

Seminar on LCCs in Asia and Inbound Tourism to Japan

(In commemoration of the 20th anniversary of Japan International Transport Institute (JITI))

The impact of the expansion of LCCs on inbound tourism: Strategic View

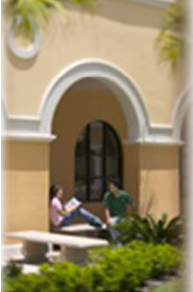
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Today's Overview (Total 39 pages)

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2. **LCC and Japan as Destination in Perspective (P13-19)**
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3. **Tourism Public Infrastructure (P20-29)**
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4. **Inbound Potentials and other Issues (P30-39)**
 1. Destination Marketing and implications for LCC
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 1. *Ex - 1: LCC business*
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 3. *Ex - 3: Marketing and Sales Concept*

1. Strategic Reasons for Tourism Policy Shift in Japan

- The history of Japan's travel industry can be divided into five eras:
 1. pre-modern travel, before 1868;
 2. deregulation of domestic travel and inbound promotion, 1868-1945;
 3. promotion of inbound travel, 1946-1970;
 4. promotion of outbound travel, 1971-2003; and
 5. emphasis on the strategic importance of tourism (inbound promotion), after 2003:

http://www.hotelscombined.com/Hotel/Fujiya_Hotel_Hakone.htm

1-1. Japan's Inbound Tourism Promotion in Historical Perspective



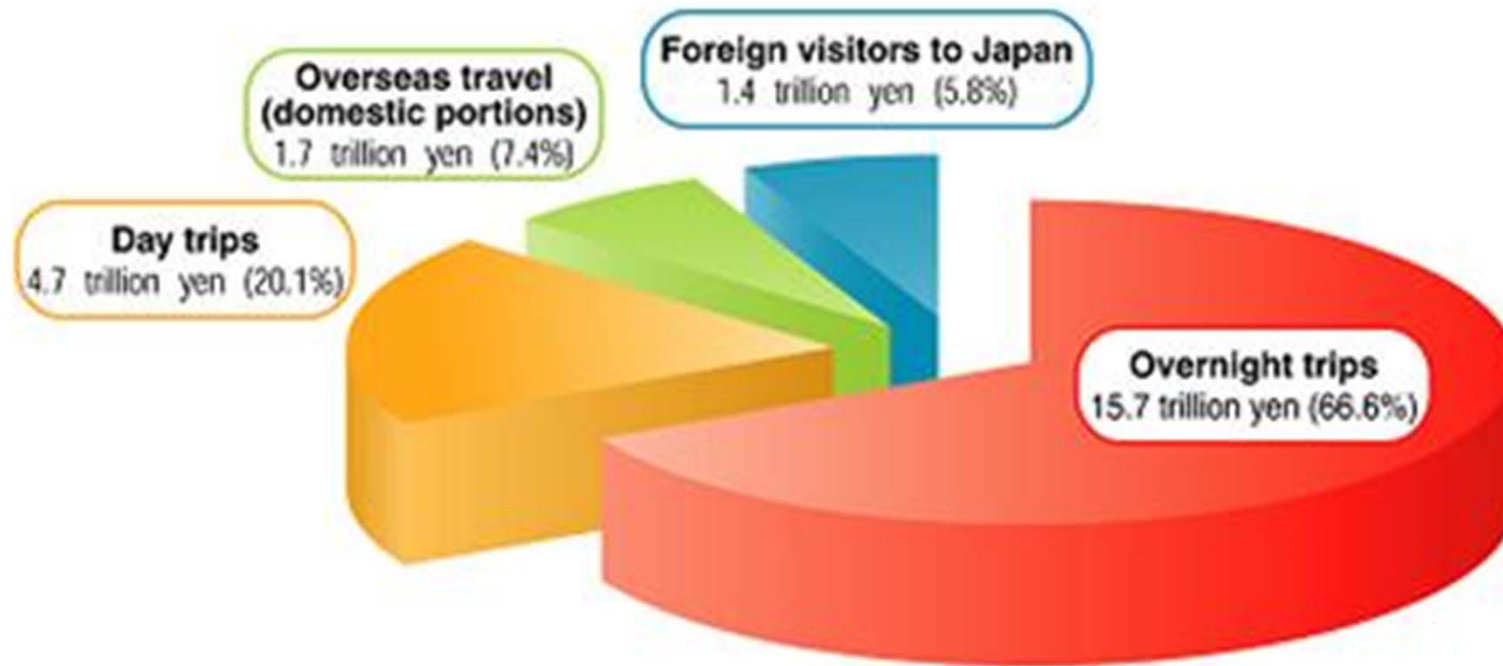
5. Emphasis on the strategic importance of
tourism, after 2003

→ Why the latest shift in policy?

1-2. Strategic Reasons for the Policy Shift

- **Ultimate National Goals**
 - Maintain & Improve Quality of lives of taxpayers (CS)
- **How?**
 - Secure Export Revenues (by hosting inbound tourists)
- **Facing Threats to Successful Japanese Model**
 - Decreasing International Competitiveness of traditional exporting sectors
 - Decreasing and rapidly aging population
 - Difficulty in sustaining the nation with the past success models of 20th Century into the 21st Century
 - → **Rely on Tourism as an Industry**

1-3. Assessment of Potentials and Challenges



1-3. Assessment of Potentials and Challenges

Figure 29: Size of Tourism GDP to National Economy

Country (Study Year)	TGDP
Spain (2004)	11.0%
Austria (2005)	6.4%
Switzerland (2004)	5.1%
New Zealand (2005)	4.8%
Australia (2005)	3.9%
United Kingdom (2003)	3.4%
Germany (2003)	3.2%
Norway (2005)	3.1%
USA (2005)	2.6%
Sweden (2004)	2.6%
Finland (2005)	2.4%
Canada (2006)	2.0%
Japan (2006)	1.9%

Source: Presentation by Tadayuki (Tad) Hara, PhD, at the 2008 UNWTO Conference in Bali
Paper Title: "Results of 7th Research on Economic Impact of Travel and Tourism in Japan"
Subtitle: "Quantifying the Relative Importance of Tourism as an Industry".

