

# **SME Tourist Supply Side Failure & Its Implications**

**By**

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# Tourism Economics : Fact (1)

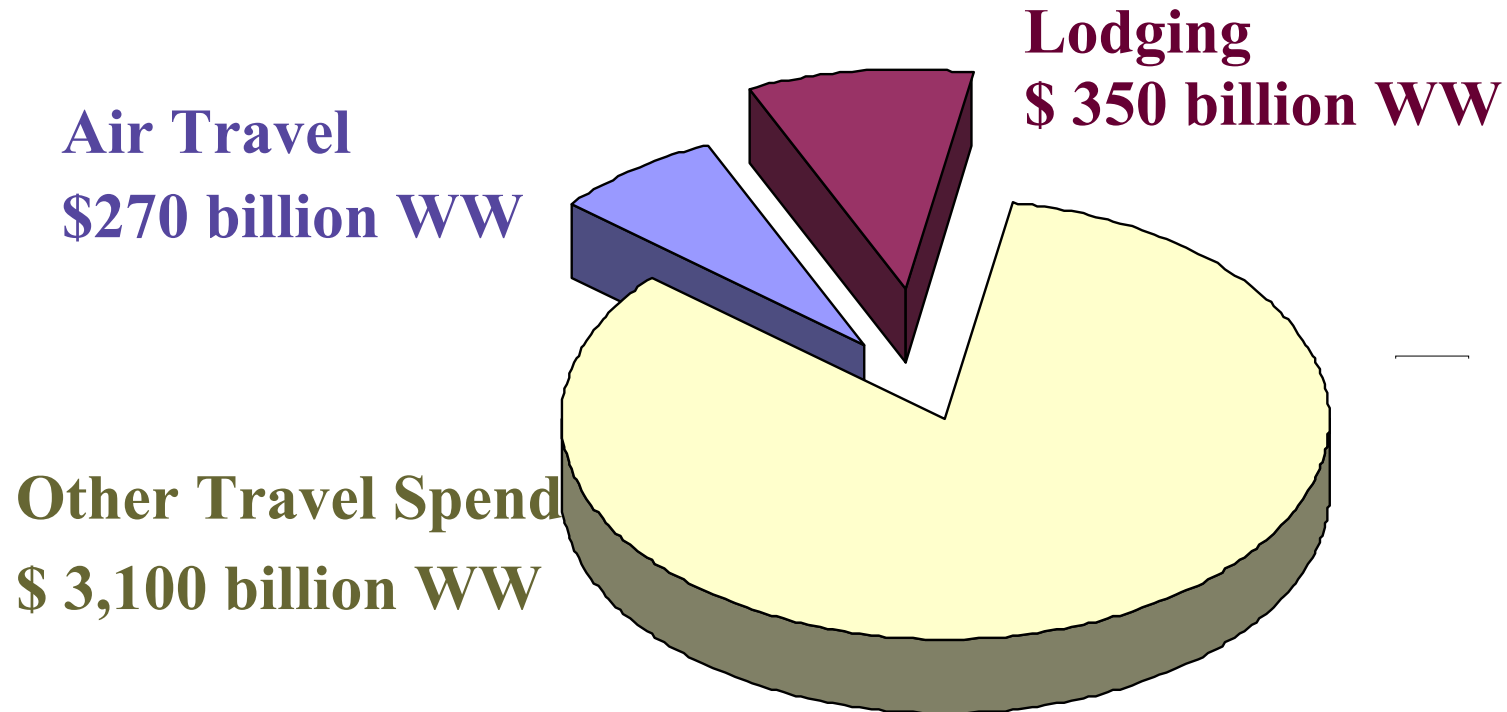
## 1. International Level :

- **Tourism is the World's Largest Industry and the biggest export earner**
- **Generate worldwide income more than USD478b/yr**
- **Employed about 1 in 15 of the world's population**
- **Cross boarder tourist grew 800% over 3 decades**
- **6 nations [e.g. Japan, China, USA, German, UK & France] account for more than half of all tourists.**
- **80% of the International tourists travel with a package tour operator**

Source : [www.uneptie.org/pc/tourism](http://www.uneptie.org/pc/tourism); WTO, 2000

# Travel industry – It's Big

## WW Travel and Tourism Revenue



Source: WTTC 2001

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# Tourism Economics : Fact (2)

## 2. National Level – Thailand's Largest Industry

- **Generate total US\$ earn about est. US\$ 8.5 b in 2002 or about 8 % of GDP, or 38% of Fiscal Budget.**
- **More than 10 million visitors in 2001**
- **88% are here for holidays with 8 days average stay**
- **More than half aged between 25 to 44 yrs & Revisit**
- **42% of the visitors with a package tour operator**
- **Or more than half are FIT.**

