

Participation of Mid and Small Size Japanese Travel Agencies in GVC

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1. 20th century and 21st century models of Japanese travel agencies

• Characteristics of 20th century Japanese travel agencies:

- 1. Annual amount handled by each employee: ¥100 million**
- 2. Sales at ticketing counters and by group tour sales agents**
- 3. Wholesale marketing with pamphlets from major companies**
- 4. Marketing cooperation with suppliers (airlines/hotels)**
- 5. Existence of house agencies**
- 6. Labor-intensive**

• Characteristics of 21st century Japanese travel agencies:

- 1. Annual amount handled by each employee: ¥ 800 million**
- 2. Direct sales through the internet (cell phones)**
- 3. Competition with suppliers**
- 4. Emergence of an oligopoly (consolidation and decommissioning)**
- 5. Intellectually productive**

2. Environmental changes surrounding mid and small size Japanese travel agencies

- **Environmental changes due to spread of the internet (cell phones):**

- 1. Vertical integration = Distribution change (For suppliers, sales companies are their biggest partners and biggest competitors.)**
- 2. Market entry from different industries**
- 3. Increased sophistication of consumers**

- **Environmental changes due to demographics and offered services:**

- 1. Aging society**
- 2. Polarization**
- 3. Mileage and point services**

- **Conclusion:**

- 1. Slowdown in wholesale, paper pamphlet, ticketing counter, and group tour sales**
- 2. Lower profitability (commission caps)**
- 3. Consolidation and decommissioning of travel agencies (products) →
Emergence of an oligopoly**

3. Issues facing mid and small size Japanese travel agencies

- Insufficient management resources

1. People: Cannot hold on to top-class personnel due to low salaries and remuneration

Low influx of human resources from other industries = Low appeal

2. Things: No particular assets

3. Money: Difficulty obtaining loans and financing due to poor prospect of gaining a return on investment

Tight cash flow (deposits and cash on delivery)

4. Information: Individual dependent → Does not accumulate within the company

- Low internet literacy
- No local presence outside Japan
- No foreign language skills
- Insufficient successors
- No brand (reliance/trust)

4. Issues and benefits of GVC participation

Benefits:

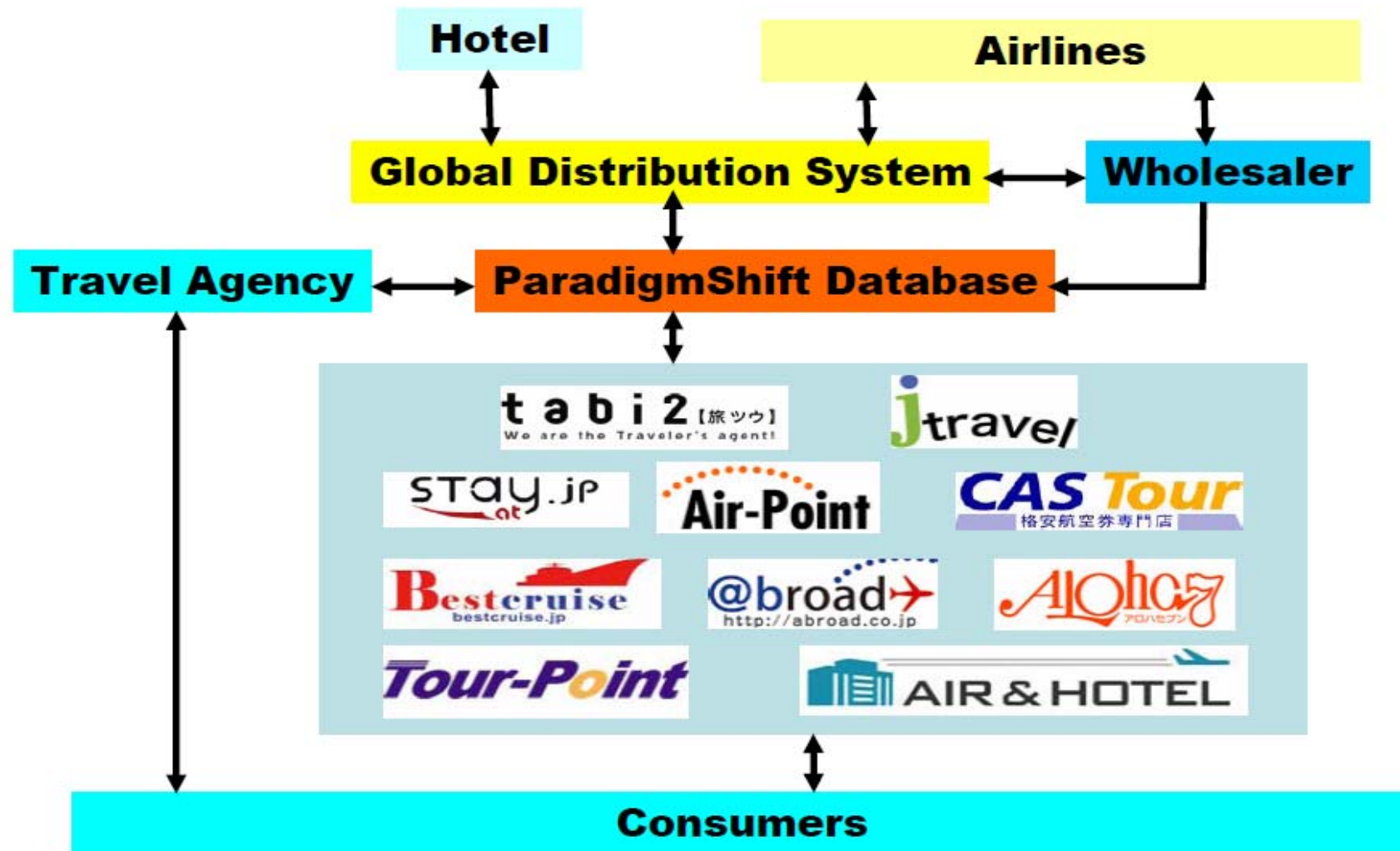
- Cost reduction (purchasing, information collection, e-tickets)
- Realization of rational sales
 - * 21st century travel agencies annually handle ¥ 800 million per employee compared to annual sales of only ¥ 100 million per employee at 20th century travel agencies.

