

Deciphering the Tourism Value Chain: Observations and Analytical Insights

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ABSTRACT

Globally tourism serves as one of the drivers of economic growth. India too has been seen as a fertile arena for a thriving tourism industry. The sector has a very high potential in terms of employment generation and can act as source of foreign exchange earnings as well, especially in the Indian context. People today travel to national and international destinations to break the monotony of regular work and life. Travel and tourism has played an increasingly important role in economic development of many countries. In turn, economic development has led to enhancement in the quality of life leading to more spends on tourism, thereby resulting in a virtuous cycle. Admittedly, there are many challenges and opportunities as well. Unlike marketing a product, marketing for tourism focuses more on the value that the customer (tourist) can experience. It can be in terms of the place of visit, the travel, the food, the stay etc. They all make a unique combination of value which the tourist is expecting and is willing to pay for. The article identifies the evolution of tourism, makes an analysis of the value chain for the industry and provides practical insights for policy makers and governments.

Keywords: India, Tourism, Value Chain analysis

I. INTRODUCTION

Increased travel across the globe has been driven by growth in real incomes, greater amounts of leisure times, improved and highly accessible transportation systems, ongoing globalization of business linkages and supply chains, better communication facilities that facilitate marketing. It also engages people in highly remunerative economic activity and thereby creating employment opportunities in all the countries. Tourism is presently the most important civil industry in the world. It is estimated that 10% of world's GNP comes from tourism. India is no exception. For the country it brings in the useful foreign exchange to the exchequer. In short the tourism sector creates the most effective and efficient backward and forward linkages among the different components of the tourism value chain.

In the section on overview of the tourism sector, we present statistics in terms of the arrival of tourists in India. Literature review presents a summary of prior work done in the field of tourism. The review also helps identify gaps in existing research. The value chain approach helps us in applying a well-established framework to illustrate areas of opportunity whereby the customers are assured of higher benefits that go over and beyond their incurred expenditure on travel. Subsequently, the article concludes by listing down key takeaways and urges policymakers and the industry practitioners to take active steps, while outlining a long term strategy for the sector.

II. OVERVIEW OF THE TOURISM SECTOR

The tourism industry in India is a consistent performing sector that also enables employment for many. At the same time, the industry helps earn foreign exchange for the country as well. Many foreign tourists arrive in India every year, seeking to soak in the rich natural beauty and India's architectural heritage as evinced in her monuments, forts, palaces and historical places of interest. The number of tourists has consistently been increasing. At a preliminary level, tourist arrivals and the revenue generated therein clearly indicates the potential of this sector. Based on credible data sources maintained by the Government of India, we tabulate the details presented in subsequent exhibits.

The details of foreign tourist arrivals in India and the percentage change over the previous years is given in Table 1.

Year	No of foreign tourists arrival (In lakhs)	% change over the previous year
2011	63.09	9.2
2012	65.77	4.3
2013	69.67	5.9
2014	76.79	10.2
2015	80.27	4.5
2016	88.9	9.7
2017	101.8	15.6

Table-1 Trend of tourist's arrival in India

(Source: Annual report 2015-16 ,2016-17& 2017-18 of Ministry of Tourism, Government of India)

Table 2 gives the foreign exchange earnings in the recent four years. At first glance, we can see that for a country that houses 1.27 billion residents, the foreign exchange earnings seem to be quite miniscule. However, industry and regulators need to take up ways and means of increasing the earnings.

Year	Foreign exchange earnings (in crores)
2014	1.23
2015	1.35
2016	1.55
2017	1.80

Table 2 Foreign Exchange earnings –year wise.

(source: annual report, Ministry of Tourism 2015-16,2016-17 & 2017-18)

Prior reports from the same sources indicate that the contribution to Gross Domestic Product (GDP) has remained close to 4%. Brief inferences especially with regard to the contribution of tourism to indirect employment indicate increasing contributions, thereby hinting at the substantial potential of the sector.

Year	Contribution to GDP % - Direct	Contribution to GDP % -In-Direct.	Total	Contribution of tourism to the employment-Direct %	Contribution of tourism to the employment-In-Direct %	Total %
2009-10	3.68	3.09	6.77	4.37	5.80	10.17
2010-11	3.67	3.09	6.76	4.63	6.15	10.78
2011-12	3.67	3.09	6.76	4.94	6.55	11.49
2012-13	3.74	3.14	6.88	5.31	7.05	12.36

Table 3 – Contribution of Tourism sector to the GDP

(Source: Ministry of Tourism, Government of India)

The figures clearly establish the potential for tourism sector to expand as India has the uniqueness in terms of cultural diversity in various tourist destinations for the visitor arriving in India.