1-3. Assessment of Potentials and Challenges

FIGURE 30: Size of Tourism Employment to Total Employment

Country (Study Year)	Employment %
Norway (2005)	6.8%
New Zealand (2005)	5.8%
Switzerland (1998)	5.2%
Australia (2005)	4.6%
USA (2003)	4.2%
Canada (2000)	4.0%
Sweden (2002)	3.0%
Japan (2006)	2.6%

Source: Presentation by Tadayuki (Tad) Hara, PhD, at the 2008 UNWTO Conference in Bali, Paper Title: "Results of 7th Research on Economic Impact of Travel and Tourism in Japan" Subtitle: "Quantifying the Relative Importance of Tourism as an Industry".

1-3. Assessment of Potentials and Challenges

- This is the 3rd time for Japan to seek for Inbound tourists.
- What are the potentials and challenges?
- What should we do with LCCs?

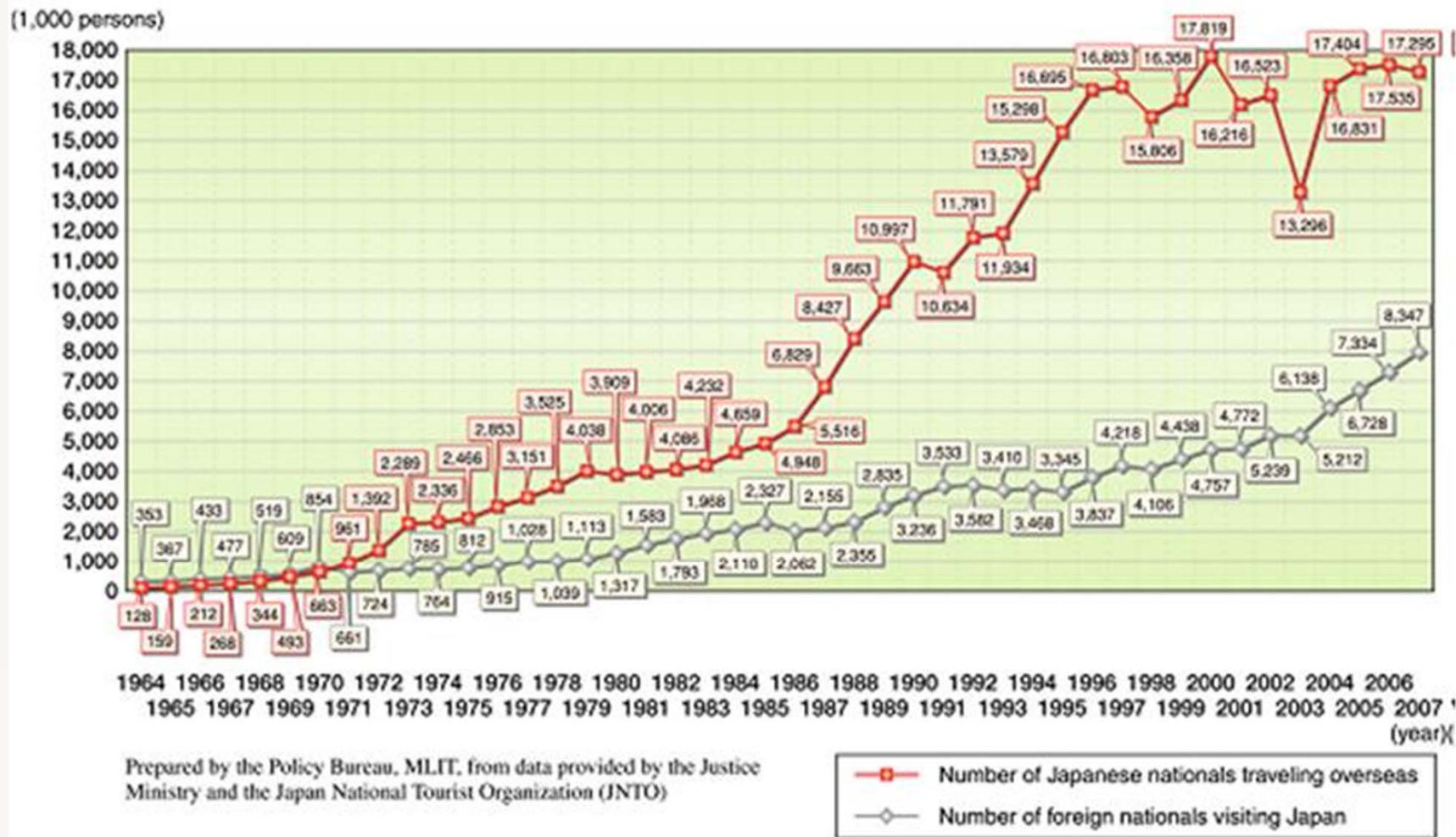
1-3. Assessment of Potentials and Challenges

