

Lecture Note

Course Title: ITM 2311 Tour Business Management

Credits: 3(3-0-6)

Lecturer: Aj Siripen Yiamjanya

Program: Tourism Management

Week 3

Unit 3: Supply of Tour Business

Topic

- Concept of supply chain
- Supplies of tour business
- Tourism value chain

Objectives

After the completion of this unit, students should be able to:

- Define the concept of supply chain.
- Define the concept of tourism supply chain.
- Explain the linkage of the supplies of tour business in creating tourist experience from the pre- trip to post- trip stage.
- Define the concept of value chain, tourism value chain and its significance in today tourism business.
- Identify to design value chain for tourism products/ experience.

1. Concept of Supply Chain

1.1 Definition

From a macro perspective, a supply chain is a network of enterprises which are engaged in different functions ranging from the supply of raw materials through the production and delivery of the end product to the target customers. A micro perspective defines a supply chain as a network of nodes which perform functions such as procurement of raw materials, fabrication of parts, assembly of components and subassembly, final assembly of end products and delivery of finished products to regional distribution centers/ customersⁱ.

When we talk about supply chain, we are referring to supply chain management, or how to manage supply chain (chain of suppliers of business) from “point- of- origin” to “point- of- consumption”. Supply chain covers activities related with *flow and storage (storing/ keeping) of production materials (raw materials), finished products, and flow of information*. Because of these many activities, supply chain therefore consists of several companies that work together as partnership in order to increase product value (s) to involved organizations or stakeholders as well as to end customers. Supply chain management focuses on attempts of focal firm to motivate and facilitate its suppliers (or we can call “partners”), customers, and logistics service providers to do their activities (duties) in order to reach the absolute goal, which is *“to increase product value with effectiveness”, “to respond quickly to customers’ needs”, and “to cooperate and work together closely for customers’ satisfaction towards products and services”*. If a particular company (or corporate) producing a particular type of product or service works this way, its supply chain will have higher profitability and sustainable competitive advantages. You need to be aware that a company or a corporate can produce more than one type of product. For example, if it produces two types of products, it will have more than one supply chain. Supply chain of each product can have different characteristics and structure. Therefore, managing a supply chain must go along with finished product.

Moreover, supply chain is about managing flows and storing of products from point- of- origin to point- of- consumption (from producers to consumers). Supply chain management (or “the management of the chain of supplies”) of focal firm is to effectively manage suppliers’ works from production sources (i.e. factory), involved companies (i.e. intermediaries), and distributors until the finished product reaches consumers, and consumers should be satisfied. Focal firm is required to manage its supply chain to have highest profitability while satisfying not only its consumers but also its suppliers (stakeholders). Besides, value must be increased in the supply chain, while the supply chain must have integration along the flow of particular product by managing related suppliers and every joint in the chain to meet with competitive strategies.

1.2 What involve?

Discussions of supply chain usually focus on the forward flow of goods and backward flow of information. Effective or ineffective supply chain can be characterized by this flow. It is comprised of 7 main business processes:

- (1) Customer relationship management
- (2) Customer service management
- (3) Demand management
- (4) Order fulfillment
- (5) Manufacturing flow management
- (6) Procurement
- (7) Product development and commercializationⁱⁱ

Efficient management of the 7 processes in a supply chain network can contribute to successful business. To manage the flow of these 7 processes concern not only one firm, but also other firms chosen to be part of the chain. By this, it means that both internal and external groups of people get involved in the chain in different levels (strategic, tactical or operational level). The key aims of managing a supply chain are not only to facilitate flows in the processes but also to add values to the chain, which finally lead to the absolute goals of a business, satisfying its end customers, maximizing profits and reducing production cost.

The key concern in supply chain management is to recognize the interdependency in the supply chain and thereby generate strategies that support the efficient integration of the various links.

