

# Competitiveness Study - Cluster Approach



## Study Highlights: Competitiveness of Phuket Tourism

July 12, 2002

# Agenda

July 12, 2002

Objectives

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Why Phuket

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Phuket Cluster

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Diamond Model

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Alarm Signals

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Critical Issues

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Strategic  
Recommen-  
dations

- Environment
  - HRD
  - Seasonality
  - Others
- 

- 1. Objectives and Deliverables**
- 2. Why Phuket?**
- 3. Phuket Cluster Overview**
- 4. Diamond Model**
- 5. Alarm Signals and Critical Issues**
- 6. Strategic Recommendations**

# Objectives of the Study

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## ► Objectives

Why Phuket

Phuket Cluster


Diamond Model

Alarm Signals



Critical Issues

Strategic  
Recommen-  
dations

- Environment
- HRD
- Seasonality
- Others

 **Objective** of the study is to evaluate the competitiveness of “Phuket Tourism Industry” and identify improvement opportunities by applying *Michael E. Porter’s* cluster concept and diamond model.

 **Deliverables** of the study are:

-  **Assessment** of the competitiveness of Phuket Tourism and the status of Phuket Tourism Cluster.
-  **Strategic recommendations** to sustain and enhance the competitiveness of Phuket Tourism, which include some specific recommended actions.

# Phuket Tourism is important to Thai economy.

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Objectives

► **Why Phuket**

Phuket Cluster

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Recommen-  
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✈️ **Phuket accommodates 3.3 million tourists, and generates 62 billion Baht revenues from tourism, ranking only 2<sup>nd</sup> to Bangkok.**

✈️ **Phuket accommodates 25% of foreign tourists visiting Thailand and generates 53 billion Baht tourism “export income”.**

No.	Destination	Revenues from tourists	Revenues from foreign tourists
1	Bangkok	195	102
<b>2</b>	<b>Phuket</b>	<b>62</b>	<b>53</b>
3	Pattaya	38	33
4	Chiangmai	37	18
5	Had-Yai	13	7
6	Krabi	12	8
7	Samui	10	9
8	Chiangrai	9	3
9	Hua-Hin	9	4
10	Cha-Um	7	3
	Others	77	46
	Total	469	286

# Tourism drives Phuket's prosperity.

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► Why Phuket

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Recommendations

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✚ As a major tourism city,  
Phuket has

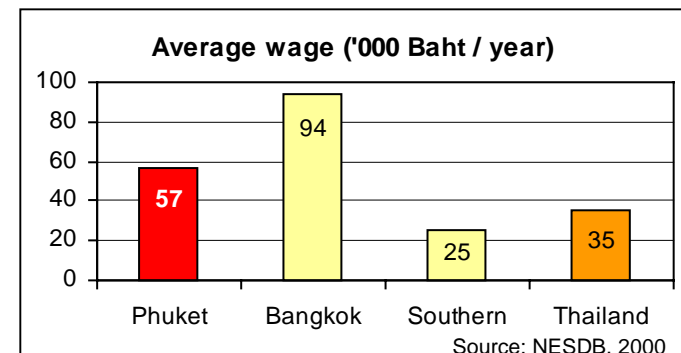
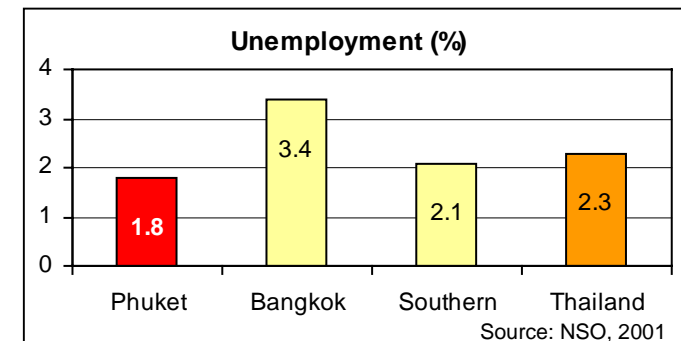
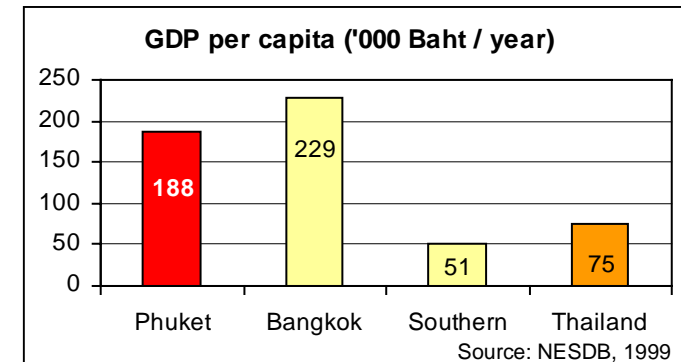
✚ GDP per capita 2.5 times  
of average Thailand

✚ Low unemployment rate

✚ Wage level 1.6 times of  
average Thailand

✚ Hotels and restaurants create  
value-added at 37% of  
Phuket's GDP and employs  
23% of labor force in 1999.

✚ Nevertheless, tourism  
contributes to the prosperity  
of much wider groups of  
Tourism Cluster.



# Cluster Map of Phuket Tourism

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Objectives

Why Phuket

► **Phuket Cluster**

Diamond Model

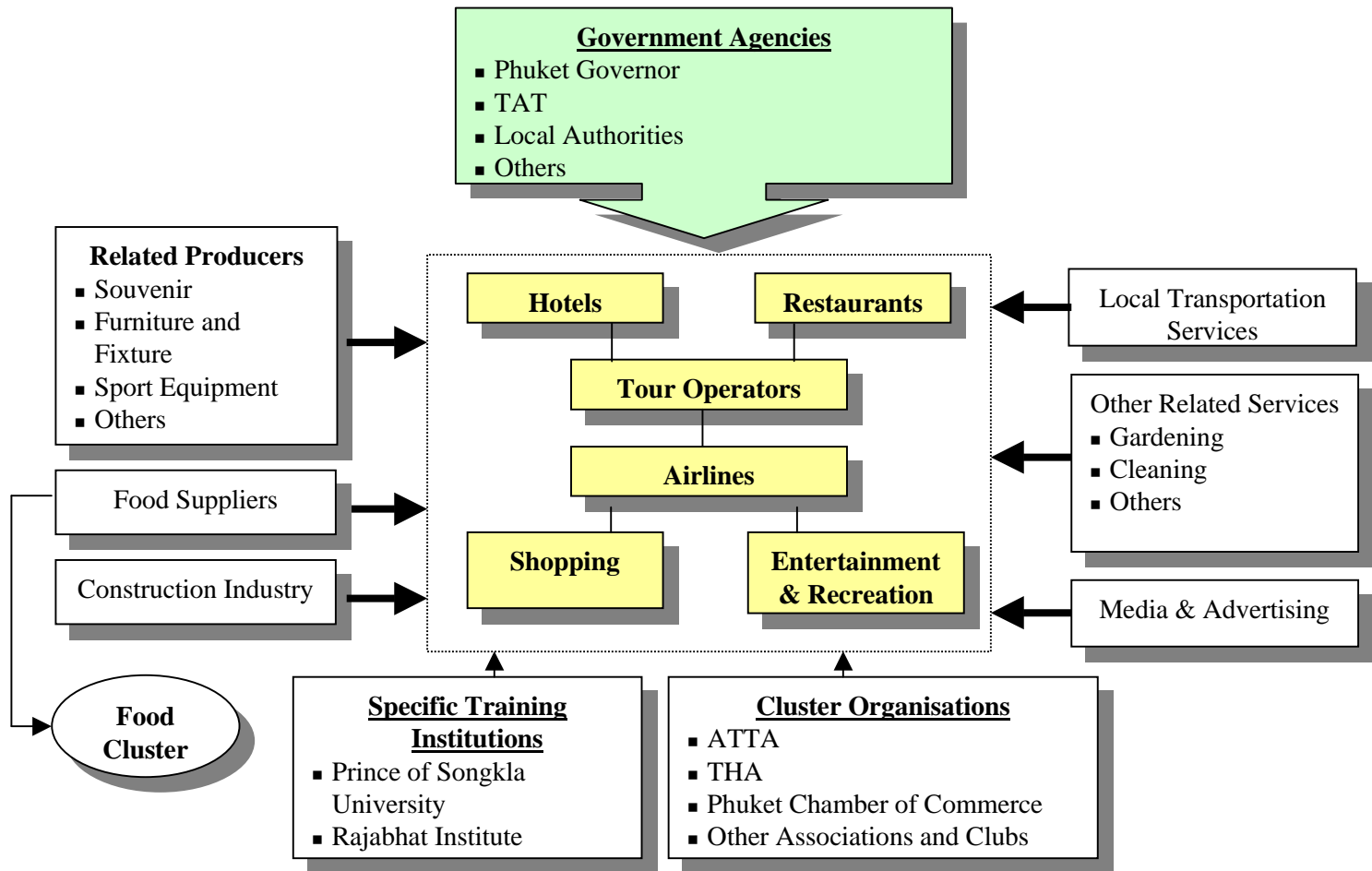
Alarm Signals

Critical Issues

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**Phuket Tourism Cluster covers a wide range of participants.**



