

SME Hotel as Different Types of Goods (and Its Virtual Clustering Implication)

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Caveat Emptor

Let's the Buyer Beware !





Consumer Behavior

When consumers buy any products [hotel room],
they make choices by comparing price and
quality among alternatives [Hilton, SME hotel...]

The choice is greatly influenced by

- the available of information channels and
- related uncertainties of information concerning
different quality characteristic.

Information Economics 123

- On supply side, there exists production and transaction cost of information.
 - Cost in gathering data and turn into info
 - Cost in managing info into useful knowledge
 - Cost of disseminating info to the right persons
- On demand side, there exists a tradeoff between cost and benefit in searching for useful, timely and unbiased information.
 - Time value for money for each person is vastly different among us in different context.

Info Econ. of Attention 123

'A wealth of info create poverty of attention'

- Limitation of Human Comprehension
- Information consumes attention

Relevancy and relationship of info is vital.

- Search engine is very important.
- Internet is combination of broadcasting and point to point communication.
- Excessive marketing campaign can be detrimental to the firm.

Consumer Resource

For Consumer,

$$\text{VALUE} = \text{BENEFITS} - \text{COSTS}$$

Cost = a consumer's resource for exchange

- Money,
- Time,
- Energy and
- Psychic costs

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Asymmetric Information & Market Failures

- Each and every person or buyer across society has varying amount of information on any goods.
- Buyers and sellers in a market transaction have different amounts of information
 - about the quality/attributes of the goods being traded,
 - how the goods is distributed and
 - often buyer values the goods subjected to seller's info.
- Information asymmetry is one of the primary reasons why any 'free exchange' market can fail.

Example : Lemon Market, Hotel or goods price for local and tourist,

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4 Types of Goods, Pre- & Post-Cost of Quality Detection

Post - Cost of Quality Detection, Period	HIGH, Long time	Post Experience Goods (Heavy Gov't Intervention)	Credence Goods (3rd Party Endorsement, Creditability,)
	LOW, Short time	Search Goods (Shop Around, low loyalty customer)	Experience Goods (Seller's Info Input, repeated and high loyal customer)
		Ex ante Low Pre- Cost	Ex post High Pre-Cost
		Before Purchase or Pre-Cost of Quality Detection	

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Search Goods (1)

1. Search Goods : (Information Acquisition)

- Quality easily observable **before** purchase.
 - > Quality can be revealed **ex ante**.
- Low post cost of quality detection
 - > Efficiency (in exchange) losses, if any, are small.

* The smaller the cost of search, the more the search.
 *The more homogenous of the product (price & quality), the lower the cost of search
 * Product matching for each segment market
 * Demand Push and Persuasive Ad.

Example : Selling a 3D/2N twin room, Un-bundle flat hotel rate, Bundled flight + hotel, Hilton Hotel, Coca-Cola, Mc Donald,

Product Differentiated Dimension

1. Core Offering :

- Features, performance, price, variety, flexibility, reliability, design, etc.

2. The Tangible Offering :

- Symbols, media, atmosphere, events

3. The Augmented Offering :

- Services : Delivery, customer preference fulfillment, personal attention, on demand service, warranties, loyalty programs

Dynamic Value-based Pricing

1. Price Discrimination for RM - Pricing based on value placed by customer

- Prompt room availability confirmation
- Senior or Business Traveler

2. Nice Market - Design menu of different version

- Target different market segments
Ex Long Stay, Last Minute check-in, etc.
- Price accordingly (by induced self selection)

3. Bundle or Versioning Product : emphasis on customer differences

- Flight and Hotel – F, C, Y class
- Hotel with Spa, Cooking Class, Diving, Golf...
- Upgrade room for weekday / weekend stay

Experience Goods (2)

2. Experience Goods : (Knowledge Acquisition in stage)

- Quality easily observable after purchase.
> Quality can be revealed ex post.
- High post cost of quality detection

- * The more expensive the goods is the less search, exactly the opposite of search goods.
- * Interactive with customer – Keep Talking !!
- * Informative n content based ad. by seller required.
- * Secondary market to evaluate the true value.
- * Demand Pull, Product customization for niche market.

Ex : Selling 3D/2N Thai Cooking/Mediation class, Temple Stay, Agricultural Tour..Disney World, Starbuck

Post Experience Goods (3)

3. Post Experience Goods : (Info Realization in stage)

- **Low** cost of uncertain quality test
- **high** cost quality detection long **after** usage.