1.3 Tourism Supply Chain

Discussions of tourism supply chain have been done just recently. Tourism supply chain by some academics was focused on the distribution channels of the tourism industryⁱⁱⁱ. This means that tourism supply chain in one sense is narrowly defined as a supply chain that focuses mainly on the distribution and marketing activities in the chain.

However, later tourism supply chain was elaborated in the view that the provision of tourism products and services involves a wide range of interrelated tourism suppliers and therefore a tourism supply chain was structured.

There was also a view that a typical tourism chain consists of 4 components: *tourism supplier, tour operator, travel agent and customer*, and they are in a single-link chain. Finally, a chain in tourism industry can be defined as the following:

“A chain of tourism industry comprises the suppliers of all the goods and services that go into the delivery of tourism products to consumers.”

Due to heterogeneity of tourism industry and the fact that tourism products are normally rooted in a specific territory and provided to tourists from a specific source market, they often vary according to destinations and source markets. Another definition of tourism supply chain was formulated as below:

“A tourism supply chain (TSC) can be defined as a network of tourism organizations supplying different components of tourism products/ services such as flights and accommodation for the distribution and marketing of the final tourism products at a specific tourism destination, and involves a wide range of participants in both the private and public sectors.”

The supply chain concept tries to explain how different businesses enter into contractual relationships to supply services, products and goods, and how these goods are assembled into products at different points in the supply chain.

The goals of tourism supply chain management are similar to the supply chain management of manufacturing industry: to reduce overall supply chain cost and to maximize profits. However, as tourism products are service and experience- oriented, tourism supply chain management are also projecting its goals in improving the service quality, shortening response time and building good business relationships. These goals are fabricated within strong coordination in the chain.

2. Suppliers of Tour Business

Suppliers in tourism business vary accordingly the variety of products and services, including the types of tourism products, or vacations and grades or markets of particular vacations from basic and budget to high-end or luxurious ones. Some types of vacations have a wider range of suppliers, while some do not. One- day free and easy package, for example has a simple supply chain, which incorporates only a tour operator and/ or travel agent and customers. However, at destination level, as tourists will finally engage at places and in different ranges of activities, tourism supply chain will need to be discussed inclusively of factors at tourist destinations.

2.1 What components in tourism do consumers consume? Pre-trip consumption, during-trip consumption, and post-trip consumption, illustrated in Figure 1

At first, it is important to think what consumers in tourism industry consume. At the pre- tip stage, once they have chosen a destination and products, before they make a decision, they need travel information, reflecting the information search stage. This helps in the step of making a decision. So the supply of this stage could be those related with the provision of information, with the development of information and communication technology, including tourism retailer (e.g. a retail agent, a direct selling company or an internet-based seller such as www.expedia.co.uk). The development of ICT facilitates efficient and effective information sharing among tourism supply chain members. Moreover, consumers once make a decision will need to book various components for their holiday. Those who provide booking engine of transport and accommodation start to play the role in the supply chain. Many time consumers also inquire travel agent or tour operator to arrange a vacation for them. With high ICT advancement, individual consumers can become independent travelers as it is easier today to arrange their own vacation.

In the supply chain, tour operator enters into contractual relationships with tourism suppliers such as airlines (in a case, larger tour operators may also own their own charter or schedule airline), hotel operators and suppliers of associated services such as airport transfers. These suppliers, in turn, contract suppliers who service their business needs: in-flight caterers, airline leasing companies, airport terminal services (i.e. check-in services, baggage handling, flight controllers, customer service agents for visitors and those with special needs, such as the disabled)^{iv}.

At the during- trip stage, consumers consume more components, and this is the stage of high significance, due to its linkage with the quality of holiday experience, satisfaction and repeated visit. Arriving at the destination, tourists need to deal with airport activities (i.e. ground service). At this stage, destination management plays its role. It is the superstructure that requires national level development, with the chain of airline industry and related public collaboration. Then, tourists will deal with staff sent from land operator or tourist guide. An example is the employment of tour representatives to meet guests (tourists) at the airport, welcome them into their accommodation. Along this moment, there may also be an opportunity for retail sales of additional services such as tours and events. The accommodation that has already been booked can also provide airport transfer service (in some cases tourists may use public transport service such as metered taxi, while many also use airport shuttle bus) to the accommodation in town.

