are a highly valuable asset for significant national economic development and the attraction of foreign exchange for national, provincial and community purses. In 1997, SATOUR, the tourism board of S. Africa reported that 60% of its incoming tourists were visiting wildlife parks -- 20% more visitors than any other destination category in the country.

### *2.1.1 Impacts of Global Security and Health Crises*

The global travel world was significantly affected (possibly more than any other industry) by the terrorism attacks on the United States in September 2001, and by subsequent security problems throughout the world. U.S. overseas travelers, who are a significant portion of the ecotourism market, were the most heavily influenced by the events of 9/11. They tended to cancel overseas travel plans and many chose destinations within the U.S. or very close to home.

U.S. air travel statistics show there was a 6% decline in U.S. travel abroad in 2001, and a further 7% decline in 2002, for a total 13% decline in U.S. travel overseas in the 2 years after the attacks. In key ecotourism markets, declines were inconsistent. Africa was the hardest hit. Central and South America saw no change in 2001, but in 2002, Central America declined 2% while South America declined 11%. Asian markets were not down in 2002, because the red hot business travel market to China and Southeast Asia was not deterred by 9/11. The following chart summarizes U.S. outbound travel results to developing country regions, except Asia.



Source: U.S. Office of Travel and Tourism Industries, Monthly Tourism Statistics, 2001, 2002

In 2003, the picture has changed. With the SARS outbreak and Bali bombings in Asia and the Iraq war in the Middle East, travel declined drastically in Asia and Southeast Asia-- with Indonesia and Malaysia down 20% and 30%, and both countries have emerging ecotourism markets. Africa remains hard hit, particularly East Africa, which has suffered declines over the past decade due the U.S. embassy bombing, political instability, and competition from South Africa. South Africa was up in both 2002 and the first half of 2003.

Central and South America were significantly up with “good momentum” in 2003 according to WTO, due to perceived political and economic stability in the region. Key ecotourism countries were all reporting market increases. In 2003, Ecuador was up 15%, Peru 3%, and in Central America, Belize was up 10% (Costa Rica did not report).

**Travel increases are primarily driven by economic growth**, when security and health crises are not a key issue, and most global regions report that recovery from these crises can be less than one year, if economic drivers are in place. Major ecotourism outbound markets (US, Japan, Germany) have suffered from depressed economies, which slows travel demand no matter what the security and health environment. For example, the weak US dollar benefits most Caribbean, Central and South America destinations (WTO) as the destinations become cheaper for European and Canadian consumers. Developed country economics and exchange rates are therefore the primary factor in how quickly destination markets will recover from 9/11, SARS and international security incidents.

However, things may never be “the same as before” 9/11, and concerns over safety and security continue, particularly at specific destinations. **Political instability is a disincentive to visiting**, even for the more “adventurous” ecotourism markets, as both our expert panel and surveys indicate. Of US active travelers surveyed in 2002, 15-20% were less likely to go to Latin America, and 40% less likely to go to Africa or Asia. And European holidays have been affected by security problems in Europe and the Middle East, resulting in outbound travel being down substantially for the first half of 2003. **The distance from home seems to be the critical factor during security adverse periods for Europe and the U.S.**

## 2.2 Trends Affecting Ecotourism Origin Countries/Regions

### Europe

**Regional Macro Trend:** Long haul travel decreased in double digits in 2003 (especially Germany and France. U.K remains more stable).

**Primary Cause:** Slow recovery of the world economy

**Secondary Causes:** Global security and health issues

### United Kingdom

**Macro Trend:** Continued interest in nature/ecotourism expected among tour operators; with nature tourism growing slightly less than business overall.

**Secondary Trend:** Tour Operator ethics are important to 27% of consumers, but not of highest priority for the remainder.

### Germany

**Macro Trend:** German *habit* of regular travel is likely to be maintained. However, long-haul travel is substantially down.

**Secondary Trends:**



1. Travel accommodation expectations will increase, with more quality, comfort and individuality demanded
2. Interest in wellness/spas, study trips, health and fitness holidays expanding rapidly

## North America

**Regional Macro Trend:** There is a marked decrease in U.S. and Canadian outbound travel to overseas destinations in 2001-2002.

**Primary Cause:** The United States had the greatest and longest lasting impact from 9/11 attacks and the subsequent "War on Terror." Travelers have altered their behavior and traditional travel patterns, and have gone back to the basics, with travel closer to home, and with family.

**Forecast:** Outbound travel is not expected to rebound until 2006.

### North America Market Segment Trends:

1. Growth in domestic and international trips by seniors has outpaced most age groups, particularly international trips. Seniors are more likely to travel alone, take longer trips (especially in off-season) and senior females predominate in international travel
2. The key age group traveling overseas is 55-64, followed by 65+
3. Europe was the most popular destination for senior travelers
4. Interest in parks becomes higher, the further North Americans travel from home.
5. Group tours related to ecotourism are growing
6. Soft adventure is growing, especially for generalist markets. This requires: more amenities; higher service levels; activities requiring lower specialist skills; and more responsibility/care by the operators
7. Growth of women-only tours - 230% in last 6 years
8. Growth in *special* interest trips
9. Growth of specific outdoor activities (e.g., hiking, cycling, boating, kayaking, watersports)
10. Increased interest in educational trips (or ed-ventures) with learning through thematic tours, educational tours, learning travel programs, or general interest learning, all requiring quality interpretation
11. More creation of customer-unique customized tours for markets as small as one individual.
12. Ecotourists increasingly feel the need to be uniquely catered to, and are less and less interested in "roughing it"

## Pacific Asia

**Regional Macro Trends:** While SARS had a huge negative impact for much of the region in the first half of 2003, the region is doing well. Australia is the leading Asia-Pacific ecotourism market, followed by New Zealand and Japan. India and China are strongest as *general* tourism markets, and will turn to more interest in ecotourism in the future.

### Japan

**Macro Trend:** Japanese will spend a great deal of money on "Special Interest Tours," but economize on normal travel

**Secondary Trends:** The preferred overseas activities by future seniors:

1. travel to enjoy natural scenery (83.7%)
2. travel to learn history or culture (74.4%)
3. green tourism or ecotourism (60.5%)

**Forecast:** It is likely that the Japanese will define ecotourism differently than other ecotourism markets, both in their understanding of a nature experience, and in their choice of activities. They will likely to continue to use structured tours with language interpretation, but show a greater orientation towards nature destinations if a Japanese speaking “trusted leader” guides them. Free and Independent Travel (FIT) ecotravel will remain rare in Japan.

## Australia

**Macro Trend:** Australians travel more per capita than any other country. However, current outbound travel is focusing on shorter-haul Asian destinations. Australians are strongly interested in ecotourism both domestic and overseas, traveling alone (FITs) or in small groups, and “roughing it”. They seek authenticity and genuine interaction with local communities, and are less interested in upscale experiences than other ecotourism markets.

## New Zealand

**Macro Trend:** By September 2003, overseas travel increased 10% over the previous September, with holiday travel gaining 13%. Major destinations were: North America (23%), Fiji (27%), Australia (18%), the other South Pacific Islands (21%), and South and Central America (49%). However, there was decline in holiday travel to Asia, Europe, and Africa and the Middle East. These figures show a relationship with world events (such as wars, terrorist attacks and SARS).

## 2.3 Global Trends

### Overall Trends

The European Travel Commission has comprehensively examined global trends and consequences, and these are summarized below (ETC 2003). These trends particularly affect ecotourism origin marketplaces (market generating countries).

**Demographics:** The proportion of older people will increase rapidly. These seniors will be healthier, have higher disposable incomes, and most will enjoy early retirement. So the number of more experienced traveling seniors will increase faster than those in tourism in general. The *implications for ecolodges* are that:

- travelers will expect increased quality, convenience, security, easy transportation, and potentially, one-person products
- more shoulder season product may be offered
- marketing to seniors should emphasize comfort (versus age)

**Health:** Health-consciousness will continue to increase, and destination selection may be influenced, as well as vacation activities and behavior. The *consequences* are that:

- destinations that are perceived as less healthy will be more quickly avoided than previously
- demand for sun/sea/sand will not grow

- demand for active or activity holidays, and facilities that offer this type of holiday will grow
- demand for ‘wellness’ products will increase, including spas, ayurvedic and alternative medicine and fitness centers, with yoga, herbal and other treatments and regimes

**Education Levels:** The average level of education is increasing, which will influence vacation choices, with an emphasis more on special interests, such as arts, culture, history, educational, and spiritual holidays. The *consequences* will be:

- increasing demand for special interest tours
- more tours and customized travel featuring arts, culture and history

**Information Technologies:** The internet and its use for information, research, and purchase of tourism products/services will continue to increase. The *consequences* are:

- readily available information on destinations and products, and increasingly sophisticated search engines to analyze information, which will enable more comparison shopping.
- experienced tourists will increasingly customize their vacations through direct bookings
- the role of travel agents will decrease, as full package tours are increasingly bought directly via the net, and as lodges sell direct to the client
- destination marketing will increase in importance as the source to stimulate website visits, for example, through better branding with public support
- a basic precondition for success will be in-depth information on ecolodges and related products (found either on the overall destination website, or accessible through links)
- the trend to later bookings will increase
- online reservations must be secure

**Transportation:** Increasingly available low-cost carriers will influence travel flows.

**Environmental Sustainability:** Environmental consciousness will continue to increase, resulting in more demand for sustainable destinations, where nature and local peoples will play an increasingly prominent role. The *consequences* will be:

- Destination management policies need to be improved through more coherent and consistent planning
- Regions which have been overbuilt (particularly where inappropriate to the natural landscape) will increasingly be rejected

**Safety and Security:** Acts of terrorism, regional wars, pollution and other crises have become increasingly common, resulting in tourists avoiding destinations perceived as unsafe, and increasing the need for safety and security. The *consequences* are:

- Costs for guaranteeing safety and security will increase rapidly
- The tourism industry should prepare to more flexibly meet tourism demands in crisis situations

**Leisure Time:** People have increasing pressures in their daily life, and the number of days of paid vacation leave is declining. The *consequences* are:

- A shortening of the longer main vacation, and emphasis on more short vacations

**Travel Experience:** More sophisticated consumers are increasingly self-assured about their needs and rights. In tourism, there is an increasingly critical attitude to quality, and about price-quality ratio. The *consequences* are:

- Destinations that don't meet acceptable standards will feel negative effects more, and for longer
- More experienced tourists will be more critical about artificially staged experiences, particularly regarding emotional satisfaction and their need to personalize experiences.

**Lifestyles:** Lifestyles in Western society are changing gradually. This influences the tourist's perception of their personal needs and behavior. The *consequences* are:

- Public displays of "Status" are less important, and lifestyles are more informal worldwide. Demand for five star accommodation will decrease, since this typifies the World War Two generation.
- Leisure behavior is becoming more personalized, leading to increased demand for smaller sized accommodation units. The super wealthy will pay for highly customized, very private, remote accommodations in preserved areas, such as entire islands with few accommodations.
- Suppliers will benefit more if they can create completely new products, concepts and services that are distinguished by their added value.
- Growth markets (e.g., Southern Africa) will see greatest benefit from demand for customized new products, since cost of product development is high and profit margins are low in mass markets. Product development in Latin America was high in the 1990s, but has come to a halt since 2000. Retooling and expanding existing product in Latin America may be highly fruitful.
- Increasing supplier specialization (responding to specific hobbies and interests) will become more important, and will more often be combined with vacations. Ability to serve niches will depend on size of hobby group, and how well special interest organizations organize travel.

### **Consumer Trends and Niches**

Other consumer trends led by origin markets, relevant to ecotourism are:

- Shorter and more frequent holidays, and more intra-regional travel
- Increased demand for partly packaged, or customized/independently tailored holidays at expense of traditional inclusive tour packages
- Preference for ethical consumer purchase alternatives. Ethical consumer purchases have increased 18% between 1999 and 2000, compared with total market growth in the same sectors (3%). Ethical investment and banking is also growing (20%)
- Increased demand for organic food. Agritourism, exploring roots, and farm stays are often linked with the organic growth movement

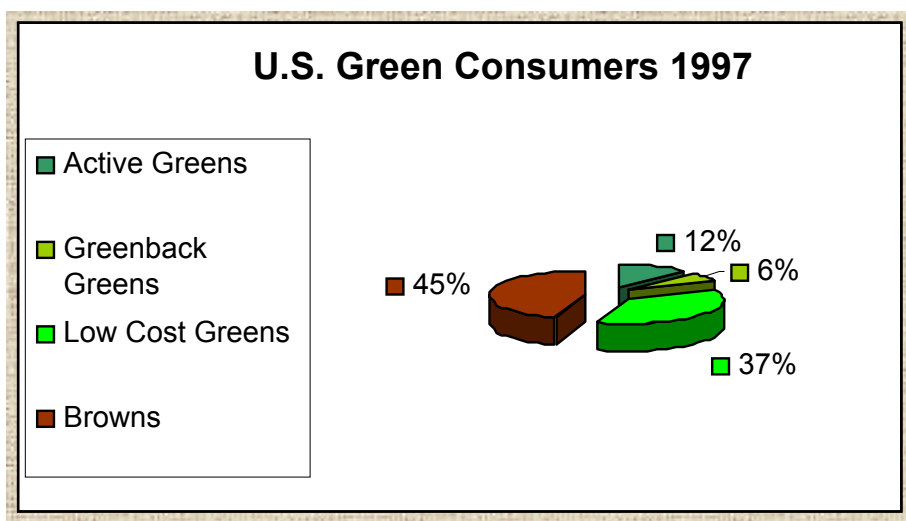
In addition, a new marketing segment is growing – LOHAS (Lifestyles of Health and Sustainability). This is an integrated, rapidly growing market for goods and services that appeal to consumers who have a meaningful sense of environmental and social responsibility, and incorporate those values into their purchase decisions. Key segments of interest include: healthy lifestyles, personal development, alternative healthcare, ecological lifestyles, and sustainable economy.

## Green Market Trends and Issues

Much literature and surveys on green markets and ecotourists in the 1990s indicated a rapidly expanding market and a consumer base that was increasingly interested in products that explicitly met triple bottom line standards. Within the ecotourism industry, however, tour operators and lodge owners worldwide consistently reported that that consumers were not mentioning their desire for green standards when booking. A “green skew” has been increasingly evident in ecotourism and green market survey research.

Subsequent analyses of the green market have increasingly been able to identify this “green skew.” Apparently, consumers have a tendency to *rate their concerns* for environmental and social causes very highly, but *fail to act* upon them in the travel selection process. This issue is highly important to ecolodges, because numerous projects throughout the world have predicated their business plans on surveys that have shown high consumer concern. But these surveys have not been shown to be accurate in the marketplace.

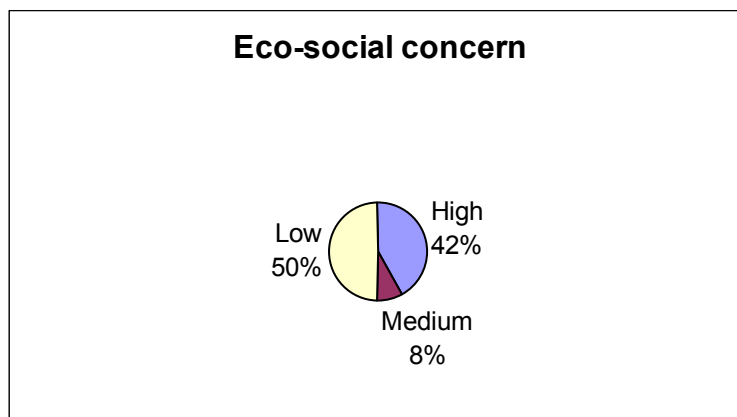
The current study has investigated this issue and found a number of interesting results that help to explain the green skew. Large psychographic studies on the environmental purchasing habits of Americans, by the Roper Organization (1990 and 1997) show that 11% - 12% of the American public are **Active Greens**. They avoid buying products from companies they perceive as not environmentally responsible, and support environmental groups and organizations. **Greenback Greens** are willing to pay more for environmental products, but tend to be less actively involved in environmental causes and have less interest in making any adjustments in their lifestyle, however they are willing to pay 20% more for environmentally sound products. This group shrank dramatically from 11% in 1990 to only 6% in 1997. **Low Cost Greens** have decided they want environmental performance at minimal personal effort and at low cost and this group grew in the 1990s to 37% of the U.S. population. The **Browns** have little or no interest in environmental issues or purchases, and grew to 45% of the U.S. population by 1997.



