Research Intelligence
January 2021

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Tourism & Hotel industry in the post-COVID world

The COVID-19 pandemic has severely hurt the tourism and hotel industry but there is hope the pandemic will end soon following mass vaccination programs. However, structural, deeper, and possibly permanent, changes in global megatrends and travel habits will challenge the industry to transform to meet the demands of travelers from different age groups. The tourism sector will be influenced by increasingly individualized travel needs, greater application of new technology in business models and processes, and higher profile for health and hygiene. Against this changing landscape and travel preferences, businesses need to adjust their operations if they want to sustain profit margins. The repertoire of strategies deployed in response to these changes will extend to seeking new business opportunities related to tourism and building new business relations with other players in the tourism supply chain, including those at the local community level.

In the coming period, the success factors for hoteliers will not be limited to the conventional criteria such as location, quality of rooms, pricing, and facilities available to guests. They will include the extent to which hoteliers cooperate and work together with local communities and other businesses, as well as how quickly and effectively they respond to change and manage risks. On this note, operators need to urgently review and make adjustments in their business playbooks ahead of the reopening of international borders and return of foreign tourists. This will allow players in the tourism and hotel industry to secure the required foundation to capture maximum gains from the strong recovery in foreign tourist arrivals to pre-pandemic levels, and to ensure this remains sustainable.

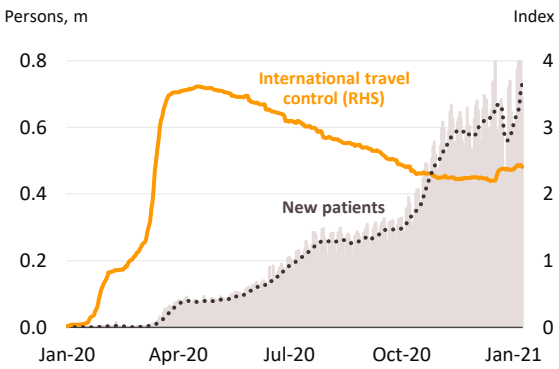
Before the pandemic, the Thai tourism and hotel industry had enjoyed strong growth for decades, which established the industry as a key driver of the Thai economy. The pandemic has posed a challenge to the industry unlike any it has faced, and the impacts will last for a long time. This research analyses the path to recovery for the industry against the backdrop of a changing socio-economic environment and identifies possible options for hoteliers to respond to and address these changes. To help players adapt to the imminent transformation in this industry, this paper also investigates several prominent features in the post-pandemic tourism environment.

COVID-19 will have deep and long-lasting impact on the tourism and hotel industry

At the start of the COVID-19 pandemic, governments around the world had moved swiftly to impose national lockdowns and curtailed international travel (Figure 1). This led to an unprecedented drop in international tourist arrivals. In the first 10 months of 2020, tourist arrivals worldwide crashed 72% YoY, though this less severe than for the Asia-Pacific region (-82% YoY). Today, the global situation remains critical with many countries, including Thailand, experiencing new waves of infections, and global cases continue to rise.

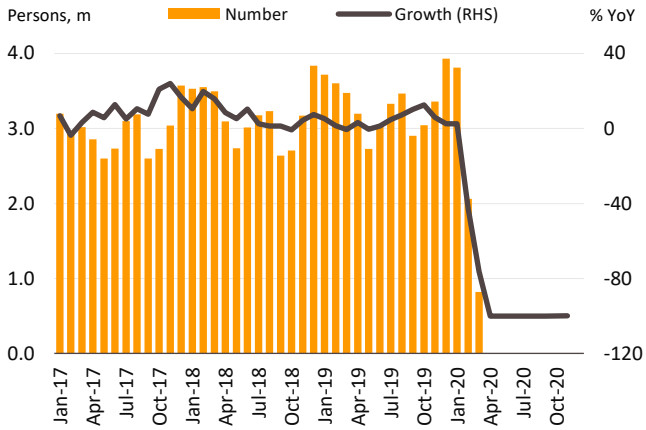
The pandemic continues to have extremely severe impact on the community and economy. Overcoming these problems will also be an extended process because of the following: (i) uncertainty over the efficacy of vaccines and issues with manufacturing and distribution on a global scale; (ii) although vaccination programs are underway in many countries, WHO projects herd immunity will require 65-70% of the population to be vaccinated; this will require both time and considerable expenditure; and (iii) a slow recovery in confidence among travelers even when the pandemic ends; a University of California survey claims fears of contracting COVID-19 will persist for at least 3-6 months after the pandemic ends and continue to deter leisure travel. In addition, tourism is normally considered a luxury; the job and income losses triggered by the pandemic would severely reduce travel demand.