During the trip of those who travel within the fixed program with tourist guide, driver and tourist guide are really important in the supply chain. Also, quality of tourist attractions both in tangible and intangible elements, and friendliness and helpfulness of local people are of concerned. Many organizations also get involved in the supply chain in relation to tourist spending and activities (e.g. attraction visit, dining, and souvenir shop). This stage is thus hugely dealing with a country's destination management. Particular images of the destination will be constructed in the mind of tourists at this stage, through their real experiences. Therefore, it can be concluded that the principal elements of the tourism industry included accommodation establishments, attractions (including activities), transportation, public and private sector organizations and associated services.

THE CUSTOMER JOURNEY	PRE-JOURNEY PLANNING		TRAVEL	DESTINATION(S)	RETURN HOME
			---- Touring ---- In transit ----		
STAGE IN THE VISITOR JOURNEY	LOOK	BOOK	TRAVEL	STAY	KEEP IN TOUCH
VISITOR INFORMATION NEEDS AND SOURCES – OPPORTUNITIES FOR THE TOURISM INDUSTRY TO ENGAGE WITH TOURISTS DURING THE CUSTOMER JOURNEY	<ul style="list-style-type: none"> • Destinations to visit • Key influences: <ul style="list-style-type: none"> - word of mouth - media - tourist board websites - travel agents and tour operator brochures and websites • Online travel guides (e.g. Lonely Planet) • TripAdvisor and consumer websites 	<ul style="list-style-type: none"> • Internet • Travel agents <ul style="list-style-type: none"> - virtual - high street locations - call centres 	<ul style="list-style-type: none"> • Information on airports/travel to • Car hire • Tourist board websites and offices • Government sources (consulates) • Options for touring/activities in destination 	<ul style="list-style-type: none"> • What to do in the destination to be obtained via: <ul style="list-style-type: none"> - TICs - websites - leaflets/brochures - local service providers - hotel concierges - travel guides and online sources (mobile devices) 	<ul style="list-style-type: none"> • Information to encourage a repeat visit: <ul style="list-style-type: none"> - e-newsletter - direct mail - brochures - advertising - special events - special offers and new products