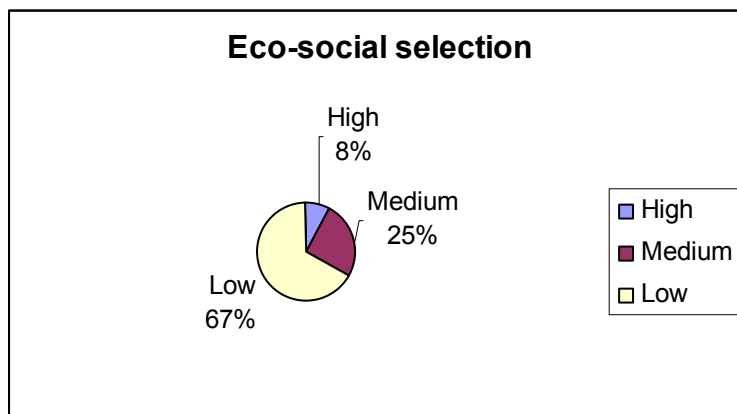
Labels are changed/adapted from Roper for this report

This research shows that the general market for green products did not expand in the 1990s, despite the dramatic growth of the U.S. economy. Many observers of U.S. consumer behavior during this period can intuitively confirm such studies considering the dramatic growth in purchases of SUVs, large trophy homes, and other environmentally un-sound products.

A 2003 EplerWood International survey for USAID Proyecto Caiman examined reputable U.S.-based ecotour operators' experiences with consumer demand for "eco-social concern" vs. "eco-social selection." Eco-social concern was defined as "*clients concerned about environmental and social impacts, and interested in a contribution to sustainable development*". The following chart reveals that while 42% of tour operators' clients *are* very eco-socially concerned, 50% exhibit a low concern for environmental and social impacts.



The numbers decrease further, regarding the influence these concerns have on client product selection. Nearly 70% of tour operator clients express *no* concern or interest in eco-social issues when selecting their products, and only 8% expressed a specific interest when selecting their tour.



These results show that while there is a genuine concern for environmental and social values in the ecotourism marketplace, less than 10% of the market booking ecotours with highly reputable ecotourism operators is requesting information from their operators on eco-social standards.

In summary, survey results are highly inconsistent relative to demand for eco-social components of a vacation, as well as conversion of that stated concern to purchase, making it difficult to predict future consumer actions on this matter:

- Market demand surveys consistently show a desire for more environmental products, and a likely rejection of poorly managed destinations
- Suppliers report that requests for information on the ecological or social management of tours are rare
- Ecotourism operators report that less than 10% of their consumers request information on their environmental or social practices
- Lodging survey information shows that consumers still rely on conventional accommodations for much of their “ecotravel” experience, and will seek out budget accommodations in rural locations to save on travel costs in many instances. A lack of medium priced ecotourism product throughout the developing world contributes to this tendency.

Information from market demand surveys do not coincide with supply side reports. This suggests that consumer demand reports may not be reliable on the question of consumer behavior when it comes to selecting for green travel products. There is little doubt that there is a large gap between consumer concern and behavior at present, and the Roper market demand studies demonstrate the demand for all green products declined in the U.S. market in the booming 1990s.

Companies entering the ecotourism market should be highly conservative with their use of market demand surveys at the point of origin, and it is recommended that they take the “green skew” into close consideration.

## **2.4 Outlook Summary**

Over the last 3 years, wars, health, and security crises have changed the behavior of key outbound markets – US, Europe, Australia and Japan. These crises have caused travelers from the developed world to stay closer to home, which has caused outbound travel to decline up to 10-20% per year. Some destinations in the developing world have consequently suffered greatly (e.g., Africa down over 20%, and parts of Southeast Asia down over 20% during the SARS crisis). Small businesses find such double digit declines particularly difficult to survive, and they can last 6 months to 2 years, depending on the severity of the crisis.

Additionally, the global economy has been down, causing travelers throughout the world to seek more economical vacations closer to home. But most experts report that travel markets are quick to recover. For example, South Africa has also remained very popular within Africa, despite the downturn for much of the continent, and early 2003 results indicate that Latin America is seeing a dramatic recovery (being perceived as one of the safest regions of the developing world which also offers good value for the dollar or euro). However, Asian eco-destinations suffered greatly in 2003, due to the SARS and security crises.

General travel trends are favoring continued growth of special interest travel. The aging, educated populations in Europe, Japan, the U.S. and Australia will take an increasing interest in customized tours that cater to their lifelong hobbies and interests. They will travel more in the

55-75 year old range, and become more sophisticated in shopping for their destinations using the Internet.

Ecolodges will attract a growing segment of independent travelers and ecotours. They will benefit greatly from the Internet shopping trend and be able to directly appeal to consumers in developed world markets by using low-cost internet marketing tools. At the same time, ecolodges will appeal to the population that prefers to travel with a tour operator, by working with specialized operators that increasingly seek comfortable, well-designed lodges in natural areas. This gives ecolodges a broad market opportunity over the next 30 or more years, to develop products that will appeal to aging, special interest travelers.

Well-known wildlife destinations with significant name recognition and “brand” reputations will see the greatest increase in visitor traffic. On the other hand, increasing populations and less “wilderness” means there should be many opportunities to provide ecotourism experiences in currently under-appreciated areas, as well as new and unusual locations.

Consumer trends have an important impact on the product offerings at the destination. What the markets are looking for, which tie in well with ecotourism, are authentic experiential types of opportunities, which may mean repositioning or modifying current ecotourism product. Various ecolodges surveyed have indicated that incorporating aspects of the consumer trends noted above can dramatically improve their marketing success, as well as their product’s attractiveness.

### 3. Ecotourism Market Data

#### 3.1 Market Characteristics: A Geo-regional Analysis

It is widely recognized in the literature and by ecotourism experts and operators that the key global ecotourism markets are North America, Western Europe, and Australia/New Zealand in the Ocean-Asia region, although other markets have emerged with considerable interest in ecotourism, such as Japan. The following Sections will describe a range of ecotourist market characteristics, broken down by each of the 3 geo-regional market origins where relevant. Each regional description provides an integration of a number of reliable survey sources<sup>2</sup>, with any outstanding intra-regional differences highlighted.

##### 3.1.1 Socio-demographic Characteristics

The socio-demographic characteristics of ecotourists are:

<i>Gender</i>	All	<ul style="list-style-type: none"><li>• slightly more women than men, ~ 55% female: 45% male</li><li>• varies by activity</li></ul>
<i>Age</i>	Europe	<p>there are differences in age groupings mainly related to different country characteristics:</p> <ul style="list-style-type: none"><li>• French: in mid life cycle (~½ are 35-50, while a relatively large portion (¼ to ½) are</li></ul>

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<sup>2</sup> HLA/ARA 1994, Blamey & Hatch, 1998, Diamantis 1998, 1999, The Nature Conservancy 2000, Sanders 2001, Blangy and SECA 2001, Feige et al 2001, Torres Riesco 2001, TIAA 2002, JATA1999, 2001, 2002, Pam Wight & Associates 2002, Weaver & Lawton 2002, QTTC 2003a & b.



		<p>50-65</p> <ul style="list-style-type: none"> <li>Spanish: younger (~60% are 20-39, and the average is 35+)</li> <li>Germans: mainly older, with the largest group (24%) aged 40-49. There are almost no German ecotourists under the age of 30 (1%)</li> <li>UK: older, if <i>frequent</i> ecotourists (51% are 35-54 and 18% are over 55).</li> <li>UK: younger, if <i>infrequent</i> ecotourists, (56% are aged 17-34, and 1/3 aged 35-54. Only 11% are 55+)</li> </ul>
	North America	<ul style="list-style-type: none"> <li>Canadians: middle aged (1/4 are 45-54) and older (1/3 are 55+)</li> <li>US: Edu-travellers span all ages, with 1/4 aged 35-44 and &gt;1/3 aged 55+</li> <li>US Geo-Savvy travelers are 50% baby boomers, 1/3 are older parents/working older couples</li> <li>US ecotravellers are older (40% are 50-61, and 1/3 are 62+)</li> </ul>
	Ocean-Asia	<ul style="list-style-type: none"> <li>Australians: young to middle-ages: 1/4 25-34; 1/4 35-44, 20% 45-54, but possibly younger being a domestic ecotourism sample</li> <li>Japanese: middle aged &amp; seniors, especially 55-64 year olds</li> </ul>
Household	Europe	<ul style="list-style-type: none"> <li>~ 1/2 of the <i>frequent</i> ecotourists are couples, with about 1/3 single</li> <li>~ 1/2 of the <i>occasional</i> ecotourists tend to be single, with about 1/3 married</li> </ul>
	North America	<ul style="list-style-type: none"> <li>~ 45% are married couples, with about 1/3 being single</li> <li>often 1/3 families</li> </ul>
	Ocean-Asia	<ul style="list-style-type: none"> <li>1/4 to 1/3 are couples, 15% are single, &gt;1/3 are families</li> </ul>
Education	Europe	<ul style="list-style-type: none"> <li>High levels of education are found in all ecotourists (2/3 have 1 or 2 degrees)</li> </ul>
	North America	<ul style="list-style-type: none"> <li>High levels of education in all ecotourists and Geo-savvies (~80% are graduates)</li> <li>Edu-travellers slightly less educated (~60% are graduates)</li> </ul>
	Ocean-Asia	<ul style="list-style-type: none"> <li>Tend to be more highly educated (~ 50% are graduates)</li> </ul>
Occupation	Europe	<ul style="list-style-type: none"> <li>~ 50% professionals, 20% retired, 20% retail/crafts/CEOs</li> </ul>
	North America	<ul style="list-style-type: none"> <li>1/3 professionals, many still in school</li> </ul>
	Ocean-Asia	<ul style="list-style-type: none"> <li>~50% professional/managerial, ~1/4 clerical/service workers, 10%-20% retired</li> </ul>
Household Income	Europe	<ul style="list-style-type: none"> <li>moderate to high, e.g., UK ~20% of all ecotourists &gt;£30,000, but a significant lower income group also, with 1/3 of occasional ecotourists &lt;£10,000</li> </ul>
	North America	<ul style="list-style-type: none"> <li>quite affluent, although substantial proportion with lower incomes</li> <li>Edu-travellers 1/3 &lt;US\$50,000</li> <li>Ecotravellers &gt;1/2 US\$38,500-\$62,000</li> <li>Some very high income travelers (28% edu-travellers &gt;US\$100,000; US geo-savvies 38% &gt;US\$75,000; Canadians: 36% &gt;Cbd\$70,000</li> </ul>
	Ocean-Asia	<ul style="list-style-type: none"> <li>Higher incomes</li> </ul>

<i>Travel Party</i>	Europe –	• Over 60% travel alone, <20% travel as couples
	U.K.	
	North America	• ~50% Ecotravellers and ecotourists are couples (on tour), ~20% single • 70% of Edu-travellers prefer to travel FIT, 30% prefer groups • the percentage traveling with children is increasing (33% in 1991, 45% in 1999)
	Ocean-Asia	• Australians: varies wildly with different studies: 30%- 60% couples; 8%-45% alone

### 3.1.2 Activity Preferences

Activity preferences have been well documented in all the geo-regions, which reveal a huge variety and range of activities, from terrestrial to marine, from culture-focused to adventure-focused, from general to specialized interest in nature.

**Macro Trends:** Common denominators across all geo-regions are that there is a strong interest in the natural environment, experiential vacation, and learning. There is a particularly high interest in:

- *Admiring and viewing natural scenery* (~70-85%)
- *Wildlife viewing* (~40%-70%+)
- *Hiking/walking* (~20%-60%, usually on the higher end)
- *Guided interpretive tours* (50%-60%+)
- *Visiting parks and protected areas* (e.g., rated 1<sup>st</sup> or very highly by all international vacationers)
- *Learning about nature or culture* (70%+)

#### Secondary Trends:

1. There is a strong **adventure component** in many marketplace responses
2. There is also a strong **cultural component** in all the geo-regions:
3. There is a strong **learning component** in most geo-regional markets

#### Special Interests:

1. **Bird watching** is interesting, in that birding tourists tend to be quite dedicated travelers that are first arrivals in new markets. Frequently, birders help create a market for new ecotourism destinations. Interest ranges considerably:
  - a. *Europe:* Birding is just emerging for French travelers (1%);  
UK (25%-35% interest, depending on whether occasional or frequent ecotourists)
  - b. *US:* Birding was the 6<sup>th</sup> most popular activity listed in in-flight surveys of ecotourists (those who went on environmental excursion)
  - c. *Oceania:* Australians apparently varied, from 40% (these were nature-based travelers, who *said* they preferred this activity on vacation) to 85% (this was the *same* group who *actually undertook* birding on the vacation).

2. **North American** ecotourists show an interest in **adventure** activities on an ecotourism trip. *Outbound* surveys show a stronger interest in wildlife viewing, wilderness, and cultural aspects. Domestically, special interests in adventure outdoor activities have powered a huge market for magazines, outdoor gear, and travel in the back country of Canada and the U.S... This market cannot be compared accurately with the overseas travel market (and often is). However, adventure travel has been an important component of the North American international tour operator business for 25 years, well before the ecotourism concept existed. Adventure tourism companies, specializing in rafting, climbing, trekking, and other outdoor activities, have softened their product and adopted ecotourism for overseas travel in the last 10 years to some degree.
3. North Americans, overall, have a range of interests, with a huge market for **educational experiences**. This market has been particularly successful in the non-profit travel arena, where the U.S. non-profit organization community is large, well-funded, and has sought to offer benefits to its members through a wide variety of special interest tours. This has attracted a growing number of travelers that read about special interest tours, through their non-profit publications and seek to travel with their peers who have the same special interests, by traveling with these non-profit organizations. At present, this trend is confined to the U.S. market. (It is small, but not vibrant in Canada, growing in the U.K, and does not exist as a trend in continental Europe or Asia/Pacific.)
4. Japanese ecotourists are interested in enjoyment and learning about nature, history, culture, and customs. However, they also indicate a significant interest in staying at resorts (47%) visiting cities/regions (42%), and relaxation excursions (33%). At this stage Japanese are softer ecotourists.
5. Australians tend to be interested in activities with a strong physical activity and adventure component, like camping, bushwalking, diving/snorkeling, adventure activities and related. They may focus on a variety of types of birds and animals, or on the actual recreational activities themselves, with less of a cultural and educational component.