Historic Japanese Outbound Travelers and Balance of Payments

Year	Visitor Arrivals (persons)	Japanese Overseas Travelers (persons)	Receipts (million US\$)	Payments (million US\$)	Balance (million US\$)
1976	914,772	2,852,584	313	1,664	-1,351
1981	1,583,043	4,006,388	735	4,616	-3,881
1986	2,061,526	5,516,193	1,463	7,229	-5,766
1991	3,532,651	10,633,777	3,435	23,983	-20,548
1996	3,837,113	16,694,769	4,078	37,040	-32,962
2001	4,771,555	16,215,657	3,301	26,530	-23,229
2006	7,334,077	17,534,565	8,471	26,876	-18,405

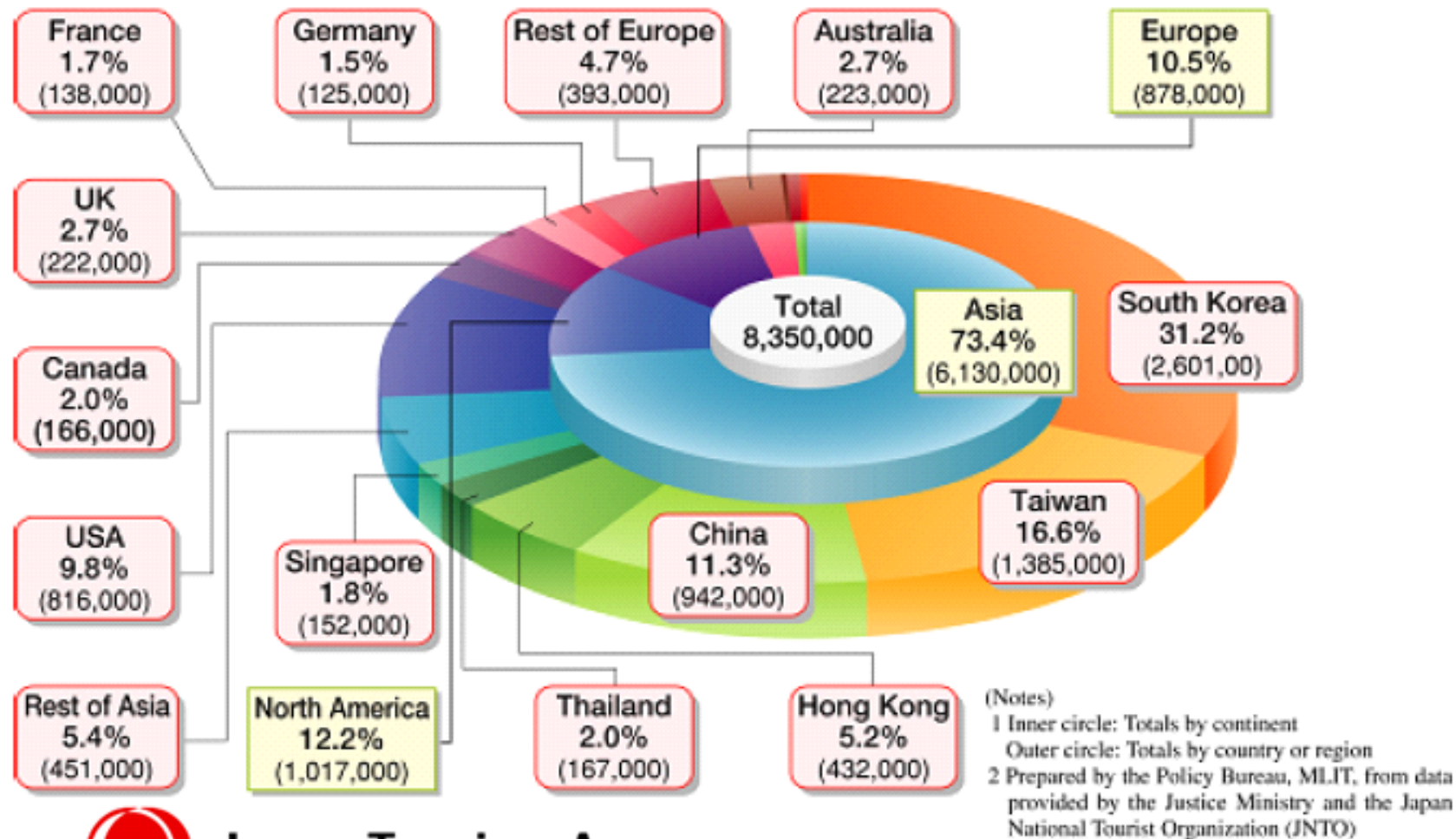
Source: Pacific Asia Tourism Association (PATA)

1-3. Assessment of Potentials and Challenges



1-3. Assessment of Potentials and Challenges

FIGURE 22: Foreign Travelers Visiting Japan – Shares by Country (2007)



2 LCCs and Japan as Destination in Perspective



2-1 Literature Review on LCC over Tourism

- Whyte and Prideaux (2007) argued that growth of LCC to Cairns, Australia occurred at the expense of modes such as drive, long-distance coaches and rail.
- The real bottlenecks of the air transportation system are the runway systems of the major commercial airports in N. America, Europe and Asia (US Dept.of Transportation Airline traffic and Financial Reports)
- Smith (2009) discussed effects of LCC on efforts to develop cultural heritage tourism in Malta.
- Francis et al (2006) identified LCC market shares in the world, and stages of developments compared to USA as a benchmark. (shown next page)