Figure 1 Customer Journey

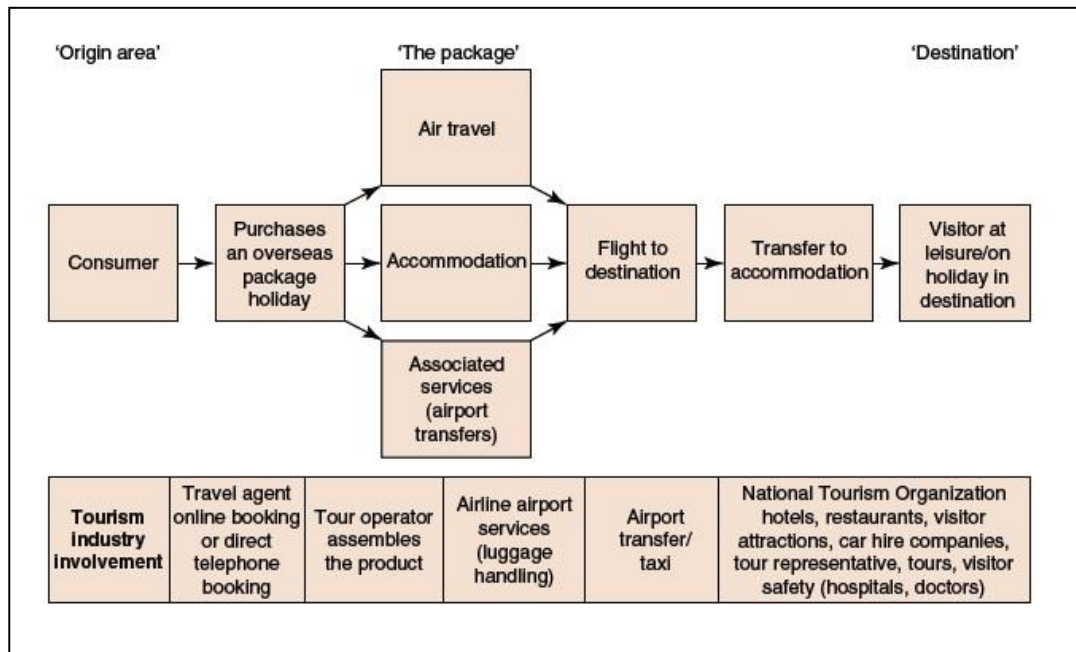


Figure 2: Typical Tourism Supply Chain

The case of transport

Transport is the most critical element in the promotion of the growth of domestic and international tourism. At a simple level, transport links the tourist from the origin area with the destination area. It enables the tourist (the holidaymaker, business traveller and other categories of traveller) to consume the products and experiences they have purchased, because it links the supply chain together. Figure 3 below illustrates the all-embracing role of transport to:

- Facilitate the tourist trip to the destination
- Enable tourist travel within the destination.

In addition, transport may be an attraction in its own right (e.g. a cruise ship or a trip on the Orient Express). Tourists who 'tour' by road may use public transport or private transport (e.g. the car) to experience a variety of destinations. Increasingly, the transport sector is entering into strategic alliances (i.e. formal business partnerships) where different operators will seek to offer seamless transport experience for travellers, recognizing the selling opportunity. For example, if the tour operator can sell not only a holiday but also airport transfers, car hire and tours from approved partners with whom they have entered into a strategic alliance, then, their profit-ability is increased. This can be achieved through commissions from selling partners' products and is evident in much of the web-based marketing by low-cost airlines as well as through airlines cooperating rather than competing.

Source: <http://cw.routledge.com/textbooks/9780080969329/data/Further-web-reading.pdf>