# Diamond Model: Factors that support Phuket's competitiveness

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Objectives

Why Phuket

Phuket Cluster

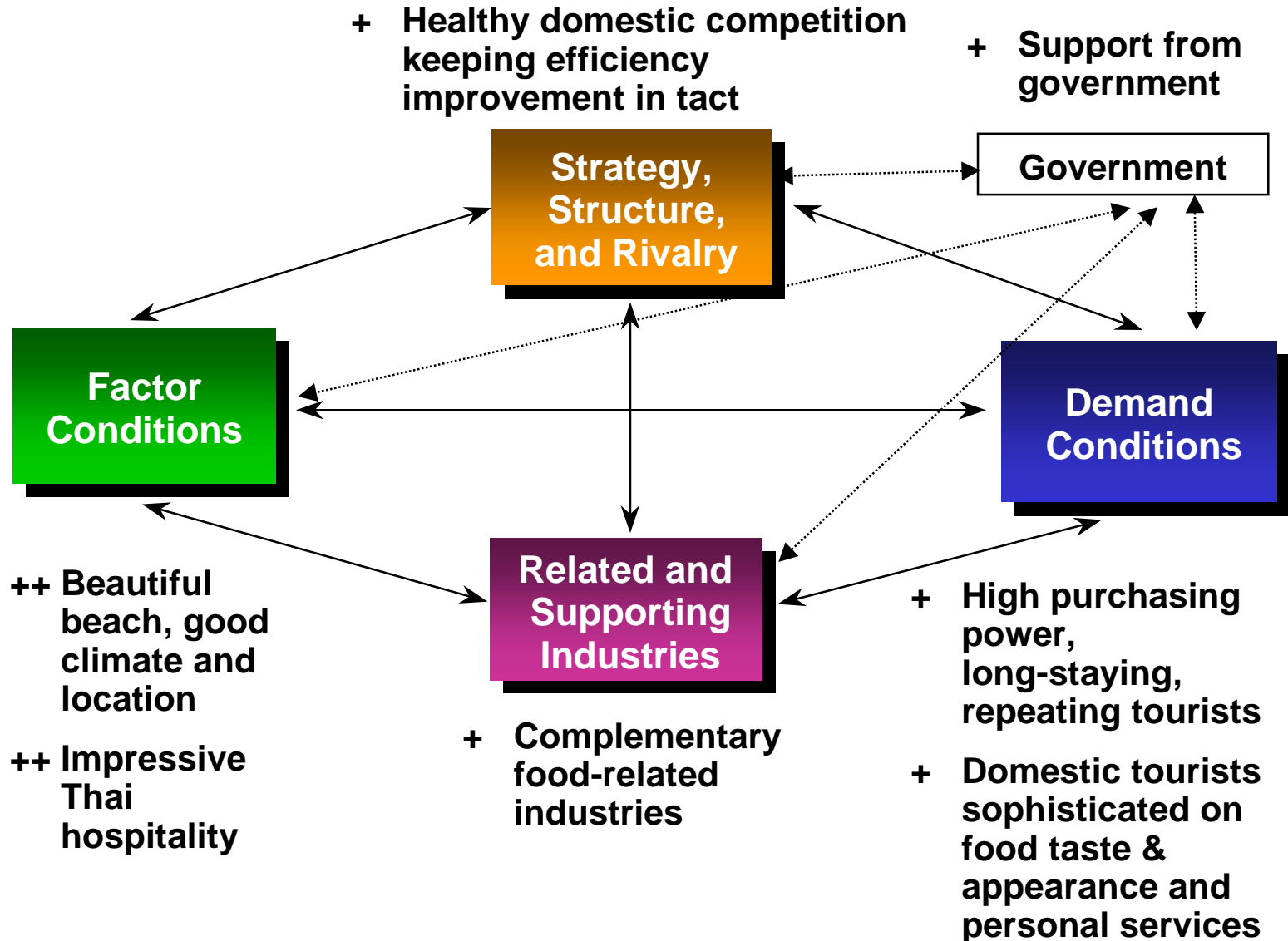
► **Diamond Model**

Alarm Signals

Critical Issues

Strategic  
Recommendations

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- Others





# Diamond Model: Factors that hinder Phuket's competitiveness

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Objectives

Why Phuket

Phuket Cluster

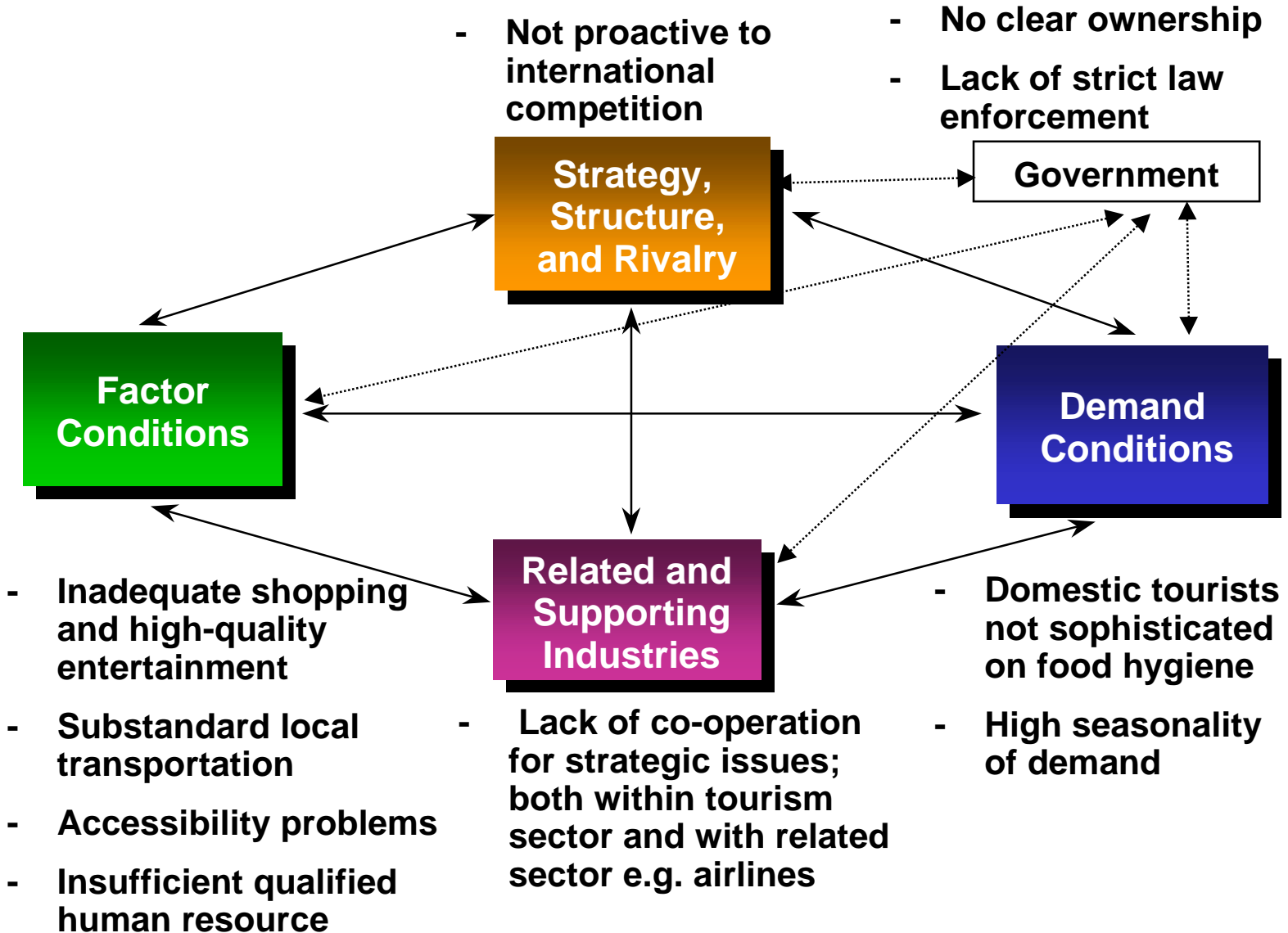
► **Diamond Model**

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- Others



# At a glance, revenue growth has been impressive.

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Objectives

Why Phuket

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Diamond Model

Alarm Signals

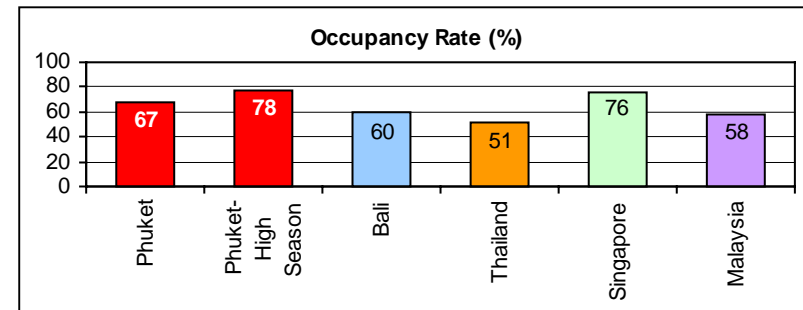
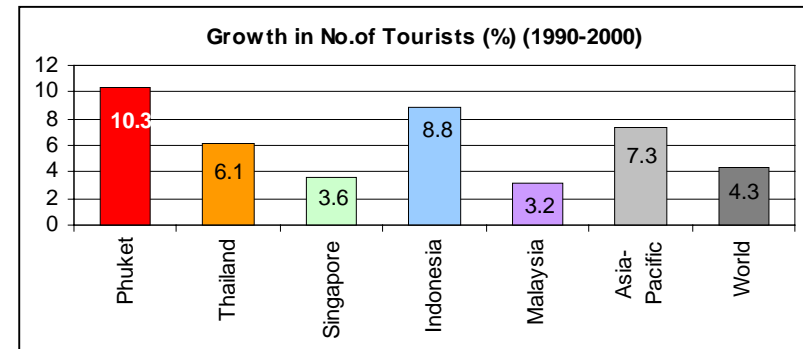
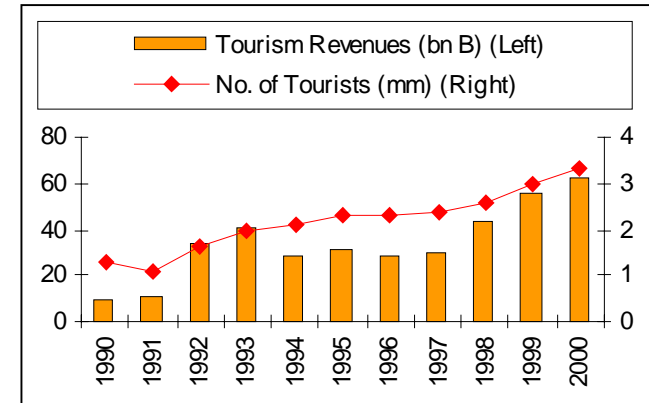
Critical Issues

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Over the last decade, **Phuket tourism revenues soared at 22% p.a. and No. of tourists rose 10.3% p.a., higher than Asia-Pacific and the world.**

Occupancy rate at 67% is the highest in Thailand, and on the high range in the region.



Note: Occupancy rate in Singapore is, to some extent, a result of business travelling, not only tourism.