**Source : [www.tat.or.th/stat/index.html](http://www.tat.or.th/stat/index.html) [April 02]**

# Thailand

## International tourist arrivals

January – December 2001



Source: Tourism Authority of Thailand

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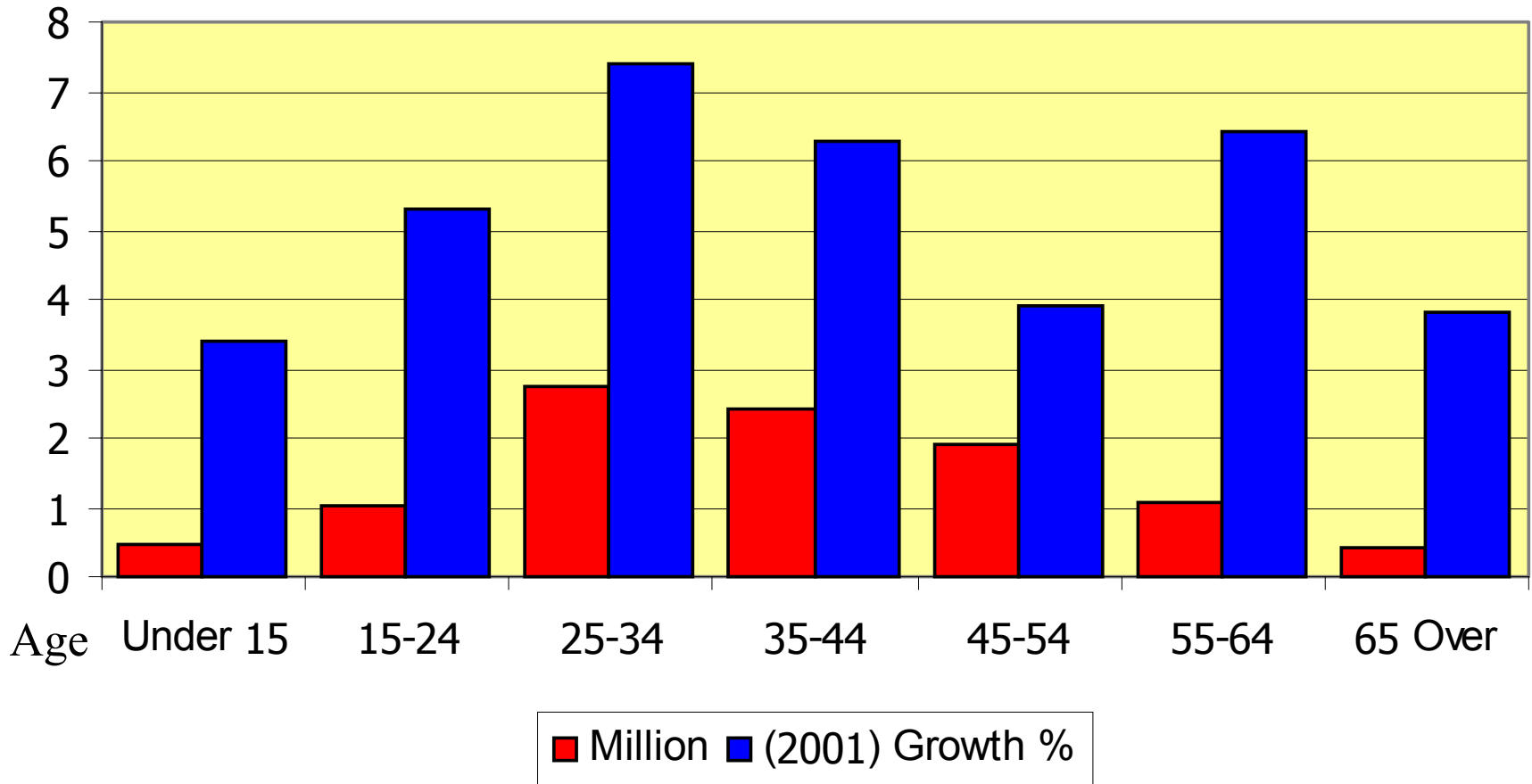
# TAT Statistics

## Major Source Markets

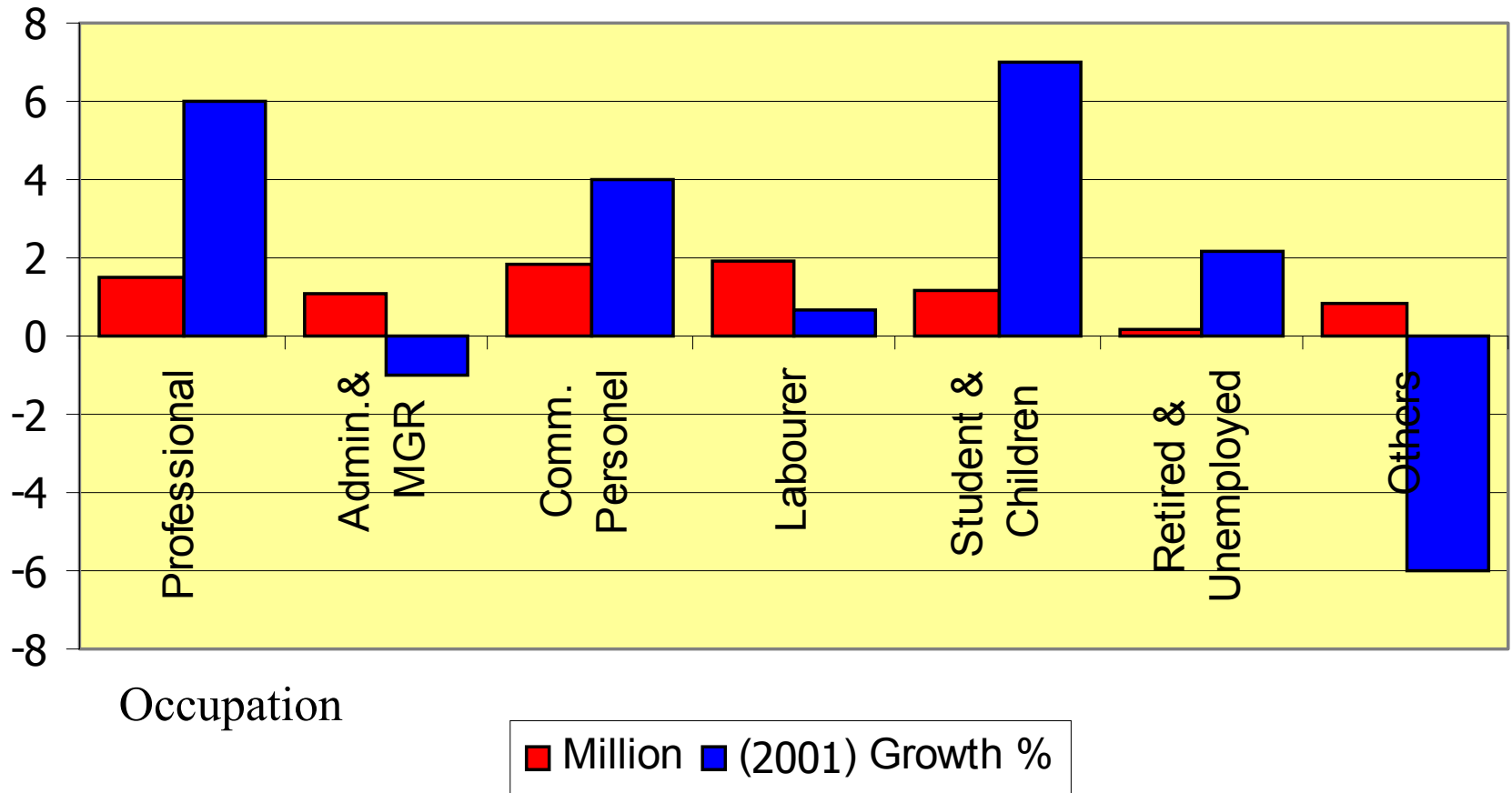
ITAs by major source markets (excludes overseas Thais)