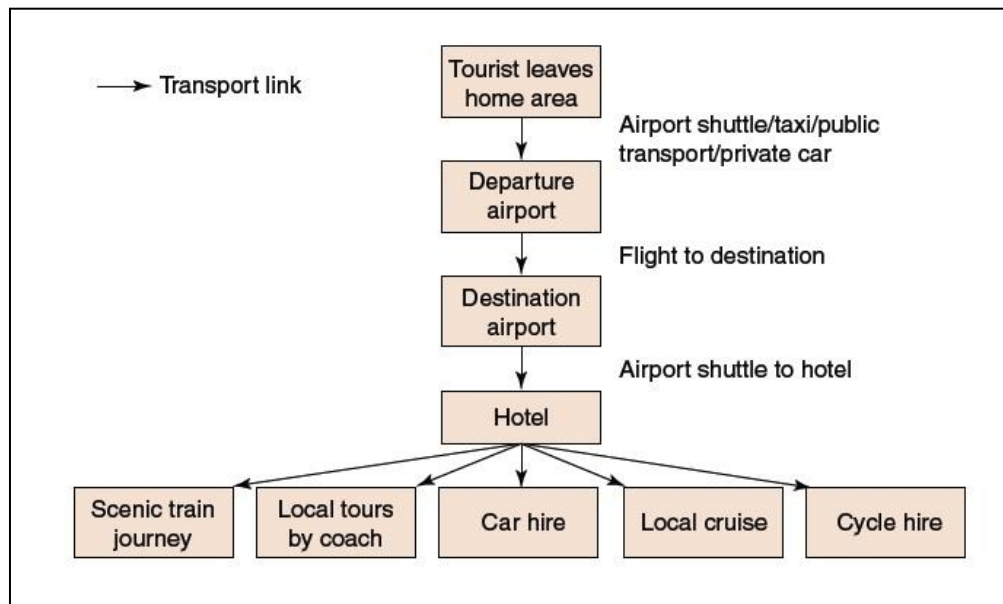


Figure 3

The case of retailed business in the tourism supply chain

The private sector is also responsible for tourist services and facilities of course, and dominates the restaurant sector as well as provision of services used by tourists and non-tourists alike, such as retailing. In Europe, much of the activity in the restaurant sector is dominated by small businesses, many being family-run and employing fewer than ten people. In contrast, retailing is often dominated by chains and retail multiples in major tourist cities. In China, retail growth of 14 per cent occurred in 2004, much of which is attributed to 'leisure shopping'. In 2003, China had 236 shopping malls and by 2004 this reached 400, illustrating the scale of this growth and demand which has continued to grow. Shanghai, which was the host of the 2010 Expo (expecting to attract 70 million visitors), developed a multilingual digital map to link shopping and tourism together; this illustrates the synergy that exists between each activity. The infrastructure development for the Expo was expected to cost US\$3 billion but was expected to lever US\$6 billion in revenue. There is similar investment in retail infrastructure. Hong Kong International Airport's new terminal is an example of this, demonstrating the scale of leisure spending by the 85,000 travellers who use the facility each day (as well as the 36,000 meeters/greeters welcoming visitors and returning travellers). On average, departing international visitors spend three hours in the terminal ('dwell time') creating many opportunities for retailing. This illustrates the potential of linking tourism with business activity and the implications for managing the supply of tourism.

*Adjusted from The Supply of Tourism- Routledge, retrieved from:
<http://cw.routledge.com/textbooks/9780080969329/data/Further-web-reading.pdf>*

Today, what many travel suppliers are recognizing is the growth in e-commerce which is necessary to respond to increasingly changing demand of consumers in tourism, which will include:

- A gradual reduction in the length of main holidays;
- A rise in the number of additional (second and third holidays);
- Increasing demand for activity holidays;
- Greater flexibility among consumers willing to book last-minute holidays, seat-only sales and more short breaks; and
- The rise of self-packaging of products online ('dynamic packaging').

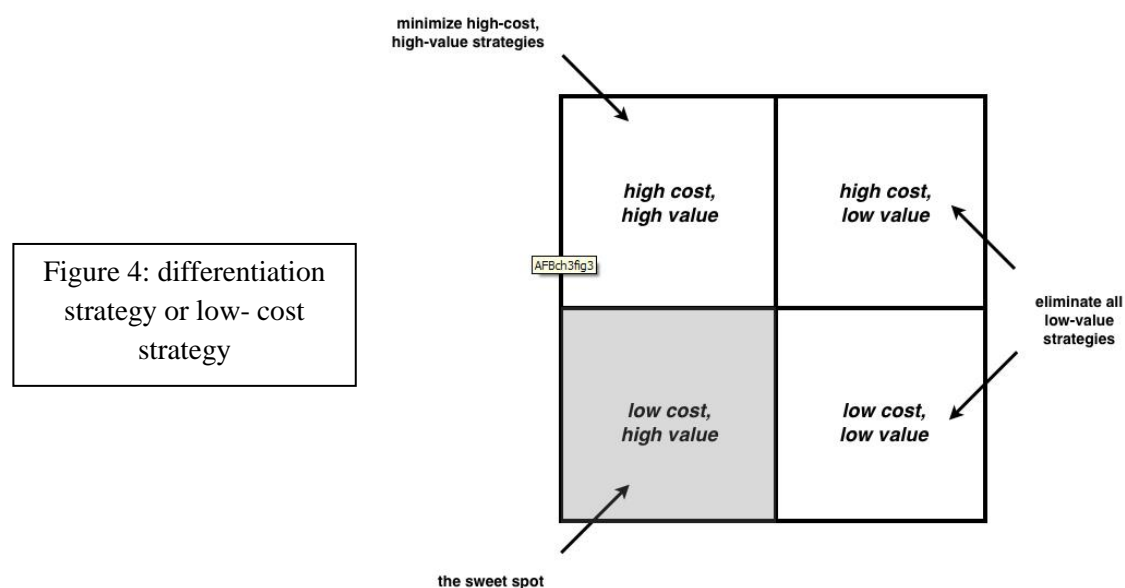
These trends in consumer demand illustrate that the supply of tourism products and services requires highly refined management tools within the tourism sector if its members are to respond to changes and opportunities^v.