Source: TAT, World Tourism Organization, 2000

# However, some alarming signals are imminent.

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Diamond Model

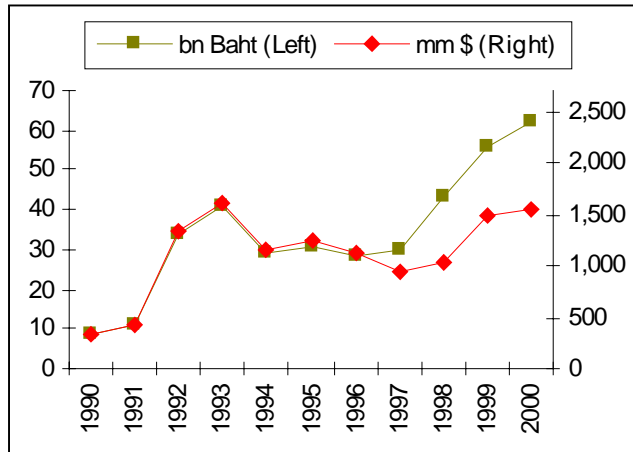
Alarm Signals

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Phuket's Revenues from Tourism

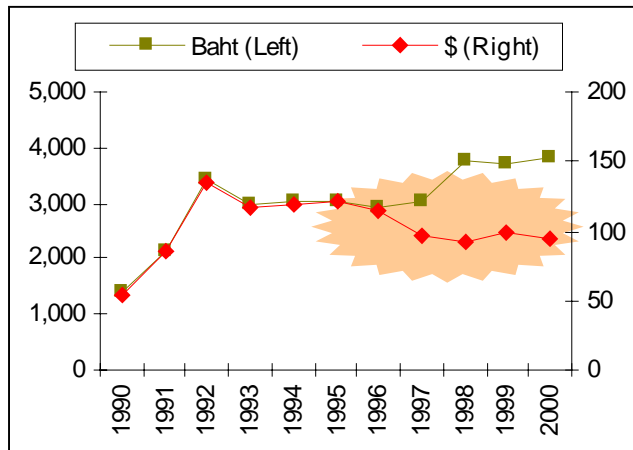


Recent dramatic growth is to some extent driven by Baht devaluation. Revenues in US\$ term just climb to the same level as those in 1993 only.

More importantly, tourist spending per day in US\$ term continuously declines. Source of growth comes from the increase in no. of tourists, rather than the increase in value creation per tourist.

Phuket is becoming a “cheap” destination.

Tourist's Spending per Day in Phuket



Source: TAT, BOT

“More for Less”

# Several problems under the surface

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Why Phuket

Phuket Cluster

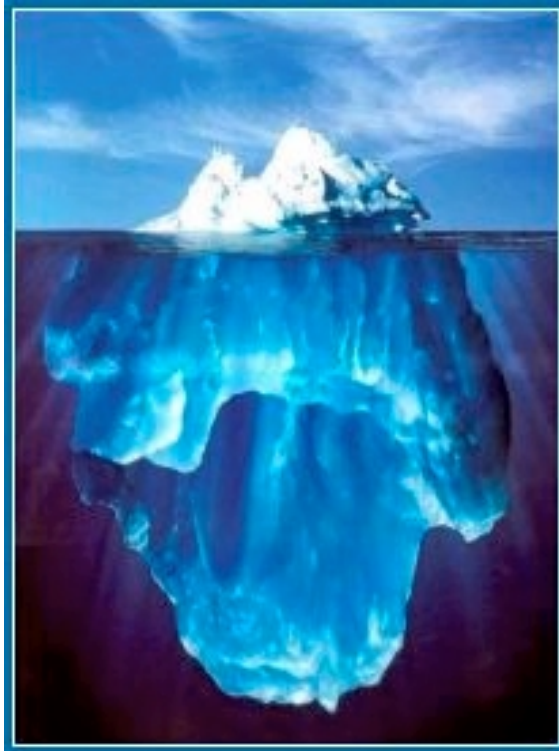
Diamond Model

► **Alarm Signals**

Critical Issues

Strategic  
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- Declining tourist's spending per day in US\$ term
- Increasing no. of tourists causes operating constraint during high season
- Deteriorating positioning of Phuket in international market
- Degradation of environment and natural resources, the most important factor for success of Phuket Tourism
- Insufficient infrastructure and qualified human resources to accommodate increasing no. of tourists
- Lack of shared vision and sustainability & value creation strategy

# Critical Issues

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Objectives

Why Phuket

Phuket Cluster

Diamond Model

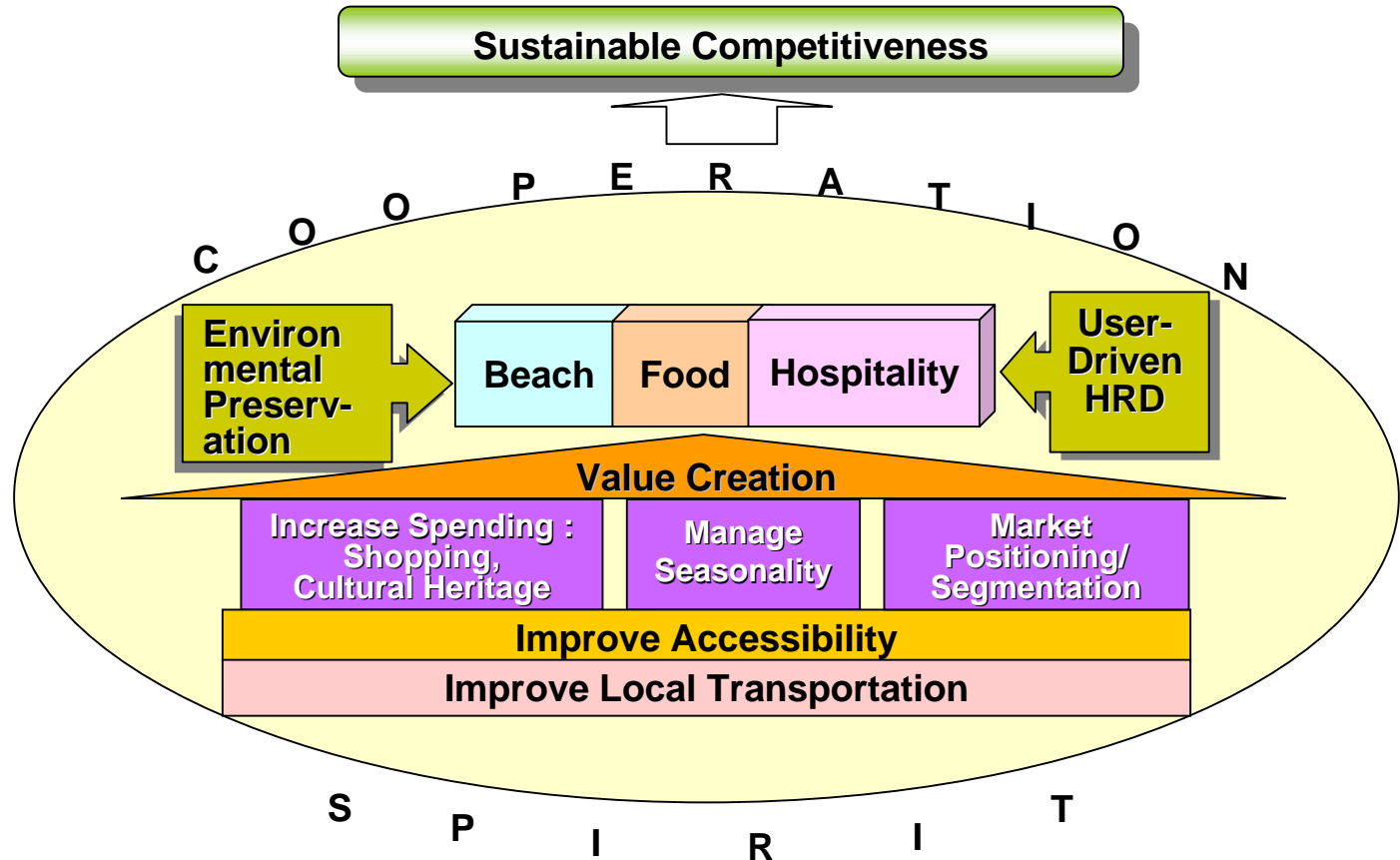
Alarm Signals

► **Critical Issues**

Strategic  
Recommendations

- Environment
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- Sustain **core competency** in beach and hospitality
- Increase **value creation** from tourism
- Promote **cooperation spirit** for tourism cluster development



# Beach and Hospitality are **core competencies** of Phuket Tourism.

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Objectives

Why Phuket

Phuket Cluster

Diamond Model

Alarm Signals

► **Critical Issues**

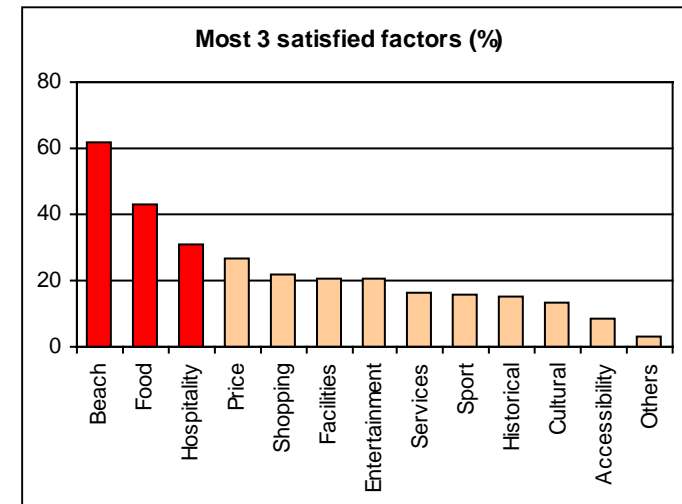
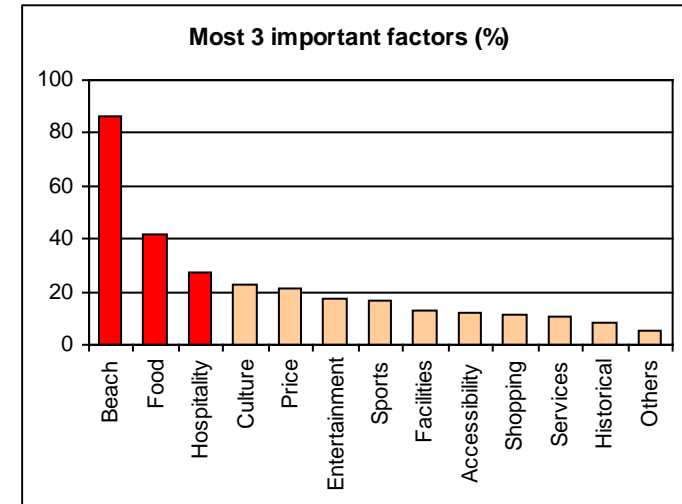
Strategic  
Recommendations

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► **Beach and natural beauty** ranks the 1<sup>st</sup> as most important and most satisfied factors when tourists visit Phuket.