• East Asia		5.79 million
– Malaysia	1.19 million	
– Japan	1.18 million	
– China	0.81 million	
– Taiwan	0.74 million	
– Korea	0.55 million	
– Singapore	0.53 million	
• Europe		2.51 million
– UK	0.66 million	
– Germany	0.40 million	
• Americas		0.68 million
– USA	0.53 million	
• Oceania		0.42 million
– Australia	0.35 million	

# Inbound Tourist for Thailand in 2001



# Inbound Tourist for Thailand in 2001



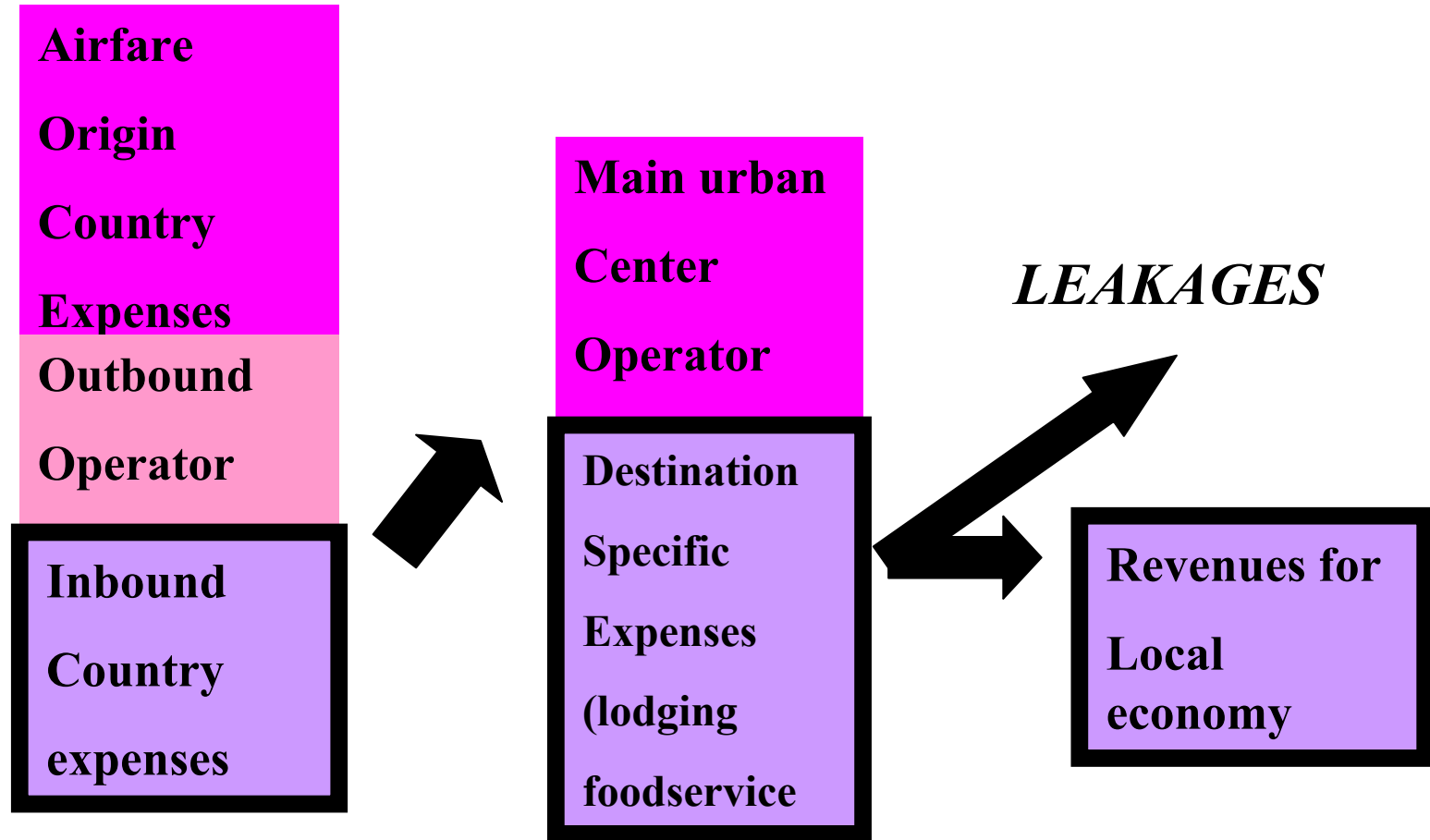
# 'Amazing Thailand' : Fact (3)

