

The Future Outlook of Thailand's Tourism Industry

Tourism has been a highly successful industry with steady growth at 9% CAGR over the past 15 years, and a GDP contribution at 9%. Yet, recent trends have brought both opportunities and challenges, to companies and stakeholders. This includes how the supply of accommodations could grow to support rapid demand growth, and tourist segments that will grow outpacing their peers. Awareness on current and future situation is, thus, crucial.



Located at the heart of Southeast Asian region, the Kingdom of Thailand is founded to be one of the Far Eastern cultural countries, rich in history and diversity. Connected to Myanmar to the west, Laos and Cambodia to the east, Malaysia to the south and partly to the natural treasure of the Andaman Sea, the country is characterized by region and province. Each offers their own unique geography, climate, culture, cuisine and economy. And that's why travelling to Thailand offers unique and diverse experiences to travelers.

The fame of Thailand has been globally recognized. Among 136 countries, Thailand was ranked at 34th in The Travel & Tourism Competitiveness Report 2017 by the World Economic Forum¹. While *Asia Cruise Trends* had also awarded Thailand as one of the top ten cruise destinations in Asia. The country has a lot to offer, from hill tribe's artisanal heritage to sophisticated sandy beaches. In fact, Phuket, alone, was also ranked among the top ten cities in the world for TripAdvisor Traveler's Choice in 2017.

With such significance, tourism is one of the primary drivers of economic growth in Thailand. Amidst the turmoil from global economy, sluggish exports, number of foreign visitors coming into Thailand continues to show a strong growth. A total of 32.6 million international visitors were in Thailand last year, a figure

¹ Among ASEAN countries, Thailand ranks 3rd, followed by Singapore and Malaysia.

that was hitting record numbers². 10% CAGR increase was reported during the past 4 years, with a forecasted number of visitors reaching 37 million in 2017³.

Today, tourism industry is as strong as ever. Last year, alone, tourist spent over 1.65 trillion baht in Thailand. And that's why a large share of the country's GDP is driven by this sector. Approximately 9% of GDP comes directly from the tourism industry alone, while indirect contribution is around 20% of the GDP. All of these figures are part of a positive trend. Forecast shows direct GDP contribution will reach 14% by 2026, and 30.5% indirectly, as well as 9.9% of direct employment, and 23.2% of indirect employment⁴.

Looking ahead, tourism will remain a vital part of Thai economy. But with changes in consumer behavior and disruptive digitalization, not every single element of the industry will experience an exceptional growth. However, those who are the fastest to adapt, will be the one to sail above the wave of Thailand's tourism success.

So what's up around?

In order to fully leverage its own strengths, a careful analysis on consumer behavior and tourist segments is crucial.

Dragon is on the rise

In terms of international visitors by nations, Chinese is set to remain a solid contributor. In 2016, 8.8 million Chinese had visited Thailand. A figure accounts for nearly one-third of all arrivals. And no other country came close to this. On average, their spending is ranked 2nd among key nations (5,800 baht/day), just behind Singapore (5,900 baht/day)⁵.

This striking high number may seem like an impressive performance for Thai tourism industry. Yet, looking at a total of over 100 million Chinese travelers around the world each year, and a growth of 16% per annum, there's a tremendous room for growth⁶. With our proximity to the mainland, coupled with their rising incomes and spending, this segment is something the operator could not just overlook.

And besides lucrative Chinese tourists, our neighborhood also offers promising opportunity. Analysis on international visitors by country had shown China taking the largest chunk in the pie, yet if we combine countries into region, Southeast Asian visitors also show a positive trend. A total of 8.7 million ASEAN visitors had come to Thailand last year, and a year-on-year growth of 9%. Their average spending per

² Tourism Authority of Thailand

³ Ministry of Tourism and Sports (MoTS)

⁴ World Travel and Tourism Council (WTTC)

⁵ Ministry of Tourism and Sports (MoTS)