Figure 1: New COVID-19 Cases Worldwide and International Travel Restrictions



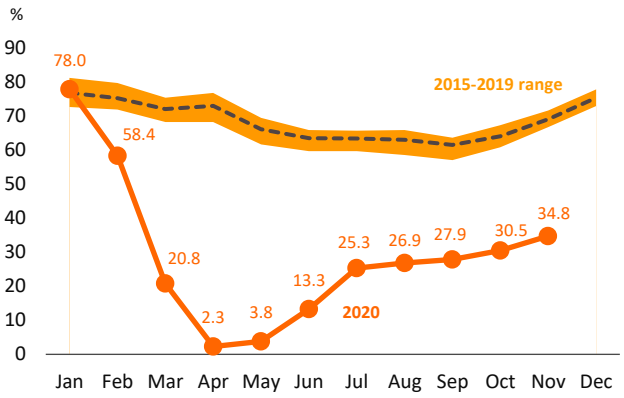
Source: WHO, University of Oxford, Krungsri Research
Note: International travel control implies: 0 - no restrictions; 1 - screening arrivals; 2 - quarantine arrivals from some or all regions; 3 - ban arrivals from some regions; 4 - ban on all regions or total border closure

Figure 2: International Tourist Arrivals in Thailand



Source: Ministry of Tourism and Sports (MOTS), Krungsri Research

Figure 3: Hotel Occupancy Rates

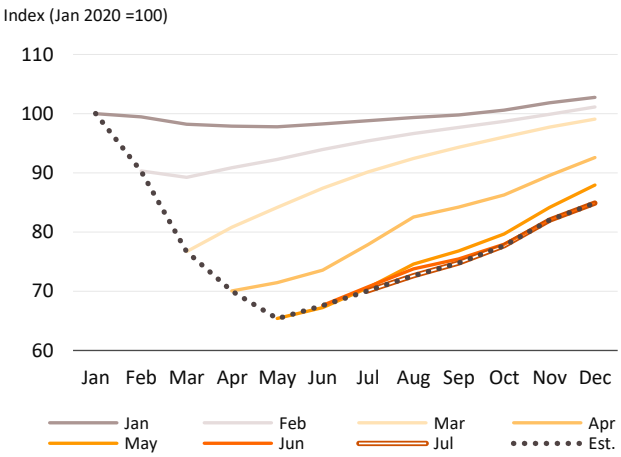


Source: Bank of Thailand (BOT), Krungsri Research

Like many other countries, the Thai tourism industry has been devastated by the COVID-19 pandemic. Following the declaration of a state of emergency on 25 March 2020 and the temporary closure of Thai borders to inbound tourists (from 3 April to 30 September) there was zero foreign arrivals in Thailand. In October, the situation improved slightly when the government introduced the *Special Tourist Visa* (STV) which allows foreign tourists to enter the country, subject to strict conditions that include a 14-day quarantine on arrival, testing for COVID-19 before and after arrival, and proof of valid health insurance cover. But overall, in the first 11 months of 2020, tourist arrivals plunged 81.4% YoY, led by tourists from China (-87.7% YoY) and India (-85.5% YoY). Krungsri Research estimates that the tourism sector lost about THB1.5trn in foreign tourist receipts in 2020, based on THB1.9trn total receipts in 2019.

