

Changes in Business Models of the Tourism Industry



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Introduction

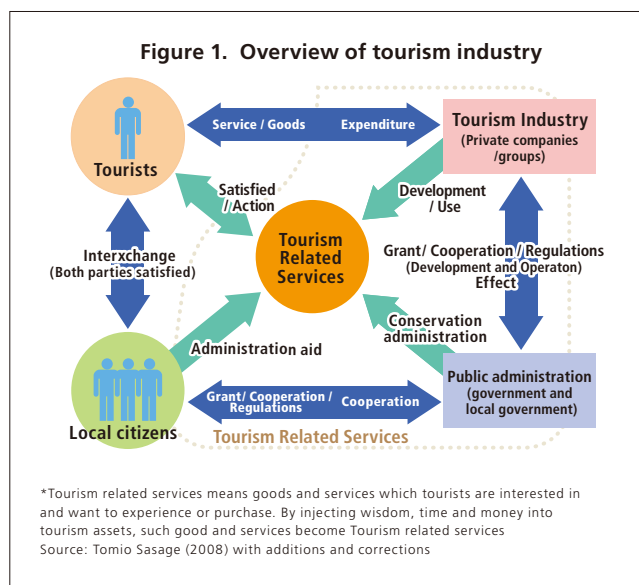
First of all, I would like to present my definition of “tourism industry.” In daily life we often hear the term “tourism industry,” however in the Ministry of Internal Affairs and Communications’ Japan Standard Industrial Classification, there is no such industry listed as “tourism industry.” Tour-

ism is classified as the lodging industry, the railroad industry, the airline industry and the travel industry. Therefore, to be exact the whole tourism industry should be called “tourism related industries,” however for convenience sake I would like to use the term “tourism industry,” in this article.

The fact that the term “tourism industry” is not used in the Japan Standard Industrial Classification goes to show how broad this field is. Herein, I would like to define this industry as all industries that gain financially from the consumption of tourists (tourism consumption). With regards to the business structure of the tourism industry, <Figure 1> I would like to outline this as the group of businesses who receive compensation for services rendered and goods offered to tourists with the aim of viewing, experiencing and watching tourism resources (natural landscape, local history, cultural sites, spas, sports events, etc.).

Changes in circumstances surrounding the tourism industry

Since the war’s end, the tourism industry in Japan has shown constant growth. Accordingly, it was not necessary to consider scientific marketing strategies for this market.



However, along with the collapse of the asset-inflated bubble economy and the diversification of consumers' values, group travel which was very cost-effective shifted to individual travel and "the survival of the fittest" in the tourism businesses became evident. In January of 2010, influenced in part by the economic downturn precipitated by the Lehman Brothers bankruptcy, Japan's flag carrier, Japan Airlines filed a petition for protection with the court under the Corporate Rehabilitation Law and went bankrupt. This was a very shocking event in the travel industry. Then from 2012 onward, foreign tourists to Japan showed a marked increase and such companies as Airbnb and Uber which promote a "sharing economy" have made inroads into Japan. Such developments are no doubt going to affect the tourism industry and we can confirm that great changes in this industry are about to happen.

(1) The great wave of foreign tourist to Japan

In 2016 the number of foreign tourists to Japan was 24,040,000 and when compared to the low of 6,220,000 in the aftermath of the Great East Japan Earthquake, this is a 3.9 fold increase. We can see from these numbers the great change Japan has experienced over these past 5 years. So as to seize this great wave of foreign tourists to Japan, in March of 2016 the Japanese Government set its aim at welcoming 40 million tourists per year in the year 2020.