⁶ Oxford Business Group

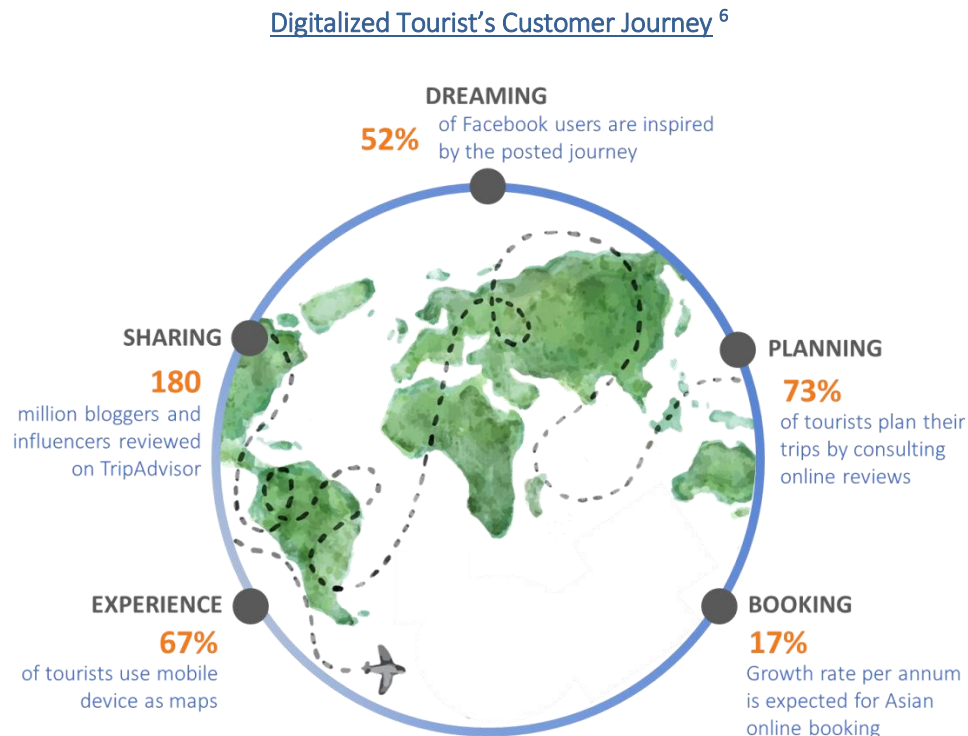
head is also found to be positive at approximately 5,000 baht/day. The country hopes to draw a total of 9.2 million ASEANs by the end of 2017⁷.

Travel on-the-go

Looking beyond nationality, past trends have shown a solid change in consumer behavior. Digital technology has been integrated in our everyday lives. Similarly to tourist's customer journey, more than 95% of travelers today use digital resources in the course of their journeys. And on average, customer would browse through around 19 websites and mobile applications in one trip⁸.

Thai government has termed this segment as "free independent travelers (FIT)". It refers to people who utilize technology to make bookings and travel arrangements, instead of purchasing a tour group. The trend is significant and dynamic that we could see throughout most nationalities that visited Thailand.

On top of that, we could see not only digitalization that disrupt the way customer book their flights or hotels, but also to experiencing and reflecting on their trips. And that's why we've seen many influencers and travel bloggers sharing their adventures on social media. In this loop, what's certain is that the digitalized tourist consumption will continue to increase.



⁷ Oxford Business Group

⁸ SCB EIC

Health and Wellness Tourism

Lastly, opportunity of Thailand's tourism also lies in a more unique and special form, namely, medical tourism. In-line with key strategic direction laid by government to medical industry, medical tourism has found their own competitive advantage in high-quality service at reasonable prices, even in par with Singapore.

Last year, more than 3 million foreign patients came to Thai hospital. A figure represents impressive 12% CAGR growth over 5-year period⁹. Though, this figure is a part of total international visitors in Thailand, these people are, on average, spend more than normal tourists. For instance, a person coming for cosmetic surgery in Thailand would spend around 10,000 baht/day and stay for 2 weeks, whereas a leisure tourist would spend around 5,000 baht/day and stay for 6 days¹⁰.