### 3.1.3 Trip Motivations

**Macro Trends:** The motivations of ecotourists strongly relate to the activities they prefer, with the most important, globally, relating to:

- **Nature:** Seeing/enjoying/experiencing/learning about: the **natural environment**, or specific components of it such as national parks, or fossil beds. Nature-based responses come first in 8 of 14 major survey sources. The first mention of nature in survey motivation responses, ranges from 45% to 93% of respondents, depending on the country/target group of survey
- **Culture:** Seeing/experiencing/learning about: **cultures**/indigenous populations/traditional lifestyles/cultural sites or attractions

### Secondary Trends:

1. **learning** aspects of the vacation, either as a primary trip motivator or as part of the experience

2. **socialization** with partner/family or new people with similar interests
3. **recreational** activities within a natural setting

### 3.1.4 Preferred Destinations by Geo-Region

In **Europe**, the following destinations were mentioned:

Markets	Developing Country Destinations Preferred
UK:	<ul style="list-style-type: none"> <li>• <i>Frequent ecotourists</i>: <b>50% to Asia</b>, 36% to the Americas, 32% to Africa</li> <li>• <i>Occasional ecotourists</i>: <b>24% Asia</b>, 23% Americas, 12% Africa</li> </ul>
Germans:	<ul style="list-style-type: none"> <li>• 44 Tour operators mentioned the following number of trips offered :               <ol style="list-style-type: none"> <li>1. Costa Rica (20) Ecuador 16, Mexico, Argentina &amp; Brazil (15 each), Chile (14) Venezuela (13) = <b>78 trips in Latin America</b></li> <li>2. China (21) India (19) Nepal (16) Tibet (14) Vietnam (12) = <b>82 trips in Asia</b></li> <li>3. Morocco (21) S. Africa &amp; Egypt (20 each) Namibia (15) Tunisia (12) = <b>68 trips in Africa</b></li> </ol> </li> </ul>

The destinations of interest to **North Americans** include the following:

Markets	Developing Country Destinations Preferred
Canadians	<ul style="list-style-type: none"> <li>• For future ecotourism trips, international destinations were:               <ul style="list-style-type: none"> <li>- 3% South/Central America</li> <li>- 2% Caribbean</li> <li>- 2% Mexico</li> <li>- 7% other destinations</li> </ul> </li> </ul>
United States	<ul style="list-style-type: none"> <li>• Outbound travelers (in-flight survey of those participating in environmental or ecological excursions)               <ul style="list-style-type: none"> <li>- 31% C. America</li> <li>- 12% S. America</li> <li>- 12% Caribbean</li> <li>- 10% Oceania</li> <li>- 10% Asia</li> <li>- 5% Africa</li> <li>- 3% Middle East</li> </ul> </li> <li>• The Nature Conservancy members to South or Central America preferred:               <ol style="list-style-type: none"> <li>1. Costa Rica</li> <li>2. Mexico</li> <li>3. Belize</li> <li>4. Ecuador</li> </ol> </li> </ul>

5. Peru & Guatemala
6. Honduras
7. Brazil

In **Ocean-Asia**, only the destinations of **Japanese** ecotourists are known. However, there is some associated useful information about the *reason* for going these destinations:

Markets	Developing Country Destinations Preferred
Japanese aged 60+	18% China 13% Singapore/Malaysia
Japanese baby boomers	<ol style="list-style-type: none"> <li>1. <b>Oceania (for ecotourism and green tourism)</b></li> <li>2. Micronesia</li> <li>3. Asia (to relax in close foreign resorts)</li> <li>4. China (for learning about foreign history/culture)</li> </ol>

### 3.2 Ecotourism Accommodation: A Demand Side Analysis

Ecotourist accommodation demand can in many cases be similar to ecolodge demand, but not always. In this section, the demand, by markets, for various types of accommodation is presented, by geo-region, mainly from country surveys.

#### 3.2.1 Accommodation Demand by European Ecotourists

<b>France</b>	<p>24% varied types of accommodation</p> <ul style="list-style-type: none"> <li>in choosing a destinations, tour operators rate “lodging in nature” (e.g., lodge, forest hotel, camping-bivouac outdoors) as the 4<sup>th</sup> most important element in the choice of destination (71% of operators)</li> </ul>	<ul style="list-style-type: none"> <li>the French accept rustic accommodation when going overseas with a tour operator, but only for a short time</li> </ul>
<b>UK</b>	<p><i>Frequent</i> Ecotourists prefer: 29% ecolodges</p> <p><i>Occasional</i> ecotourists prefer: 19% ecolodges</p> <p>Luxury level preferred: 48% midrange 47% basic/budget 5% luxury</p>	<ul style="list-style-type: none"> <li>In an survey, ecotourists’ most important requirements for the destination are: <ol style="list-style-type: none"> <li>1<sup>st</sup> high levels of hygiene, safety &amp; security (74%)</li> <li>2<sup>nd</sup> high quality accommodation, with excellent facilities (58%)</li> </ol> </li> <li>5<sup>th</sup> small scale accommodation run by locals (29%)</li> </ul> <p>Ecotour operators desire:</p> <ul style="list-style-type: none"> <li>ecotourism accommodation to be small</li> </ul>

		locally owned & have “local character” (10%) • mentioned “ecolodge” is a term used more in <i>destinations</i>
<b>Germany</b>	<ul style="list-style-type: none"> <li>Of the ecotourism group at a travel show, the most important requirements for their nature/ecotourism trip, of 12 features, are: 1<sup>st</sup> small accommodations run by locals (the most important expectation in terms of nature vacation destination requirement) (50%)</li> </ul>	<ul style="list-style-type: none"> <li>Related expectations are: 46% expect to hike alone with good information (whereas 15% want guided excursions) 41% expect local cuisine with local ingredients</li> </ul>

### 3.2.2 Accommodation Demand by North American Ecotourists

Market	Accommodation Characteristics and Preferences	
<b>US tourist</b>	<i>Ecotourists prefer:</i> <b>66% cabins</b> <b>60% lodges</b> <b>41% hotels &amp; motels</b>	<i>General Tourists prefer:</i> <b>14% cabins</b> <b>14% lodges</b> <b>56% hotels &amp; motels</b>
<b>Canada</b>	<i>Ecotourists surveyed prefer:</i> <b>43% hotel/motel</b> <b>27% tent/camping</b>	<i>% of tour operators who say clients prefer:</i> <b>45% hotel, lodge, inn</b> <b>22% luxury-semi-luxury hotel/motel</b>

U.S. ecotourists clearly prefer cabins and lodges, much more than general tourists. However, many North Americans still prefer conventional hotel/motel types of accommodation. (41%-45%). However, they are familiar with the term ecolodge, but this concept is relatively new in the marketplace and many surveys have not identified ecolodges as an accommodation option.

### 3.2.3 Accommodation Demand by Ocean-Asia Ecotourists

Market	Accommodation Characteristics and Preferences	
<b>Japan</b>	91% prefer staying at inns or hotels surrounded by natural beauty	Baby boomers' responses
<b>Australia Domestic ecotourists</b>	58% of visitors were <i>interested in</i> camping (the most popular of all activities) 75% <i>actually</i> camped	
<b>Ecolodge</b>	<b>58.4% hotel/motel</b>	Usual preferences of actual ecolodge

visitors	<b>52.8% ecolodge</b>	visitors when traveling for ecotourism purposes
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The accommodation information for Japan and Australian markets is fairly sparse. The Japanese are clearly oriented to the beauty of nature, and being accommodated in that setting, whether at an ecolodge or hotel. This corresponds with the soft and structured types of characteristics which Japanese market data has already revealed. Australian ecotourists were much more hardy, with over ½ being interested in camping, while ¾ actually participated in camping – quite a high percentage. Some of the survey results may speak to the importance of where surveys were administered (at a lodge, at a natural attraction, or at point of origin) see section 3.4 for detailed market information of visitors to 2 Australian ecolodges.

### 3.3 Ecolodge Demand: A Supply Side Perspective

The information in this section looks at market demand from the viewpoint of the various receptive destination geo-regions, and from actual lodges in the geo-regions. It does this via the Market Expert Panel (see Appendix A), who responded with written and verbal input, as well as with market-related data from the model lodges. Appendices enumerate those experts and operators contributing to this project.

#### 3.3.1 Market Origins

Respondent lodges indicated, in the main, that North Americans (especially the US) were the primary markets. This is especially so for lodges in Central, South America and the Caribbean. Europe was found to be a far second. For example, one lodge found 50% of markets from US and Canada, and 20% Europeans. European markets mentioned were UK, Germany and Holland. Australians are a small market for some of the lodges in the Americas.

Geo-Regional Destination	Market Origins
<b>Asia Pacific</b>	
Pacific	<ul style="list-style-type: none"> <li>• <b>Australia and New Zealand</b> are key markets in the Pacific, as well as the US, and the Pacific Islands themselves</li> <li>• Japan, France, UK &lt; German are also visitors</li> <li>• <b>Ecolodge visitors are mainly from the US</b>, Europe, Australia and New Zealand, and have a higher pre-booked portion</li> </ul>
S.E. Asia	<ul style="list-style-type: none"> <li>• US, Europe and Australia</li> <li>• Future potential in Australia. The strong Australian awareness and demand will help promote interest in wider geo-regional product</li> <li>• <b>US remains growing market overall</b> to Asia</li> <li>• Europe with increasing eco-awareness shows more interest, but <b>the “package” tour remains the staple holiday in Europe</b>. So until packages offer ecotourism options, the European visitors will remain largely Free and Independent Travelers (FITs)</li> <li>• One lodge is getting more Japanese because of marketing program. Their market overall is shifting to Asia.</li> </ul>
South Asia	<ul style="list-style-type: none"> <li>• India is a VIP geo-regional market</li> <li>• Trekkers represent 1/3 of all non-Indian arrivals in Nepal. Trekkers are: 16% UK, 13% US, 10% German, 9% French, 9% Japanese, 6% Australian</li> </ul>
Central Asia	<ul style="list-style-type: none"> <li>• Typical ecotourism products are not attractive to Japanese and Koreans, although they visit the country. Main markets are from <b>Europe</b>, followed by N. America, but the French are a growing market</li> </ul>
<b>Africa</b>	<ul style="list-style-type: none"> <li>• International tourism growing; domestic tourism declining (due to weakening economy &amp; fears of malaria, personal safety &amp; travel)</li> <li>• In South Africa, non-African arrival market origins in 2002 were: 19% from UK, 10% Germany, 4% Holland, 4% France, 15% other Europe, 9%</li> </ul>



Geo-Regional Destination	Market Origins
	N. America, 8 % NE Asia, and 4% Middle East.

Americas	
South America	<ul style="list-style-type: none"> <li>• <b>80% US</b>, 15% Europe, 5% Australia for one ecolodge in Amazonian Peru</li> <li>• <b>45% Europe</b>, 22% U.S., 12% Canada, 7% Latin America, 5% Australia and New Zealand, 5% Asia, 2% Israel, 1% Russia, 1% Africa for FIT travelers in wide variety of accommodations, backcountry Ecuador</li> </ul>
Central America	<ul style="list-style-type: none"> <li>• One lodge finds <b>North Americans</b> are primary client, Europeans a far second</li> <li>• Another lodge has 50% North America, 20% Europe</li> <li>• A third lodge focuses on birdwatchers, and find the vast majority come from the US, with very few from Europe, except UK (and says Europeans do not have bird watching as one of their interests)</li> </ul>
Caribbean	<ul style="list-style-type: none"> <li>• One lodge finds 80% of clients come from the <b>US</b> (Eastern Seaboard)</li> </ul>

In mainstream tourism, lodges are not selected as the primary destination. Usually, the destination is selected first and the lodge second. However, successful ecolodges, many of which are covered in this study's survey of finance and business, are emerging as a primary reason to travel to a destination.

For example, Tiamo, in the Bahamas has drawn great attention to Andros Island as an ecotourism destination, while in the past the Bahamas were strictly known as a mass tourism resort, cruise and gambling destination. Lapa Rios in Costa Rica, brought ecotourism to the Osa Peninsula, which had been known primarily as an outpost for illegal gold mining. Panama's Canopy Tower drew attention to the first class bird watching just minutes from Panama City, known previously for international banking, the U.S. invasion, and a corrupt dictator. In these three examples all among the ecolodges surveyed (Appendix B), and others, ecolodges have become a reason to travel to certain destinations, and they have helped to transform the entire image of destination previously thought of as unattractive or not suitable for nature lovers.

### 3.3.2 Segments and Characteristics

Geo-Regional Destination	Market Segments and Characteristics
Asia Pacific	
Pacific	<ul style="list-style-type: none"> <li>• Typically <b>50% are Free and Independent Travelers (FITs)</b> (with a range of types) and 50% prebooked (also with a range of types, but generally higher yield)</li> <li>• Ecolodges have a <b>higher percentage prebooked</b> 75% couples/groups</li> </ul>
S.E. Asia	<ul style="list-style-type: none"> <li>• <b>FIT mainly</b></li> <li>• A small number of agents and operators are offering small group</li> </ul>

Geo-Regional Destination	Market Segments and Characteristics
	<p>ecotourism options. Several independent operators sell packages direct to the public.</p> <ul style="list-style-type: none"> <li>• There are also academic/not-for-profit domestic markets using ecotourism types of accommodation and services in Thailand, and home stays are increasing as an option, often in remote locations</li> </ul>
Central Asia	<ul style="list-style-type: none"> <li>• Find that 2/3 of clients are from the Trans Siberian Express and come for a stop over, in <b>large numbers of FITs</b>. They only provide 1/3 of income</li> <li>• 1/3 of visitors are pre-booked, who generate 2/3 of the income)</li> </ul>
South Asia	<ul style="list-style-type: none"> <li>• Trekkers to Nepal. Ecolodge visitors are foreign visitors to wildlife parks, not Indian and Nepali tourists</li> <li>• <b>50% FIT</b> (ranging from the budget backpackers, to more experienced FITs)</li> <li>• <b>50% pre-booked groups</b> (these also range in type, but are higher yield)</li> <li>• Highly experienced markets with a strong interest in environmental and community development, especially the higher yield segments</li> <li>• Of all visitors, 52% = holiday &amp; pleasure, 28% trekking &amp; mountaineering, 5% business</li> <li>• <b>Ecolodge visitors – a higher percentage are prebooked FITs and groups ~ 70%</b></li> </ul>
<b>Africa</b>	<ul style="list-style-type: none"> <li>• Seasonality of winter safari tourism (June-Oct) when safari is best.</li> <li>• National parks and World Heritage Sites are most in demand</li> <li>• South Africa attracts an ecolodge market, since it is strong in supply</li> </ul>
<b>Americas</b>	
South America	<ul style="list-style-type: none"> <li>• One company has <b>60% FITs</b> and 40% groups, with <b>FITs growing stronger</b>. Bookings are 30% direct vs. 70% travel agency booking. <b>Direct booking is tending to increase</b>. Also they have 5-10% academic or not-for-profit visitors.</li> </ul>
Central America	<ul style="list-style-type: none"> <li>• <b>Ecolodges attract FITs, families, and educational groups</b></li> <li>• One lodge does not do groups. They did prior business with agencies prior to 9/11 but <b>now find they are more effective with their web site and FITs</b>. 80% of their clients have <b>incomes &gt;\$100,000</b> and the internet is the biggest source for them. Much is dependent on the US economy, however.</li> <li>• Europe is difficult because air connections are more difficult. conscious, and concerned about affecting fish – environmental ethics</li> </ul>

FITs are an important market segment and growing. It is likely that the tour operator market is less than 50% of the market for ecolodges, as the above table demonstrates for every region of the world documented in this study. FIT tourists are more difficult to study, because they can

only be accurately surveyed at an ecotourism destination. The study of FIT tourists traveling in Ecuador, one of the first to study independent travelers at a destination, showed that 45% of the market was European, the largest segment of the independent traveling market in the country – more than the double the size of the U.S. FIT market.

It is well known in the ecotourism industry, that few of Europe's tour operators advertise ecotourism, because ecotourism is not an accepted term within the European travel market. Europe's tour operators have been vertically integrated for more than a decade and have only begun to offer more customized special interest travel options. European ecotravelers are therefore almost all independent travelers. While U.S. travelers are more likely to travel with ecotour operators, Europeans are much more likely to travel independently, because they have the vacation time, language skills, and willingness to explore without guides. However, U.S. travelers are increasingly traveling independently, because of the amount of information obtainable on destinations on the internet. Statistics show that U.S. independent travel is growing in developing countries, particularly in destinations closer to home, such as Mexico, Belize, and Costa Rica.

By studying incoming markets, it is more possible to see that the independent traveler is booking directly with ecolodges and increasingly arriving without the help of travel agents or tour operators. This trend is benefiting ecolodges and will have long-term benefits for the ecolodge industry.