► **Thai hospitality**, a unique character, ranks the 3<sup>rd</sup> most important and most satisfied.

► **Nonetheless**, beach scenic beauty is deteriorating, while there are insufficient number of qualified human resource for tourism cluster.



Source: Survey, 2002



# Phuket should increase Value Creation from Food and Cultural Resources.

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Objectives

Why Phuket

Phuket Cluster

Diamond Model

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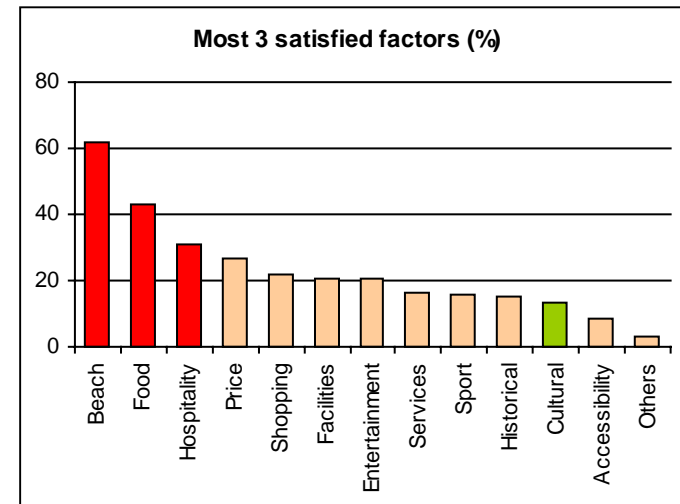
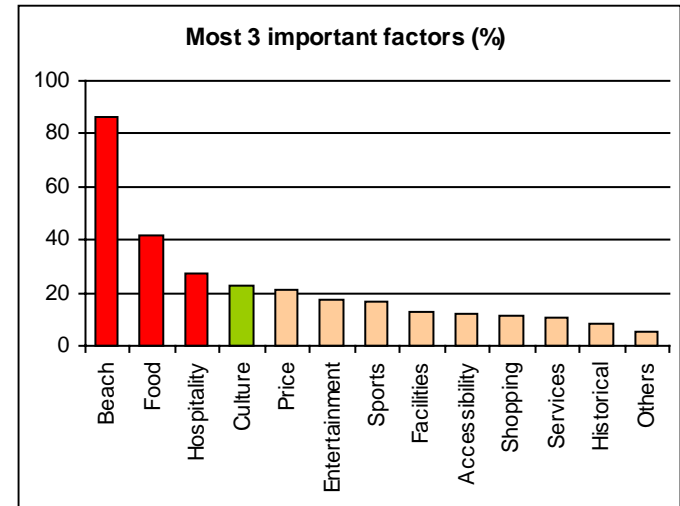
**Critical Issues**

Strategic Recommendations

- Environment
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- Others

 **Phuket should leverage its strength in Food, 2<sup>nd</sup> most important and satisfied factor for tourists**

 **Phuket should also improve Cultural Resources, which is 4<sup>th</sup> most important factor for tourists, but their demand has not been fulfilled.**



Source: Survey, 2002

# Opportunity for shopping

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Objectives

Why Phuket

Phuket Cluster

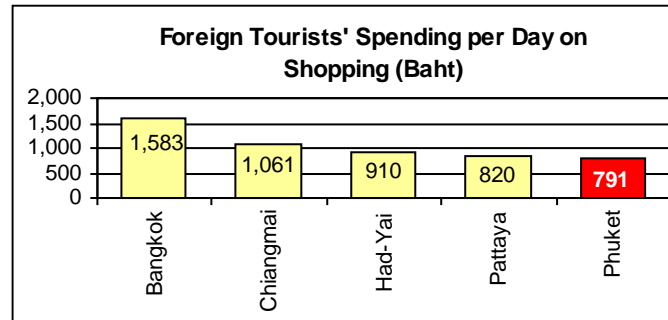
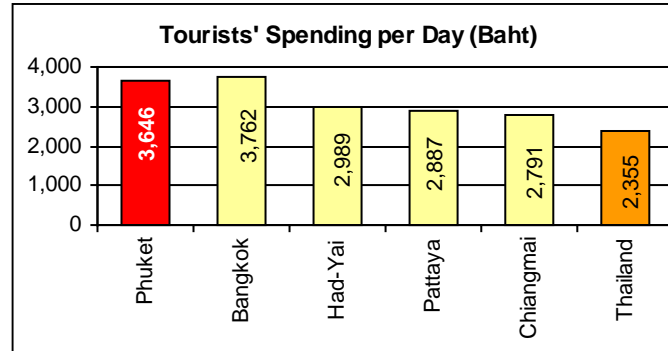
Diamond Model

Alarm Signals

**Critical Issues**

Strategic  
Recommendations

- Environment
- HRD
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Source: TAT, 2000, Survey, 2002

**Phuket has not yet captured the opportunity of value creation from shopping.**

**Shopping is the least satisfied factor tourists found while visiting Phuket.**

**While tourists visiting Phuket have relatively high purchasing power, they spend relatively little on shopping.**

# Poor local infrastructure is obstacle to value creation.

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Why Phuket

Phuket Cluster

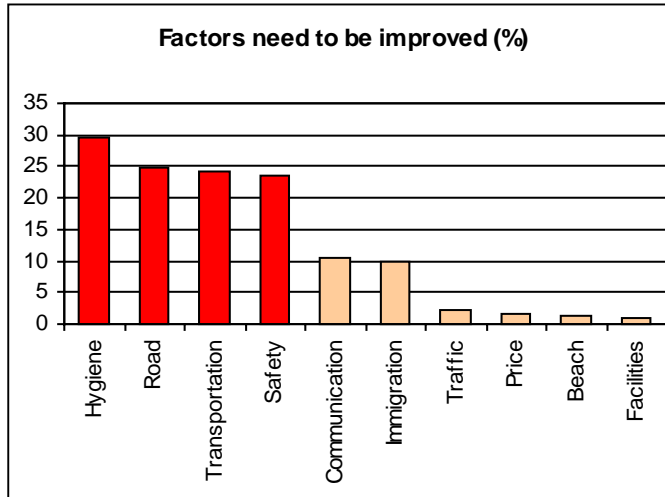
Diamond Model

Alarm Signals

► **Critical Issues**

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Recommendations

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Source: Survey, 2002

✈️ **Poor infrastructure** is also an obstacle for value creation e.g. poor local transportation system limits the chance for tourists to spend.

✈️ **Phuket should also increase the value from tourism through**

✈️ **Demand management during low season**

✈️ **Market segmentation and strategic market targeting**

✈️ **Improvement of accessibility of target tourists**

# Inter-cluster linkage has not been strong.

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Objectives

Why Phuket

Phuket Cluster

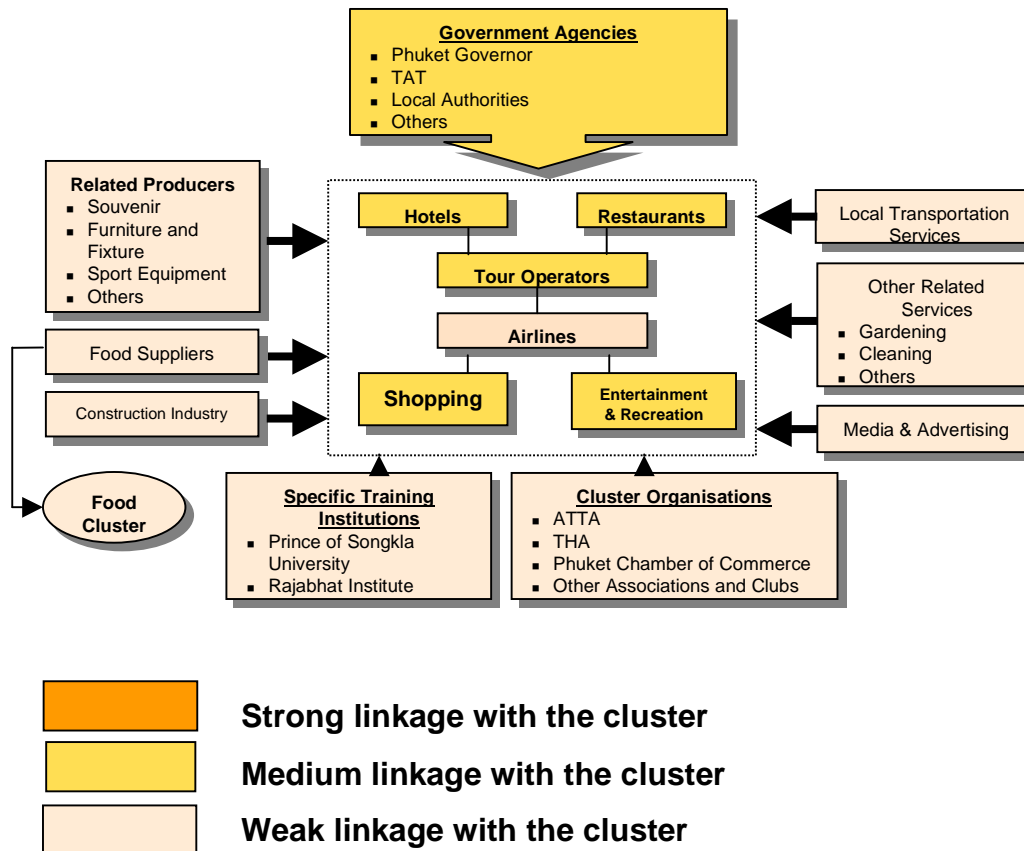
Diamond Model

Alarm Signals

► **Critical Issues**

Strategic  
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Co-operations are on ad-hoc basis. No long-term shared vision and strategy.

Private associations play a limited role.

Information sharing within the cluster is limited.