- * Firms have incentives to ensure quality by 3rd party for endorsement, accredited, certified.
- * Government intervention is needed.
- * Referral and Word of Mouth are important.
- * Advocacy Advertising; Tier Pricing for each segment.

Example : Health Travel, Eco-tourism, DivingEnglish /IT Summer Camp... Dentist, under-consumption for Vaccines and over-consumption for Anti-biotic

Credence Goods (4)

4. Credence Goods : (Knowledge Satisfaction)

- Quality **not** easily observable before purchase
- **high** cost quality detection **after** usage.

- * Seller's credentials are the main factor.
- * Government intervention, international recognized institutions and consumer report are needed to ensure the quality and service with fair pricing.
- * 'Hidden' characteristics, action and info concerns.

Example : "Elderly friendly hotel" ?, Health Care Center, Retirement home, Nursery care, University Education..., Surgery Doctor, Cancer Medical Treatment

Travel as an Experience Goods

In the travel industry, the current trend is

- Experience is the product
- Travel business is in the business of creating experience goods.
- The today trend is toward 'soft' or risk free, adventure and toward privacy.
- The intend is to provide traveler a unique experience to remind him as a important tourist guest.

Based on Pine & Gilmore's
book "The Experience
Economy"

Examples of "experientialized" offerings

- **Rayawadee – Escape Theme**
 - Leave the world behind you, the Key to your lost world
- **Bangkok Airways – Entertainment**
 - Flying can be fun
- **Swissotel – a 'boutique' hotel**
 - A great little hotel in major international cities
- **Starbucks – Not Just a coffee shop theme**
 - Coffee as a "lifestyle accessory", not a beverage

Birthday Cake as Experience Goods

The economic offerings of the 'birthday cake' is simply evolved from extraction (commodity), delivered (search goods) and finally staged (experienced goods). The values are :

1. It costs dimes to make cake from scratch.
2. A few Dollars is for the purchase of a cake mix
3. A cake at bakery sells ten times of the cost.
4. The entire event can be outsourced for a hundred or more.

Based on Pine & Gilmore's book "The Experience Economy"

The New Experience Economy

Economy	Agrarian	Industrial	Service	Experience
Function	Extract	Make	Deliver	Stage
Nature	Fungible	Tangible	Intangible	Memorable
Attribute	Natural	Standardized	Customized	Personal
Method of supply	Stored in bulk	Inventoried	Delivered on demand	Revealed over time
Seller	Trader	Manufacturer	Provider	Stager
Buyer	Market	User	Client	Guest

Service Definitions

A Service is a Time-perishable, Intangible Experience Performed for a Customer Acting in the Role of a Co-producer.

James Fitzsimmons

Services are deeds, processes, and performances.

Valarie Zeithaml & Mary Jo Bitner

Definition of Service Firms

Service Enterprises are Organizations that Facilitate the Production and Distribution of Goods, Support Other Firms in Meeting Their Goals, and *Add Value* to Our Personal Lives.

James Fitzsimmons

Experience Design Principles

- Theme the Experience
 - > Boutique, family owned, for Executive Only
- Harmonize Impressions with Positive Cues
 - > Lovely Airport Hotel for Stopover
- Eliminate Negative Cues
 - > Hotel to avoid traffic jam
- Mix in Memorabilia
 - > Post Card, Bag, T-shirts..
- Engage all Five Senses
 - > Spa, Mist in Rainforest

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The Four Realms of an Experience

Customer Participation

Passive Active

Environmental	<i>Absorption</i>	Entertainment (Cooking, Music,)	Education (Art, Garden Culture)
	<i>Relationship</i>	Immersion Esthetic (Tourist)	Escapist (Diving, Water Sport)

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Optimal Pricing for Experience Goods

A monopolist's optimal pricing path over time is in

- Optimistic case : Customer initially over-estimate quality.**
 - The optimal way to milk a reputation is via a declining price path followed by a jump up to a terminal price.
 - There is no long-run effects due to initial misperception.
- Pessimistic case : Customer under-estimate quality.**
 - The optimal way is to build a reputation by using low introductory priced followed by a higher regular price.
 - The initial misperceptions adversely affect welfare in both the short and long run.

Implication : We always need to under-state our goods and service quality for upside gain surprise.