## 2. Economic Impacts of Tourism in Thailand

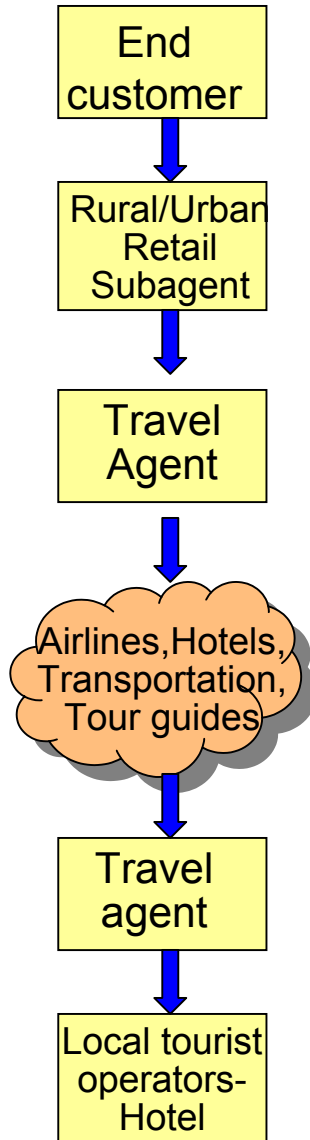
- **Only 30 cents out of a dollar money spent by foreign tourists end up in Thailand – One of the Lowest [India=60%, Caribbean = 50% = Ave., etc.]**
- **Or about 80% of tourist expenditures go to the airlines, hotels and other intl companies and not to local business or workers.**
- **Direct (Export) Leakages by All-inclusive package tours : To foreign owned 1) travel agency and operator, 2) airlines, 3) Hotel Chain, 4) FDI, etc.**
- **Indirect (Import) Leakages : from demand for international standard food, drink, building mat'l ...**

Source : [www.WTTC.org](http://www.WTTC.org); [www.UNCTAD.com](http://www.UNCTAD.com) ...Sustainable Living 2000

# Inbound Tourism and Its Leakages



# We are at the bottom of food chain.



- Trust-worthy Brand
- Disseminated Quality Info.
- Demand side (foreign) aggregator
  - Payment collection
  - Branding
  - Whole seller

- Supply side (Local) aggregator
  - Execution
  - Settlement
  - Packaging of services

- Delivery (Good) experience

- High  
Operation  
Cost in  
US\$  
= 70%

- Cheap  
Operation  
Cost in  
Baht =  
-30 %

# Puzzle why Thai Suppliers earn less

## Tourist Industry Analysis :

- **Huge Global Market with high growth**
- **Very Info. Intensive Industry with local KM**
- **Very *Fragmented* Market both supply and demand side**
- **Large Intl intermediary: Volume Aggregator**
- **Experience and 'Inventory-Less' Goods**
- **End customers (in developed worlds) are highly wired and real time informed.**
- **But suppliers (in developing nations) are not.**

# Market Failures from Economic Views

## Market Failures : [ By definition in reverse ]

- **The market success is the ability of a collection of idealized competitive markets to achieve an equilibrium allocation of resources which is Pareto Optimal (i.e. efficiency in input, output and exchange).**
- **The perfect or idealized market is characterized by**
  - 1) Frictionless,**
  - 2) Informationally efficient**
  - 3) Perfect competition,**
  - 4) Rational, Utility Max. People**

# Why do Markets Fail ?

**Four common reasons why markets fail :**

- 1. Market Power : Monopoly, Oligopoly...  
Game Theory : First Movers, Nash Eq**
- 2. Incomplete Information : Mkt. For Lemons, Principal-Agent problem, Moral Hazard...**
- 3. Externalities : Indirect effects n pricing**
- 4. Public Goods : Non-rival and non-exclusive**

**Examples of Imperfect Market : Experience Goods [e.g. digital products, politics, Travel Goods, etc.],...**

# Why SMEs Tour Entr. facing the Market Failures from Economic Views

- **Small, Dynamic and locally based operation**  
**operation**  
**ls, Travel Agencies, Tour Operators,**  
**y Services**  
**om and Pop**  
**Es growth:**  
**ing, Sale- force, capital, IT resources, etc.**  
**rces, etc.**  
**d Capacity**  
**r Strength**