# Inter-cluster linkage has not been strong. (cont.)

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Objectives

Why Phuket

Phuket Cluster

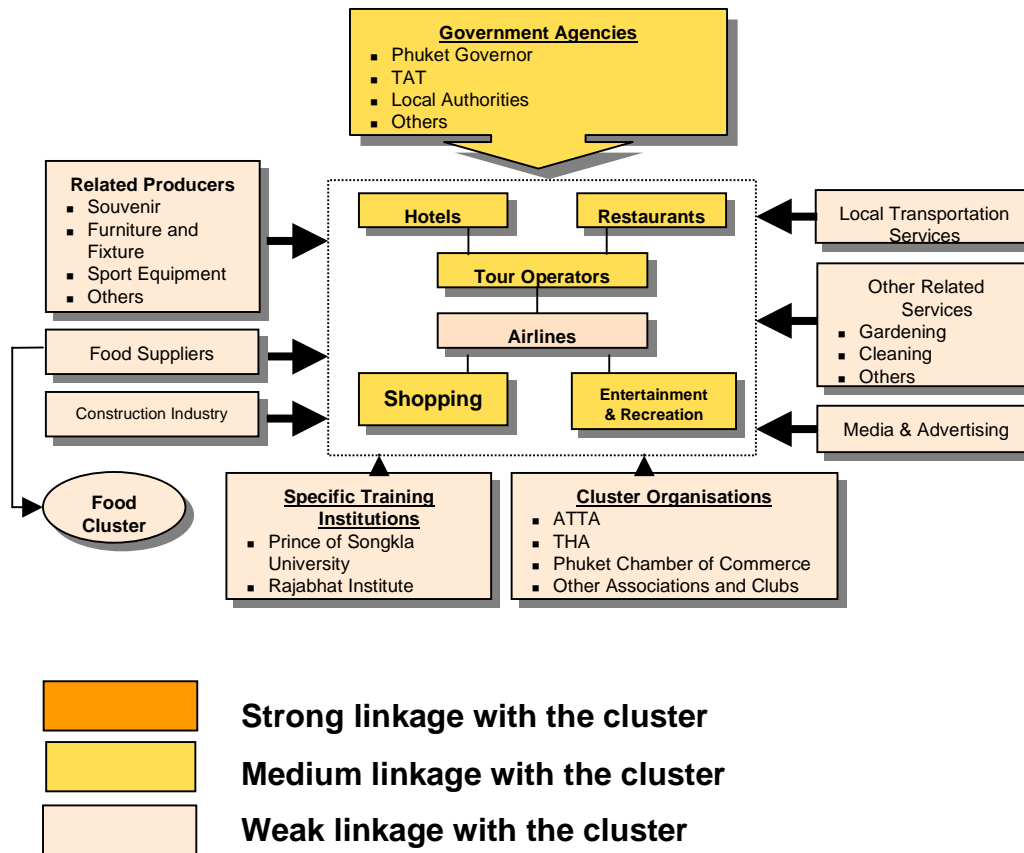
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► **Critical Issues**

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✈ Within main activities, linkage with airlines is the “weakest link”.

✈ TAT’s role is limited to a “Promoter” only, not a pro-active co-ordinator of tourism development.

# Vision

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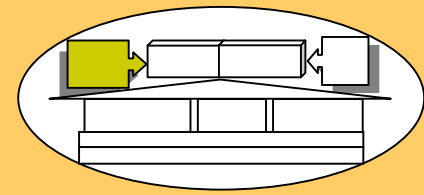
Critical Issues

► **Strategic  
Recommendations**

- Environment
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- Others

**Phuket will be one of the most attractive  
tourism destination in the world,  
which sustainably and continuously  
generates high income for Thailand,  
with environment and natural resources  
preserved  
and social adverse impact prevented.**

# Environmental Preservation Current Status



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Critical Issues

Strategic  
Recommendations

► **Environment**

•HRD

•Seasonality

•Others

✚ Despite some problems in some specific area, the overall physical environmental problems are quite manageable.

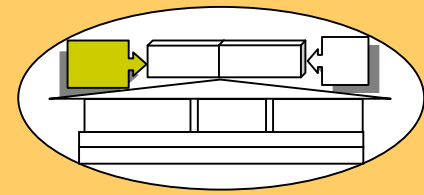
✚ Nevertheless, key burning problems are deterioration of **beach beauty** and uncontrollable **city zoning and planning**.

✚ A lot of these issues are currently being dealt with by Phuket governor.





# Physical assets in place; Management is key.



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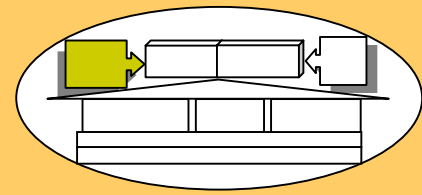
•Others

 **Phuket has invested quite a lot in physical assets for environmental preservation. The key issue is how to effectively manage these assets.**

 **Sub-district Administrative Organizations should play a more active role in planning, managing, monitoring and enforcing the environmental protection. Their management skills thus need to be enhanced.**

	โครงการ
1. การจัดการป่าชายเลน	โครงการระหว่างปี 2536-2539 จำนวน 3 โครงการ <ul style="list-style-type: none"> <li>โครงการริ้วเขตป่าชายเลน จัดทำ ปรับปรุง และซ่อมแซมเครื่องหมายแสดงแนวเขตป่าชายเลน</li> <li>โครงการพัฒนาพื้นที่ป่าชายเลนเขตอนุรักษ์ เป็นการปลูกและบำรุงรักษาป่าชายเลนในพื้นที่เกาะแก้ว ต. รัชฎา อ. เมือง (เป็นโครงการต่อเนื่อง ปี 2536-2545)</li> <li>โครงการจัดทำแหล่งผลิตเมล็ดพันธุ์ไม้ป่าชายเลน จำนวน 1,000 ไร่</li> </ul>
2. การจัดการคุณภาพน้ำ	โครงการที่ได้รับงบประมาณระหว่างปี 2537-2542 มีจำนวน 8 โครงการ <ul style="list-style-type: none"> <li>โครงการจัดหาเครื่องมือวิเคราะห์คุณภาพน้ำ</li> <li>โครงการติดตามตรวจสอบการบำบัดน้ำเสียจากโรงงานอุตสาหกรรมเพื่ออนุรักษ์สิ่งแวดล้อม</li> <li>โครงการศึกษาปรับปรุงรายละเอียดและการก่อสร้างระบบรวบรวมและบำบัดน้ำเสียของเทศบาลเมืองภูเก็ตระยะที่ 1 และ 2</li> </ul>
3. การจัดการขยะมูลฝอย	โครงการที่ได้รับงบประมาณระหว่างปี 2539-2542 มีจำนวน 9 โครงการ <ul style="list-style-type: none"> <li>โครงการก่อสร้างคันดินกันขยะชั้น 1 และ 2 ของเทศบาลเมืองภูเก็ต</li> <li>โครงการรณรงค์กำจัดขยะมูลฝอยและใช้ประโยชน์จากการคัดแยกขยะและการฝังกลบ</li> <li>โครงการเพิ่มประสิทธิภาพการเก็บขนขยะมูลฝอยชุมชนของเทศบาลตำบลป่าตองและสุขาภิบาลกะทู้</li> <li>โครงการสร้างเตาเผาขยะ ขนาด 250 ตัน</li> </ul>
3. การจัดการประมง	โครงการที่ได้รับงบประมาณระหว่างปี 2541-2542 มีจำนวน 2 โครงการ <ul style="list-style-type: none"> <li>โครงการติดตั้งทุ่นจอดเรือ</li> <li>โครงการจัดการทรัพยากรประมง (ปี 2542)</li> </ul>
4. การจัดการอากาศและเสียง	โครงการที่ได้รับงบประมาณระหว่างปี 2537-2539 มีจำนวน 2 โครงการ <ul style="list-style-type: none"> <li>โครงการควบคุมมลพิษทางเสียง</li> <li>โครงการเฝ้าระวังและป้องกันคุณภาพอากาศและเสียง</li> </ul>
5. การสร้างจิตสำนึกและประชาสัมพันธ์	โครงการที่ได้รับงบประมาณระหว่างปี 2537-2542 มีจำนวนทั้งสิ้น 20 โครงการ <ul style="list-style-type: none"> <li>โครงการสัมมนาครูผู้สอน สัญจรสู่โรงเรียน</li> <li>โครงการสร้างจิตสำนึกและความตระหนักในคุณค่าของทรัพยากรประมง</li> <li>โครงการรณรงค์อนุรักษ์สิ่งแวดล้อมท้องถิ่น</li> <li>โครงการอบรมผู้นำเยาวชน รักษ์ป่ารักษ์ทะเล</li> <li>โครงการอบรมสร้างจิตสำนึกในการจัดการคุณภาพสิ่งแวดล้อม</li> </ul>

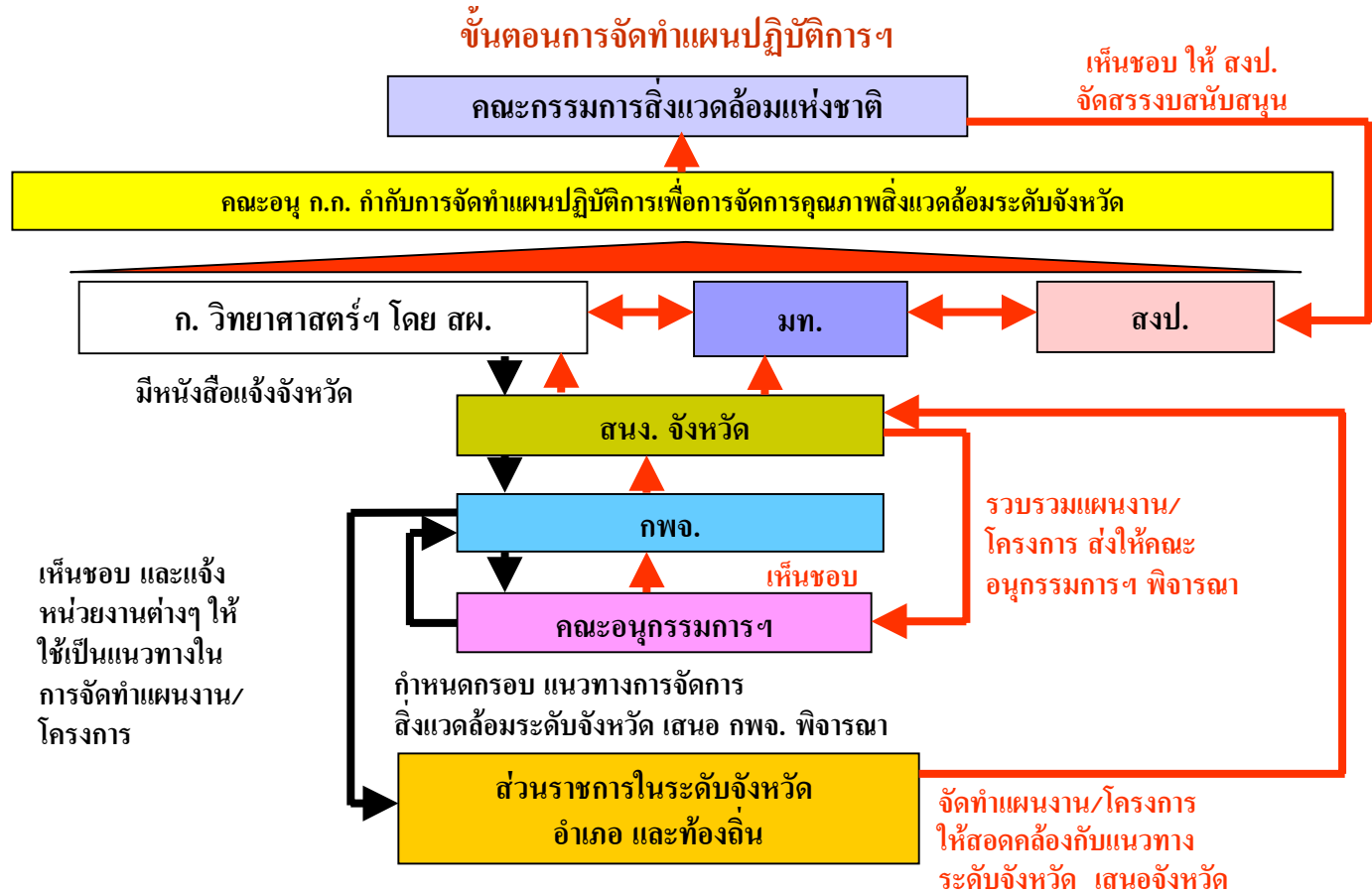
# Inflexible lengthy process from inefficient bureaucratic system