Source : Shapiro [83, Bell],

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How to experientialize an offering

- Envision a well-defined theme.
- Script a participative story based on the theme.
- Eliminate distractions from the theme.
- Engage the senses – the more sensory an experience, the more memorable it will be.
- Don't give it away. Customers will pay for valuable experiences.
 - Their prediction : luxury hotels and fancy shopping malls will eventually charge admission.

Based on Pine & Gilmore's book "The Experience Economy"

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Questions to consider

- What products/services have engaged you in a memorable way?
- Envision a valuable customer experience in
 - the industry you are studying
 - the industry you work in
- What capabilities are required to create it?

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Role of the Service Manager

- Entrepreneurial Innovation
- Capitalizing on Social Economic Trends
- Management Challenges
 - Economies of Scale (**Virtual Clustering**)
 - Economies of Scope(Convenience store)
 - Complexity (Dynamic Pricing, RM)
 - Boundary Crossing (Hotel vs Tour Operator)
 - International Competitiveness(Diversity)

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Key Success Factors for SME

1. Concept
 - > Innovation
 - > Imitation and competition
 - > Entrepreneurship
2. Connection
 - > Networks and networking
 - > Connections and Intermediaries
3. Competencies

> Specialized labor force	> Industry leaders
> Talent	> Knowledge

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Final Analysis for SME Hoteliers (1)

SME attributes are as follows :

- Family owned with Mon and Pop as founders and the son and daughter as the executives
- Independent, dynamic with plenty of innovation
- local based operation with high local knowledge
- Limited info increases the risk of high concentration of inappropriate market segment.

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Final Analysis for SME Hoteliers (2)

The main barriers for growth are

- Lack of the economy of scale – Marketing / sale force, capital, IT expert, etc.
- Limited Capacity and Carrying Capacity
- Costly computerized system and high training cost are not feasible for SME hoteliers to buy.
> Only 10 % in Swiss hotelier has customer DB.

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Alternative Strategy for SME Hotels

 **Why virtual Clustering for SME**

1. **Critical mass for economy of scale** attracts positive externalities and corporation Ex :

1.1 **Hard Externality** for mutual benefit
 Specialized labor for productivity
 More Choice for cost & quality
 More Value for range of Joint Corporation

1.2 **Soft Externality** from sharing knowledge
 Association for vision, planning, influence
 Trust building for networks
 Learning for Know how, innovation,

 **Why Virtual Clustering for SME**

2. **Benefits from Dynamic of Clustering**

Flow of	Lead to
• Information	Greater Knowledge of Market
• Ideas	Diffusion for Improvement, Innovation
• People	Connection, Increased Experience
• Goods	More Value, Value Chain
• Services	More Choice, Expertise
• Capital	to Start up your ideas, to upgrade your existing production

 **Why virtual Clustering for SME**

3. **Connected Community Fundamental**

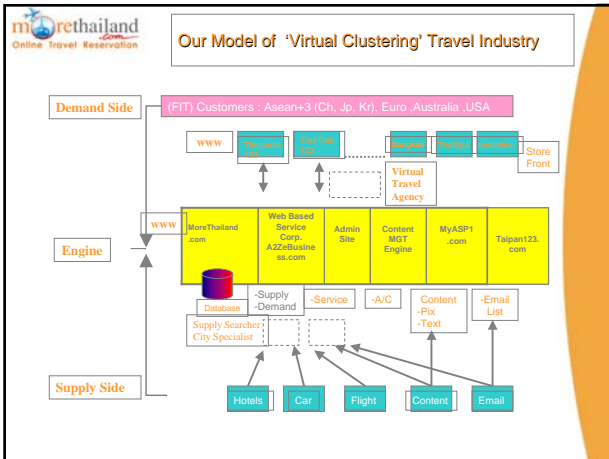
3.1 **Community Member with common interests and desire to share Info**

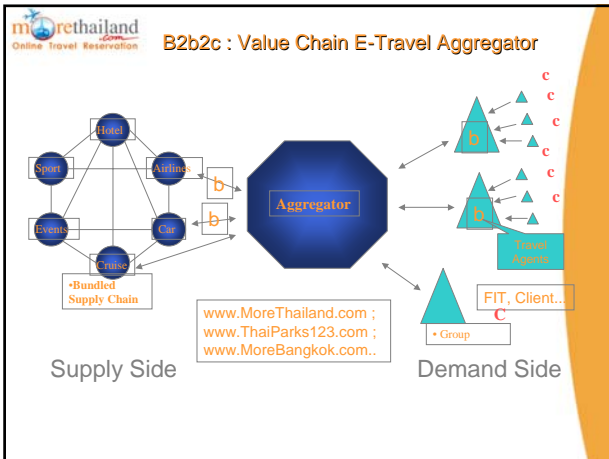
3.2 **Community Content**

- Business Management Tips – Marketing..
- Directories to Resources and Services : Technology, legal, marketing..
- Business Tool : Download seminar files..