2-1 LCC Market Shares Around the World

Low Cost Market Shares Around the World

Region (country)	Year low cost operations began	Year(s) in which market de-regulation took place	Share of Overall Market (%)
North America			
USA	1978	1978	24-25%
Canada	1996	1996	30
Europe			
UK/Ireland	1995	1993	40
EU	1999	1995	20
EU expansion	2002	2004	less than 1%
Australia/NZ			
Australia	1990	1990	30+
NZ	1996	1984	30+
Asia			
Malaysia	2001	2001	2
Singapore	2001	2001	less than 1%
Japan	1998	1998	1
China	n.a	ongoing	n.a
Thailand	2004	2003	less than 1%
India	n.a	2003	less than 1%
Rest of World			
Brazil	2001	1998	3
South Africa	2001	1999	1
Gulf States	2004	2003	less than 1%

Source: Table 1 "Where next for low cost airlines? A spatial and temporal comparative study"

Francis, Humphreys, Ison and Aicken, *Journal of Transport Geography* 14 (2006)83-94

2-1 Market Development Stages

Market Developments of Low Cost Airlines Compared to the US

Stages	USA (as a benchmark)	Canada	UK	Europe Mainland	Eastern Europe	Asia	Australia	NZ	Rest of World
1. Innovation	v	v	v	v	v	v	v	v	v
2. Proliferation	v	v	v	v					v
3. Consolidation	v	v	v				v	v	
4. Second Phase of new entrants	v								
5. Consolidation	v								
6. Market Maturity	v								

Source: Table 2 "Where next for low cost airlines? A spatial and temporal comparative study"

Francis, Humphreys, Ison and Aicken, *Journal of Transport Geography* 14 (2006)83-94

2-2 Strategic Identification of Hidden Assets

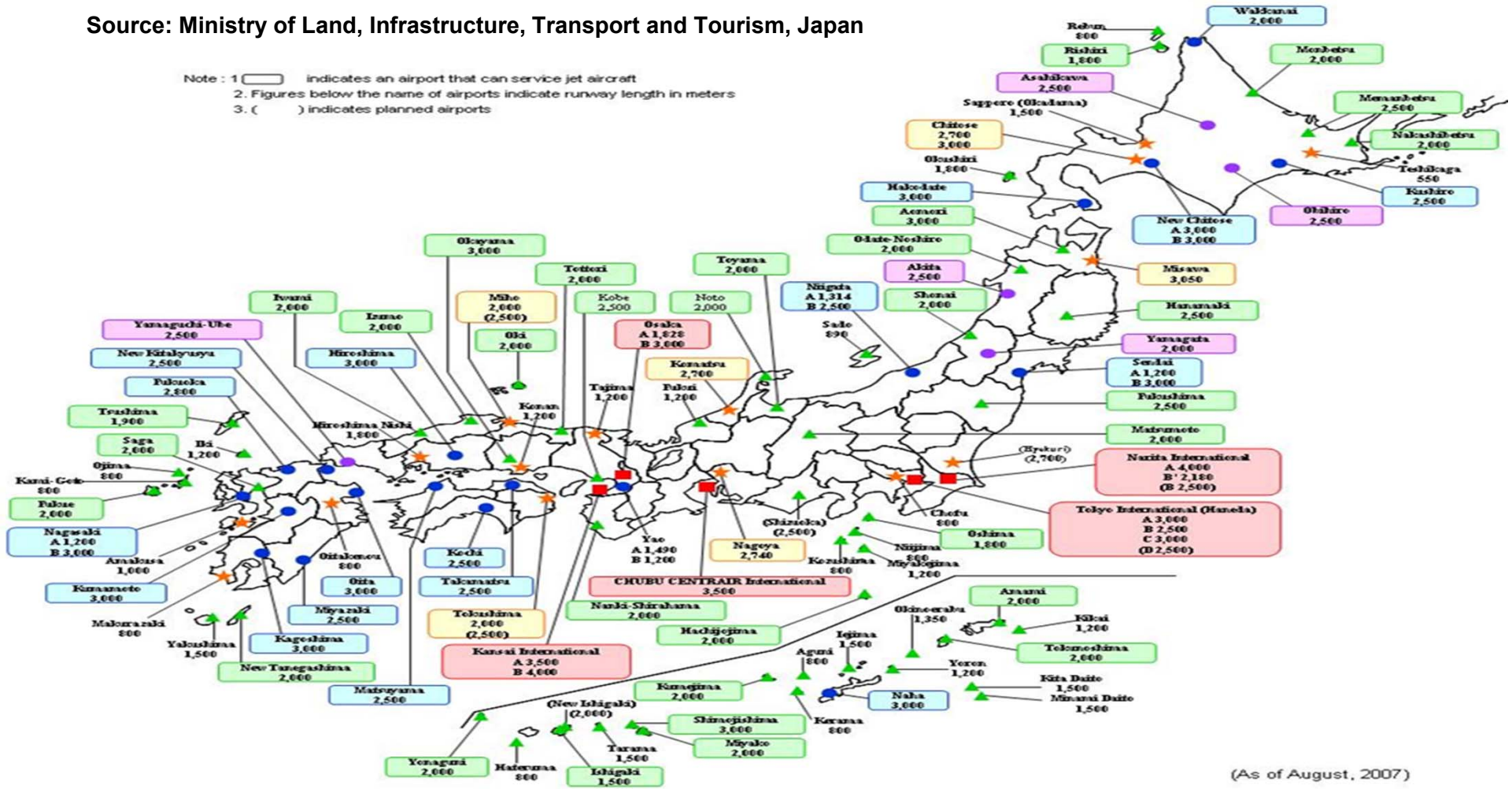
- There appear to be existence of high quality airports with excess capacity in Japan
 - Japan has an extensive network of airports across the nation. Currently there are five first class airports which are able to handle intercontinental flights.
 - Narita International Airport (Narita: NRT)
 - Kansai International Airport (KIX)
 - Tokyo International Airport (Haneda: HND)
 - Chubu International Airport (NGO)
 - Osaka International Airport (ITM)