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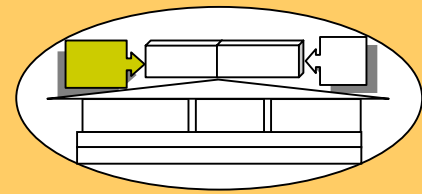
However, the current lengthy process and procedures are one of major obstacles.

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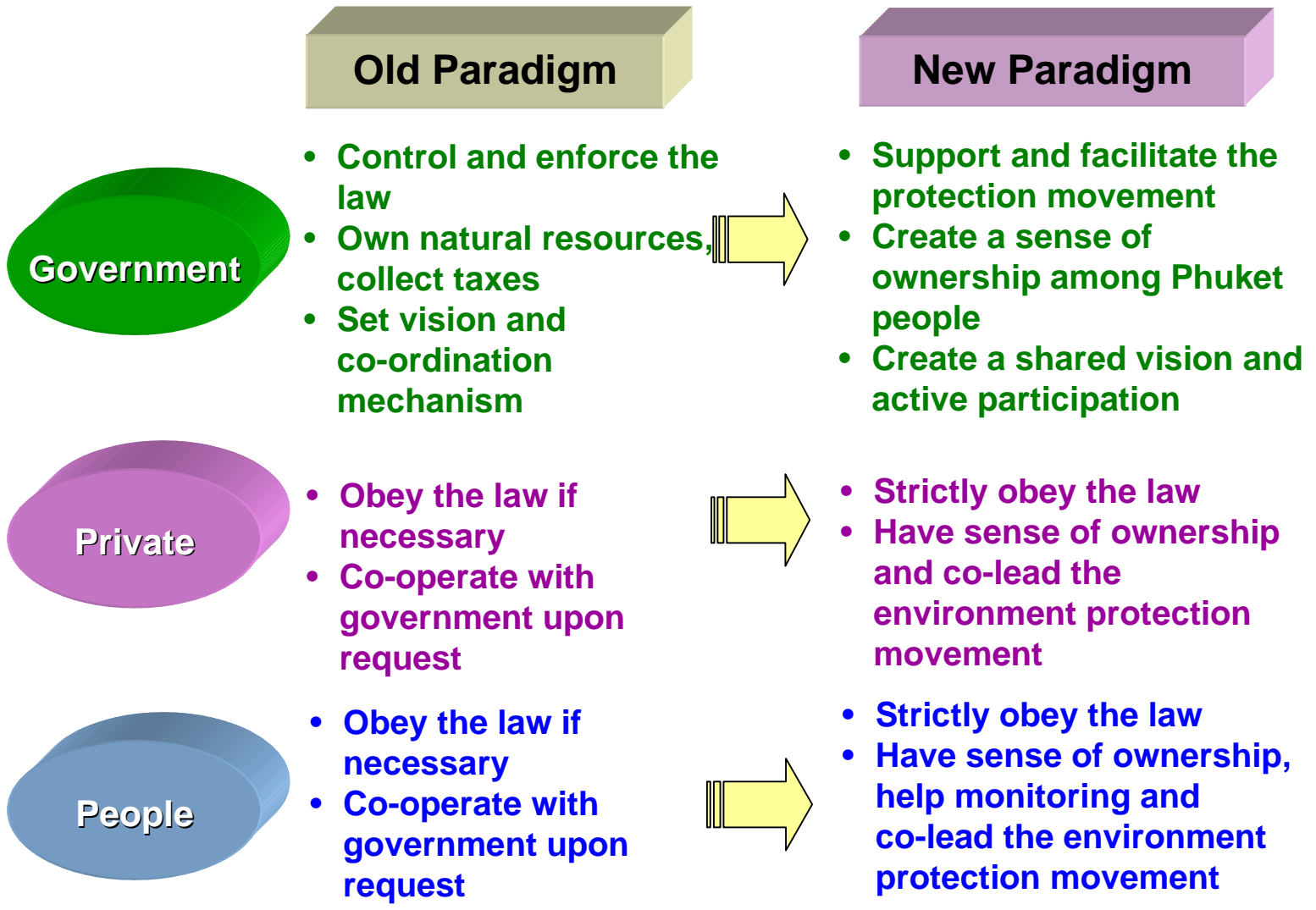


# Paradigm shift is a must.

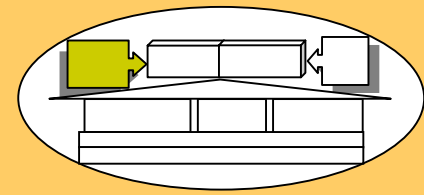


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# Environmental Preservation Recommendation



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Objectives

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► **•Environment**

•HRD

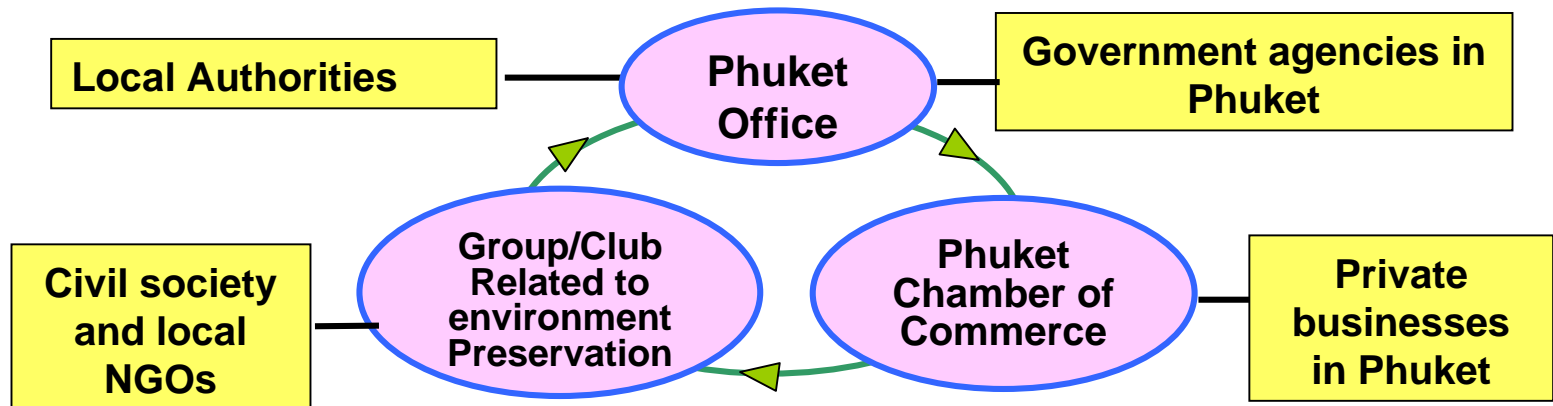
•Seasonality

•Others

## 1. Promote Co-operation Networking

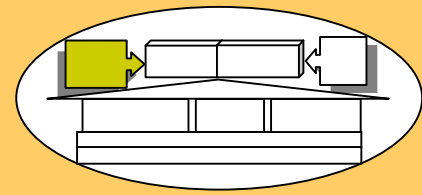
- 🏖️ **Set-up the committee for natural resource and environmental preservation, which has 3 parties, i.e. public, private, people sector, involve.**
- 🏖️ **Develop MIS database for environmental preservation and disseminate to public continuously.**
- 🏖️ **Continuously develop monitoring and evaluation system for environment development.**

### Environmental Preservation Committee





# Environmental Preservation Recommendation



July 12, 2002

Objectives

Why Phuket

Phuket Cluster

Diamond Model

Alarm Signals

Critical Issues

Strategic Recommendations

• **Environment**

• HRD

• Seasonality

• Others

## 2. Promote Participation of Private Sector and Civil Society

📌 Arrange the environmental preservation champion award in 3 levels, i.e. community, organization, and person.

📌 Provide training to local governments in planning and income management skills, laws, and environmental management techniques. More importantly, post-training monitoring and evaluation should be done continuously.

📌 Arrange “Best Practice Award” for local governments in various fields, including environmental preservation.

📌 The “Best Practice” local authorities have to act as a mentor for the weak local authorities.

📌 Encourage performance monitoring and evaluation of local authorities through village and tambon civil assembly.

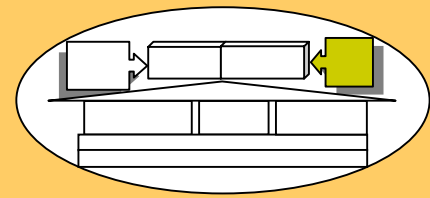
## 3. Strengthen Role of Local Government in Environmental Protection Movement

📌 Promote R&D in environmental preservation.