3.3 **Information Portal**

3.4 **Web based service**





New IT Economics – Metcal's Law

- The cost of a network expands linearly with increases in network size
- The value of a network increases exponentially with size
- "Critical mass" becomes critically important
- Big becomes beautiful

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Our Win-Win E-Business value proposition (s)

E-Business solution:	Value proposition	Cost
• Web presence	• Infinite reach in cyberspace • Corp. Brochure	Free*
• Online community	• To share yr local knowledge, • true exp.	Free*
• SEO, AdWord Marketing • Branding • eMail market • Target niche Mkt • Bundle service offer	• Disseminated timely & trustworthy content • Cost Eff. Push marketing campaign • Destination marketing	Free*
• Online distribution channel • Sale • Reservation • Payment – Card Trans.	• Dynamic pricing, RM, • Bundling Goods • TIME Dim., Volume, Season • Improve profitability	Revenue sharing
• Customer relation • Virtual travel agency • Loyalty program • CRM	• Repeated business • High retention customer	Revenue sharing

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Conclusion (1)

- The economic rules are the same old ones, but more opportunities to make money are different in new IT.
- With innovative ideas, your simple product can turn to many types of goods for more market.
- To capitalize on your innovation, you may need many valuable resources and network community.
- Virtual clustering offers many virtues, especially in economy of scope and scale.
- Belonging to virtual clustering community may interactively enable you to business success.

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Conclusion (2)

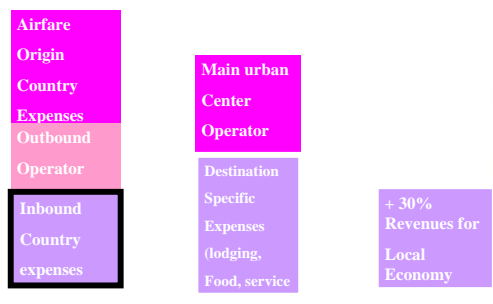
- MoreThailand.com family as SME hotel virtual cluster offers you a Win-Win value proposition with More Choice, More Value as above with no upfront fee (in limited time).
 1. Complementary Web Presence,
 2. Complementary Web Mail Service,
 3. Complementary single sign on system for hotel room availability module and
 4. And much More...

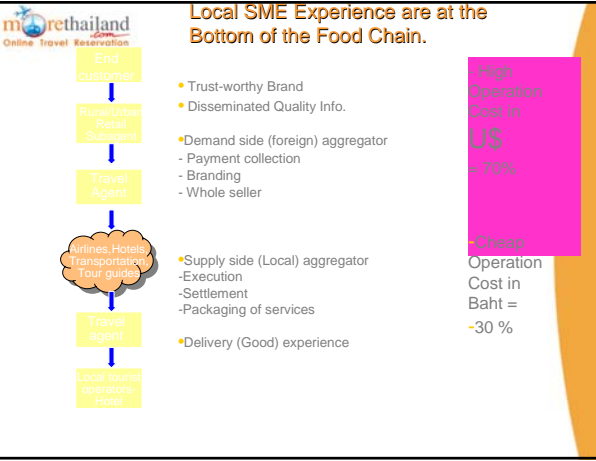
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'Be My Guest' : Inbound Tourism and Its Leakages





Stages of Economic Development

Society	Game	Pre-dominant activity	Use of human labor	Unit of social life	Standard of living measure	Structure	Technology
Pre-Industrial	Against Nature	Agriculture Mining	Raw muscle power	Extended household	Sub-sistence	Routine Traditional Authoritative	Simple hand tools
Industrial	Against fabricated nature	Goods production	Machine tending	Individual	Quantity of goods	Bureaucratic Hierarchical	Machines
Post-industrial	Among Persons	Services	Artistic Creative Intellectual	Community	Quality of life in terms of health, education, recreation	Inter-dependent Global	Information

Some Terms for Econ Exchange

- Goods : Desirable article fm demand side
- Products : Supply/ production side view
- Commodities : fm trading oriented view
- Brand : related to particular organization