To meet the affordable housing accommodation during the Indian visit for the tourists, Airbnb has big plans as it sees India as a big market. They already have 18,000 houses listed across 100 cities. Most of the Online Travel Agents (OTA) such as Makemytrip.com and Yatra.com are also actively working with hotels and homestays to create more spaces to stay. Since these OTAs are well organized in their industry, tourists can expect transparency of prices, simple and accurate payment channels and clear mechanisms to address grievances. In parallel, the Ministry of tourism in India is also reviewing their current laws and regulations to make it tourism friendly.

III. LITERATURE REVIEW

While attempting to understand the impact of tourism, several authors have offered differing perspectives. We study divergent view points and provide a framework thereby helping us identify gaps in research. With regard to the tourism industry, we observe that while substantial volume of research has been published, there is less unified thinking on account of a varied and multi-faceted understanding of this industry; additionally, since tourism is often very local in its context and explanation, we take efforts to develop certain broader and more generalizable principles as well.

In developing countries, a growing tourism industry has been proclaimed as one of the key tools in alleviating poverty [1]; this is especially true in the case of India where a substantial population is below the poverty line. To facilitate this, powerful business and government alliances have been forged [2] whereby the industry works in an institutionalized manner; this gives access to the right kind of resources and networks as well. The United Nations has also recognized the need for unique ways to mitigate poverty; tourism development has been identified as one of the levers that could help developing countries to gradually come out of poverty [3].

An additional factor to be considered while studying tourism is understanding the level of satisfaction of tourists in their overall experience. In this regard, researchers have observed mixed results. While tourists have expressed higher satisfaction levels with their experiences in foreign lands, the reasons are often a mixed lot – in one instance, satisfaction levels were found to be higher because of institutionalized routines in the industry [4]. In a different set of results, the image of the destination location, [5],[6] loyalty to a particular destination country and the tourists' personal attachment were found to be key reasons for their satisfaction.

Considering that online travel agents have become ubiquitous, it is not surprising to find a relationship between the presence of a developed online tourism platform and a growing tourism industry. For instance, research has identified that a hands-off, faceless communication through an online medium works well with some tourists [7]. Further, research has supported the view that higher credibility of Online Travel Agents (OTA) [8] leads to higher satisfaction level of tourists. Research on whether the satisfaction ultimately leads to retention of customers has thrown up an interesting result: a strong affirmative [9] wherein the presence and legitimacy of OTAs resulted in repeat customers over a longer time frame.

In the Indian scenario, the industry has been growing at a fast pace, as discussed and research has strongly brought out this view; however, scope for growth can be exploited only with active collaboration between public and private entities. For instance, the ministry of tourism in India needs to actively work with travel and tourist firms [10] to ensure that prevailing opportunities are capitalized. Taking a different line of thinking, a Computable General Equilibrium model [11] can be used to assist in estimating the impact of tourism on several other industrial sectors in India.

From the industry perspective, tourists can be profiled and segmented [12] so that appropriate products and services can be tailor made for them. This also suggests that tourists can be segmented based on their spends, their motives – such as leisure, heritage tourism and their preferences – such as beaches, hill stations or wild life sanctuaries. Subsequently the appropriate set of tour operators or agencies can pitch in and customize their offering. This segmentation also is in line with basic marketing principles where customers are profiled, segmented and appropriate products are designed and delivered to them. India has special advantages in the south Asia region and hence should leverage that position by making itself as a hub and use the spoke model for the improvement of tourism in the region [13]

Chitrakalpa Sen[14]inferred that the service sector in India is propelled by inflow of FDI and thus help economy to grow. Trade, hotels, restaurants, transport, storage and communication sectors are the most instrumental in the service sectors growth. A point of conclusion is that this sector’s growth is largely led by high tech labour and outsourcing and over dependence on FDI makes this sector vulnerable to external shocks. Since this sector is impacted by the multiplier effect and hence any negative shocks in the external economy will reverberate throughout the whole economy and will spread to other sectors also, thanks to the inter sectoral linkages of service sector.D’Souza,Errol [15] infers that the growth in the service sector are due to structural and macroeconomic factor and is dependent on per capita income, black economy and the economic cycle.