2-2 Airports: Important Infrastructure for Inbound Tourism

- Japan's airports system is well developed with five first class airports near major cities, over 20 second class airports, some of which can handle international flights, and nearly sixty third class "domestic only" airports.
- Capacity constraints exist predominantly with two first class airports → three first class airports and most regional airports have excess capacities = critical infrastructure to meet increase in inbound tourism already exists!

Source: Ministry of Land, Infrastructure, Transport and Tourism, Japan

- Note : 1. indicates an airport that can service jet aircraft
 2. Figures below the name of airports indicate runway length in meters
 3. (▲) indicates planned airports



(As of August, 2007)

Aerodromes	Airports Category	Established and Administered by	Main Role of Airports	Airports in Service	Airports for Jet Aircraft	Planned Airports
				97	66	3
Aerodrome for Public Use	■ Class 1 Airport	Minister of Land, Infrastructure and Transport Narita International Airport Corporation Kansai International Airport Co. Ltd. Central Japan International Airport Co. Ltd.	Airports mainly for international air transport	5	5	0
	● Class 2 (A) Airport	Minister of Land, Infrastructure and Transport	Major airports mainly for domestic air transport	19	18	0
	● Class 2 (B) Airport	Local Governments		5	5	0
	▲ Class 3 Airport	Local Governments	Local airports mainly for domestic air transport	53	32	2
	★ Others	(Joint-use Aerodromes) Defense Agency U.S. Air Force (Other Aerodromes) Local Governments	-	15	6	1
Total				97	66	3
Non-public Aerodromes						

3 Tourism Public Infrastructure



3-1 Tourism Public Infrastructure

- Business Model of Convention Center may be an useful example.
- Convention Center is usually built by local/national government as a public facility
 - Often operated at losses if looked at its Financial Statements (I/S, B/S).
 - Draws certain tourists segments (longer staying, higher spending visitors) to the region, benefiting wider hospitality industrial sectors
 - Hotels, Restaurants, Local transports, retail shops, amusements, translators, destination service companies, interpreters, AV rental, luxury limousine car...
 - Resulting in job creation, tax revenue generation as a critical infrastructure for export revenues of the regional economy
 - Let's see one case study on Tourism Public Infrastructure

3-2 Case Study : Tourism Public Infrastructure - Orlando Convention Center



*Partly Based on Presentation prepared by the Orange
County Convention Center, Orlando, Florida, USA*

3-2 Funding for Tourism Infrastructure



Construction of Tourism Public Infrastructure is often funded by government's ordinary budget. And often the project does not generate enough cash flow, so government has to continue to subsidize its operation while it benefits industry and create jobs by attracting visitors.

3-2 Alternative Funding of Tourism Infrastructure



Government issue a municipality bond to raise construction cost of the Tourism Infrastructure. It is non-recourse and government offers no guarantee. Government impose a special purpose tax (TDT) which will be used for (1) Bond debt service (2) destination marketing only.

3-2 A Business Model for Alternative Tourism Public Infrastructure Financing

1. Local Government issues municipal bonds to raise construction costs
2. Local government imposes special purpose tax on consumption of tourism commodities such as hotel rooms and rent-a-car charges.
3. Tax revenues are put into a special account and earmarked and for (1) tourism promotion (2) debt service for the muni-bond only. Never put into general operating accounts
4. The bond is non-recourse and local government does not guarantee it, making it off-balance sheet.
5. Price competitiveness of tourism public infrastructure has to be emphasized to promote visitation, which benefits by far wider stakeholders in the regional economy. Local government would rather see tourism job creation and tax revenue generation instead of taxing suppliers of tourism commodities.

3-2 Build a structure in which tourism revenues will be circulated in regional economy and contribute for growth of the revenue