It is not clear why the government set its aim at 40 million but a regression analysis of this situation reveals some interesting facts. <Figure 2> If an approximated curve analysis is made from the year 2000, the projected number of foreign tourists will be 19 million (red line). However, if the same analysis is made from the year 2011 to 2016 the number is 40 million (blue line). I am not sure if the government did a similar analysis and arrived at the number of 40 million, however if we consider that the Tourist Bureau's

Tourism Action Plan made in the year 2009, estimated that foreign tourists to Japan in 2020 would be 20 million, we can say that the 40 million foreign tourists by the year 2020 is not so far off the mark. If this is the case, looking at the Japanese Governments' policies regarding foreign tourists to Japan and the tourist industry's developments after 2012 will no doubt be very helpful to forecast the future.

Rebounding from the aftermath of the Great East Japan Earthquake in 2011, in 2012 considerable growth in the number of foreign tourists visiting Japan was recorded. In December of 2012 the Abe Cabinet was formed and in March of 2013 Haruhiko Kuroda was appointed governor of the Bank of Japan. He implemented monetary easing measures called a monetary relaxation of a different dimension, and this resulted in the falling of the value of the yen against foreign currencies. Additionally, in July of the same year the Foreign Ministry relaxed its visa regulations for countries in Southeast Asia providing for a situation where travel to Japan became easier than before. Also, in 2012, three LLC (low cost carriers) companies were established in Japan, and their activities became full-fledged in 2013. If we can surmise that the positive policies carried out by the government and the strategies pushed forward by the private sector after 2012 have proved to be effective in pushing up the number of foreign tourist to Japan, then further innovation both by the

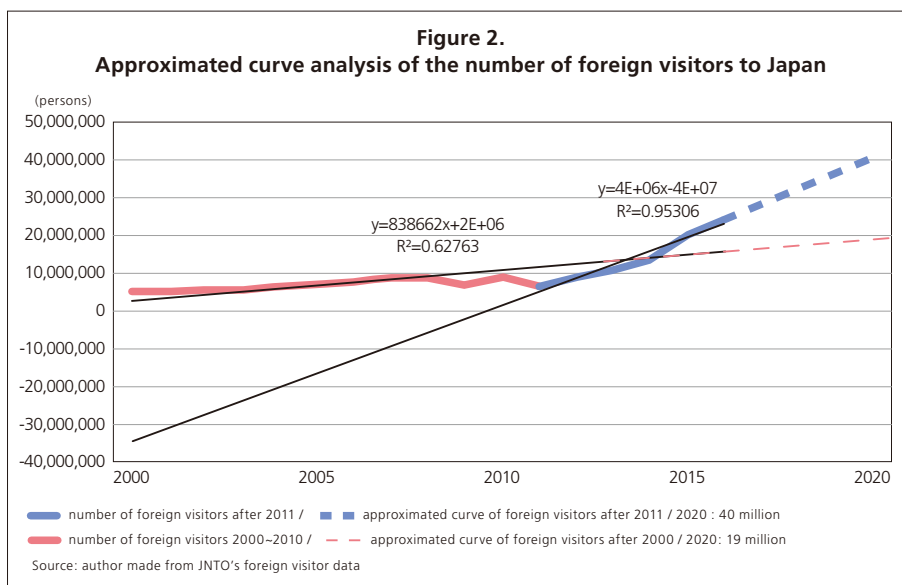
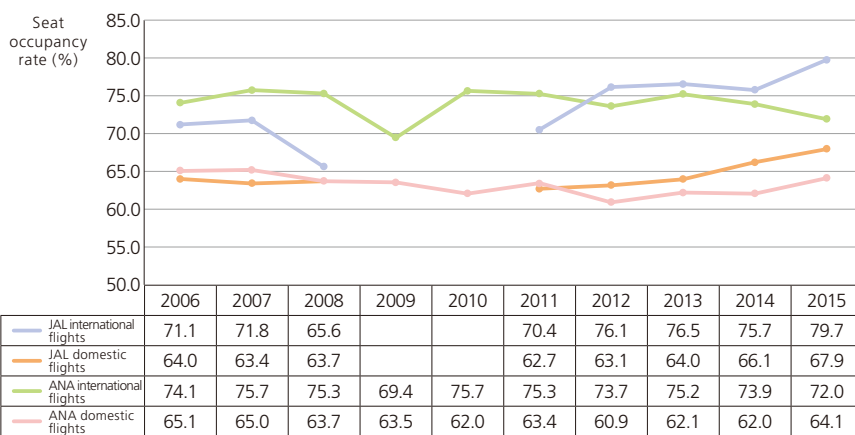


Figure 3. JAL and ANA's seat occupancy rate



*JAL's 2009 and 2010 data is not available because this period coincides with JAL's application for Corporate Rehabilitation Law
 Source: author made based on JAL and ANA's IR data.