### 3.3.3 Motivations and Preferences

#### Preferred Accommodation Type

There are few publicly available *destination* studies which ask about the lodging preferences of ecotourists. However, there is information from some proprietary surveys to protected areas. These are presented here:

Geo-Regional Destination	Ecotourism Accommodation Preference
Central America (survey)	<p>75% hotel/resort 22% preferred a house or ecolodge</p> <p><b>In terms of future interest, 64% were interested in an ecolodge or guest house, an almost trebling of interest.</b></p>
South Asia Survey of visitors to national parks in Sri Lanka	<p>77% hotel/motel 12% lodge</p> <p><b>Accommodation preferences in Nepal range from the top end in National Parks, right to village teashops along trek routes.</b> Volume favors the budget end traveler. Most visitors use tea houses along trek routes, community/family opportunities in other locations, and while visiting national parks. There is a need to get the budget markets to pay more to assist in environmental conservation, but <b>consumers are more bottom line driven than they admit in surveys.</b></p>

Geo-Regional Destination	Ecotourism Accommodation Preference
Central Asia visitors to Chinese nature reserve	61% hotel 36% yurt 4% other (tent, wood house close to the lake)
Africa game reserve lodge visitors	<ul style="list-style-type: none"> <li>~ 40% of lodge guests are from Europe</li> <li>~25% are African</li> <li>o South Africa has a very good accommodation sector and strong relationships with the local community, and probably has the most emphasis on ecolodges – and is likely the best documented. Lodges are often run by the NGO sector, such as in Namibia, which is part of an effort to develop local capacity. Relationships with lodge operators are developed to provide equity for communities.</li> </ul>

Surveys at destinations reflect earlier findings that there is a **strong market for conventional accommodations**, even by ecotourists, although ecolodges are also desired. The use of conventional accommodations must be interpreted in part as the traveler's desire to have a variety of accommodation classes when traveling, from luxury to budget. In rural areas, ecotravelers frequently will not find ecolodges, and so instead look for budget accommodation owned by local people. These budget facilities are not always environmentally sound, and frequently have not solved the problems associated with the lack of infrastructure in rural areas. It is therefore not uncommon at all, for an ecotraveler to stay at a budget accommodation in Africa, Nepal or Southeast Asia, that has no sewage treatment facility at all, is using firewood excessively for fuel, and has not assisted with conservation initiatives. This contradiction is caused by the fact that consumers, want value for their money, want to stay in local, more traditional accommodations, and are willing to ignore environmental and social issues when traveling – if there are no facilities that offer a good alternative.

In many cases, travelers would likely embrace a more ecological alternative if it was available. In most cases, a lack of rural economic development funds and weak policies to develop ecotourism with appropriate controls is the problem. The development of more rural ecological accommodation facilities will depend in many cases on the political support of more appropriate infrastructure for rural areas, good planning for tourism that does not invite unregulated overdevelopment, the support of local decision makers' ability to zone and plan their tourism development, and a flush of responsible capital investment that supports triple bottom line strategies (see Section 5.0 Legal and Policy Frameworks for Ecotourism)

## Preferred Activities

**Macro Trends:** Core ecotourism activities remain large mammal viewing and experiences, as well as birds and other nature related experiences within attractive environments. (More to be discussed in Section 6.0)

## Motivations

**Macro Trends:** Operators agreed that the primary motivations were wildlife and culture.

**Secondary Trends:** After deciding on where to find their primary special interest, visitors select the specific accommodation/destination. Access in the destination is important. For example, visitors may sacrifice one or two travel hours in order to improve the quality of nature they experience, but few are willing to sacrifice 5 hours of travel to a remote area. It is the same with comfort, although luxury is not needed. Quality interpretive guides and small group sizes are important too.

**Tertiary Trends:** Visitors only consider the issue of environmentally sensitive practices or architecture when all other considerations are taken care of, e.g. special interests of nature and culture; access of the accommodation, comfort level, activities available, and guides. Then they may begin to look at such features.

### 3.3.5 Facilities and Services

Geo-Region	Accommodation, Amenities and Services in the Geo-Region
Pacific	<ul style="list-style-type: none"><li>• A full range of types of ecolodge exist, from top-end to budget accommodation, although it is <b>mostly community home stays</b> and lodges in the Pacific Islands. In this respect they differ, from, say Australia and New Zealand, which have high standards of luxury, a focus on activities, high quality cuisine, and spas for the soft segments who want pampering</li></ul>
S.E. Asia	<ul style="list-style-type: none"><li>• SE Asian alternative accommodation is not well developed compared with international options. <b>SE Asia has few ecolodges</b> which fall into even the broader definition. It has always offered bungalow style accommodation in remote areas (simple palm/bamboo huts with very basic toilet facilities, to 5* bungalows using vernacular design on stilts in the sea).</li><li>• Those up-market resorts that exist have little to do with conservation/ locale/ education.</li><li>• <b>The few ecolodges that exist are relatively basic, focus on local/tribal communities and offer some local activities with accommodation.</b> Conservation and recycling, etc., gets lip service. There are <b>no up-market SE Asian ecoresorts</b> (other than in Australia/New Zealand).</li><li>• Currently <b>there are only a few hundred rooms in SE Asia</b></li><li>• One lodge finds markets are very price sensitive rather than value oriented</li></ul>

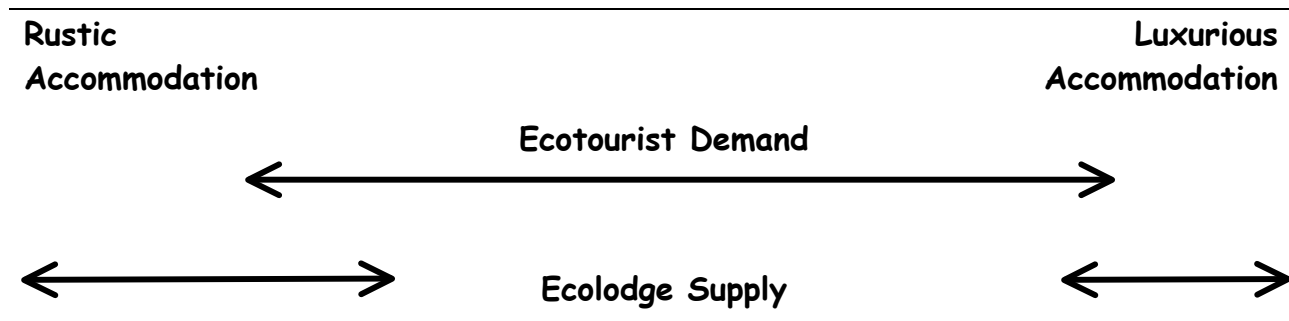
Geo-Region	Accommodation, Amenities and Services in the Geo-Region
Africa	<ul style="list-style-type: none"> <li>• Accommodation used by foreign tourists tends to be <b>game or country hotels</b> (10%) <b>and luxury hotels</b> (30%). There is also an increasing interest in farm stays.</li> <li>• There are many community-run alternative accommodations in Africa, often run by the NGO sector. Some work well and distribute benefits, ensuring there is equity in the company for local communities. Others are poor with workers earning a pittance and with no control</li> <li>• Parks concessionaires in South Africa are required, by contract, to benefit communities and the environment. The revenue generated from Kruger National Park commercialization has enabled the financing of all other national parks in South Africa, which has benefited the parks system. There are lodges in the parks with relationships with local communities employing local residents, and these operators are given land contracts to manage wildlife and reserves.</li> </ul>
South America	<ul style="list-style-type: none"> <li>• the <b>higher end market is now demanding 24-hour power, hot water, good clean food, comfortable beds, and clean facilities.</b></li> <li>• Feels the supply of ecolodges is low in South America, because the industry is in its infancy.</li> <li>• Clients are looking for more comfort in lodges, more amenities, and bigger rooms, more solidly built, overhead fans, good beds, space for gear, and clean.</li> </ul>
Central America	<ul style="list-style-type: none"> <li>• Many products on the ground are <b>SME, community-based NGO run or private-sector operated establishments</b> especially in northern Meso-America.</li> <li>• <b>There are also higher end ecolodges</b>, usually private sector run, which have a more affluent profile of market. Ecolodges are expected to have onsite local guides</li> <li>• Older more affluent markets want service and comfort, while younger visitors want cheaper places so will accept more basic conditions.</li> <li>• <b>Most markets prefer comfortable accommodation</b> – a clean bed, and screened in room with clean but basic bathroom, and good food. Markets do not mind having a rough day, but want to come home to comfort, not rustic facilities</li> <li>• Ecolodges can be designed to work (in design) for both types of markets, if there is good management</li> <li>• Markets look for authenticity and context in building design, and high interaction with local people</li> </ul>

### 3.3.6 Global Facility Analysis

Observations from operators and regional experts show the full range of ecolodges exists, from basic to luxury. However, there seems to be a “gap” between community-run, basic facilities, and high-end lodges. Thus the emphasis is on the two extreme ends of the supply spectrum,

particularly the rustic end of the spectrum in Asia and in Northern Meso-America. Whereas the demand discussed earlier, is in the middle, more conventional, comfortable part of the spectrum. This is supported by destination experts and operators, who say markets appear to be demanding comfort. Another important note is that the growing Asian markets demand a much higher standard of comfort than the US or even Europeans. The need for more comfortable accommodation will only increase as markets age and seek added comfort. Thus the supply and demand seem to be mismatched, and is simplified as follows:

### **Current Mismatch of Ecolodge Supply and Demand**



Our expert panel indicated that in some geo-regions, such as Central America, most community-run, basic facilities were simply not financially feasible for a range of reasons, from being extremely remote, to being run by NGOs, or attracting lower-paying backpacker markets. Also, many of the governments in such destinations are cash-strapped, and cannot afford to adequately promote or develop such smaller entities, which in turn are not able to adequately market themselves. In addition, clients are looking for an experience, and these smaller operations may not have the experience or knowledge about how to provide the range of elements ecotourists desire on their vacation. Also, while experts and operators indicated that the travel trade were an important tool for marketing, such lodges are so small they cannot establish the kind of relationship with the travel trade required, and such lodges/community accommodation become marginalized from the conventional marketing system. For example, in South Asia, smaller trekkers' lodges or home stays essentially "wait for trekkers to show up". There is effectively a gap or disconnect between these suppliers and the markets. This is just one of many linkage gaps which exist.

#### **3.3.7 Ecolodge Demand Determinants and Future Potential**

The opinions of the experts and operators about future demand and growth varied, although all were in agreement that ecotourism markets will increase. Common areas of agreement included:

- **Demand determinants:** key determinants are the budget of visitors, preferences and likelihood of seeing their motivating feature (such as the 'big 5' in Africa), marketing impact, the degree of political stability/volatility, safety and security, international airline routes/connections/access, access once at the destination, speed of booking times, internet information, destination image, and the economic situation in source markets.

The supply of ecolodges is also a determinant, particularly those lodges which match the consumer budget/expectations.

More specific and “fine tuning” types of determinants may include the environmental practices of the lodge, or the type of architecture, or similar features. However, one expert felt that having the accommodation in a natural area was more important than the design or its “greenness,” and that ethical accommodation demand will vary by marketplace.

Thus although environmental design may not be a deterrent, it is critically important that lodges not make a “fixed-in-stone” design mistake. One operator indicates managers should survey the customers from “day 1” and “be prepared to change things all the time, in the room and elsewhere, based on customer feedback.”

- **Market Origins:** the US, Europe (especially Germany, UK, France, Holland), and to a lesser extent Australasia, especially Australia, New Zealand and Japan. However, **the US is the key global market identified for virtually all geo-regions.** It is felt that domestic and geo-regional markets should not be ignored, not only because of some potential, but because they form a “hedge” in difficult times.

Growth predictions varied among the regions. Expert and operator opinions on growth included the following:

Pacific	<ul style="list-style-type: none"> <li>• the Pacific is poised for growth in 5 years, at 10-20%, if there is continued security and marketing. 10% of ecotourists would be keen on ecolodges, but there are not that many ecotourists in the Pacific! Ecotourists are 10% of the total market</li> <li>• others say growth could be 10% to 20% of Pacific visitors, if some divers were included (however most visitors still want sun, sand, sea and local food) having the image of relaxation rather than eco-adventure</li> <li>• growth will require a “sexy product”, and an image that ecolodges blend nature with luxury</li> </ul>
SE Asia	<ul style="list-style-type: none"> <li>• The market is said to be growing about 10% p.a., which related to the general growth and greener travel trends</li> <li>• Expectation of future domestic/regional interest in <i>nature</i> tourism in the region (Thailand, Philippines, Malaysia, and Indonesia, and Vietnam to a lesser extent. However the domestic market is very low revenue).</li> <li>• There is increasing interest in Cambodia, Laos, and Burma, for tourism in <i>general</i>. These provide perfect opportunities for new ecolodge investment, since the destinations have not yet become “sand, sea, and sun” destinations.</li> <li>• One lodge is expecting future growth because of their referrals and a good reputation (their growth was 30%-40% until 9/11)</li> </ul>
Central Asia	<ul style="list-style-type: none"> <li>• One Central Asian lodge is growing around 20% per year, and has been for virtually the last decade (except for 2003). Markets are European, then North American, with growing French markets. Demand is said to be growing because of the increased interest in “local peoples”</li> </ul>



South Asia	<ul style="list-style-type: none"> <li>• About half of all visitors to Nepal are on vacation, with 28% trekking and mountaineering.</li> <li>• Ecolodge visitors are around 17% of overall tourists in Nepal</li> <li>• It is felt that demand can improve quickly (this was seen recently in Nepal when the 2002 ceasefire was announced) and because of global trends in reduced booking time, as well as internet use</li> <li>• Ecolodge growth is likely, as there is a 336% repeat visit rate, with markets upgrading to higher yield visitors as they repeat</li> </ul>
Africa	<ul style="list-style-type: none"> <li>• Growth to Africa will vary with the price of international flights, price increases in National Parks, employment improvements among domestic/geo-regional residents, and increasing public awareness</li> <li>• Europe does not seem to be increasing in demand</li> <li>• Europe's up-and-coming markets are going to Asia for cultural experiences. Growth may not occur significantly, until Africa is associated with more than wildlife. There needs to be more proud marketing of African culture (in association with wildlife) for growth to occur to potential.</li> </ul>
South America	<ul style="list-style-type: none"> <li>• One operator thinks there are enormous potential ecotourism markets to South America, and demand will continue to rise (perhaps double) in the next 5 years</li> <li>• Feels the higher end market is growing about 10%-20%</li> <li>• One successful lodge operation has over 20% growth rates, but can't accommodate the demand</li> </ul>
Central America	<ul style="list-style-type: none"> <li>• Finding that there is no discernable demand for a value-driven product</li> <li>• One wholesaler thinks growth could be exponential</li> <li>• Thinks by 2020 there will be significant markets for packaged tours as the bulge of baby boomers retire</li> <li>• One lodge finds its FIT markets are growing</li> <li>• Future demand is seen to come from the US, with some European visitors</li> </ul>

All experts and operators agree that growth in ecotourism was set to continue. The nature of growth varied by geo-region, but varied from 5% to 20%, and could be said to rest on average at about 10%. While this might at first glance seem relatively high, when one considers that Section 2.1 discusses WTO statistics, which show that global travel trends have been on the rise for years, with a 9% annual growth rate recorded from 1988-1997, it is a reasonable average. The dependent variables mentioned earlier, of course, are understood to be constraints or enablers of that growth.

### Barriers and Constraints

Operators and experts identified a range of barriers and constraints to development of ecolodges and to the growth of ecolodge markets. Regional comments on barriers and constraints were:

Geo-Region	Barrier or Constraint
Pacific	<ul style="list-style-type: none"> <li>• Reliance on long-haul markets makes the Pacific vulnerable to the world energy crisis</li> </ul>

	<ul style="list-style-type: none"> <li>• There is sometimes a mismatch between the image sold and the product that can be delivered in the Pacific</li> <li>• There is an overestimation by many in the industry that nature and “eco” products are in huge demand. The reality does not always seem to support this</li> </ul>
S.E. Asia	<ul style="list-style-type: none"> <li>• Rollercoaster demand in the region due to SARS, terrorism, and overall tourist demand</li> </ul>
South Asia	<ul style="list-style-type: none"> <li>• Regional and world trends (e.g., 9/11, SARS, Iraqi conflict)</li> </ul>
Central Asia	<ul style="list-style-type: none"> <li>• The biggest problems are in the public sector. Consultants are needed to explain to government how ecotourism operations work; also, to explain to the private sector why they should pay taxes – e.g., to prevent future environmental damage</li> </ul>
South America	<ul style="list-style-type: none"> <li>• The biggest threat for ANY ecolodge would be a terrorism incident in the geo-region or even closer</li> <li>• The biggest impediment, in one operators’ opinion, is the proliferation of poor quality lodges and tours, leading to poor experiences</li> </ul>
Central America	<ul style="list-style-type: none"> <li>• Meeting the needs of aging markets, and accessibility</li> <li>• Human resources challenges, e.g., guides</li> <li>• awareness by the global markets and by the geo-region</li> </ul>

In addition, respondents and experts in most of the geo-regions agreed on key barriers and constraints. These were:

***Demand side constraints:*** world economic trends, security and health issues, seasonality.

***Supply side constraints:*** Lack of rural infrastructure limiting efficient access and accessibility; distance from world markets; seasonality; financing for building, operating and marketing; public sector lack of understanding of how ecotourism operations work; poor ecotourism policies; and lack of appropriate government regulations to protect communities and environment.