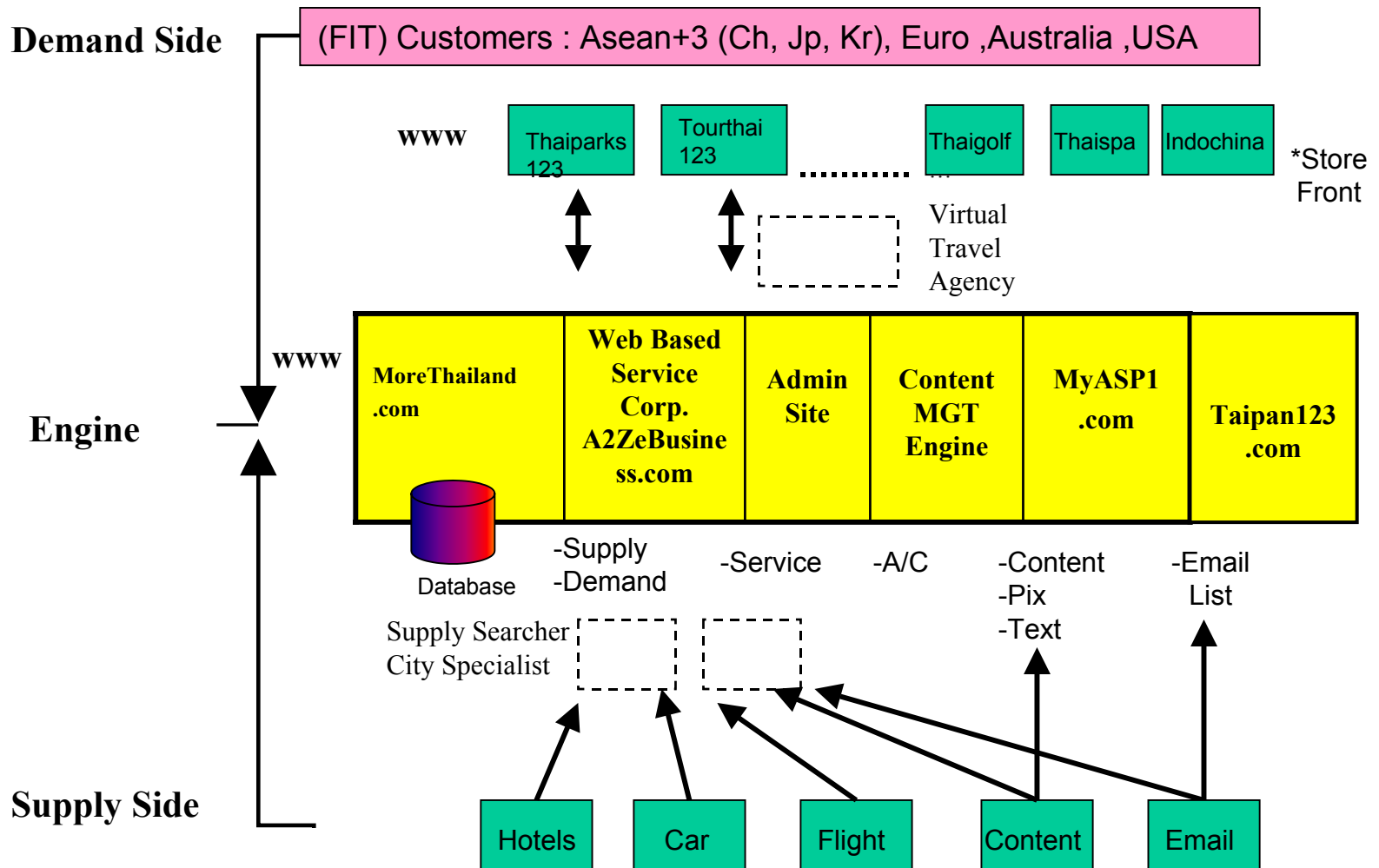
## Other offers : IT Solution (s)

<u>IT Solution</u>	<u>Value proposition</u>	<u>Cost</u>
GUI Presentation Layer	<ul style="list-style-type: none"> <li>•Web Site design</li> <li>•End user's system</li> </ul>	<ul style="list-style-type: none"> <li>•Up front Pay</li> </ul>
Application Layer	<ul style="list-style-type: none"> <li>•Web client interface</li> <li>•Distributed logic /Proxy Layer</li> <li>•Web server side</li> <li>•Business object &amp; Rules</li> </ul>	<ul style="list-style-type: none"> <li>•Hosting Pay</li> </ul>
Business Tier	<ul style="list-style-type: none"> <li>•Data manipulation &amp; Transformatin into Info. &amp; Knowledge</li> </ul>	<ul style="list-style-type: none"> <li>•Setup cost</li> <li>•Pay per use</li> </ul>
Data Access Tier	<ul style="list-style-type: none"> <li>•Interface with the database</li> <li>•Handles all data I/O</li> </ul>	<ul style="list-style-type: none"> <li>•Pay per volume</li> </ul>
Data Tier	<ul style="list-style-type: none"> <li>•Storage</li> <li>•Query &amp; Storage performance</li> </ul>	<ul style="list-style-type: none"> <li>•Pay per speed</li> </ul>
Network Layer	<ul style="list-style-type: none"> <li>•Internet access, ISPs, ADSL</li> </ul>	<ul style="list-style-type: none"> <li>•Pay per usage time</li> </ul>
Physical Layer	<ul style="list-style-type: none"> <li>Hardware ,Pcs.</li> <li>Human capital &amp; training</li> </ul>	<ul style="list-style-type: none"> <li>•Hardware cost</li> <li>•Labour cost</li> <li>•MGT cost</li> </ul>

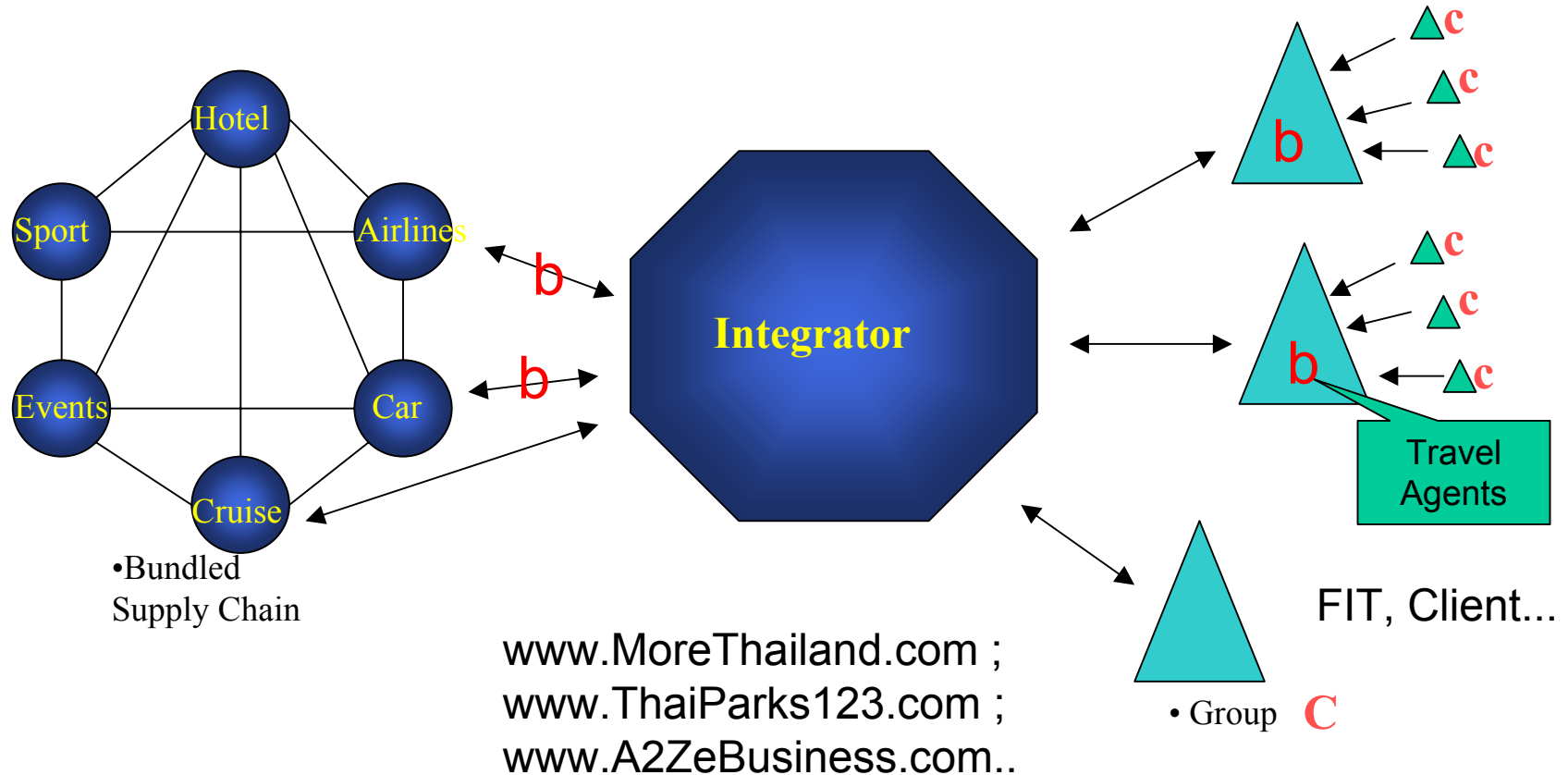
# Our Win-Win E-Business value proposition (s)