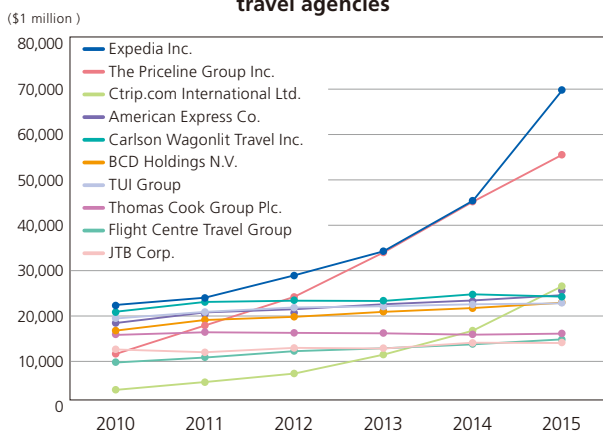
ing benefits but the department store industry is also reaping benefits. As is evident from the frequent use of the term “bakugai” (shopping spree by foreign tourists) the commerce industry as a whole is profiting from this situation. However, full-service carriers such as JAL and ANA have not experienced a large rise in their seat occupancy rates, overall. Their situations are as follows, they are focusing on their North American international routes, their popular Japanese-traveler international routes are to Hawaii and Guam but the numbers of travelers on these routes are not increasing and the

government and in the private sector are going to be crucial.

I think we can say that the tourist industry, that is each business category and each company has been able to take on this great wave of tourists visiting Japan. In the accommodation sector, in particular the hotel industry, the occupancy rate has risen. In 2011, the ratio of foreign hotel guests was 4.4% but in 2015 this ratio increased to 13% (Japan Tourism Agency). Because of this trend not only is the travel industry such as the airline industry and railroad industry reap-

number of East Asian and Southeast Asian travelers to Japan is rising. <Figure 3> Furthermore, travel agencies in Japan are not increasing their business in line with the recent increase in foreigner travelers to Japan because such online travel agencies as OTA (Online Travel Agent: a travel agent like Expedia which only does online business) and Land Operator (a foreign-capitalized company which specializes in inbound tourists to Japan) are taking up a great part of this increased business. Japan's tourism industry can no longer do business in conventional methods but must look for new ways to do business.

Figure 4. "Number of transactions" ranking of world-wide travel agencies



Source: made by JTB Tourism Research & Consulting Co. based on Euromonitor International's data

(2) The wave of IT

Advances in IT is nothing new. Yet, these waves are so strong and the travel industry is especially being influenced. <Figure 4> shows the ranking of travel agencies throughout the world according to the number of transactions. There is some fluctuations due to changes in the exchange rate however, the top three travel agencies, No. 1 Expedia, No. 2 Priceline and No. 3 Ctrip are all OTAs. Expedia was founded in 1966 by Microsoft's travel reservation department and in just 19 years, in 2015, it registered total sales of approximately 800 billion yen. (Japan's biggest travel agency, JTB registered sales of 134 billion yen the same year).