観光収入が地域経済内で還元し、将来の増収に貢献する仕組み

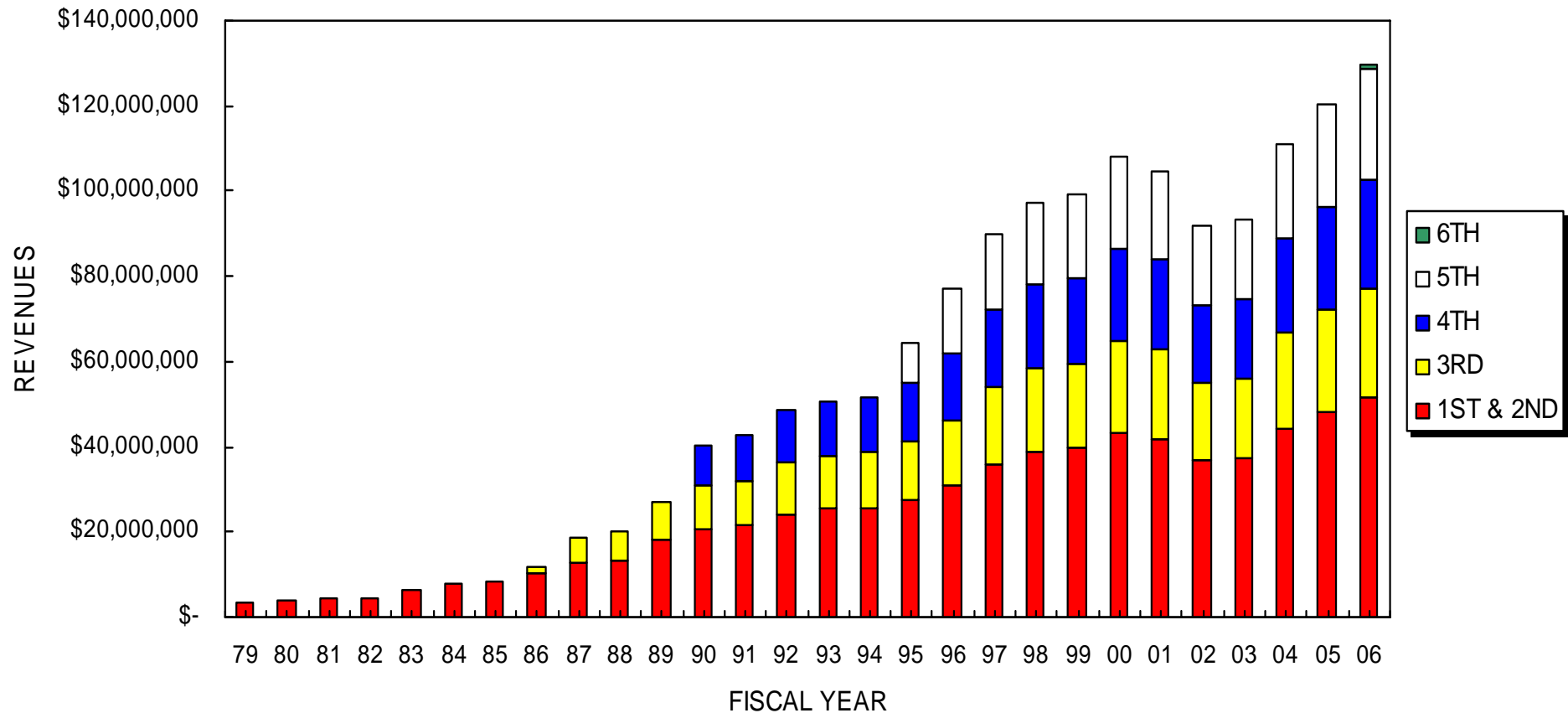
- **Tourist Development Tax** (*local special purpose tax on hotel room charges*)
 - オレンジ郡特別地方税としてホテル宿泊客に対し課税)

Visitation by tourists will generate special purpose tax revenues → Do not put it in ordinary account but earmark it for special purposes of tourism promotion

→ Debt service for Convention Center & Budget allocation for DMO
- 観光客来訪で特別地方税収が発生→これを一般財源に入れず、**会議場開発元利金返済と観光地マーケティングとにのみ利用。**

\$129 Million in 2006

TOURIST DEVELOPMENT TAX



TDT to be used for (1) Debt service for Convention Center Construction

Municipality Bond (2) Annual Marketing Budget for Orlando

それを(1)会議場建設費地方債返済資金(2)観光地マーケティング組織予算に還元

3 Issues with Tourism Public Infrastructure

- Airports are the very basic infrastructures for Inbound Tourism Growth. And Japan already has tens of “high-quality airports” with excess capacities.
- If the airport is owned by local government, relax strict insistence on landing charges
 - [Tax on Tourism Commodity Providers, or Tax on the consumption by consumers (tourists)?] Do not tax tourism commodity providers, but tax on the consumption of selected tourism commodities by consumers (tourists).
 - Choose your fight. Educate hospitality industry (which benefits from tourism as an industry) about Tourism Development Tax. Do not put tax burden on Tourism Commodity providers (hotels, restaurants, transportation companies) but rather ask that over consumption by consumers.
 - Tax revenue generated from tourists should be re-used to enhance tourism destination competitiveness – set up a special purpose escrow account and never mix-up with general accounts.
- If the airport is owned by central government, the above concept should be emphasized as a mean to serve for clear goal of national strategy, so that underutilized airports should be opened up to willing LCCs with competitive landing charges.
 - Revenues generated from Inbound Tourism as an export industry should more than compensate lost marginal revenues as a whole by the growth of regional economy.

Tourism Complex: Relevant Industrial Sectors and Their Tourism Dependence (USA)



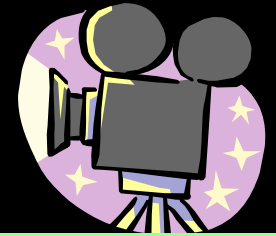
Auto Rental & Leasing (58%)



Travel Agency (21%)



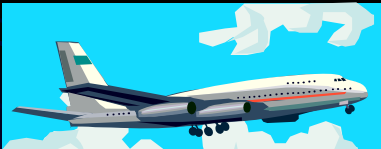
Amusement (20%)