3. Tourism Value Chain

3.1 Definition

What is value chain? Value chain was developed by Michael E. Porter. Value chain is used as a guideline to gain competitive advantages above competitors in every division of works in business process. But in order to gain this competitive edge, companies need to show that they can create and add product value for their consumers, and consumers can perceive or realize that value. Consumers' perception and realization of product value is the factor influencing them to buy products.

However, adding value to products has high cost. The more company adds value to its product, the higher cost it will have. Therefore, decision to be made between adding product value and increased cost becomes a strategic decision. Companies may choose differentiation strategy or low-cost strategy. The companies that choose differentiation strategy in order to add value to their products also need to make production cost to be low. "This means effectiveness." *The important point is how to make a difference between value and cost higher than competitors (high value but low cost).*



The goals of creating value chain are to be able to compete with other companies, to increase profits for companies, and to help companies to grow with sustainability. Companies with these goals mostly select having low cost- high value, or high cost- high value, whichever that help them reach the goal of having value for their customers. *Therefore, value chain is in also every division of works of organizations-- each work has to be part of creating and increasing value to products, while reducing production cost.* This is why we call “value chain”

3.2 Porter’s Value Chain

The value chain helps tourism suppliers (i.e. managers) to “visualize and analyze value- creating activities” and to pursue strategies which offer “lower prices than competitors for equivalent benefits or provide unique or differentiated benefits that more than offset a higher price”^{vi}.

Michael E. Porter created a value chain called “Porter’s Value Chain”, shown in Figure 5. Value chain divides activities that create product value into (1) *primary activities*; and (2) *support activities*.