It carries out travel reservation business in 75 different

countries and uses 35 different languages. It is said that if you connect with Expedia you can connect with the world (Dykes 2016). One example of what happens when a local inn connects with Expedia is as follows. A small-scale inn located in Takayama, Gifu Prefecture which only has 8 rooms, signed on with Expedia and in 2 to 3 months, the inn was bustling with foreign tourists, so much so that in a span of three months there was only one Japanese guest party. The effectiveness of OTA business was amazing. Just by using one smartphone a traveler can book his or her lodging, air ticket, rail ticket, and make restaurant reservations. All travel related reservations can be done online and there is no need to line up at a travel agent's or at the "Midorino Madoguchi" (JR Ticket Reservation Office). Womak and Jones (2005) looked closely at purchasing systems and they named systems which do away with inefficient purchasing as "lean consumption." Onzo Naoto, Professor at Waseda University pointed out the necessity of taking into consideration the customers' perspectives with regards to "lean consumption" when drawing up a marketing strategy in the tourism industry (Onzo 2007). "Lean purchasing" practices in the tourism industry means the process of "making reservations" and "purchasing." In both these processes great innovations have been made and we can see the results of these innovations in our daily lives. One example is mistakes in relating and hearing reservation dates and times has been eradicated, this being a great benefit for not only the customer but also the travel agent.

(3) The wave of the sharing economy

In the Ministry of Internal Affairs and Communications' White Paper -- Information and Communications in Japan, they define "sharing economy" as "go-between services of unutilized assets owned by persons (including such intangible assets as skills)" and they state the significance of utilizing such services in the following words. "There is merit in the situation where the owner and lender of such unutilized assets receives a revenue and the borrower can use such services without having to own the service." The domestic market size of this service in 2014 is estimated to have been 23.3 billion yen (a 135% increase over the previous year, Yano

Research Institute Ltd.) and the worldwide market size in 2025 is predicted to be 3.5 trillion yen (total of the sharing services in the following five sectors; money and banking, human resources, accommodation facilities, cars and music and video distribution).

In the tourism industry, that is, accommodation and go-between services, examples being Airbnb and Vacation Rental (for example renting out cottages in seasons when they are not used) Expedia style "Home Away" services should be mentioned. In the car rental sector, Uber in collaboration with a local NPO started up a service in Kyoto Prefecture, Kyotango City calling it "Sasaeai Kotsu" (support transport). In this case, they were able to receive the designation of the Ministry of Land, Infrastructure, Transport and Tourism's "Area with no public transportation / assistance program" and local and private, bus, taxi, car rental, etc. companies together were able to set up a "local area public transport committee." There are high expectations that this service will not only be beneficial for local citizens but also for tourists visiting this area.

In the 2017, regular session of the Diet, the "vacation rental new legislation" is to be submitted. It is expected that there will be some regulations with regards to such things as a limit to the number of days in operation and the handling of complaints. Also, a system of inspections and penalties is expected to be installed but with the passing of this legislation a new business, that is, the "vacation rental" business will begin. It is reported that last year in Osaka even though the number of foreign tourists increased, the occupancy rate of major hotels (partly due to their high prices) and some business hotels did not increase. Some people consider that a portion of these foreign tourist went to vacation rental facilities. (The Nikkei, 2016 July 1st.) It seems that foreign tourists with the stance of "wanting to spend more on food and tourism activities" is increasing and we can say that the needs of foreign tourists is becoming more varied.

On the other hand, with the dawn of a 40 million foreign tourists per year age, it is being pointed out that there is a serious lack of accommodation facilities. It is reported that Tokyo is deficient of approximately 18 thousand rooms and Osaka is deficient of approximately 14 thousand

Figure 5. Laws and measures which are expected to be revised and adopted in the Diet