📌 Enhance a dissemination knowledge and techniques to communities and continuously provide financial supports.

## 4. Enhance a Development of Environmental Management Knowledge and techniques

# Human Resource Development Current Status

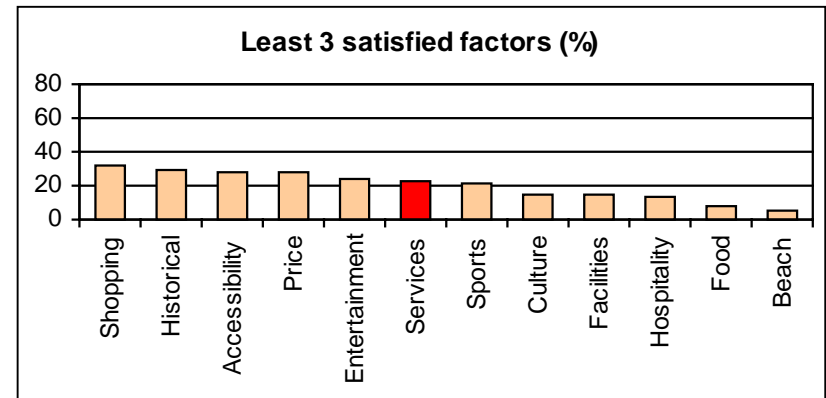


July 12, 2002

**Human resource in tourism industry covers not only hotel business but also other tourism businesses, e.g. transportation, travel agents, restaurants, entertainment, local people etc.**

## Critical Issues

- ❏ **Insufficient quantity of human resource in Phuket tourism industry**  
In overall, only 3,000 graduates are produced each year.
- ❏ **Lack of well-trained professional human resource at all levels, i.e. new entry, middle management, and top management level.**
- ❏ **Lack of qualified and industry experienced instructors.**



Source: Survey, 2002

- ❏ **Awareness of being nice host and environmental preservation of local people is weak. Most of tourists complain on cheating, hygiene and safety.**

Objectives

Why Phuket

Phuket Cluster

Diamond Model

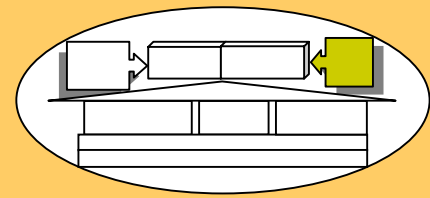
Alarm Signals

Critical Issues

Strategic  
Recommendations

- Environment
- HRD**
- Seasonality
- Others

# Human Resource Development Recommendation



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Objectives

Why Phuket

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Critical Issues

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Recommendations

•Environment

▶ •HRD

•Seasonality

•Others

## Human Resource Development for Phuket tourism industry should focus on 3 groups.



- ▶ Continuously instill an awareness of being nice host and environmental preservation via both formal and informal education as well as local media.



- ▶ Set up Phukt Skill Development Fund for tourism industry
- ▶ Provide training programs suit to the requirement of different levels of HR, e.g. language skills for entry level, supervisory skills for middle management level, and managerial skills for top management level.



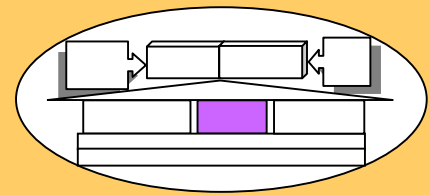
### Instructors

- ▶ Provide incentives for enticing more qualified instructors to educational institutes.
- ▶ Enhance more experienced instructors : HR Exchange Program and Joint-training Project

### Students

- ▶ Enhance cooperation between educational institutes and private businesses in HRD planning

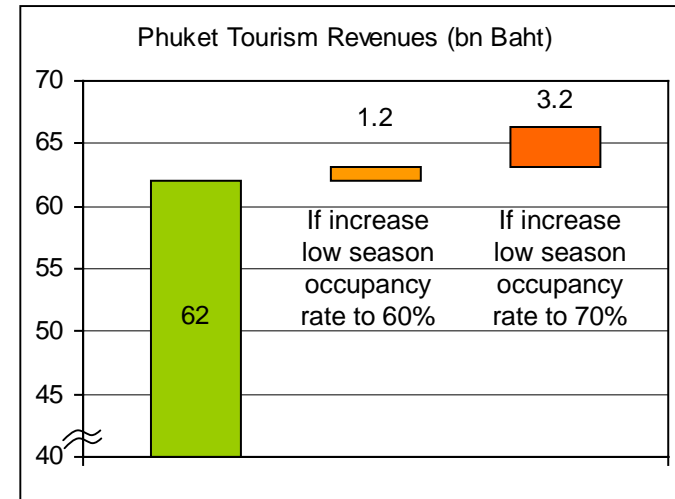
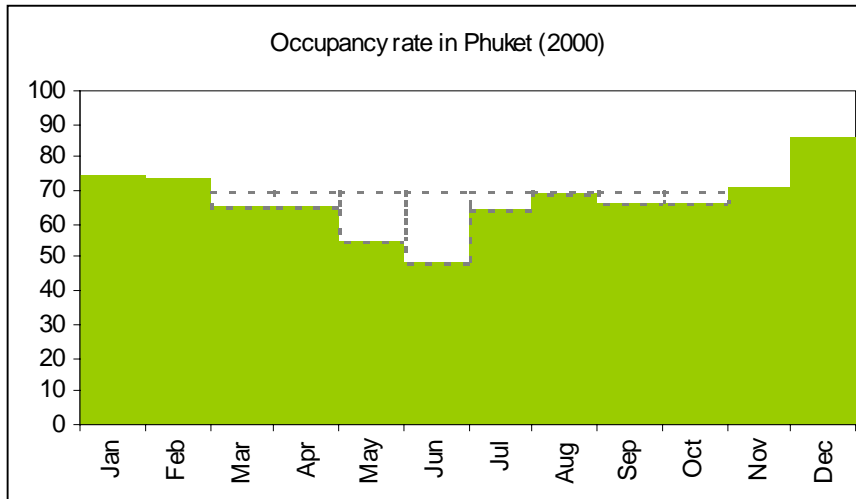
# Current Status on Seasonality



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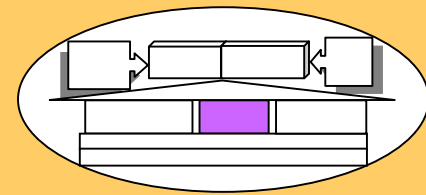
- Objectives
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- Critical Issues
- Strategic Recommendations
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  - HRD
  - ▶ **•Seasonality**
  - Others

- 📌 **Tourism in Phuket faces high level of seasonality.**
  - 📌 **In peak season, occupancy rate reaches 85%.**
  - 📌 **In low season, occupancy rate falls to below 50%.**
- 📌 **If occupancy rate in low season is increased to 60-70%, Phuket may receive additional revenues from tourism 1-4 billion Baht per year.**
- 📌 **Currently, Phuket Governor and private sector co-lead a promotional activity for low season, namely **“Phuket Super Save - Super Value”** offering discount by all relevant parties in Phuket.**



Source: TAT, 2000, Calculation

# Potential tourists for low season

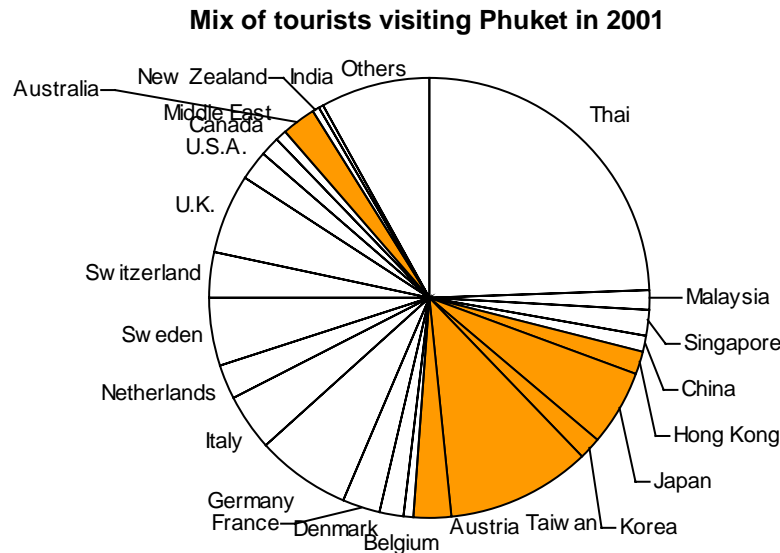


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- Environment
- HRD
- Seasonality**
- Others

**Certain groups of tourists visit Phuket more during low season. Taken into account the size, targeted tourists could be**

**Hong Kong, Japan, Korea, Taiwan, Austria, and Australia**



Source: TAT, 2001

## Seasonality Index of Tourists visiting Phuket by Nationality

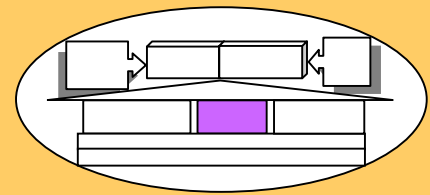
2001	May	Jun	Jul	Aug	Sep
Hong Kong	1.11	1.66	0.63	0.29	0.60
Japan	1.08	1.33	0.82	0.66	0.66
Korea	1.35	1.67	0.46	0.33	0.46
Taiwan	0.93	0.96	0.75	0.70	0.17
Austria	1.06	1.20	1.29	0.93	1.07
Belgium	0.90	1.05	1.13	0.60	0.80
Middle East	0.88	0.87	1.22	0.97	0.86
Australia	0.97	1.08	0.81	0.62	0.74
New Zealand	0.51	0.87	0.61	0.52	0.92
India	0.75	1.36	0.90	0.54	1.05

2000	May	Jun	Jul	Aug	Sep
Hong Kong	0.69	0.73	1.63	1.55	1.05
Japan	0.93	0.87	1.03	1.40	1.13
Korea	0.92	1.51	0.91	1.23	0.73
Taiwan	1.11	1.15	0.99	1.04	0.95
Austria	1.08	0.97	0.38	0.36	0.49
Belgium	0.71	0.69	0.69	0.57	0.55
Middle East	0.70	1.69	1.07	1.04	0.59
Australia	0.64	0.63	0.88	1.14	1.36
New Zealand	0.46	0.43	1.01	0.78	0.99
India	1.37	1.23	1.24	1.14	1.13