E-Business solution:	Value proposition	Cost
<ul style="list-style-type: none"> <li>•Web presence</li> </ul>	<ul style="list-style-type: none"> <li>•Infinite reach in cyberspace</li> <li>•Corp. Brochure</li> </ul>	<b>Zero</b>
<ul style="list-style-type: none"> <li>•Online community</li> </ul>	<ul style="list-style-type: none"> <li>•To share yr local knowledge,</li> <li>•true exp.</li> </ul>	<b>Zero</b>
<ul style="list-style-type: none"> <li>•eMarketing</li> <li>•Branding</li> <li>•eMail market</li> <li>•Target niche MKT.</li> <li>•Bundle service offer</li> </ul>	<ul style="list-style-type: none"> <li>•Disseminated timely &amp; trustworthy content</li> <li>•Cost Eff. Push marketing campaign</li> <li>•Destination marketing</li> </ul>	<b>Zero</b>
<ul style="list-style-type: none"> <li>•Online distribution channel</li> <li>•Sale</li> <li>•Reservation</li> <li>•Payment</li> </ul>	<ul style="list-style-type: none"> <li>•Revenue Mgt.</li> <li>–Price discriminations:</li> <li>• Time, Volume ,Season</li> <li>•Improve profitability</li> </ul>	<b>Revenue sharing</b>
<ul style="list-style-type: none"> <li>•Customer relation</li> <li>•Virtual travel agency</li> <li>•Loyalty program</li> <li>•CRM</li> </ul>	<ul style="list-style-type: none"> <li>• Repeated business</li> <li>• High retention customer</li> </ul>	<b>Revenue sharing</b>

# A2ZeBusiness Model of 'Virtual Clustering' Travel Industry




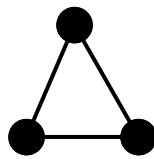
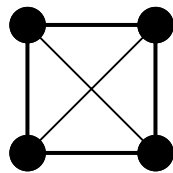
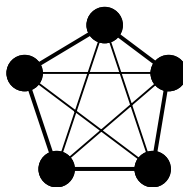

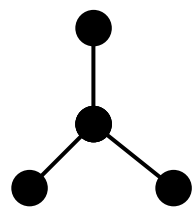
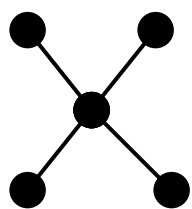
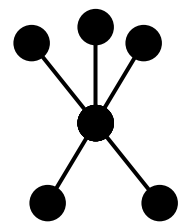
# B2b2c : Value Chain E-Travel Intergrator



Supply Side

Demand Side

## Figure 3: Metcalf's Law Network Externalities Effect

Connection	1	2	3	4	5	
<b>Value = v</b>  Where n = node.						
	0	2V	6V	12V	20V	$n(n-1)V$
<b>Cost = c</b>  F = fixed cost						
	F+0	F+2c	F+3c	F+4c	F+5c	F+nc