Karishma Banga [16] infers that the effect of global value chain participation on employment growth in India has been negative as higher forward linkages did not have any significant impact on employment and higher backward linkages have negatively influenced employment. Applying the observation to the tourism sector, we find that an understanding of the tourism value chain could have deeper meanings for our study. Hence we now driven to decipher the tourism value chain. Manufacturing has several proven models such as the Supply Chain Operations Reference (SCOR) framework and it has been observed that similar models can be applied to understand the services value chain as well [17] The tourism value chain has several advantages – for instance, it can help in measurement of performance in the industry [18], identify potential for innovation in the service delivery [19] and quantify the possible impact on profitability [20]

Though several studies have been carried out covering the tourism potential in the Indian context, there is further scope for research especially with regard to the applicability of the value chain. Based on Michael Porter’s illustration of the value chain in strategy literature [21], we know that organizations have different functions, such as sales, production, distribution and human resource, each of them adding value to the product or service as it moves towards the end customer. On the whole all the functions lead to the organization’s profitability. Hence, a similar line of thinking can be adopted for the tourism industry whereby we can assess the potential value addition in different modules / functions, short list important ones and identify specific strategies that could be implemented.

IV. VALUE CHAIN APPROACH

In this paper in addition to several other approaches, an attempt is made through the value chain approach to understand the tourism sector.

A value chain describes the full range of activities required to deliver a product or service to the end customer. The chain begins from conception, moves through the different phases of production involving a combination of physical transformation and the input of various producer services, delivery to final consumers and final

disposal after use. In a service sector, the disposal part does not exist, hence resulting in complete closure. A value chain maps out the series of physical activities and details the transactions which takes place from production to consumption. Therefore, these value chains are useful conceptual framework for trying to understand how goods and services are produced and moved to the consumer.

The proper analysis of this value chains help to analyze how a complex product or service is consumed in a specific place (like a hotel providing accommodation and food) and then trace using a structured approach the rich variety of goods and service supply chains that are needed to provide such a value.

On the demand side the tourists (globally) have become increasingly demanding, expecting variety of services delivered in style and of exceptional quality, thus necessitating a supply chain capable of meeting such an expectation. On the supply side the partners of the value/supply chains have increasingly concentrated on their core competencies and trying to conform to the standards in order to achieve systemic efficiency globally. For instance, the core competency of an OTA is convenient and fast booking options across a wide range of services such as travel, hotel booking, cab service from airport to the hotel, etc.

Public policy makers have several reasons to be interested in the value chain framework as the value chains serve for better understanding and hence value chains act as a diagnostic tool. They are diagnostic because they help identify areas of blockages that prevent the chain from delivering the value.

When this value chain approach is applied to tourism, it helps to identify the direct impacts like job potential created like in hotel /restaurant industry or taxi rides etc., because of tourism. In- direct impacts such as improved infrastructure enabled for local residents. Secondary effects include indirect earnings of crafters, construction workers etc. Induced effects such as re-spending of earnings in the local economy are also to be considered. Finally, the long term effects in the economy and the patterns of growth are visible in this analysis.

V. TOURISM VALUE CHAIN ANALYSIS

Tourism is quite different from other value chains, as the mapping tool is not so easy to apply. There is no real product that is handed over from one actor to another (like from a producer to a trader). In fact, here, it is the tourist who is handed over from one operator in the value chain to the next one (see the tourism Value Chain map below)

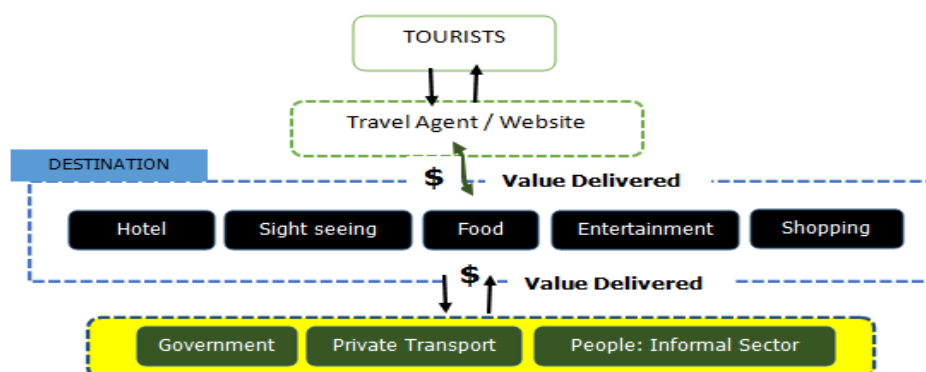


Figure 1. Tourist Value Chain

The scrutiny of the tourism value chain establishes some possible opportunities for the appropriate service provider or a product manufacturer and its value chain to link and expand for the mutual benefit of both. The map shows where tourists go, what they experience and who works with them. All the tourist's activities and his service providers are market opportunities for producers or traders to sell in the tourism value chain. While the upper most section of the diagram shows the tourists interfacing with travel agents who could be physical or virtual, the second or middle level shows the representation of the physical interfaces that the tourists move through. At every stage, money trades hands and in turn value is provided. The service experience being very qualitative in nature is always associated with value. In some cases, for satisfied tourists, the value exceeds the price and this is termed as the consumer surplus.