Related business	Government's focus
Translator guide	<ul style="list-style-type: none"> On the condition that a certain degree of quality can be maintained, "services monopoly regulations" etc. and the translator guide system should be revised. Enlarge the special zone guides' area of activity and assist in rectifying the situation where there is a lack of translator guides who can receive payment for their services. A law to revise the translator guide law is to be presented at the 2017 ordinary diet session.
Lodging business (Regulatory Reform Promotion Council)	<ul style="list-style-type: none"> From the viewpoint of increase productivity and the offering diverse types of lodging facilities. Revision planned for 2017, minimum room number (10 rooms or more for hotel and 5 rooms or more for inn. Change in minimum floor space) Easing of regulations that facility must have a front desk. Heightening freedom in the running of the business so as to promote the offering of diverse services.
Travel agents (including land operators)	<ul style="list-style-type: none"> So as to promote community based tourism, the consolidation of planning, and easing of regulations to simplify product offerings. (the setting up of administrators for limited local areas, re-examining the scope of work that a third-class travel agent can do.) Consolidating the environment to accept the increasing foreign traveler to Japan reality. Realizing a fair business field for domestic and foreign OTA (Online Travel Agent) travel agents. <Land operators> Forming a system to instruct and supervise problem companies. Assuring the traveler's safety and fair transactions.
Tourism re-energizing fund	<ul style="list-style-type: none"> Consolidating the offering of skills in a stable and sustained way with regards to investment knowhow so as to maintain the physical conditions of tourist sites. Old houses restoring fund (In 2018 50 billion yen: Kan Chief Cabinet Secretary)
IR (Integrated resort)	<ul style="list-style-type: none"> In December of 2016, the IR (Integrated resort) consolidation promotion law was passed in the diet. By December of 2017, the IR enforcement law will be readied
Vacation rental service (operations more than 180 days per year)	<ul style="list-style-type: none"> Discussions in the "Committee to consider the situation of vacation rental services" progresses and in mid-June of 2016 a summary report is presented. The "vacation rental new legislation" will be submitted in the normal diet session of 2017. The inquiry counter for complaints and opening procedure questions need to be integrated.

Source: consolidated from newspapers and professional journals (as of January 2017)

rooms. (Mizuho Research Institute, 2016) It is considered that "vacation rental" will help to alleviate this problem. However, there are expectations that this new sector will also will help to create new business models such as "vacation rental" and "short-term service apartment rentals." Through such services existing facilities can be put to good use so as to create diverse accommodation facilities and meet the needs of tourists.

The government's role in the promoting of the tourism industry

In the previous section of this article I mentioned that in order to realize an annual 40 million foreign visitor to Japan situation, innovations both by the government and by the tourism industry are going to be required. What then does the government have to do to promote the tourism industry?

In the past "promotion" was the government's, in particular the local government's, tourism section's main role. How-

ever, in the "Town, people, work - comprehensive strategy formation" and in the "Japan Reconstruction Strategy" it was stipulated that the formation of a "Japan-styled DMO (Destination Management Organization)" is necessary. In the 2015 "Town, people, work formation basic policy" it is stated, "as a specialized organization to promote the local region's tourism in a strategic way, a Japan-styled DMO should be formed" and it is also stated, "learning from leading-edge examples being carried out in Western countries, the immediate cultivation of a Japan-styled DMO with desirable functions should be carried out." And in the 2016 "Japan Reconstruction Strategy" it states, "By 2020 at least 100 world-level DMO organizations should be set up throughout Japan." These statements indicate that attention is being paid to the situation of DMOs in Western countries. Due to space constraints, I will not go into the detail (My book titled "DMO - Innovations in Tourist Site Management" will be published around May) however, in DMOs in the US, marketing and promotion are the responsibility of professionals who are in DMOs and tourism policy is the responsibility of tourism related public administration. In other words, the responsibility of each organization is very clear. With regards to tourism policy, public administration's main job is to do inter-ministry liaison work so as to bring about a more desirable and more enchanting city. Some of the main themes they must deal with are as follows. "Finding solutions for intermodal passenger transport." "In the case where a historic building is due to be torn down, negotiating to at least leave intact the facade of the structure." "When city planning is being carried out and a re-grading for an alternative application is planned, making sure that tourism policy will be reflected in the plan." etc.

In addition, public administration has contact with related organizations, that is, with a particular "local area" or with a particular "individual business group," however, from the standpoint of having to be impartial, persons in public administration cannot talk directly with a particular tourism related company. Such persons are also often transferred to a different section after only 2 or 3 years of working in that section. Accordingly, such public administration personal lack actual experience and can only gain a general knowledge of

the tourism industry so cannot provide advice to tourism related companies. This is a very particular dilemma that public administration personal face.