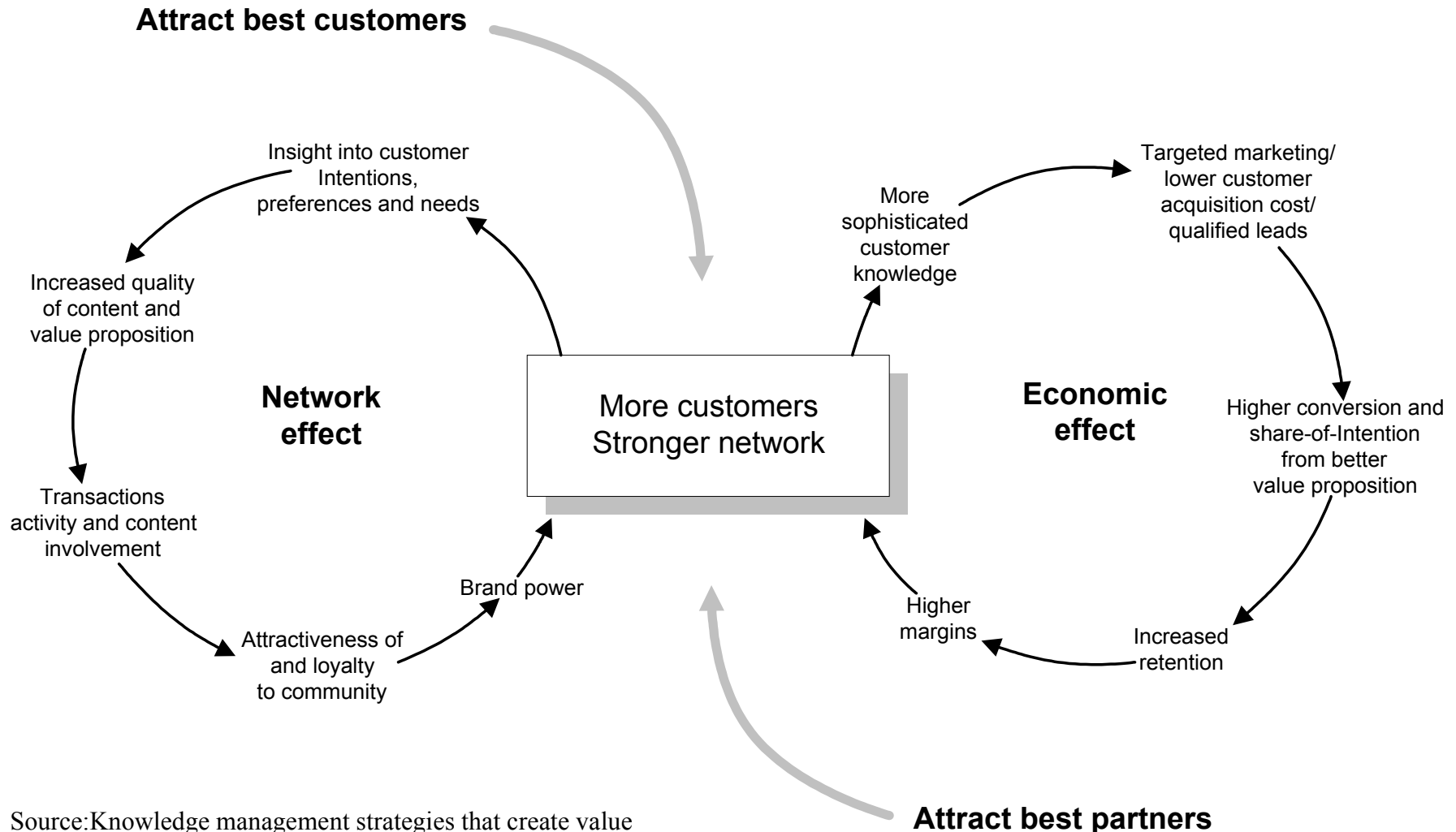
From Physics – Metcalf's Law: network externality effect  
 August 2002

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# Virtuous cycle of value

Early movers have a huge advantage, since they lock in customers and partners



Source: Knowledge management strategies that create value  
by Leigh P. Donoghue, Jeanne G. Harris and Bruce  
A. Weitzman August 2002

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# A Classic Customer Vacation Request

- # 1 packager of valued Bangkok+Krabi vacations
- New Distribution channel for [www.MoreThailand.com](http://www.MoreThailand.com) + [www.ThaiParks123.com](http://www.ThaiParks123.com) as Online Travel Agents
- Bundling Service – ‘One Stop Shop type’
  - Best Airline deal fm the customer origin
  - Ground Transportation Service.
  - Hotels in Bangkok + Resort in Krabi
  - Sightseeing [e.g. nature and cultural tours, etc.]
  - Sport Events [e.g. Diving, golf, etc.]

# A Classic Weekend Getaway Request

- # 1 packager of valued Bangkok or Pattaya vacations
- New Distribution channel for [www.MoreThailand.com](http://www.MoreThailand.com) + [www.ThaiParks123.com](http://www.ThaiParks123.com) as Online Travel Agents
- Bundling Service – ‘One Stop Shop type’
  - Best Airline deal fm the customer origin
  - Ground Transportation Service.
  - Hotels and Resort in Bangkok or Major City
  - Entertainment [e.g. Seafood, Show, Night life, etc.]
  - Activities [e.g. Spa, Shopping, golf, etc.]

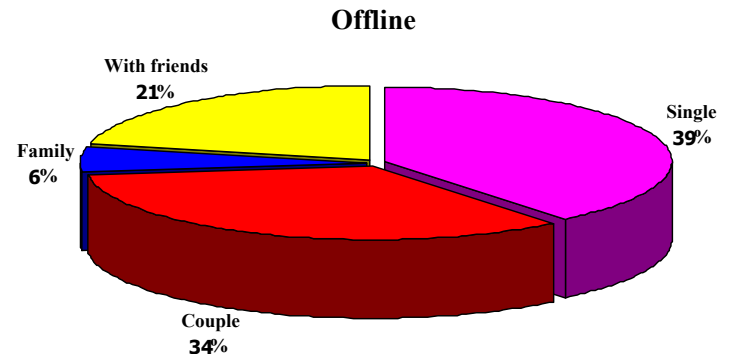
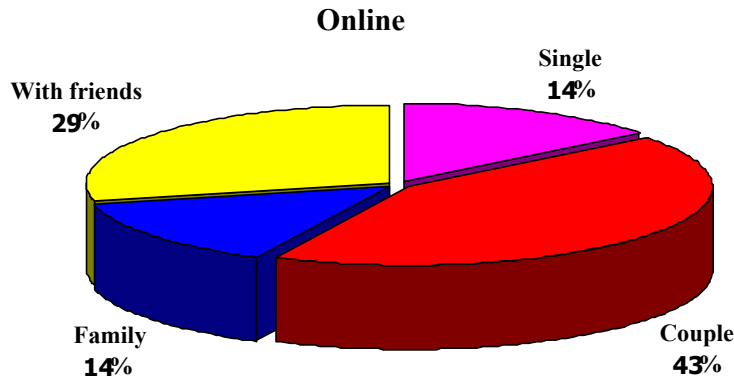
# A Typical Experience Customer Request

- Valued Bangkok+Krabi hotel booking
- New Distribution channel for [www.MoreThailand.com](http://www.MoreThailand.com) + [www.ThaiParks123.com](http://www.ThaiParks123.com) as Online Travel Agents
- *Unbundling Service* – ‘One Stop Shop type’
  - Searching for update destination content
  - Seeking for the best value proposition
  - Asking for complimentary Ground Transportation Service and ABF
  - Requesting for Hotels in Bangkok + Resort in Krabi
  - Booking for Sport Events [e.g. Diving, golf, etc.]