A closer look at the service provider's sub-chain in tourism, it is helpful to draw a value chain map which shows how the service providers product or service is produced and how they are supplied to the tourism market.

Also, it can be clearly seen that there are multiple entities working behind the screen to deliver value to the tourists who are part of the process. For instance, the governments in the form of tourism ministry, tourism promotion boards and others are actively drafting policy and facilitating execution. Similarly, the beneficiaries are in the informal sector, providing service deliverables and also creating value. In turn, they earn and spend to sustain their livelihood.

As researchers, we need to identify that value generated can be enhanced at multiple interface points that tourists come in contact with. Clearly, at every stage, while monetary transactions happen, value is delivered.

Table 4 helps in mapping the value chain of the tourism sector and helps us to understand the supply structure and business relationships;

The following statements lend support to the clarity achieved on account of the value chain analysis:

The analysis helps calculate the value addition and pro-poor income effects based on market prices at different levels of the value chain

It has helped in assessment of market opportunities and business constraints to develop possibilities for value. It also helps improve business linkages between the different value chain stakeholders based on mutual interest and win-win situations;

It helps organize producer groups and associations to strengthen competitiveness. While tourists are the consumers of services and goods, it is incumbent on the service and producer groups to deliver the necessary tangible and intangible elements necessary for the industry. This is feasible only when there is a win-win situation for both entities

The activities help promote innovation and an entrepreneurial mindset, empower minority communities, contributions of women in informal sector and foster urgency in framing sector-related policies.





Consumption		Tourists	
			
Retail	Producers Outlets	Street Vendors	Shops/Markets
			
Wholesale		Middlemen	
			
Production	Entrepreneurs	Producer groups/associations	Support Institutions
			
Input supply	Raw material suppliers	Accessories suppliers	Equipment suppliers

Table 4: Linking of a service provider's Value chain with Tourism value chain

VI. CONCLUSIONS

The value chain analysis has thrown up some interesting findings. As we observe there is sufficient surplus that could create a win-win for tourists, the service providers and the overall economy as well. Hence we outline three key findings that could serve as guidelines for policymakers, regulators and government bodies.

Firstly, the tourist value chain draws inherent strengths from an organized structure. Tourists are essentially looking at reducing their anxiety by way of advance bookings, staying at reputed hotels and homestays and utilizing local conveyance which offer transparent pricing. In this regard, we observe that the online media has definitely assisted in reducing the information asymmetry which was otherwise prevalent in the system. However, this has been restricted to institutionalized areas such as flight, train bookings and hotel booking. In India, however, much of the other areas are run by the unorganized sector. This relates to the tour guides who frequent the historical sites, the hawkers peddling trinkets and other people engaged in the informal sector. Are there ways to regulate them. Can regulators facilitate more structure, transparent pricing and more refined behavior there? These challenges need to be addressed by the government with a fair degree of urgency

Secondly, the tourist value chain is geared towards providing consumer surplus to individuals operating in different ecosystems. This surplus is possible only when the customer experience goes beyond mere satisfaction and moves into the zone of 'delight'. Hence for such a situation, it is imperative for the industry to think of ways and means to transcend routine satisfaction levels. How can this be done? We suggest this calls for active cooperation between private organizations who may run hotels, cabs and places of attractions and the public bodies who regulate and provide access to infrastructure. All the while, the experience aspect has to be carefully kept in mind. Private organizations are often led by market forces, while government agencies are bound by procedures, rules, routines and bureaucratic hurdles. Considering such a situation, it is incumbent on the state and central governments to bring in a measure of autonomy, empowering local bodies to act in the best interests of the tourism industry.

Thirdly, a thorough analysis of costs, revenues and their impact on performance and efficiency of the services rendered is essential. To illustrate, this sector needs to have clearly defined performance metrics. Metrics have

to go beyond measurement taken through consumer surveys. Metrics have to factor in revenues, profits, expenditures and means adopted to ensure tourist 'delight'. Challenges arise mainly when there are few tools for performance measurement of the informal sector. Tourism analysts cannot walk around with handheld devices to measure satisfaction scores. Possible approaches may mean engaging the stalwarts in the consulting domain such as McKinsey, KPMG and others. Another option could be to engage the services of reputed market research firms who specialize in evaluating the informal sector. Since their field agents are often familiar with the workings of the market and well versed with customer surveys, benchmarking and performance management, their expertise could be exploited to add more value to the tourism offering.

On the whole, we have portrayed a balanced view of approaches that could help in the development of the tourism industry.

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