Allows for cost decrease and more efficient sales.

Issues:

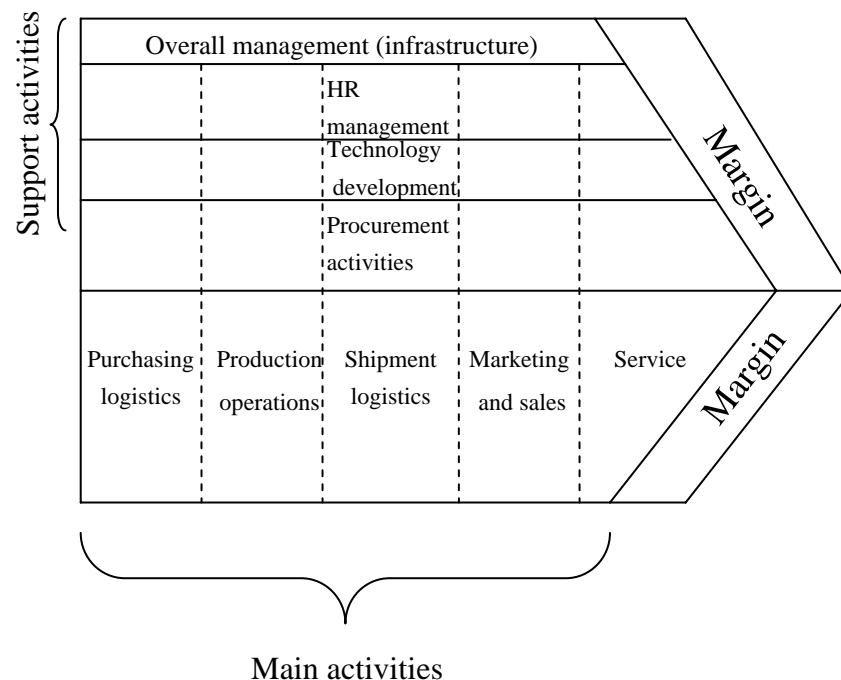
- Strengthening internet literacy
- Language education
- Training trips
 - * Travel agency personnel who do not travel = Weak travel product knowledge
- Obtaining capital (financing)
 - * Responding to changes in demand between busy and slow seasons

Ex: Paradigm Shift's online sales system



5. Solutions to encourage GVC participation

- Manager education (internet and language)
- International training
- Supply of funds from public agencies, including financing, investments, and tax breaks
- Provision of materials such as photographs for building homepages (copyrights)



The internet contributes to cost reductions in all value chain activities.

Escape labor-intensive activities, switching to intellectually productive activities.

Key words:

- Timely
- Paperless
- 24/7
- Ubiquitous

6. Summary:

Managers will need to improve their internet literacy and strengthen their language skills in order for mid and small size Japanese travel agencies to enjoy the benefits of GVC participation. Assuming that the Japanese government and other public agencies were to supply capital to mid and small size Japanese travel agencies through financial measures (favorable tax treatment, investment, financing), there is a high chance those funds would be wasted if internet literacy is not ramped up and the language barrier overcome. (The only result would be to make Japanese systems companies rich!)

As long as language is not a problem and one can make full use of internet technology, even individuals who participate in GVC could enjoy the benefits, not just companies, thanks to the characteristics of the travel business, in which a profit can be turned simply by sending data and with no need for an inventory.