# A2ZeBusiness Market Survey

## Traveling as...

More Online respondents travel as couples/family.



# A2ZeBusiness Market Survey

## Respondents Booking Travel Services

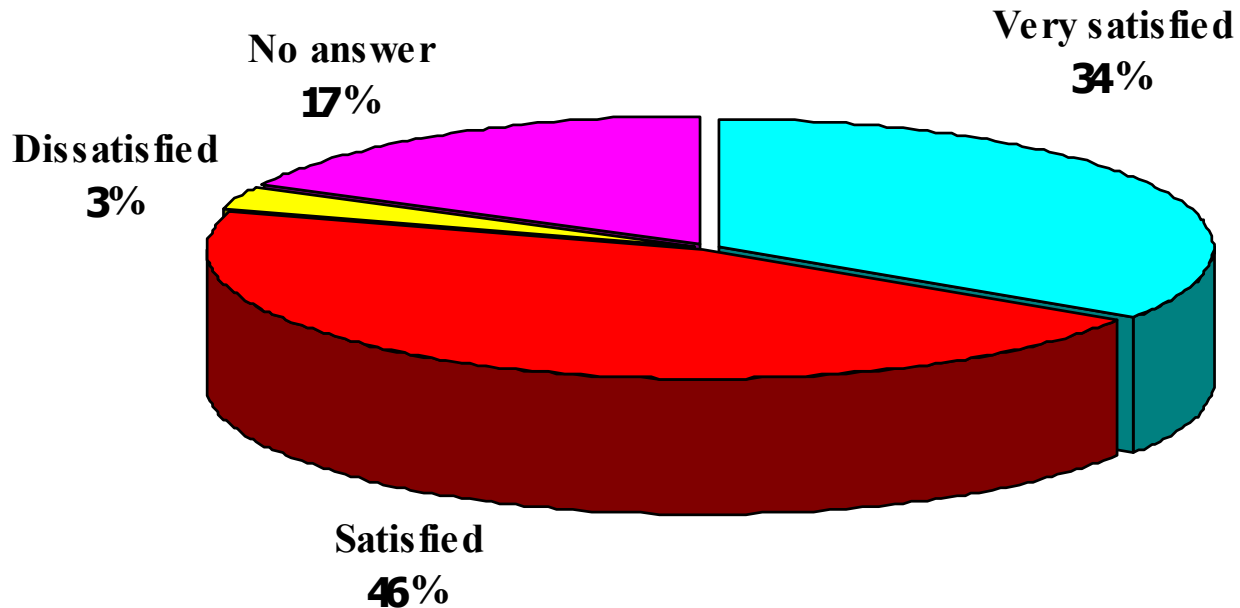
**Online respondents are more likely to book other travel services.**

	<b>Offline</b>	<b>Online</b>
<b>Tour booking</b>	26%	46%
<b>Air transport booking</b>	26%	37%
<b>Hotel booking*</b>	18%	54%
<b>Hotel pickup</b>	10%	29%
<b>Car rental booking</b>	3%	6%

*\* Refers to hotel where interviewed*

# A2ZeBusiness Market Survey

## Customer Satisfaction with Online Booking



# Thaiparks Online Survey Respondent Information

- 587 respondents (50.5% male, 49.5% female)
- SES
  - = 56% are Bangkok residents
  - = 83% are 20-39 years old

3% are 20-39 years old

0 – 15,000 per month

et” of Baht 501- 2,000

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**[www.A2ZeBusiness.com](http://www.A2ZeBusiness.com)** family members  
of online travel booking and content sites



# Reference (1)

Liu, Z [2000] 'Internet Tourism Marketing : Potential and Constraints', Univ. of Strathclyde, UK

Gilbert, D. and Powell-Perry J. [2000] 'A current overview of web based marketing within the hotel industry', Univ. of Surrey, UK.

---- 'E-Business for Tourism' by World Tourism Organization, Spain, Sept. 01 [[www.world-tourism.org](http://www.world-tourism.org)]

---- 'Developing Thai SMEs Tour Operators with E-Tourism' by Tourism Authority of Thailand, Aug - Sept. 02

---- 'Economic Impacts of Tourism', by UNEPTIE., 00

## **For Further Reading (2)**

**Recommended site for Tourist related news and articles : WWW.**

**twcrossroads.com; eyefortravel.com ; hotelmarketing.com ; nua.ie ; tia.org ;  
pata.org ; phocuswright.com ; webtravelnews.com ; emarketer.com**

**Recommended Reading for general :**

**Chaipravat, Olarn and Pongsak Hoontrakul [2000] ‘Thai Credit Market  
Failure : the 1997 Aftermath’, TDRI Quarterly Review, 15, 4 (Dec.)\***

**Fesenmaier, D et al [2000eds.] ‘IT in Tourism 2000’ conference proceeding,  
Barcelona, Spain, Springer, 2000**

**Hoontrakul, Pongsak [1999] ‘Globalization and Trilemma’, Review of Pacific  
Basin Financial Markets and Policies**

# END

see you next time

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Please, send me comments or advises to  
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