Taking this situation into consideration, with regards to the promotion of the tourism industry by tourism related public administration we could say that their main role should be in the area of infrastructure maintenance and the easing of regulations. For example, when a 15 T-class large scale cruise ship is to dock at a port, there are presently regulations that the dock length must be over 600 meters and the depth of the harbor must be over 12 meters. Another example is when a historically important walking trail is going to be promoted, the installing of public toilets becomes necessary. In this case public administration must take the lead and install such facilities. When tourism related infrastructure is consolidated this makes for an environment where private companies can compete to form new business models.

We can see that the government has now initiated forward-thinking discussion with regards to the easing of regulations. <Figure 5 > is a list of the “Laws and measures which are expected to be revised and adopted in the Diet.” as of January of 2017. In this list is the “vacation rental service legislation” I mentioned before and discussion on a broad spectrum of other topics is now being carried out.

For example, in October of 2016 in the “Re-examination of the translator guide system (mid-examination report)” it states as follows, “The exclusive designation of translators to perform translation services in foreign languages to foreign tourists for compensation should be reevaluated so that various persons can participate in this service and thus help to heighten the quality of tourism in a way that is fit for a tourism developed country. With this aim in mind Japan’s tourism environment should be consolidated.” By enlarging the activity area of “special zone guides” it will be possible to create new tourism services that take into consideration each regions specialties. By “special zone guides” I mean “translator guides who are active in a local, limited area”.

So as to be a translator guide to foreign tourists and receive compensation for services rendered, according to the law, such a guide must pass a test and be officially designated

as such a guide. And to be a “special zone translator guide” for a “special zone” (zone area is determined by the local government) that person must attend a training course sponsored by the local “special zone” government. Only such a person is allowed to conduct translator guide services and receive payment for such services.

The translator guide test is a very difficult test and the passing rate is very low. This situation produces very high quality translator guides. If this system of “special zone guides” is reevaluated however it will be much easier for translator guides to participate in such tours as follows. “A 2-hour tour to small drinking outlets under the elevated train tracks in Shinbashi to experience a Japanese salaryman’s drinking spree.” “A 3-hour tour to a “kushikatsu nido duke kinshi” (deep-fried breaded meat or vegetables on skewers, eaten after dipping into a sauce -but only one dipping allowed) restaurant in Tsutenkaku, Osaka.) Such local area tours to experience the daily life of Japanese people will become possible with this “special zone” designation. Already, there is a social guide matching service called “TOMODACHI GUIDE.” Such a service is providing a “sharing experience” and could be called a new business model. The passing of new laws and the revising of others is happening as a way to respond to the new needs in the tourism industry. The tourism industry should not miss this change to create new business models.

Addressing innovation

At this time when new waves are being felt in the tourism industry, based on discussions in the government’s Regulatory Reform Promotion Council, reforms in laws are being pushed forward in order to ease regulations. What then should private companies be doing to address this situation?

In the tourism industry we must come to the realization that now is the time for a paradigm shift. The new waves pounding against the tourism industry are forcing us to change our common knowledge and our set of values discontinuously and dramatically. In order to implement a strategy of growth, we must turn change into chance and make the chances come alive. Next, I would like to introduce Harvard Business School Professor Clayton Christensen’s book

The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail and look at what we should be looking out for at this time when business models are changing.