1999	May	Jun	Jul	Aug	Sep
Hong Kong	1.19	1.09	1.51	1.70	0.82
Japan	0.72	0.66	0.98	1.23	1.19
Korea	0.88	0.66	0.70	0.91	0.50
Taiwan	1.28	1.41	1.44	1.48	0.91
Austria	0.54	0.34	0.33	0.40	0.30
Belgium	1.11	0.94	1.47	1.38	0.60
Middle East	0.63	0.61	0.81	1.28	1.06
Australia	0.72	0.78	0.87	0.74	1.18
New Zealand	0.61	0.67	0.98	0.68	1.69
India	1.20	1.21	0.73	0.44	0.89

Source: TAT, Calculation

# Tourists Behaviors



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- Environment
- HRD
- ▶ •Seasonality
- Others

 **Phuket should offer tourism products that suit the demand of targeted tourists during low season.**

**Hong Kong**

 **Major spending is on shopping.**

**Japan**

 **Growing segments are working-age, family, honeymooners, students, and golfers.**

**Korea**

 **Majority are first-time visitors who come with group tour. Most are 25-34 years old.**


**Taiwan**

 **Majority are first-time visitors who come with group tour. Major spending is on shopping.**

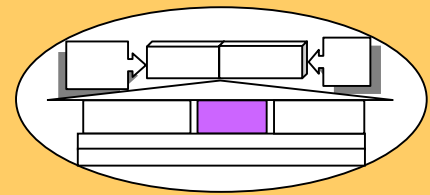
**Austria**

 **Majority are repeaters who arrange the trip by themselves.**

**Australia**

 **Most arrange the trip by themselves. Majority are professionals, while retirees are growing segments. Prefer multi-destination travelling.**

# Accessibility is a critical factor.



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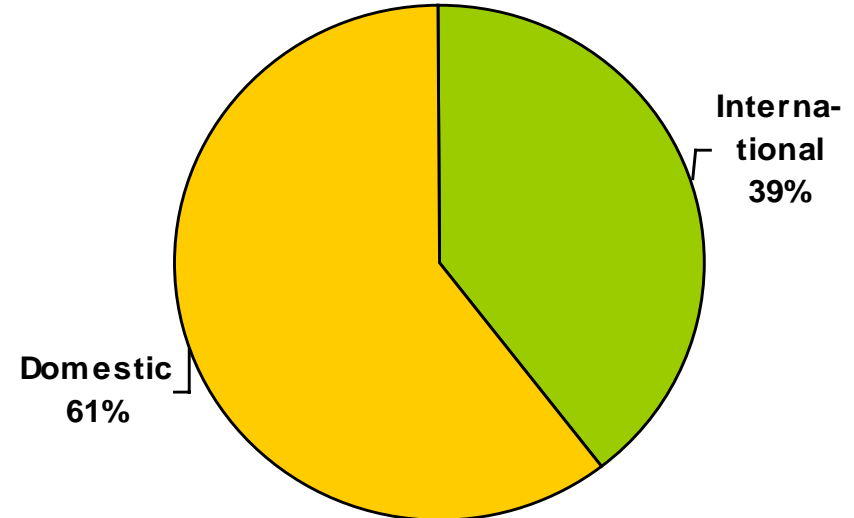
Strategic  
Recommendations

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- ▶ •Seasonality
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✈ While 70% of tourists visiting Phuket are foreigners, only 40% can get access through direct international flights.

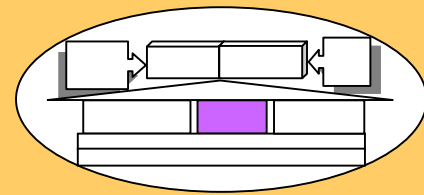
✈ Therefore, co-operation efforts on accessibility should extend to cover airlines arriving Bangkok International Airport.

Mix of air craft arriving Phuket in 2000 by number of passengers



Source: Air Transport Statistics of Airports Authority of Thailand

# Particular from Japan, Korea, Austria and Australia

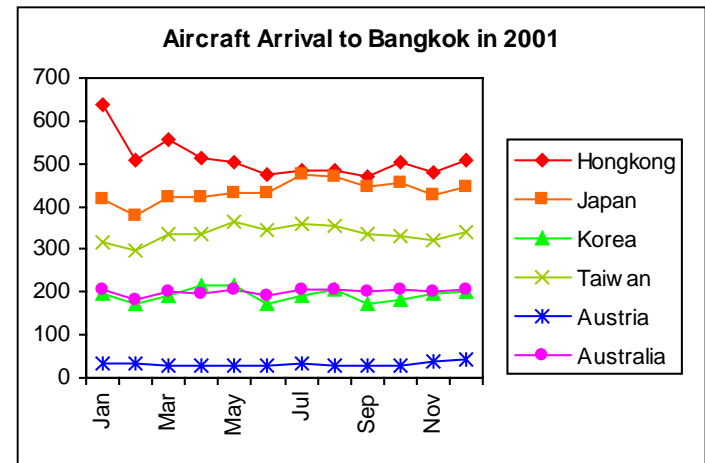
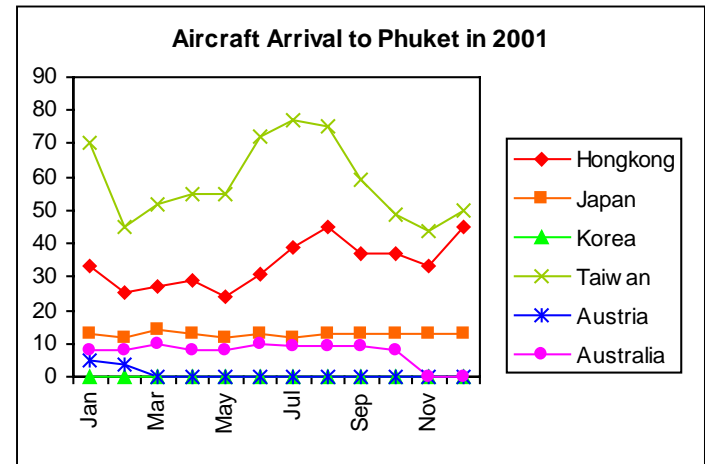


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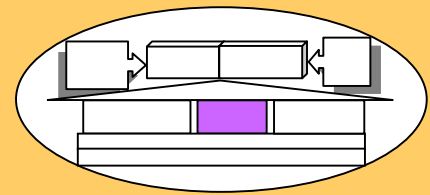
✈ **Accessibility is less of a problem for tourists from **Hong Kong and Taiwan**, since there are a number of direct flights and the capacity increases during low season.**

✈ **Accessibility is more of a problem for tourists from **Japan, Korea, Austria and Australia**, since most have to travel through Bangkok, and capacity does not increase much during low season.**



Source: Air Transport Statistics of Airports Authority of Thailand

# Seasonality : Recommendation



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▶ **•Seasonality**

•Others

**Market  
Segmentation  
&  
Consumer  
Behavior**

**Product**

**Price**

**Place**

**Promotion**

▶ Promotional activities during low season should be focused and tailored to targeted groups of tourists. This includes the study of tourists' consumer behavior as compared to what Phuket can offer.

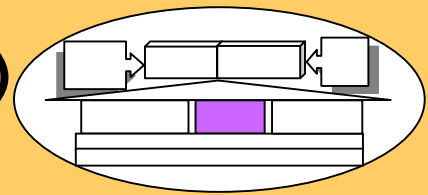
▶ Tailored to tourists' demand e.g. Golf for Japanese, Shopping & Sight-seeing for Hong Kong and Taiwan

▶ Set appropriate price & use package deal for Low Season promotion

▶ Co-operate with airlines for accessibility planning

▶ Co-operate with tour operators and overseas TAT offices for effective promotional activities

# Seasonality : Recommendation (cont.)



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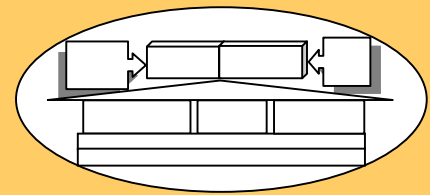
•HRD

▶ •Seasonality

•Others

- 🚩 **Database** and utilization of information is a success factor to effectively manage low season demand.
  - 🚩 Key data e.g. demand pattern, tourist behaviors, etc. need to be accessible by Phuket Tourism Cluster participants. Information need to shared.
  - 🚩 Occupancy rate monitoring and feedback is needed.
- 🚩 Promotional efforts should use “**Pull Strategy**”, with focused target tourists, and tailored to suit them. Phuket Tourism Cluster should be more **proactive** in anticipating the demand, and more **aggressive** in taking actions.
- 🚩 Need **co-operation** among key cluster members.
  - 🚩 Local TAT should play a key role as project owner.
  - 🚩 Co-operation and active involvement among governmental units, private sector, associations, airline industry, and overseas TAT is critical.

# Other Recommendations



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dations

•Environment

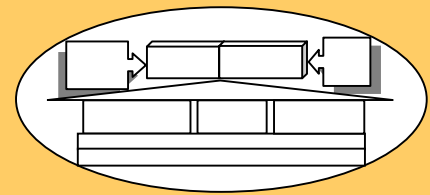
•HRD

•Seasonality

▶ •Others

- ▶ **Phuket Tourism Cluster should also increase **value creation** from tourism by**
  - ▶ Increasing **shopping** outlets e.g. distribution center of Thailand cultural products
  - ▶ Improving **infrastructure** and local transportation system
  - ▶ **Market Segmentation** and strengthening “Phuket” brand
  - ▶ **Co-operate with surrounding tourism destination in Thailand and neighboring countries**
  
- ▶ **These recommendations should be deployed into action plans, which will be carried out by relevant parties. More detailed study on these action plans is recommended.**

# Strong cluster linkage and effective management is a key.



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dations


•Environment

•HRD


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▶ •Others

## Phuket should strengthening the **Tourism Cluster**

 Create a **shared vision & strategy** for tourism development and **sense of ownership** among cluster participants

 Create an **effective mechanism** to manage tourism planning and development

 Effective management is crucial for strategy implementation. An example of effective mechanism include a Phuket tourism board which

 is **Empowered** to take ownership, responsibility and authority of Phuket Tourism Development

 Encourages **active participation** from governmental units, private sector, and Phuket people

 Creates a **holistic** management approach to tourism development

# Questions and Answers

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