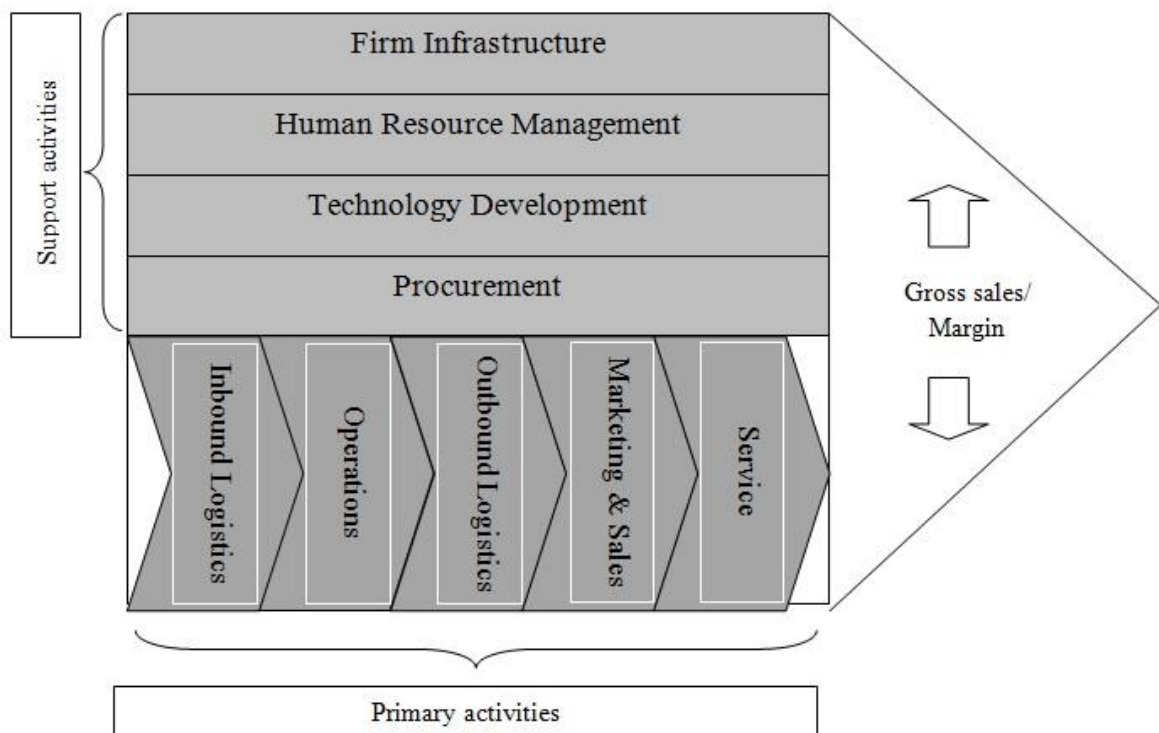


Figure 5: Porter’s Value Chain

Tourism products are often viewed by consumers as a value- added chain of different service components which form a service network. Therefore, identifying

ways to manage this network is vital, especially for large tourism firms that are keen to maintain a competitive advantage over their equally efficient rivals.

Today, the tourism industry is in the era of “value- driven strategy” through “value innovation” based on 3 assumptions:

- (1) *Operational excellence*- reliable products/ services at competitive prices, delivered with minimal difficulty and inconvenience, e.g. an airline that flies people to destinations at realistic prices and with few or no delays;
- (2) *Customer intimacy*- precisely tailored offerings for niches, e.g. 18- 30 holidays which do not interfere with the enjoyment of families or senior citizens;
- (3) *Product leadership*- offering leading- edge products and services that competitors have difficulty catching up with.

Figure 6 demonstrates the tourist- driven supply chain for a travel experience (example), as to explain that tourists have to go through many stages from the decision to take a holiday to experiencing it at the destination. At each stage, the tourist can have a negative or positive experience which can contribute to a “gain or loss” in perceived value. The value chain concept can be applied to tourism. Tourism is experienced at the point of consumption, i.e. the destination; therefore it cannot be brought back home. The tourist product is experienced in the marketplace. The value-added” by a tourism product is likely to be manifested by an increase of enjoyment of the experience for a tourist^{vii}.