It is also worth exploring briefly the problem of negative development patterns for tourism that undercut the potential for ecolodge development. In many popular and beautiful destinations around the world, there has been severe environmental degradation of locations with world class attractions. The pattern can begin with the building of too many low-budget, poorly run lodges that flood the market resulting in a poor reputation for the destination, such as many of the tea houses in Nepal which were burning too much wood and causing severe local erosion. Or conversely, there can also be an insider political auction of the best properties to the most connected individuals who are able to develop high-end properties with no environmental controls (such as Thailand and Venezuela), a phenomenon well-described by author James Fahn (2003). Negative media reports begin. Local environmental activists demonstrate and develop global campaigns on the environmental devastation that results from large scale infrastructure

built without zoning, land-use planning, waste treatment facilities, and decent housing for workers (such as Cancun). In the end, inappropriate tourism development destroys the destination for ecotourism.

Another negative pattern worth mentioning is the development of an ecolodge without adequate environmental protection, visitor management, and other tools to protect the area from overdevelopment. Ecolodges that once appeared to have few impacts, low visitor numbers, and positive contributions to local economic development can become enveloped by massive tourism influxes that result in many additional lodges, too close to one another, and a lack of proper protection for local environment and wildlife. This phenomenon has been observed in the wildlife parks of Kenya, the coast of Belize and Costa Rica, the coast of Thailand, and other destinations that saw a sudden boom of visitors before environmental protection and land-use plans were in place to protect the region. Tourism booms can be followed by subsequent busts in visitor numbers. This transpired in Kenya, where wildlife parks were so overrun with visitors Kenya's reputation for ecotourism declined and has not recovered to date. While Kenya's tourism decline was caused by a variety of other factors, the irresponsible development and management of lodges in Kenya's parks did contribute to the problem.

## **4.0 Ecolodge Business and Finance Study**

Fifteen internationally recognized ecotourism enterprises (Table A) provided data to the consulting team to evaluate their business and finance models. The ecotourism businesses' geographic distribution included Central America, the Caribbean, South America, Malaysia, Mongolia, Micronesia, Fiji and southern Africa, with a weighting towards Latin America. The study group's weighting towards Latin America is the result of the high response rate for ecotourism businesses in Latin American and the fact that the ecolodge market in Latin America has a greater share of ecolodges relative to the rest of the world. These pioneer businesses, which were designed using ecotourism principles for all aspects of their operations, were selected by the authors as key trend setters, because they are respected, profitable businesses that meet triple bottom line standards, and have been highly innovative in developing a marketable brand for their lodges in their regions.

The study group included both "stand-alone" ecolodge businesses as well as more integrated ecotourism businesses. Stand alone ecolodge businesses are defined as those enterprises where revenues are derived only from the operation of one lodge. While a more integrated ecotourism business is defined as those enterprises that derive their revenue from more than one source which could include other lodges and/or tourism operations outside the physical location of the ecolodge/s. The 15 ecotourism businesses included in this study managed and operated a total of 73 ecolodge enterprises. One ecotourism business for example, operated 44 ecolodges located in several countries. For the purposes of this study we have not analyzed the individual financing and business structure of all 73 ecolodges but rather we have extracted best practices and industry knowledge from the 15 ecotourism businesses.

In an effort to better understand the business model for ecolodges, the authors felt that it would be difficult and less useful to isolate an ecolodge enterprise from the larger ecotourism business

model. We therefore have attempted to understand the success factors for both a “stand alone” ecolodge and those for a larger ecotourism business. Also, it is important to note that this study only included ecotourism businesses that had at least one ecolodge associated with it.

It is the opinion of the consultants that this study’s insights into best practices and conclusions regarding profitability are representative of successful small ecotourism and ecolodge businesses. Based on their experience in this sector, the consultants believe that the study group is sufficiently diverse in terms of business type, geography, size, and target market and product offerings to provide a good basis for making conclusions regarding small business viability in the ecotourism sector.

Conclusions regarding profitability are supported by information provided in interviews from ecotourism business owners and from a limited amount of financial data collected. These individuals provided invaluable information that can only be obtained through years of concrete experience. In addition, the team’s considerable knowledge of the ecotourism market and ecolodge businesses have enhanced the information and data collected.

The limited size of the study group means that the numerical analysis and statistical tables provided in this document cannot be regarded as statistically representative. Further data collection is necessary in order to establish statistical relationships and relevant benchmarks for this sector, but it is the judgment of the author’s that it would be premature to seek out more statistical data at present. As will be shown below, ecolodges meeting international ecolodge standards are presently just emerging into profitability after a 4-5 year start up period, and the lessons to be learned at present will not be found by pursuing more statistically sound data.

For some ecotourism businesses participating in the study, complete financial data was not available because of: 1) limitations in accounting and finance systems, or 2) unwillingness to share certain confidential financial information with the consultants. Nevertheless it is the opinion of the consultants that additional financial data would not have changed the conclusions. Important business information was acquired from each company during an extensive phone interview.

**Table A**  
**Ecotourism Business Study Group**

Name of Company	Ecolodges	Location	Ownership	Business Type
Belize Lodge and Excursions	Indian Creek, Jungle Camp and Island Lodge	Belize	Private	Chain of Ecolodges and Tour Operator
Borneo Tours	Sukau Rainforest Lodge	Malaysia	Private	Ecolodge and Tour Operator
Canopy Tower	Canopy Tower	Panama	Private	Ecolodge
Chalalan	Chalalan	Bolivia	Community	Ecolodge
Cooprena	9 ecolodges	Costa Rica	Community Cooperative	Cooperative of Ecolodges and Tour Operator
Nomadic Journeys	4 Yurt Camps (12 yurts each)	Mongolia	Private/Community	Chain of Associated Ecolodges and Tour Operator
Kosrae Village Ecolodge	Kosrae Village Ecolodge	Micronesia	Private	Ecolodge
Canodros	Kapawi	Ecuador	Private/Community	Ecolodge and Tour Operator
Lapa Rios	Lapa Rios	Costa Rica	Private	Ecolodge
Mamiraua	Mamiraua	Brazil	NGO	Ecolodge
Pico Bonito	Pico Bonito	Honduras	Private	Ecolodge
Rainforest Expeditions	Posadas Amazonas Tambopata Research Center	Peru	Community/Private	Chain of Ecolodges and Tour Operator
Tiamo Resorts	Tiamo	Bahamas	Private	Ecolodge
Turtle Island Fiji	Oarsman's Bay Lodge Safe Landing	Fiji	Community	Ecolodge Supporting Community Lodges
Wilderness Safaris	44 ecolodges	South Africa, Botswana, Zimbabwe, Namibia	Private	Chain of Ecolodges
<b>Total Businesses = 15</b>	<b>Total Ecolodges = 73</b>			

#### 4.1 Business Model for Ecotourism Businesses

The first section attempts to provide a framework for classifying ecotourism businesses into categories which include: business type, size, ownership, management, market segment, target markets, market niches and source of financing. This section summarizes the relevant information collected from individual ecotourism businesses in order to better understand their business models, financing strategy and profitability.

##### 4.1.1 Framework for Classification

**Business Type** – As discussed above, the consultants found that some ecolodges had larger or more integrated businesses associated with it. Of the 15 ecotourism businesses analyzed in this study, nine had a larger or more integrated business model where revenues came from more than

one ecolodge or from other tourism related operations. It is possible to categorize the different types of businesses found in the study group as follows:

- 1) Ecolodge – the ecolodge was the only source of income for the business
- 2) Ecolodge with tour operations – the ecolodge business is complemented with revenues from tour operations business which works outside the area of operation of the ecolodge.
- 3) Chain of Ecolodges - the business model includes revenues from more than one ecolodge.
- 4) Chain of Ecolodges with Tour Operations – the business model consists of a chain of ecolodges plus a tour operations business.
- 5) Cooperative of Ecolodges and Tour Operator – cooperative acts as marketing agent and technical assistance provider.

**Business Size** - The size of an ecotourism business can be classified in several ways; by the amount of revenues and employees, by the number of rooms or by the number of clients. The data provided below is for ecotourism businesses which may include more than one ecolodge. As shown in the charts below, when using all three classification methods the majority of the study group falls into the small category.

<b>Size of Business (employees and revenues)</b>		
Micro 0-10 employees Up to \$100,000 annual revenues	Small Up to 50 employees Up to \$3 million annual revenues	Medium Up to 300 employees Up to \$50 million annual revenues
0	14	1

Of particular note is the fact that all of micro ecotourism businesses (in terms of size and clients) generated sufficient revenues to be categorized as small. Also one business had a considerably higher number of clients (well over 3,000) but also fell into the small category in terms of revenues.

----- <b>Number of rooms</b> -----			----- <b>Number of clients</b> -----		
Micro Up to 10 rooms	Small 11-35 rooms	Medium Greater than 35 rooms	Micro Up to 500 clients	Small 501 – 2,000 clients	Medium Greater than 2,000 clients
4	8	3	3	5	1

**Legal Status, Management, and Ownership** - Fourteen ecotourism businesses had the legal status of a corporation or autonomous legal entity and all were incorporated within the country of business. The remaining two businesses were owned by an NGO or a cooperative. For the study group 43% had some form of foreign ownership.

Legal Status of Businesses		
Corporation or Autonomous legal entity	Cooperative	NGO
13	1	1

The management of ecotourism businesses is difficult to categorize since there are many models ranging from owner/entrepreneur managed (usually mom and pop business) to professional management with no ownership in the business. As illustrated in the chart below, a large percentage of these businesses had some form of mixed management arrangements where owners and non-owners were involved in management.

To complicate matters more, there were also situations where individual ecolodges had different ownership and management structures than the ecotourism businesses. For example in four cases, private companies have entered into management and ownership relationships with communities for some ecolodges.

Management				
Owner Managed	Management Arrangement	Outside Professional Manager	Community Management	NGO or Cooperative
6	5	1	1	2

*Owner managed* businesses made up less than half of the study group. For the purposes of this study we have limited the definition of owner managed as those businesses that do not have professional management and are solely managed by the entrepreneur. These businesses tend to fall into the category of “mom and pop”.

*Management Arrangements* is a broad category for all the different types of management arrangements that fell outside more defined categories presented above. Ecotourism businesses that employed professional management staff would fall into this category. For example, this category includes businesses that have grown to the extent where owners have hired professional staff to oversee certain aspects of the business such as marketing, sales, and operations. Different than the “professional manager” category below, owners still play an important day-to-day management role and tend to hold positions such as General Manager or Director.

A *professional manager* arrangement is where the owners relinquish all day-to-day management such as marketing, sales, accounting and operations to a professional manager. The owners retain their ownership interest but remain involved in only the strategic decisions rather than the day-to-day management.

*Communities* managed only one ecotourism business while six ecolodge businesses had some type of community ownership.

A *NGO* and a *cooperative* managed one ecotourism business respectively.

**Ownership** - Most “owners” did hold a greater percentage of equity in the ecotourism businesses, but there are exceptions also. In addition, ownership for the company and the ecolodge could be different. For example, one ecotourism company took on all the characteristics of an “owner” but 100% ownership in the ecolodge asset was held by the community partner. For this case, after tax revenues were divided between the company and the community based upon an agreement.

The equity ownership percentage of owners and outside investors did not always mirror their respective capital contribution in the initial investment. For example, one lodge that received considerable foreign capital (83% of the start up cost) had an ownership structure where the “owner/manager” had an equity stake of (52%). It was agreed that the foreign investors would receive a higher payout of profits for a period of time to compensate for the larger original investment. As a result, ownership of assets and rights to business cash flow were different for some ecotourism businesses.

Community ownership structures presented more innovative legal arrangements which included joint ventures, corporate trusts, and revenue participation agreements etc. For example, one ecolodge had a corporate trust structure where individuals from the local community had participation in that trust. This structure provided tax benefits to the community which a traditional corporate structure could not. For those ecolodges that received grant financing, these grants in effect converted into community equity once the lodge was built.

Ownership Structure of Ecotourism Businesses

Ecotourism Business	Owners/Managers	Local Investors	Foreign Investors	NGO	Community
A	100%				
B				100%	
C	100%				
D	66%	34%			
E	26%				74%
F					100%
G					100%
H					100%
I	70%	30%			
J	52%		48%		
K	100%				
L			100%		
M			100%		
N					100%
O	100%				

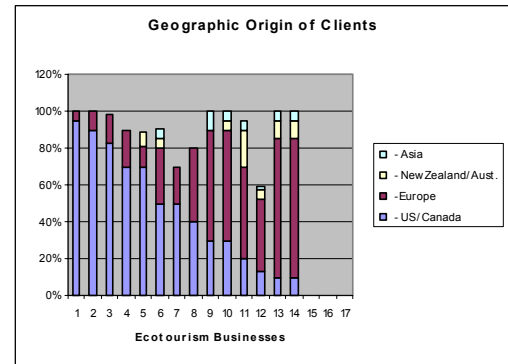
**Pricing** - The average daily rate for the ecolodges ranged from as low as \$40 to as high as \$500 per day. Most ecolodges fell into the mid-range category from \$61 to \$200. Generally, the pricing of the product is a good indicator of the income segment being targeted. This is probably true for the economical and luxury categories. Interviews with ecotourism managers indicated that many high income individuals were choosing ecolodges in the mid-range pricing category.



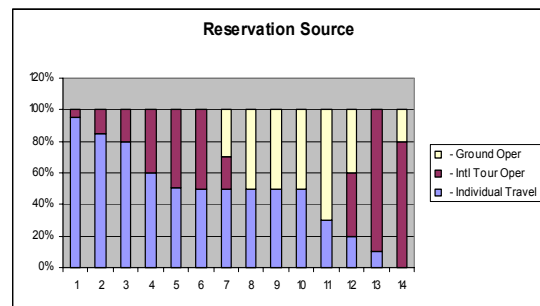
It appears that mid-range priced ecolodges are attracting affluent clients who are looking for comfortable lodging but not necessarily luxury amenities.

Product Pricing (Avg. Daily Rate)		
Economic Up to \$60 per day	Mid-Range From \$61 - \$200	Luxury Greater than \$200
2	11	2

**Geographic markets** - US/Canada and European markets represented the overwhelming share of the ecotourism market for the study group. However, there was a clear relationship between the physical location of the ecolodge and the geographic markets it served. For example, those ecolodges in Latin America received on average more of their clients from the US/Canada market with Europe being the second source. Seven ecotourism businesses were heavily dependent on the US/Canada market receiving over 50% of their business coming from these markets. Of these seven ecotourism businesses all were located in Latin America but for one in Asia. Ecotourism businesses located in Fiji, Mongolia, and Malaysia received a larger proportion of their clients from Europe. In terms of the European markets, five ecotourism businesses were highly reliant on this market (over 50%). Of these five, four of these operators were located in Asia while one was in Latin America.



**Reservation Source** – As illustrated in the graph, the reservation source for ecotourism businesses varied among the study group. For 10 out of 14 businesses, individual travelers (FIT) booking their trip directly through the internet, email or travel agencies represented 50% or more of their reservations. International tour operators are a second important source of reservations. Interestingly there were four ecotourism businesses that received reservations only from individual travelers and local operators.



**Source of Initial Financing** - The table below illustrates the diversity and heterogeneity of ecolodges initial financing structures and also demonstrates the difficulty of finding meaningful ways to categorize them. Interestingly, eight of 15 ecolodges were financed with some sort of debt and only two ecolodges were financed solely with owners' equity. Four ecolodges received some or a substantial part of its financing from operating revenues of an ecotourism business. Communities also contributed labor and other resources for two ecolodges and grants financed a large portion of the costs for three ecolodges.