Christensen writes in his book as follows, "Smart companies fail because they do everything right. Eventually, their leadership in the market is stolen and the company fails." This is a rather surprising statement. He says that smart, leader-in-their-market companies fail, not because they make mistaken business decisions and not because they don't realize the emergence of a new technology. Smart companies lend their ears to the needs of customers, produce products to meet those needs, and invest in the development of new technologies to make those products. In other words "smart companies," are at the greatest risk when a "disruptive innovation (an innovation which destroys the effectiveness of a business model which has been successful)" changes the market structure. A good example of this is Eastman Kodak which was the leading company in the photo film industry. Kodak in 1975, ahead of other companies helped to develop the digital camera. However, acting "in a proper way," they put great efforts into bettering their photo film technologies. They brought out film that was of a quality over and above what their customers were requesting. These efforts lead to their getting behind in the development of digital camera technology. Digital cameras and then later to follow up smartphone development and sales dealt a great blow to Kodak's photo film and camera business. So much so that on January 19, 2012 the company filed for Chapter 11 bankruptcy protection at the New York Federal Bankruptcy Court.

Christensen says whether a company can deal with or cannot deal with a new innovation is not dependent on the content of the technology but rather on the organizations ability to manage its technology. "Good companies" because of their management practices which made them the leaders in their industry are not able to become innovative and eventually their leading position is stolen from them. Christensen goes on to say there are 2 types of disruptive innovation. The first one is "low-end disruption." In this type of disruption, "customers who have been pampered" are offered products or services which are of lower value at a lower price and such and innovation leads to a new entry into the market. By "cus-

tomers who have been pampered," this means customers who do not need the full performance valued by customers at the high end of the market. For the traditional lodging industry, vacation rental could be called low-end disruption. "I want to consider my accommodation place as my base for sightseeing, that is all. I want to spend my money on experiences and food rather than on my lodging." For tourists with this mindset, "vacation rental" is the mode of accommodation that will meet their needs.

On the otherhand "new market disruption" occurs when a product fits a new or emerging market segment that is not being served by existing incumbents in the industry. In other words, it is the situation where a product or service which had "no consumption" after innovation, becomes a demand was created. As I mentioned previously, Expedia and Japan's OTA, Rakuten (initially founded as Hitachi Zosen Computer's *Hotel no madoguchi* /Hotel contact) both started up their hotel reservation web sites in 1966, initiating a new business category. This start-up happened one year after Windows 95 was released and customers became used to using the internet.

Especially here in Japan, at the start-up of online hotel reservation web sites, it was not in the conscious of many persons that consumers would be drawn toward "lean consumption," that is, purchasing systems which do away with inefficient purchasing. At the start-up of OTA businesses in Japan there were many opinions about how things would progress. Some felt that here in Japan where people are very sensitive about providing personal information on the web, such as credit card information to make payment, such businesses would not take off. Others pointed out that here in Japan one can find a convenience store in walking distance almost anywhere one goes, and one can utilize the Japan-specific "e-commerce" (electronic commerce) system at convenience stores which are open for 24 hours. So, hotel reservation systems in Japan will be able to use this situation. (Takahashi Kazuo, 2013)

Even for companies which are continuously pursuing innovations, it is difficult to perceive and make timely decisions regarding "new market disruptions." Eastman Kodak is a case in point. On the other hand, in the case of Expedia, Rich Barton (at the time 27 years old) who was a board

member of Microsoft proposed to other board members (Bill Gates and Steve Balmer included) that Microsoft develop an online travel reservation system and this proposal was accepted. This was the start of Expedia. This story makes us realize that it is vital that organizations keep alive a spirit of “Why don’t you try it!”

However, in the case of low-end disruptions, the situation is different. It is not the case that a “no consumption” situation exists but rather that a situation where “customers who have been pampered” exist. Professionals in that field will think, “If we change how we do things maybe we will be successful.” With regards to the “vacation rentals” system, established accommodation companies could make inroads into this service. For established companies, a strategy to become No.1 will involve imitating what their new rival companies are doing and maintaining their previous position by stealing a share of the business back from these new companies. Uber’s inroads into the taxi business is a similar case and established businesses will have to themselves offer these new services. Local governments should not be stopped from carrying out demonstration experiments but rather they should be given a free hand. Then by utilizing this data gained, they can stand at the forefront of all changes in business models and capture a large share of the business. In this way, they will have the chance to strike gold.

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