Hoteliers are facing unprecedented disruption. From January to November 2020, average occupancy rate slumped to 29.3% from 69.7% in the same period in 2019. Average revenue per room across the country fell 73.6%.

Figure 4: Changes in Room Rates for Hotels in Bangkok, Chiang Mai, Phuket, Hua Hin and Chonburi



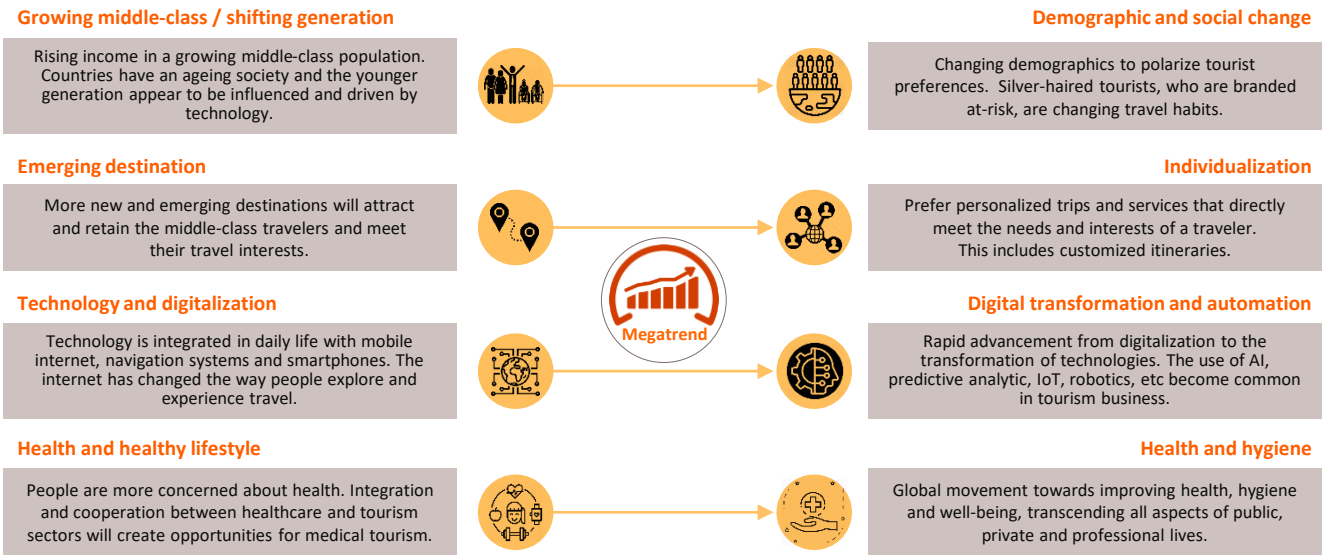
Source: Various sources, Krungsri Research estimates

Operators have adopted a variety of responses to address these challenges. That included slashing room rates, overhauling the kinds of services they offer, placing greater emphasis on domestic tourists and cutting overheads. They are also trying to build alternative revenue streams, for example, offering attractive '*work-from-hotel*' packages to tap on the work-from-home policy, and working with online delivery services to get revenues for on-site restaurants, though this is largely only an option for 4- or 5-star hotels. Many hotels in the Bangkok Metropolitan Region – some of which have cooperated with clinics and hospitals – have also tapped on the quarantine requirement to offer 'alternative state quarantine' (ASQ) facilities. Some hotels in the other 9 provinces – Phuket, Suratthani (Kho Samui), Chonburi (Pattaya), Prachinburi, Buriram, Mukdahan, Chiang Mai, Phang Nga and Chiang Rai – have also been able to generate revenues from offering 'alternative local state quarantine' (ALSQ) facilities (information correct as of 8 January 2021). But unfortunately, most small and medium-size hotels have had to shutter their business, either temporarily or permanently.