The diversity in the sources of debt was notable and includes: a) three ecolodges with market rate loans from national government development banks; b) two ecolodges with no interest loans

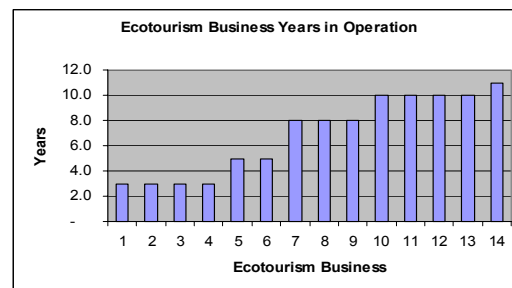
from a private tourism operator; c) one ecolodge with a loan from the IFC; d) one ecolodge with a concessionary dollar loan from a national debt swap fund and; e) one ecolodge with three market rate dollar loans from 3 separate green funds (see debt section below). Grant financing was an important source of funding for three lodges all of which have some sort of community participation (profit sharing or ownership). When foreign equity capital was involved, it financed over 80% of the project's start-up costs leaving only a small amount to be financed with owner's equity or debt. It is interesting to note that the three lodges which were almost entirely financed with foreign equity capital were also the most costly lodges to build.

Source of Initial Financing for Ecolodge Projects

Ecolodge Project	Owners Equity	Debt (foundation, government, business loan, social responsible business loan)	Foreign Equity (financing structure includes foreign equity investment)	Grant (financing structure includes grants)	Community (financing structure includes community labor, land etc.)	Business equity from operator
A	100%					
B	66%	34%				
C		21%		62%	10%	7%
D	32%	34%				34%
E	17%		83%			
F	100%					
G		70%			30%	
H					(?)	(?)
I	15%			85%		
J		100%				
K		100%				
L		3%	97%			
M		5%	95%			
N						100%
O				100%		

#### 4.1.2 Individual Business Model Analysis

**Years in Business** - Ecotourism businesses in the study group have been in operations from three to 11 years, with an average of almost seven years for the entire group. As mentioned previously one ecotourism business not yet in operation was included in the study due to its interesting financing structure and business model.



**Ecolodge Accommodations** – The majority of the study group's accommodations would fall into the comfortable category as defined by The Nature Conservancy (TNC). Only two respondents described their accommodations as luxury while most emphasized that their facilities were designed to be comfortable and complement the natural surroundings which was main focus of the experience. No ecolodges met the luxury definition.

#### **TNC Definition of Quality of Accommodations**

Rustic = shared bath & sleeping facilities, no electricity  
Simple = double rooms, electricity, made beds  
Comfortable = private bath, hot water  
Luxury = AC/TV

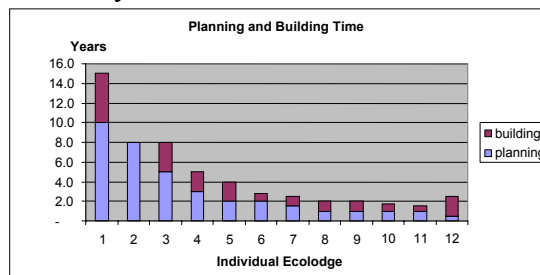
**Land Owned and Proximity to Nature Reserve** – The heterogeneity of ecolodges was demonstrated by the wide range of land ownership with some ecolodges having no or very little land (a few hectares) while six ecolodges had substantial land holdings, one in particular having 200,000 hectares of rainforest. Those ecolodges with large properties were associated with indigenous communities possessing sizeable community land holdings. Several ecolodges leased land or were adjacent to reserves or national parks. Eight ecolodges were located in a reserve zone, park or community reserve and all the remaining ecolodges were in close proximity.

**Accessibility**- The majority of ecolodges were easily accessible from a local airport averaging less than one hour in transportation time. However for the most part, ecolodges were not directly accessible from an international airport and required at least one local connecting flight. Five ecolodges required considerable travel time (plane, boat, land transportation) and an overnight stay in another location in order to reach the lodge. Accessibility was identified frequently as an important factor that impacted an ecolodges competitive position relative to the competition. (See Section 4.2 for more information)

**Attractions** – Respondents were asked to identify the number of attractions which they offer from a list of 10 attractions (see chart). Only one lodge had all ten attractions while on average the ecolodges had five of the ten attractions. Natural Attractions will be addressed further in Section 6.0.

Attractions	
1.	Biodiversity
2.	Congregations of species (i.e. waterholes, licks)
3.	Viewable charismatic mega fauna
4.	Birds
5.	Highly Scenic Points (i.e. waterfalls)
6.	Lodge comfort and architectural design
7.	View stations/towers
8.	Unique endemic species
9.	General culture
10.	Indigenous culture

**Start-up** –The group of study participants were asked to describe their experience regarding the start up of the ecolodges including the planning, financing, building, and start of business operations. Sweat equity and “scrappiness” were identified as important elements to success particularly in the start-up phase of their business. The planning stage for ecolodge construction varied widely among participants from as long as 10 years to as short as one year. Once financing was in place, six businesses built their infrastructure in one year or less while others took two to three years. One however took five years to build. Some mentioned that the construction timeframe could have been shortened but due to some external issue (government approvals, sickness, weather) the building completion was delayed.

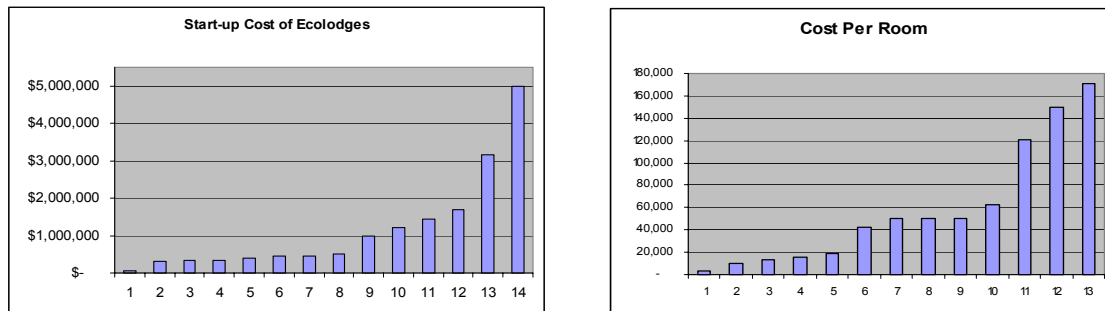


In all cases the initial infrastructure was sufficient to begin operations but since this time several ecolodges have made improvements (platforms, walkways, dining space) and expansions to enhance capacity and quality of their services.

**Start-up Cost** – Respondents were asked to provide the start-up cost and to breakdown costs into the following categories: infrastructure, equipment, labor and training. Many ecolodges owners were unable to provide a breakdown of all categories but they did have a general idea of where funds were invested. Most could not quantify the amount of funding required for initial training since some ecolodge owners invested considerable “sweat equity” in training staff and guides. One

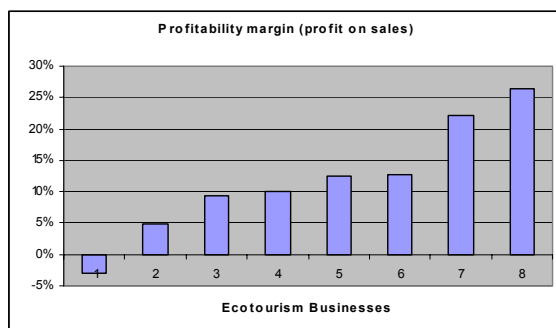
business owner did not know how much was originally invested in the business since he did not have a system to account for it.

Of the ecotourism businesses that provided data, eight ecolodges had an initial start-up cost of \$500,000 or less, while six had a cost at or above \$1 million. For the study group, the average cost per room was approximately \$58,000.



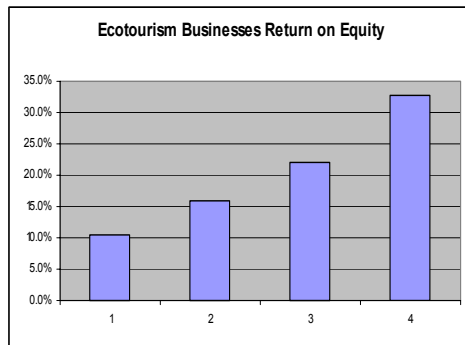
Costs provided did not account for the amount of time and “sweat equity” invested by ecolodges owners. Start-up costs were not limited to the construction of accommodations but also included other types of investments such as vehicles, boats and infrastructure such as dining areas and kitchens. Although when communities were involved there appeared to be better accounting of labor costs since the community was either paid for the services or considered labor as a part of initial investment in the ecolodges. It was also mentioned that the start-up costs could be reduced substantially by a high level of owner/community involvement in the construction phase. These owners “that did it themselves” often avoided higher start-up costs by eliminating the need for general contractors and other professional services (design, building, installation of composting toilets and solar energy etc.). It does appear that sweat equity represented an additional cost for most ecolodges that was not accounted for in the start-up cost.

**Profitability** - In 2002, ten ecotourism businesses were profitable although the degree of profitability varied among the group and exact data is missing for three businesses. For the purposes of this study, the profitability margin was used to measure profitability. This indicator measures the degree of profitability as a percent of sales that goes to bottom line profits (profits/sales). The profitability margin for those ecotourism businesses (8 businesses) that provided financial information ranged from -3% to 26%. For these eight businesses that provided data the average profitability margin was 12%. Taxes, depreciation, and finance charges are the expenditures that produce the difference between operating and profit margins.



Comparing the degree of profitability among different size businesses poses several issues in terms of defining which business is more profitable and what factors influenced this profitability. Profitability can be measured in terms of percentages or by comparing gross dollar amounts. Also, one particular year may not be a good indicator of the businesses past performance nor might it be a good predictor of future profitability. Using the profitability margin alone does present

issues and potential distortions. For example, one ecotourism business could realize net profits of \$10,000 and another \$1 million, but the former could have a higher profitability margin than the latter.

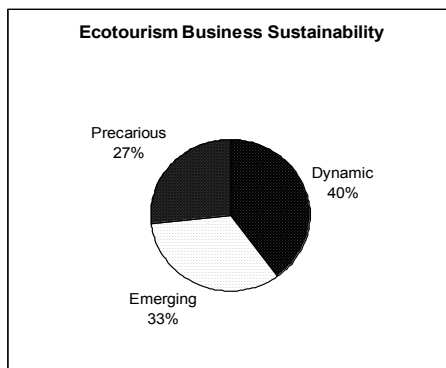


Return on equity (ROE) is also a good indicator of profitability but unfortunately lack of data has limited the usefulness of this indicator. For those four businesses that provided sufficient financial data, average ROE was 20%.

The period of time it took an ecolodge to become profitable varied among ecotourism businesses, but a timeframe of 4 to 5 years from start-up seemed to be the norm. All ecotourism businesses mentioned the importance of a long-term perspective in terms of

profitability and return on investment.

The graph below categorizes the ecotourism businesses in terms of how sustainable its profitability may be. The degree of sustainability has both objective and subjective elements and was evaluated by the consultants based upon their knowledge of the individual business. When evaluating ecotourism business viability today, it is important to take into consideration the external shocks experienced by the industry over the past two years. Several businesses in the precarious category would have been categorized as “emerging” before the events of September 11<sup>th</sup>.



Based upon information available it was possible to classify the study group into the following broad categories:

**Dynamic** – These ecolodges have shown to be profitable over that last 2 years or more and demonstrate a strong probability that profitability will continue into the future. Although somewhat affected by the events of 9/11 this group of lodges showed great resiliency and adaptability such that their sales never decreased during these turbulent times. These ecolodges also viewed the future more

positively, some mentioning that demand for their product was inelastic and that their only restraint was capacity.

**Emerging** - Ecolodges that have just reached profitability or are expected to reach profitability in the near future. Some are recent start-ups or others have faced certain events that have complicated their results, but most have strong enough business models to be profitable within the next couple of years.

**Precarious** - These ecolodges are struggling to reach profitability and may have issues relating to the viability of their business model. They may have had difficulty distinguishing themselves from the competition, have limited marketing capabilities or are in geographic markets that have suffered significant declines in recent years.

In Section 4.2.2 we examine the different factors that are related to an ecotourism business' profitability and long term sustainability.

**Marketing** – Marketing was identified as the area requiring the most management attention but it was often neglected due to the need to focus on day-to-day demands. Very few of the ecotourism businesses mentioned that they had some sort of marketing plan although most felt that they did have a strategy even though it may not have been written down. There were uncertainties as to whether most businesses had a clearly defined marketing plan with specific action steps and targets or whether more reacted to opportunities that presented themselves.

With the exception of one ecotourism business, marketing costs for the group represented a very small part of their business operating costs (6-10% of all operating costs). Internet costs were minimal for most businesses while the return on this marketing tool was identified as high. Many did mention that an increased budget would be useful but most worked on the philosophy of getting a very high return on their marketing dollar spent. One ecolodge manager said “marketing budget is always a barrier but we get a lot of client for money.” Advertising and tradeshowes were identified by many ecolodges as expensive and not effective. The internet, articles in well known travel magazines, mention in travel guides, prestigious awards and word-of-mouth stand out as the main marketing strategies for most ecolodge operators. Only one business mentioned repeat business as an important aspect of their market.

Marketing strategies focused on building momentum through a variety of information channels. Often clients would hear about the ecolodge from several sources such as magazines, books, articles and word-of-mouth. A majority mentioned that their websites served as a marketing tool for providing more detailed information but it was not the most important channel for reaching their clients. Clients tended to be savvy and have done the research before they decided to book their trip. Individuals would either book directly (internet or phone) or through agencies.

There is an increasing trend toward ecolodges receiving direct bookings from individual travelers as compared to bookings from international and local agencies. Local agencies and international operators remain an important source of individual and group travelers but for many ecolodges direct bookings is a growing share of total bookings. The internet has significantly improved the ability for ecolodges to reach the individual traveler directly. One ecolodge attributed its marketing success to its strategy of directly marketing to all market segments (internet, international operators, non profits, and local agencies). Interestingly, some of the most profitable ecolodge operators worked only through international operators and travel agencies.

Their internet site served as a marketing tool but they did not interact directly with individual travelers. Soft marketing to prospective individual travelers created demand for their ecolodge product but they worked exclusively through international operators and agencies in terms of bookings. Their strategy was to create demand for their product from individual travelers and to focus on developing strong relationships and customized products for well-known international operators.

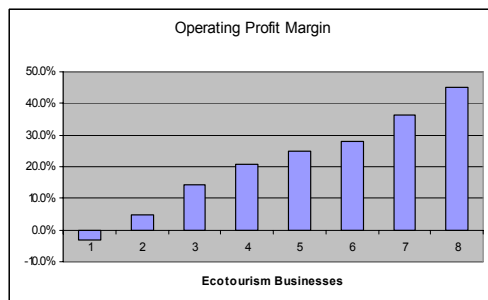
The following comments by ecolodge operators well illustrate how many ecolodges are approaching the marketing of their product.

“The internet is the only place I spend money. I have dropped print advertising and I now focus on getting high rankings on search engines. My only brochure is downloadable on the internet. I even found 9 of my 10 angel investors on the internet. Articles on our ecolodge have been published in magazine such as National Geographic Traveler and we have received awards from high profile conservation organizations.”

“Until 9/11 our only marketing tool was word of mouth and this strategy was extremely successful. Now after 9/11 we have to work harder but we do not advertise. We take a soft marketing approach through a public relations strategy which includes articles over the past years. Our website is also a good tool which provides complete information and prepares clients for the experience. We have a database of 8,000 past guest addresses but have never used it to market. Most of our clients go through agencies where we provide them commissions.”

“Our marketing strategy is still incipient. We use mainly the internet, folders, correspondence, mail merge, and participation in conferences, etc. We do not have a specific budget for it. We try to seize marketing opportunities in the media supporting film crews, magazine and newspaper representatives in the Reserve. More word of mouth and our name in National Geographic, Discovery, and Lonely Planet all have helped considerably. We have 700 contacts in database which we contact every 2-3 months. It is more of a personal relationship.”

Further comments on marketing from each geo-region can be found in Appendix C.



**Operating Margin** - The operating margin represents the percentage of revenues “left over” after paying the direct costs of operating the business. Direct costs include personnel, fuel, maintenance, transportation and food. Indirect costs such as interest cost, and taxes are not included in the operating margin. The size of the margin is affected by several factors including the pricing of the product; size of ecolodge; country specific costs for food, fuel and labor; its remoteness and means

of transportation; facility maintenance; and the type of activities offered. For those ecolodges that provided data, there was a wide range in their operating margins from -3% to 45%. The average operating profit margin was 21.4%.