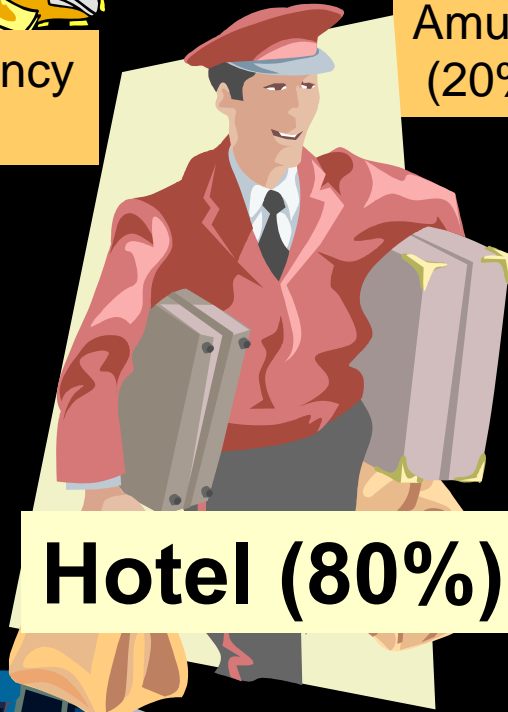
Cinema(18%)



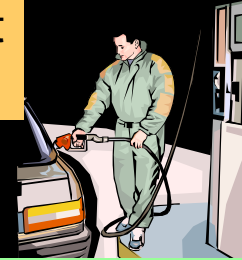
Ships(17%)



Airplanes(76%)



Hotel (80%)



Gas Station (7%)



Shopping (3%)



Taxis(46%)



Buses(23%)



Restaurants(17%)



Sports(32%)

Source: Data based on...

4. Inbound Potentials and Other Issues



4 Promotion of Inbound – Hidden Asset

- JITI funded academic research on perceptions of Japan among US residents (FL, VA-2010) showed
 - “**Food, High-tech**” images as the strongest associations with Japan
 - “Airfare being too expensive” perception was statistically significant among those who never visited Japan
 - **LCC can definitely contribute to mitigate this perception.**
 - Bring first-time visitors to Japan and expose them to “Food & High-tech”.
 - Some local airports have good land transports to major Rail systems.
 - Almost all Japanese regions have distinctively tasty local foods & surprisingly abundant choices of International Foods. (Not marketed to inbound visitors)
- According to Japanese TSA, visitors impacts to railroads are relatively larger in Japan
 - indicating possibility of joint-marketing by LCCs and Japanese Rail companies)

Inferential Statistics

例“「日本への航空券コストが高すぎて行けない」 Airfare to Japan too expensive”

To put this in statistical framework, we do this
統計の枠組みに落とす

Ho: (Null Hypothesis) There **is NO** association between perception of exorbitant airfare and existence of previous trip to Japan
帰無仮説: 航空券コストのイメージの強さと来日経験有無には関係が**無い**

Let's see if we have enough evidence to refute the Ho's claim.
帰無仮説を否定出来るに十分な証拠があるかを調べる

Ha: (Alternative Hypothesis) There **is** an association between perception of exorbitant airfare and existence of previous trip to Japan. 対立仮説: 航空券コストのイメージの強さと来日経験有無には統計的に**有為な関係がある(=傾斜がある)**

If we refute Ho, We may consider that an alternative hypothesis (Ha) is verified. 帰無仮説を否定出来れば、対立仮説が検証出来た事に。

Regression Analysis: Q2 versus Q3, Q4, Q5, Q6, Q7, Q8, Q9, Q41

The regression equation is

$$Q2 = 1.96 + 0.472 Q3 + 0.180 Q4 - 0.0128 Q5 - 0.0173 Q6 - 0.0606 Q7 - 0.0094 Q8 + 0.0114 Q9 - 0.0880 Q41$$

Q2 : Airfare too expensive

282 cases used, 19 cases contain missing values

Predictor	Coef	SE Coef	T	P	
Constant	1.9616	0.3109	6.31	0.000	
Q3	0.47200	0.06602	7.15	0.000	(Domestic Transportation cost too high)
Q4	0.18048	0.06159	2.93	0.004	(hotel costs too high)
Q5	-0.01282	0.04456	-0.29	0.774	(Japanese culture similar to China/Korea)
Q6	-0.01729	0.04178	-0.41	0.679	(Japanese amenity similar to W Europe)
Q7	-0.06057	0.05344	-1.13	0.258	(Japanese amenity similar to China/Korea)
Q8	-0.00935	0.03706	-0.25	0.801	(Level of worries about language barrier)
Q9	0.01137	0.04752	0.24	0.811	(availability of English information)
Q41	-0.08798	0.03539	-2.49	0.014	(previous trip to Japan)

While the model explains about 1/3 of the variances, it indicates interesting correlation with other variables.

There are strong association between the replies to Q3, Q4 and the perception of the airfare being too high.

In other words, once a person thinks the airfare to Japan too expensive, s/he tend to think the domestic transportation costs and the hotels costs are too expensive as well.

And we identified with enough statistical evidences that such perception (pre-occupation) certainly goes down once a person travel to Japan (Q41 with negative correlation).

This implies lack of updated information on Japan in the minds of respondents.

Not many ordinary American citizens know that hotels in Tokyo are available currently with Yen10,000 per night (US\$100) inclusive of all taxes, and sometimes with breakfast, and that prices of hotels in Kyoto, Hiroshima, regional metropolitan cities, can be even cheaper than that level, often around US\$70~80 inclusive of all.

Systematic marketing efforts about updating price levels in Japan in the minds of potential inbound visitors appear to be in urgent need to attract more visitors.

You just have to implement effective marketing efforts to address anxieties (worries) of those potential consumers, so that they can make a decision to come to Japan.

Source: Tadayuki Hara, PhD, Rosen College of Hospitality Management, University of Central Florida

4-2 Ex-1 LCC: Which industry it is in?