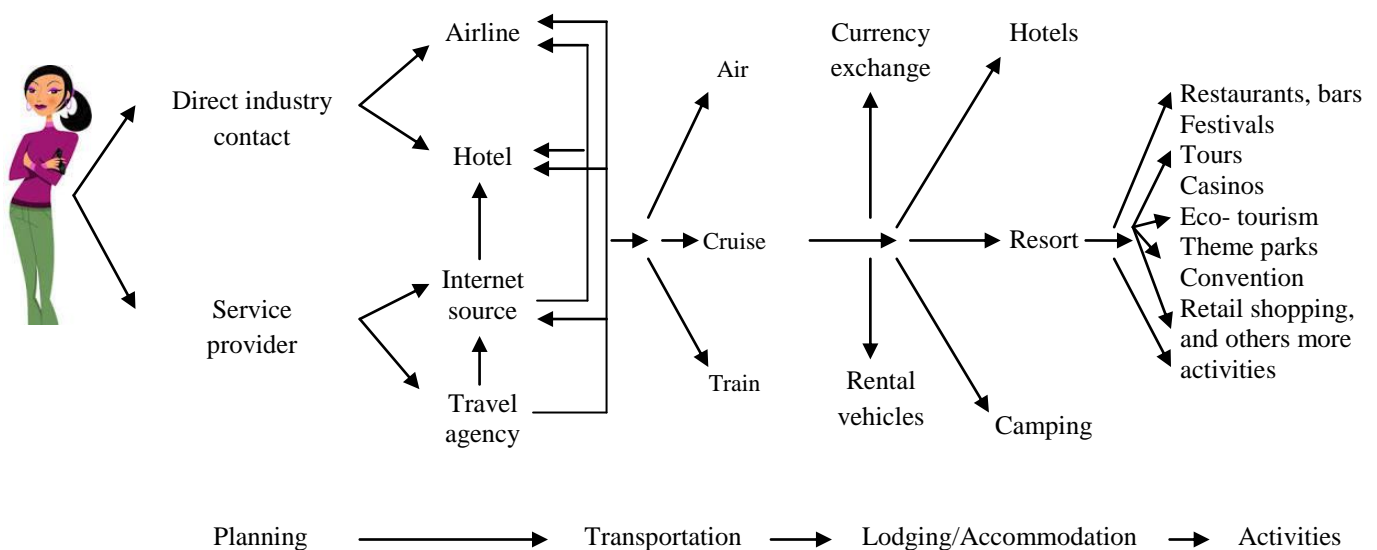


Figure 6: tourist- driven supply chain for a travel experience

Value can also be added by more information about the destination, the experience of traveling there, the local atmosphere or ambience, including attitudes and behavior of local people. Let's read the case of value chain of amusement ride in the box^{viii}.

The case of value chain of “Amusement Ride”

The following example examines an amusement ride, which demonstrates how value can be achieved through the examination of the structure of and the supply chain for an attraction.

Structure of the attraction (amusement ride)

- Line personnel- maintenance and engineers, marketing and sales staff- all are involved in producing and selling the attraction's services.
- Operators of rides- ensure rides run smoothly, within health and safety guidelines, to provide a positive experience.
- Support staff- finance and accountants, personnel, public relations to support the work of the line personnel, so that the attraction runs smoothly.

The combined activities of these workers can ensure the creation of value for the tourist.

Supply chain for the attraction (amusement ride)

- Backward linkages- purchase of land and the rides and the fuel to run them.
- Operations- transform inputs to a ride to be experienced and enjoyed.
- Ticket sales and booking system- on site, by phone and internet.
- Marketing- promotion, advertising and pricing policy to attract customers.
- Service quality- meeting the expectations of customers/ tourists.
- Customer care- managing relationships with customers to encourage repeat visits and/ or sell the attraction to others.
- Support activities- Research and Development (R&D), Human Resource Management (HRM), finance, legal and quality management to ensure smooth running and adoption of new innovations.

Value is created when the end customer is able to enjoy the ride in a safe and encouraging environment.

Learning Activities and Medias

- Students have product design presentation.
- Lecturer gives lecture of unit 3.
- *Lecturer applies PBL:* students do group discussion (the same group) in examining the tourist- driven supply chain for their travel product and examine the value chain that they can add to the tourist travel experience. Use *the case of value chain of “Amusement Ride”* as an example.
- *Homework- Individual Paper (A4 in length) (10 marks):* Students are assigned to do self-study on the following items of the business processes in the supply chain. They will be given one item.
 - Customer relationship management
 - Customer service management
 - Demand management
 - Order fulfillment
 - Manufacturing flow management
 - Procurement
 - Product development and commercialization

Think, search and discuss how the selected item can be utilized with the tour business. Please elaborate the idea with examples from relevant websites. References are needed.

ⁱ Song, H. (2012) *Tourism Supply Chain Management*

ⁱⁱ Cooper et al. (1997), in Song, H. *Tourism Supply Chain Management* (2012)

ⁱⁱⁱ UNWTO (1975), in Song, H. *Tourism Supply Chain Management* (2012)

^{iv} The Supply of Tourism- Routledge, retrieved from <http://cw.routledge.com/textbooks/9780080969329/data/Further-web-reading.pdf>

^v *ibid*

^{vi} Beech, J and Chadwick, S. (2006) *The Business of Tourism Management*

^{vii} Weiermair (2000) in *ibid*

^{viii} *ibid*