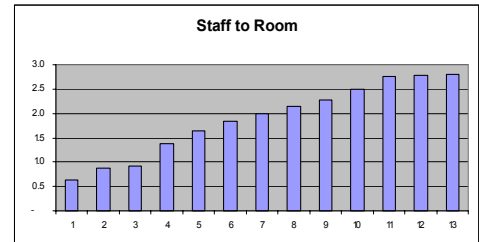
One manager with considerable experience starting-up and managing numerous ecolodges stated that every ecolodge is different and it must be evaluated separately in terms of cost structure, operating margin and profitability. His experience indicated that ecolodges’ operating margin increased over time as the ecolodge became more well-known and efficiencies were realized. For this company, new lodges entered the market priced at lower levels to encourage demand and over time as recognition and interest increased prices were adjusted upwards.

In terms of operating costs, some ecolodge managers mentioned that there were often discrepancies between projected costs in the start-up stage and what proved to be true on the



ground. The “surprises” tended to be in the area of food, fuel, maintenance costs and the difficulty of implementing efficient systems. The majority of respondents identified food and fuel costs as the most difficult to manage and those that tended to be higher depending on the location. As would be expected, the more remote locations tended to have greater food and fuel costs. All mentioned the importance of creating efficient systems to procure these goods.

**Staffing** – Personnel expense on average made up approximately 22% of total operating costs. Most business managers said that personnel costs in the developing world are lower than for tourism businesses in the developed world. A minority of ecolodge operators mentioned that salaries were in fact high when productivity was taken into account. Another operator



mentioned that government employment laws imposed rigidity in work hours and the required benefits increased labor costs. During the planning stages, the number of personnel needed was sometimes underestimated since high quality customer service required more staff and on-going maintenance of infrastructure proved to be demanding in terms of labor. As depicted in the graph, the number of staff to the number of rooms varied considerably among ecolodges ranging from .6 staff per room to 2.8. On average ecolodge businesses had 1.89 staff per room. Nearly all ecolodge businesses indicated that they place a high priority on employing members of the local communities located in the areas where these ecolodges operate. Community employment was very high average 81% for all ecolodges. Only one ecolodge owner expressed concern about the inability to find qualified locals and that the owner was considering going outside the area to find more qualified help. Although almost none of the ecolodges could identify the amount of funds invested in training, most mentioned that they had invested considerable time and resources in training local staff. For those ecolodges working in more traditional communities, training costs were higher for them than their competition which was not involved with local communities.

**Management Capacity** - It is important to mention that among the study group, 13 ecotourism businesses were established by individual entrepreneurs who provided the vision, personal capital and sweat equity necessary to plan, build and start-up the business. They were all entrepreneurs with a strong vision and the foundation of their success was built from a passion for their business. They had all taken considerable risks and made personal sacrifices and were not motivated by strictly monetary rewards. All ecolodge business owners and managers in the study group expressed a high level of passion for their businesses’ ability to make a positive impact (environmental and social) and saw this as an important element that kept them engaged. It was not enough to just make a profit, although that was part of it -- since financial sustainability was what allowed them to do the other work.

Many of the entrepreneurs had no experience in managing an ecotourism enterprise and learned most of their skills on the job. Several mentioned this lack of training in the field as an important short coming and some found themselves still learning basic things that were taught in hotel management schools. Managers mentioned financial management, accounting and business planning as their greatest weakness. On the other hand, their capacities included the ability to innovate, to think big and play small, to be scrappy, and to operate creatively in a young market without rules.



**Debt** - Eight ecolodge businesses used some form of debt in the start-up phase. For those in the study group that received loans for start-up, the average loan size was approximately \$220,000. Expansion and improvement loans were smaller averaging approximately \$81,000. Interest rates varied widely from 0% to 12% and maturities ranged from 5 to 15 years. The following table provides information regarding the loan profiles of the ecolodges in the study group. With the exception of a small loan, all loans have either been paid off or are current in terms of payments. Also three of these businesses have acquired additional loans to make improvements and upgrades.

## Indebtedness of Ecotourism Businesses

----- Loans provided for Project Start-up -----						----- New Loans -----			
Ecotourism Business	Start-up Loan Amount	Purpose	Terms	Source of Loan	Outstanding Balance	Additional Loan	Purpose	Terms	Source
A	\$ 95,000	Infrastruc ture	10%	country sponsored debt swap loan fund	\$0	Negotiating \$110,000 loan	improvement s		Green fund
B	\$190,000	Infrastruc ture	7% with 15-year maturity	local developm ent bank	\$180,000	\$50,000	renovatio n and upgrades of public areas	9% 15- year term	local develop ment bank
C	?	Start-up costs?		IFC loan					
D	\$450,000	Infrastruc ture	12%	Three loans from separate green funds	\$450,000				
E	\$350,000	Infrastruc ture	0% 5 year	Private tourism operator	\$ 50,000				
F	\$300,000	Infrastruc ture	0% 5 year	Private tourism operator	\$150,000				
G	\$139,000	Infrastruc ture	5% 5 year	Commerc ial bank – govt ecotouris m loan	\$0	\$85,000	Improve ments	6.5% 7 years	Comme rcial bank – govt ecotouri sm loan
H	Cooperati ve members received \$35,000 loan (3 ecolodges)	Infrastruc ture	10 years	country sponsored debt swap loan fund	?				

All but two ecolodges would consider utilizing some sort of debt in the future if it met their criteria. Most study participants were concerned about borrowing during the start-up phase since reaching profitability tended to take approximately (3-5 years) and servicing the debt would place substantial pressure on the cash flow. The managers of several ecotourism businesses that have reached profitability felt they were now bankable and had either enough collateral or personal resources sufficient to meet local banks' credit and lending criteria. On the other hand, another profitable and well respected lodge found that obtaining credit from local banks was impossible and was forced to use informal loans and green fund loans to finance its improvements and office space. Most mentioned that local dollar interest rates were too high (10-12%) and were unaffordable.

Among the ecolodges interviewed, those that would consider some form of debt financing expressed the need for longer term credit (greater than 5 years) since their financing needs are typically for larger investments such as infrastructure improvements (walkways, towers), expansions (phased approach to room capacity), equipment (boats, engines, generators etc). No ecolodge mentioned the need for short-term funding for working capital. This is due to the fact that these businesses carry almost no accounts receivables since most clients pay in advance. Individual travelers typically pay in advance however some large operators have been known to pay very close to the travel date or shortly afterwards causing some cash flow problems. This did not seem to be a significant issue.

Several ecolodge managers mentioned that they are reinvesting a percentage of their revenues into improvements and that it would be more efficient from their perspective to debt finance certain larger improvements and use the funds instead to pay debt service.

The following are comments from some ecolodge operators.

“The business could easily support debt from its current cash flow but we don’t have any borrowing needs and we have no plans to expand. Also the owners are very adverse to debt.”

“Yes I would want to have more debt. Right now I could use a \$300,000 loan for non essential infrastructure like hot water services, bridges, waste management, guide rooms and storage. Our current cash flow could handle \$35,000 debt service per year.”

“I am not sure I totally understand debt and its implications. Right now I am glad that I do not have that burden right now given the fluctuation in the market. However, I am not afraid to take on debt to finance another facility that is properly planned.”

**Average Occupancy Rates** – Average occupancy rates ranged from as low as 30% to averages as high as 67%. Since these were average rates for the season, peak season occupancy rates could be in the high 80% or more depending upon the lodge. The chart below provides the average occupancy rate for the study group.

**Return on Equity** – Most study participants were unable to provide a return on equity history over a continuous period of years. It appeared that ecolodges businesses with foreign investors were more focused on this indicator since they could better respond to questions in this area. Although actual numbers for this study group are lacking, it may be reasonable to assume that return on equity could range from 10%-30% for profitable ecotourism businesses. These types of returns however assume a start-up period of up to 5 years.

Those ecolodges that have received foreign investor capital emphasized the importance of having investors that had a realistic perspective regarding the realities of ecotourism and ecolodge performance. The ideal investor was an “angel” investor who was willing to invest “patient capital” with investment return objectives which included financial, social and environmental considerations. One ecolodge manager that attracted equity capital in the mid 1990s before the decline of the dotcom investing environment, stated that his investors had unrealistic expectations from the onset and that the project’s return on equity would never reach the initial projections.

### Study Group Indicators\*

	Average	Median	Standard Deviation
Marketing Cost/Operating Costs	6.0%	5.2%	0.03
Payroll Cost/Operating Costs	22.5%	24.7%	0.11
Management & Administration Cost/Operating Costs	not enough data	not enough data	not enough data
Training Cost/Operating Costs	not enough data	not enough data	not enough data
Operating Profit Margin	21.4%	22.9%	0.16
Break even sales (%)	78.5%	74.9%	0.17
EBITDA** as % of sales	18.8%	22.9%	0.13
Profitability margin (profit on sales)	11.9%	11.3%	0.09
Equity/Assets	38.5%	37.0%	0.32
ROE - Return on Equity (Net Income/Equity)	20.3%	19.1%	0.10
Average Occupancy Rate	43.2%	38.5%	0.15
Staff/room	1.89	2.00	0.75

\* Financial data provided by study participants is incomplete and indicators do not include entire study group.

\*\* EBITDA = Earnings before interest, taxes and depreciation

**Triple Bottom Line Business Model** – All ecolodges interviewed said they were committed to environmental conservation and to promoting social well being in the communities where they worked. However, there were notable differences in approaches.

Some interviewees had a clear strategy of how to integrate conservation and social responsibility into their business models, while others took a more traditional approach to business responsibility which included providing donations to schools and board involvement in environmental organizations. The following sections describe how certain study participants were clearly on the cutting edge in terms of applying triple bottom line principles to their businesses. We define triple bottom line business as those enterprises that have moved beyond traditional business philanthropy. It is those businesses that make environmental and social investments as part of their business philosophy and see these investments as providing a return which enhances their sustainability and economic success.

*Social Responsibility* - Although providing jobs for local communities was an important aspect of their business sustainability philosophy, there was a clear commitment of some ecolodges to go beyond just providing employment for local communities. Their business strategies also focused on creating community ownership, technical skills (guiding, language, birding etc) in community members and capacity to manage a business.

For those profitable projects where communities invested labor, return on investment for communities tended to be very high. In most cases it was difficult to quantify exactly the amount of community investment, but in one case in particular, the annual participation in revenues was equal or greater than the original investment, thus, resulting in a 100% annual return on the community's initial investment.

One respondent said “The economic influence within the local communities has also been significant. Before the Project most of the people based their external economy on cattle ranching. Today, 16 out of 52 communities that are members of the Federation, receive a significant percentage of their economy from ecotourism and they are discussing how to limit and then eliminate cattle ranching entirely. In these communities, up to 45% of their total income comes from direct employment (22 community employees work in lodge and women in neighboring communities work doing the laundry), and supplying products to the ecotourism project. In addition, sales of handicrafts represent 21% of an average family income in the communities”

There are numerous ways in which a community can participate in an ecolodge business. The examples below are just a few.

- *Ownership of lodge* – When a community is the owner of the lodge it can choose to manage and operate the lodge itself or to enter into a management agreement where a private sector partner manages and operates the lodge while the community participates in the revenues. There are several examples where the community contributed land and labor and then participates in the revenues generated by the ecolodge.
- *Fees* - A community may charge fees to an ecotourism operator for the use of its land and access to certain people or sites on the property.
- *Build operate and transfer (BOT)* - A community agrees to allow a private sector ecotourism operator, build and operate a lodge on community land. In addition to annual fees, the community will receive the property at some established date in the future. Generally these agreements also include employment and training as another benefit to the community.

It is important to note that there are other types of economic and social benefits resulting from their association with an ecolodge. Some examples of how communities benefit include:

- Benefits associated with direct hiring of community members. For the study group, the percentage of the local community employment was high (above 80%).
- Increased leadership skills as a result of decision making responsibilities. Some ecolodges have incorporated community leaders into management committees and are training community members to manage and operate the ecolodge.
- Reinvestment of profits into social projects – most communities have chosen to use a portion of the profits to invest in social infrastructure such as schools and clinics.
- Ancillary income generating activities – Communities have benefited from other types of economic activities associated with the lodge including selling consumable goods (fish, poultry, vegetables, etc.) and artisan crafts.
- Grants and donations – Greater notoriety and increased interaction with tourists bring with it greater access to donations and other types of financial assistance.

*Environmental Benefits* – Ecotourism businesses in the study group undertook a variety of measures to protect and conserve the environment. Some businesses subscribed to eco-efficiency principles that reduced energy and construction costs while others claimed that their green business approach was more expensive and actually negatively impacted the bottom line. Some

examples of green business approaches included less costly natural construction materials, environmentally friendly insecticide, composting toilets, solar energy, efficient and low polluting boat engines.

What distinguish these ecolodges from “green hotels” is that many have gone a step further in terms of their investment in conservation. Their investments are not limited to “ecoefficiency” which generate bottom line savings in energy or other costs. Several ecotourism businesses have made proactive conservation investments in land and research projects. They have also developed creative partnerships with local communities to pay for conservation of endangered species. Conservation efforts included financing the costs of important research projects, purchasing land and investing company funds for its preservation, and incorporating fees and charges to finance conservation projects.

There were two ecotourism businesses in particular that were convinced their efforts brought tangible financial benefits in terms of increased sales or reduced operating costs. Others felt that there was no other way to operate but that it was difficult to quantify the bottom line impact.

The following are quotes from ecotourism business managers:

“A sustainability approach would not matter for profitability in the short term. Working with locals makes the company’s operations more sustainable and local sourcing is an integrated part of product. In order to have a good deliver of experiences we must have good relationships with the locals. I am very dependent on local people because of limited infrastructure.”

“Our company does better environmental conservation work outside of government protected areas since national parks are very difficult to work with. Park managers just want to pocket money. We work with local communities outside of the protected area to protect big game in the region. The company allocates \$20 per client to reimburse local people who report poaching to police and to fund small rewards to protect endangered animals.”

“First a company needs to have a hard core business plan that works financially and then sustainability will make it a better business. You can make money by doing things differently. I have been able to take advantage of the reduced costs and efficiencies I get from using sustainability principles in construction and in operating the lodge.”

“To not preserve the environment would be suicide – it has to be part of the business objective. On the other hand, I never received a reservation that asked the question about triple bottom line.”

“A successful business cannot work in failed communities. This is the premise on which we operate. We have adopted the standards for business social responsibility and it is part of our values. We believe the best possible method of success for indigenous owned projects is to partner with an entrepreneur that understands sustainable business principles.”

“There is a clear product improvement benefit associated with conservation and social responsibility. Every passenger that goes to our ecolodge gets exposed to the research project we finance and this definitely improves their satisfaction. Providing this service from a business perspective makes total sense. The truth is that numbers go way beyond what I can quantify and I believe it is why we get selected over other lodges.”

## **4.2 Summary of Key Business & Finance Findings**

### *4.2.1 Characteristics of Ecolodge Businesses*

One could conclude that ecotourism enterprises have many of the same characteristics of small businesses and thus have many of the same technical assistance and financing requirements. This is certainly so in areas such of business planning, financial systems and access to capital, where ecotourism businesses often lack these capacities. On the other hand, there are other areas where differences stand out and perhaps differentiate ecotourism businesses from a typical small business.

It is possible to make a general conclusion that ecotourism enterprises operate in a more complex business environment and their businesses tend to be more vulnerable to externalities out of their control. With the introduction of the internet and with the end consumer having substantial access to information, successful ecotourism companies have had to find ways to compete, develop products and distinguish themselves not just within their micro region but also internationally. For example, ecolodge pricing, products and client amenities in Bahamas are now compared with those in Central America, Brazil and other destinations. In addition, ecolodges must meet increasingly more demanding international standards for services and experiences, cater to foreign tastes, and meet ecotourism standards all while operating in a remote and logistically complicated location.

Externalities such as 9/11, SARS, the Iraq War and terrorism acts in countries such as Bali have demonstrated the vulnerability of ecotourism business to events outside the business' control. Weather and environmental factors can also impact the bottom line of ecolodge operators if they are unable to provide certain experiences due to drought, flooding etc.