- Transportation and/or Hospitality industry?
 - Safely transport passengers at profit
 - Newer planes to reduce maintenance costs
 - Reduce idle times between flights
 - Reduce operating costs (internet based ticketing)
 - Do we need strong organizational culture?
 - This is a domain of hospitality management.
 - Strong culture guides employees for higher productivity and consistent services → HR productivity is one of keys to ensure successful operation.

Important Questions in Hospitality Management

- In a manufacturing sector, you create your tangible products at factories. You can store them and check their quality before sales. *(Many MBA programs are still based on this model)*
- In hospitality industry, customers are purchasing “experience” which is intangible, and cannot be produced and stored by the factory. Employees produce it.
- **How can you ensure the quality?**
- **How can you differentiate your product from others?**



Importance of creating strong organizational culture!

Hospitality Management: Strategic usage of organizational culture



- Is their organizational culture strong and unique?
- Is their organizational culture helping them to stand out in the competition?

Cleaning Crews – “Culture Committee”?

- <http://www.youtube.com/watch?v=V7P0T9IbYKU&NR=1>

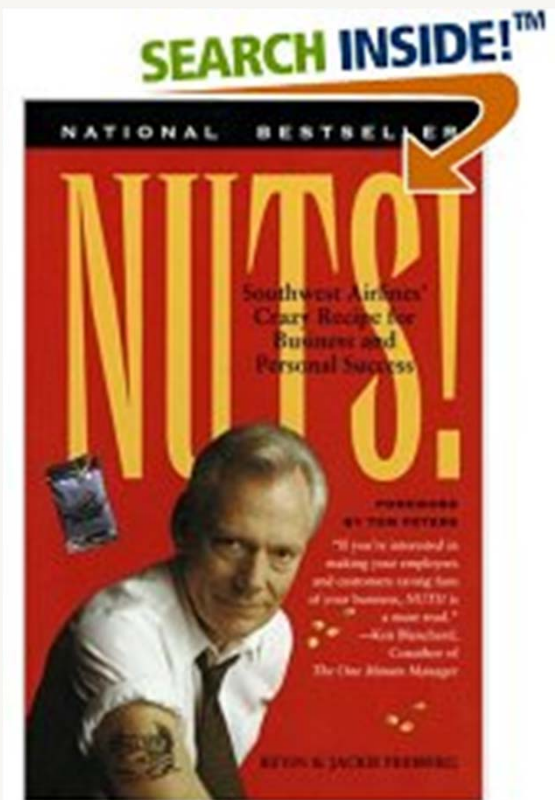
No Extra Charges

- <http://www.youtube.com/watch?v=Jy0Yf1CAsuQ&feature=relmfu>

Rap instructions

- <http://www.youtube.com/watch?v=tnOxvbGOTbM>

- This is NOT a transportation management issue, but it is a strategic hospitality management issue in which customers are buying intangible experiences, which otherwise are commoditized and consumers purchase on price attributes only.



4-2 Ex-2 Case of Sanford Airport Orlando

- Orlando Sanford International Airport covers 2,010 acres (813 ha) and has four runways:
 - Runway 9L/27R: 9,600 x 150 ft. (2,926 x 46 m), Surface: Asphalt
 - Runway 9C/27C: 3,578 x 75 ft. (1,091 x 23 m), Surface: Asphalt
 - Runway 9R/27L: 6,647 x 75 ft. (2,026 x 23 m), Surface: Asphalt
 - Runway 18/36: 6,002 x 150 ft. (1,829 x 46 m), Surface: Asphalt/Concrete
- The airport is owned by the Sanford Airport Authority and managed by TBI plc, one of the world's leading airport operators, which owns London Luton Airport, Cardiff Airport, and Belfast International Airport in the United Kingdom, as well as Stockholm-Skavsta Airport in Sweden, and operates airports in South America.
- Because of that affiliation, Orlando Sanford International Airport is served primarily by British charter air carriers servicing the European market for leisure travel to Central Florida. TBI is also the provider of ground handling services for airlines. Although it is primarily a landing point for European travel, Sanford is also the second largest focus city for Las Vegas-based Allegiant Air.
- **Airlines** <http://www.orlandosanfordairport.com/airlines.asp>

4-2 Ex-3 Marketing and Sales Concept

- This is the difference between selling concept and marketing concept for Tourism Products.

You do not use visitors' detailed data

Lots of promotion materials

Simple Data on # visitors, expenditure would suffice

	Starting Point	Focus	Means	Ends
Selling Concept	Japan (from Japanese viewpoint)	Existing Tourism Products	Selling & Promoting	Profits from Higher Number of Visitors
Marketing Concept	Market (potential inbound visitors)	Customer Needs	Integrated Marketing	Profits through Visitors' Satisfaction

Start from "knowing customers"

Focused marketing on differentiated segments

Detailed Data on Visitors required for measurement of success

4 Future for Japan Inbound Tourism

- **Strategic Alliance with LCC**
 - Development of tourism as an high-growth regional export industry
 - Japan already has hidden assets (airports & ground transportation system) for regional tourism export.
- **Create Business Model to finance “tourism”**
 - Consider taxation scheme to tax on consumption, not on providers of commodities
 - Tourism must be marketed (not only to visitors but to residents)
- **Hospitality Management**
 - Tourism surely benefits transportation industry **but they may have to be managed strategically as “Hospitality Industry”**.

Thank you very much. Tad Hara <http://www.youtube.com/watch?v=C0u9s0LWxqo>