

11

The Tourism Industry: Contemporary Issues

Chapter objectives

After reading this chapter you will:

- Understand that tourism businesses have a range of objectives.
- Be familiar with the causes of globalisation.
- Recognise the responses of tourism businesses to globalisation.
- Appreciate the benefits of knowledge management for tourism businesses.
- Realise the explanatory power of network analysis for understanding the tourism industry.
- Be aware of the importance of embedding within networks for tourism businesses.
- Recognise the distinction between small businesses and entrepreneurs.
- Understand the characteristics of tourism small businesses.
- Appreciate the critical importance of human resources to tourism businesses.
- Be aware of the challenges facing tourism human resources.

Introduction

In this chapter we turn to the contemporary tourism industry and identify and expand upon five key issues facing the industry. We begin with the challenges posed to the contemporary tourism industry by globalisation. This section identifies the key drivers of globalisation, particularly the lowered cost of travel and technology. Tourism businesses are responding to globalisation by internationalising and building alliances and partnerships, whilst the public sector is concerned to protect small businesses threatened by the shifting competitive landscape that globalisation delivers. We then consider the fact that the tourism industry has been slow to embrace the benefits of the knowledge economy,

particularly in terms of adopting knowledge management practices and boosting competitiveness through utilising knowledge for innovation and new product development. Both globalisation and the knowledge economy demand that tourism businesses are well networked. Only in this way can they ensure that they benefit from both global trends and the flexible specialisation that characterises the industry. Network analysis can be used to examine networks of destinations and tourism business and to diagnose problems and weak links. Embeddedness within networks is identified as a key strategy for survival for the contemporary tourism business. The chapter then turns to small businesses, the lifeblood of tourism destinations, and makes the distinction between small businesses and entrepreneurs. A particular feature of the tourism industry – the lifestyle entrepreneur – is then examined. Finally, the chapter examines the crisis facing human resources in tourism, a crisis partly due to demographics and partly to the nature of tourism jobs and their working conditions and questions the degree to which robotics will replace human labour.

Tourism businesses

The contemporary tourism industry comprises a range of businesses each with different objectives. Bull (1995) summarises these objectives as:

- *Profit maximisation*, requiring a long term view of revenue and cost, a perspective often absent in tourism.
- *Sales maximisation*, which is often the default option for service businesses and tourism due to capacity constraints.
- *Empire building or prestige*, here as businesses grow there may be a separation of ownership and control and non-monetary objectives emerge.
- *Output maximisation*, which is more relevant for product-oriented businesses where volume is more important than yield.
- *Satisficing*, where the goal is to set satisfactory level of revenue or profit.
- *A quiet life (profit minimisation)* where the business is small, often family owned and may be run for life style reasons.

Together these businesses form the contemporary tourism sector, a sector difficult to define as noted in the previous chapter. The sector itself can be characterised as an oligopoly whereby large firms dominate the market and there is an incidence of high market concentration, particularly in the intermediary and airline sectors. Elsewhere in tourism, for example in accommodation, there is a dominance of small enterprises, which are often single person or family-owned, lacking managerial expertise and/or training. Debbage and Ioannides (1998) state that together, these businesses create the machinery of tourism production, manipulating and permitting the tourist experience to happen; machinery that in recent years has been restructured. This restructuring has been in response to technology, changing consumer demand, increasing concentration in the industry (albeit off a low

base), and the demands of flexible specialisation creating networks of supply and destinations with vertical, horizontal and diagonal integration.

There is also a range of issues which characterise the tourism industry itself. Delivery of the product is fragmented across a variety of providers from accommodation to transportation, with a lack of ownership for the total experience and hence poor coordination. To add to this, Weidenfeld et al. (2009) see tourism as a sector characterised by low risk takers – effectively a sector that lacks strong leadership, which has led to a low level of resources for investment, lack of trust and collaboration amongst businesses, and rapid turnover of both businesses and employees. Partly as a result of this, tourism businesses have never been particularly strong at innovation: indeed it could be argued that all of the major innovations in tourism have come from outside of the sector. Of course, this leaves the sector vulnerable to external influences, no more so than with the sharing economy as we see in the first case study of this chapter.

Case study 11.1 Disruptive Innovations: Airbnb and the Sharing Economy

Introduction

As noted above, the tourism industry is subject to constant change and to threats external to tourism. We have already seen the pervasive impact of the Internet on the tourism sector, not only by changing business practices, but also in empowering the consumer. The Internet has also facilitated the sharing economy, by putting people who have spare assets (in this case rooms, apartments or houses) in contact with visitors who require accommodation at the destination (Fung and SomangMin, 2018). The sharing economy bypasses traditional regulation, distribution and ownership and works on a completely different business model encouraging ‘collaborative consumption’ (OECD, 2017). Tourism and hospitality are vulnerable to this type of ‘disruptive innovation’ which works through a social website or app that connects people who have space to share with those that are looking for a place to stay, in other words a classic peer-to-peer model.

Airbnb

One of the most well known, and controversial, of these peer-to-peer operations is Airbnb. The business came into being through a combination of the global financial crisis which stimulated households’ demand for extra cash with Internet technology and social media. Airbnb dates back to 2007 when a US web site offered private accommodation for conference delegates. It was launched as *airbedandbreakfast.com* in 2008, based on bed and breakfast in private homes, using airbeds in bedrooms and living rooms – hence the name Airbnb. By 2009 the concept had spread across the US and was renamed Airbnb. The rise in the success of Airbnb is impressive, it has:

- Attracted 9 billion Euros funding since its founding in 2007;
- Four million listings worldwide;