As mentioned earlier, lag time from product development to actual client visits is long, with two years being the norm. Also most lodges earn in US dollars while their expenses are in local currency, presenting both advantages and disadvantages. The recent devaluation of the dollar against certain currencies has negatively impacted some ecolodge operators since they have been unable to increase their rates to make up for high operating costs.

Financing needs tend to be for long term capital to finance infrastructure, improvements and expensive equipment. Need for working capital loans appears to be less since most businesses are paid in advance for their services. Most businesses capital needs tend to be greater than \$100,000 and equity investors have limited exit strategies for their investment. For reasons discussed in more detail below (Section 4.2.4) banks perceive ecotourism businesses as more risky.

Profitable ecotourism businesses normally have attained a level of international recognition and notoriety which provides certain “access” not common for other types of small businesses. This access can translate into more funding sources, institutional relationships and other synergies that increase product recognition.

#### *4.2.2 Key Factors for Profitability*

The diversity of marketing approaches, product offerings and financial structures among successful ecolodges clearly demonstrates that there is no one business model or recipe for success. There are numerous factors that influence ecolodge profitability including the amount of time in business; externalities such as the attacks of September 11<sup>th</sup>, SARS and US government policies; notoriety of destination; cost and financing structure, management and marketing capabilities; and partnerships and synergies. As one very experienced ecolodge manager said “every lodge must be evaluated individually since there is no standard formula for what makes an ecolodge profitable.”

The following are key factors the authors identify as having a clear relationship with profitability. It appears that all factors identified below must exist to some extent and they are dynamically interconnected and linked to one another. It is the opinion of the authors that ecolodges without all these characteristics have a lower probability of becoming sustainable over the long run. However, it is also important to remain mindful that successful ecolodges may be stronger in some areas than others and that some ecolodges could fulfill nearly all criteria and still be unprofitable.

- 1) **Destination**– The destination where the ecolodge is located must be perceived by the market as attractive in terms of providing the desired experience within a safe context. What makes a destination attractive often relates to the charisma of the natural or wildlife attraction, good government policies that foster local businesses, promote ecotourism, and cover some of the costs for preserving the environment and providing local infrastructure, and the international media’s interest in the area as expressed through magazine, television and newspaper coverage. (See Government Policies & Nature Based Attractions) New locations that are not part of these “destinations” often have a long road to profitability since they alone have little chance of developing a rapport with this highly demanding developed world market. Ironically, destination is perhaps the most important factor in terms of profitability but it is the aspect of the business over which ecolodge operators have the least control.
- 2) **Value** - As discussed above, successful ecolodges often exist in a geographic area which is generally recognized as a destination. In this geographic area frequently there are several competing lodges offering ecotourism products. The successful ecolodges are those capable of distinguishing themselves from the competition in ways that make their product more attractive in a manner where clients perceive they are receiving more value for their ecotourism dollar. Successful ecolodge managers are aware of where their ecolodge pricing falls versus the competition but their strategy is not to compete on price but rather on value. Instead of focusing on their competitor’s pricing they test the market’s elasticity of demand for their product in an effort to find the optimal price for



their product. The ecolodges in this study have nearly all fallen into the mid-range price category, indicating that a mid-price value is presently in high demand in the marketplace -- as was reviewed in Section 3.3.6.

- 3) **Interpretation and Other Activities**- Being located in a recognized destination is not sufficient for success. It is the ability of the management to translate available attractions into distinctive experiences. Attractions such as unique species, congregations of mega fauna, and unique cultural experiences were all important elements in making the destination attractive but it was the interesting activities, high quality interpretation and other perceived benefits which defined success. One ecolodge manager stated “we want to surprise our clients by far exceeding their expectations and we want them to leave more satisfied than they originally expected.” Educating the client during their stay about environmental and social responsibility projects and their benefits was identified as an important element to increasing client satisfaction. Also creating an emotional relationship between the client, the ecolodge and their projects was a strategy to improving satisfaction and client loyalty. Other “unexpected benefits” that enhanced the experience included high quality food, knowledgeable and personable guides and comfortable accommodations.
- 4) **Accessibility** – Although there are exceptions, the accessibility of the lodge generally impacts the cost of the product and determines the size of the client market. Ecolodges with difficult access usually require that clients spend additional time and money to visit their lodge. Because travelers from the US tend to have shorter vacation times when compared to Europeans, US travelers may opt for ecolodges which are more accessible. Ecolodge operators that are on daily commercial flight schedules with easy connections to the international flights had a clear advantage over others that had less reliable air service. Also the ecolodge’s geographic location and accessibility relative to other country attractions influenced traveler decisions. One ecolodge manager mentioned the need to be located in an important “market cluster” for the airlines.
- 5) **Management** – Good management is a very broad category and encompasses areas such as marketing, financial management, logistics, human resource management and systems implementations. Ecolodges are no different than any other business in terms of requirements for competent management. Successful ecolodge businesses appear to have a healthy balance of passion for the business combined with the right mix of technical skills and vision.

The ability to market the product and diversify the client base stands out as one of the core competencies required for success. Successful ecolodges in this study spent very little of their operating budget on marketing. Therefore, a large marketing budget is not necessarily a requirement for success although larger budgets could improve most lodges’ sales results and sustainability. Marketing success requires clear vision of how to position oneself in the market with pricing, services and strategic marketing. This is complemented by a strategy on how to access the market through contacts, strategic alliances, word of mouth, articles, research projects, awards in ecotourism etc. Diversification of the client base also reduces the reliance on one business source and limits the business exposure to a decline in demand in one market segment.

Ecotourism businesses that have matured from an “entrepreneurial” start-up mentality to a business with a more professional management focus are better prepared to grow the business to sustainable levels. The professionalization of management which brings more professional financial, marketing and operating systems should be balanced with the creativity, enthusiasm and innovation that characterized these businesses in the start-up phase.

- 6) **Access to Capital** – As noted above, multiple sources of capital and the creative combination of these resources have enabled these businesses to finance their ecolodge start-ups. Only two ecolodges were financed with 100% owner’s equity. A certain level of management sophistication and tenacity was required to “piece” together their financing structures. Financing structures that allow for longer term return on investment perspectives and have a low amount of leverage (debt) appear to be a common characteristic of profitable ecolodges. Patient investor capital with realistic expectations for their return horizon and relatively small debt service payments to total cash flow both contribute to a more sustainable financial structure when equity or debt financing is involved.

#### *4.2.3 Other Factors Relating to Profitability*

Below we examine other factors and their relationship to profitability. It is important to keep in mind that the data available is rather small and that a much larger sample group is required to make definite conclusions regarding relationships.

**Linkage with other Businesses** – There was evidence that an ecolodge associated with a larger ecotourism business had a greater likelihood of being sustainable when compared to ecolodges that operate in isolation. Those ecolodges that were part of a larger business model (tourism operator or other associated ecolodge) tended to have the advantage of synergies, economies of scale and linkages to markets that were greater than those for an isolated ecolodge.

As expected, our findings also show that individual ecolodges can be profitable and that profitability is not dependent upon an integrated business model. This is well demonstrated by the fact that one of the most profitable ecolodges in the group was a stand alone ecolodge business. The consultants believe that a larger integrated ecotourism model should be considered in the IFC’s approach to providing financing and technical assistance to this sector.

Those ecolodge businesses which were part of a larger business enjoyed the following benefits:

- *cross subsidies, capital investment and sharing of resources* – Being part of a larger ecotourism business provided substantial benefits including important sources of financing particularly at the start-up phase.
- *economies of scale* – Ecolodges were able to share marketing, operations, logistical, and management costs across other businesses benefited from these economies of scale.
- linkages with local and international markets

- *know how transfer* – Once an ecotourism business has reached the top of the learning curve, this know-how can be transferred into reduced costs and greater efficiency for other start-ups.
- *greater product offerings and full service to clients* – A diversified business offers products and services outside the ecolodge operating area allowing it to capture more client business.
- *diversification of risk and increased cash flow* – a larger and more diversified business is a better credit risk for banks than a smaller specialized business. The association with a larger business increases the possibility of finding other types of financing sources.

In our conversations with ecolodge owners several expressed their interest in expanding their business model to include other lodges and services. Many felt that they could leverage their experience and increase their sales and business profitability.

**Size of Ecolodge** – In evaluating the data, there was no clear relationships between the size of the ecolodge in terms of rooms and profitability (profitability as a % of sales).

**Room Rate** - In evaluating the data, there was no clear relationships between the room rate and profitability (profitability as a % of sales).

**Occupancy rate** - In evaluating the data, there was no clear relationships between the occupancy and profitability (profitability as a % of sales).

**Design** – There appears to be a positive correlation between design and profitability. This does not mean that facilities need to be luxury and to the contrary there may be a negative correlation between high cost luxury facilities and profitability. The market appears to be rewarding those ecolodges with aesthetic and practical accommodations that complement and enhance the natural experience. This might indicate that using an architect who understands the local environment sustainable design principles, and customer needs is a very worthwhile expense.

**Building Time** - For this group of ecolodges there appeared to be a strong correlation between the amount of time to build the lodge and its economic success. The efficiency in the construction process might be an indicator for business viability.

**Involvement of Owner/Entrepreneur** - A business model lacking the active involvement of an “owner/entrepreneur” at the start-up had less probability of success. A strictly investor/business model although rare may lack the sweat equity required to make the business start-up successful.

**Triple Bottom Line** - Those lodges that took an integrated and focused approach to environmental and social sustainability were convinced that they benefited economically from a triple bottom line business approach. Although it was beyond the scope of this study, the consulting team believes that further research into the linkages between long term sustainability and triple bottom line business approach is merited.

#### *4.2.4 Barriers to financing ecolodges*

Most respondents agreed that traditional banks in their countries did not understand the tourism industry in general and certainly did not understand the business models of ecolodges located in remote and less accessible areas of their country. Often banks did not have operations in these areas and were unwilling to expand their business in the territory. Other comments include local bank's inability to think outside traditional banking loan structures which relied on collateral rather than cash flow and business viability. Study participants identified high interest rates (10% and above on US dollar loans) and the short term nature (less than 5 years) of loans as an important finance barrier.

Also banks were unable to measure or understand the value of a triple bottom line business philosophy to enhancing the financial viability of an ecotourism business. Of course there were exceptions where some ecotourism businesses thought that their reputation as a recognized sustainable business would help them in acquiring a loan. It is significant that no ecotourism business in this study group has received a longer term loan from any commercial bank.

The lack of patient equity capital for ecotourism businesses reflects investor's perception of issues relating to risk, return and the ability of investors to find viable exit strategies to realize gains. One ecolodge in particular was able to adequately address these concerns and has attracted patient angle investors. Although it is beyond the scope of this paper to evaluate equity investor requirements, it does appear that more investors could be interested in these types of investments if ecotourism businesses were able to present their business case more effectively.

From a traditional banking and investment perspective the relevant risks associated with ecolodges include:

1. Vulnerability to externalities out of the control of the business which include terrorism, political upheaval, natural disasters, health concerns (SARS, AIDS) and US government politics and economic downturns. Unlike ecotourism, for many export products the end consumer is not required to consume the product in the country of origin. So for example, an exporter in a particular country may be experiencing political turmoil but that could have little or no effect on the attitudes of the consumer in another country. Making matters worse, consumers often associate problems in one country to the entire region. There is a list of countries that have been negatively affected by terrorism or domestic strife including Kenya (bombings of embassy), Rwanda (civil war), Nepal (limited civil war), Sri Lanka (civil war, but limited to the north), and Indonesia (Bali bombing).
2. Lack of good collateral in the traditional sense. Ecotourism assets are viewed by commercial banks as having little value in the event of a foreclosure since they are usually located in remote areas and are made of non-traditional materials such as wood, palm leaves and bamboo. Also since the facilities use is very specific this limits the number of potential buyers in the event of foreclosure.
3. The high degree of heterogeneity among ecotourism businesses and their dispersion away from central economic centers makes them more expensive to serve than other types of businesses.
4. Business and finance inexperience of most ecolodge owners/operators means that financials are often inadequate and there is limited business planning and cash flow forecasting. Most

ecolodge operators have limited experience with financing their business through loans and equity and may not understand the requirements and risks involved in borrowing.

5. On average an ecolodge would require a 5-year timeframe to reach profitability. This long lag time does not bode well for start-up structures using debt. It also means that equity investors must take a long-term perspective on their return requirements.
6. Complexity of the business which is dependent upon changing tastes and greater sophistication of international clients. Since the industry requires a high level of sophistication banks do not have the expertise to evaluate the business' viability.
7. The fact that most ecolodge businesses earn in dollars presents its advantages and disadvantages. Ecolodge operators would be good candidates for dollar denominated loans since there would be no foreign exchange risk. On the other hand, some operators have recently suffered from the devaluation of the US dollar relative to local currencies. International pricing has not allowed for increasing of US dollar prices but their local expenses have increased having negative implications for their bottom lines.
8. The complexity of non traditional ownership structures increases the risk and uncertainty regarding ownership rights. Community involvement in particular adds additional complexity to ownership structures and makes it difficult for banks and investors to manage this risk.
9. For equity investors there are no real exit strategy options since these businesses do not have access to capital markets (IPOs). Also returns are such that investors need a longer term "patient capital" perspective.

#### *4.2.5 Greatest hurdles to business viability*

One could argue that certain ecolodge businesses are unprofitable because they did not have feasible business models and are missing one or more of the factors discussed above. However, an important question should be answered before coming to this conclusion. *How many were close to having viable business models but failed because they lacked one critical element?* It is therefore worthwhile to examine those critical hurdles since it could be very instructive for a future IFC program.

*Ability to finance operations during start-up phase* - An important factor impacting profitability is the nature of demand for ecotourism products. There tends to be a long lag time from the time the product is offered and when clients actually travel. Also product recognition and reputation takes time to develop and tends to have a cumulative effect that increases over time through word of mouth, articles, travel journals etc.

*Financial Statements and Business Planning* - The majority of ecolodges responded that they could benefit from some type of technical assistance. Many have already received technical assistance in some form and most have paid for this service rather than receiving it from donors or other sources. The types of technical assistance needs varied widely; however, accounting, finance and business planning were mentioned most often as a weakness. For this study, it was observed that producing financial statements was often difficult for participants and only a few had financial statements in a consistent form where results could be compared across more than 2

years. Some form of profit and loss statement usually could be produced while balance sheets were less available or had significant deficiencies. Financial projections and business plans were even scarcer. Several mentioned that their business plan was in their heads and that a business plan was an important next step in order to grow the business further. Those that did have some sort of business plan and projections were those ecolodges that had an outside management company, foreign investors or were in the process of looking for foreign equity investments or loans.

Most ecolodge participants were experts in logistics and none had mentioned the need for technical assistance in logistical areas, however some mentioned the difficulty of instilling the importance of systems with the local staff.

*Marketing Assistance* –Overall the study group believed that they were the most capable experts in understanding their market niche but that international market studies would be useful.

*Sustainability* - Assistance with solar energy, composting toilets, solid waste disposal and other sustainability consulting services was also mentioned, although few thought these services could be found locally.

*Staff Training* – Business managers invested considerable resources training their staff and it appeared that needs often outweighed resources.

## **5.0 Ecotourism Policy and Legal Framework Review**

The government role in ecotourism policy development, regulations, and legal frameworks is still largely at the planning and discussion stage worldwide. National ecotourism planning has taken place in numerous lesser developed countries (LDCs), such as Mexico and Malaysia; but the implementation of ecotourism plans has been sporadic at best with almost no national fiscal commitment. Without fiscal support for the objectives set by national plans, planning documents are quickly shelved for future administration consideration at best. While government decision makers are becoming increasingly aware of the need for support of the ecotourism sector, to date there has been a “frontier-style” development environment for ecolodges in most developing countries, where government services and support are on the whole not available.

Ecotourism ventures can rarely count on government infrastructure services for sewage, waste or energy. And all business owners surveyed for Section 4.0 report that there is an absence of government incentives to create systems that are more environmentally friendly. Frequently there are additional tariffs for imported technologies, such as solar panels. And there are numerous cases where creating projects that use innovative technologies are actually much more difficult to get permitted. The responsible ecolodge business community has found inventive ways to manage their own waste, water, energy, and sewage systems through the advancement of alternative technology designs and projects. But on the whole, they do not have government support programs for new technologies to assist them. Frequently lodge owners assist with establishing local municipal programs, particularly recycling initiatives.