With its rapid growth rate, coupled with supportive trends on global aging population¹¹ and health consciousness, Thailand is set on board to medical tourism. And the sector will continue playing a significant role in the Thai economy.

Challenges Ahead

Despite the high impact and rapid growth of the industry, several planning and improvements are crucial to bring the industry forward.

First and foremost is on the associated supply chain and infrastructure to support rapid growth in Chinese and ASEANs tourists. While each nation has their own unique attributes, including point of destinations, accommodation and spending behavior, customization is recommended to better capture each segment.

Chinese tourist, for instance, commonly travels via tour agency during their first trip to Thailand due to the ease of language barrier. However, they are more likely to be a free independent traveler (FIT) for their next visits. Their key destinations are Bangkok (Grand Palace) and Pattaya. Approximately half of the total visitors also make spending on cosmetic and spa products¹². This way, operators that target Chinese tourist should tailor their language support, product or service offering, payment method, and point of sales to match the market demand.

Additionally, infrastructure capacity is also needed to expand. With the forecasted growth of these particular nationalities stood strong, supply of tourism industry is also needed to grow to support the trend. This overcapacity will not affect just the international airport, but as far as possible degradation of natural resources such as coral in the southern coasts of Thailand.

⁹ Department of International Trade Promotion, Ministry of Commerce (Thailand)

¹⁰ Oxford Business Group

¹¹ United Nations has forecasted that the percentage of population aged 65 and above will account for 22% of total population in 2100, compared to 8% of the population in 2015.

¹² Thansettakij

It is also crucial to promote the high-value tourism to these emerging countries. This includes the countermeasure to monitor low quality tour packages such as zero-dollar tourism. While the agent incentive is different from normal holiday sales to building database and their enterprise value in the market, bad tourism experience may also result in Thailand's reputational risk. Thus, sophisticated policy design is crucial. Since a mere crackdown or ban could result in a crumble of the already weak economy.

Moving forward to stay on the disruptive digital ecosystem, companies such as hotel providers and tour operators should understand the change in consumer behavior, as well as exploiting available technologies. The FITs are travelers who are more sensitive to price since they make an online purchase. Booking.com, for instance, offers a convenience choice of over 1 million accommodations in 226 countries¹³. And imagine how many options travelers will see. Thus, it is crucial for companies to integrate technology, online marketing and social media to expand customer base, customer reach, as well as controlling cost efficiency.

While the growth in medical tourism segment is assured to kick-off, investments and contributions are needed from several stakeholders. And some initiatives have been already prepared by the public sector. This includes the BOI incentives on companies offering medical tourism business and government permit for a number of regions such as China, Myanmar, and Gulf Cooperation Council (GCC). This permit allows foreign visitors to stay in Thailand for 90 days without visa for medical treatment¹⁴. Besides, operators also need to prepare the facilities, and manpower to support the demand growth, as well as understand the customer insight and stay proactive for new opportunities. Adding more beds for foreign visitors, and offer medical tourism package for older travelers and foreign retirees is also few of the possible options.

In any case, it is vital to step back and look at the big picture; what goal should tourism industry set towards the future. As many small, different and scatter strategies could confuse companies, as well as diluting the solid image of the country. At the same time, Thailand will face fiercer competition from other growing markets such as Vietnam, Indonesia and Malaysia. The country will need to keep up with the market, and with new technology. Tourism business will become more demanding and more sophisticated.



About the author

Ms Panyapat Papangkorn is currently a consultant at Sasin Management Consulting of Sasin Graduate Institute of Business Administration, Chulalongkorn University. She has an in-depth knowledge in corporate strategy and strategic implementation with an expertise in resource-based view approach. Ms Panyapat holds an MSc in Economics and Strategy for Business, with distinction, from Imperial College London, UK and a Bachelor Degree in Business Administration (Accounting Major), with the first-class honors, from Thammasat University.

¹³ SCB EIC

¹⁴ Oxford Business Group