COVID-19 is causing a shift in how megatrends are impacting tourism

Over the recent past, the travel industry has been strongly influenced by the development of global megatrends that extend into changes in the realms of society, economics, politics, the environment and technology, but among the many effects of the COVID-19 pandemic has been its impact on just these megatrends. Prior to the outbreak, the tourism sector was deeply affected by megatrends including the growth in the middle-class population worldwide, the growing pressure for new tourist sites, the increasing impact of technology on the sector, and the rising profile of health-related tourism, but COVID-19 has reshuffled this deck such that in some cases, the likely impacts have been accelerated, while in others, they have been slowed down. Krungsri Research has thus analyzed the factors that will most likely affect hoteliers in the near future and has identified the 4 most prominent aspects: **(i) demographic and social change; (ii) individualization; (iii) digital transformation and automation; and (iv) health and hygiene.**

Figure 5: Factors Affecting the Future of the Hotel Industry



Source: Horwath HTL, Copenhagen Institute for Futures Studies, Skift, Krungsri Research

I. Demographic and social changes

For many years, the most significant demographic or social megatrend was the strong growth of the global middle-class population, especially how this was taking shape in emerging markets. It was assumed this would be the major driver of future growth of the tourism industry. However, **this assumption has been upended by the COVID-19 pandemic. And with the sudden rise in unemployment and lost incomes (source: World Bank), the importance of this segment has dropped substantially. We need to conduct a fundamental review of the industry's future growth drivers. Before the pandemic, it was believed growth would come from a broad-based approach. But now, a targeted approach seems more appropriate, tailored to the demands and behavior of different age groups.**

- **Gen Y and Gen Z groups:** These individuals are comfortable with modern technology and tend to use it to make travel easier and more convenient. They also like adventure tourism and often seek experience-based travel. Gen Y and Gen Z tourists may travel alone, in pairs or in small groups. Although they might also worry about contracting COVID-19, they will likely be the first groups to resume travel. However, this could be tempered by their often-limited budgets and their hotel stays are relatively short.
- **Gen X:** These travelers seek impressive new experiences on their holidays. They may travel with their families, go on sporting holidays or travel for business. But even when the COVID-19 pandemic ends, the economic impact of the crisis will continue to affect this group, and they will be cautious of spending on leisure. Gen X travelers likely have families to consider, and many might also carry the responsibility of looking after aged parents, so they will be more wary of traveling than Gen Z or Gen Y tourists. Overall, Gen X travelers are expected to spend lightly on travel and tourism, and to travel mostly during holidays and to nearer destinations.

- **'Baby-boomers' and 'silver hair' travelers:** These were considered the high-potential, high-spending group before the crisis, because they tend to have higher purchasing power and can travel for longer periods. But following the pandemic, this group is much more hesitant to travel for leisure because data show the elderly are a high-risk group; they form a large percentage of COVID-19 fatalities and cases with severe symptoms. On this note, hoteliers need to develop new strategies to appeal to this group by building confidence in health and safety standards at their premises.

Figure 6: Generational Differences

Generation	Age	Travel preferences	Hospitality preferences	Influencers	Changes after COVID
 Generation Z	< 24 years old (born after 1995)	Open-minded, bucket-list oriented, love adventure and eco-travel, love night life	Non-traditional hotels, eco-hotels	Social media	Less fear, ready to travel with fun (short-term), tight budget
 Generation Y (or Millennials)	24-37 years old (born between 1981-1994)	Travel solo or in pairs with a friend, visit family, prefer all-inclusive, relaxing and romantic getaways and sports	Smaller boutique brands, shared economy (AirBnB)	Advertisements	Less fear, short-term travel, respond to travel campaigns
 Generation X	38-53 years old (born between 1965-1980	Focus on experiences, travel less frequent than other generations, family trips, sports, business trips	Resort, family hotel, business trips	Tour groups, search engine tools	Fearful, limit big spend, limit business trips
 Baby-boomers	54-72 years old (born between 1946-1964)	Focus on relaxed and non-adventure trips, big spend	Upscale, family hotel, traditional hotel concepts	Tour groups, word of mouth	Fearful, somewhat limit travel
 Silver-hair generation	> 72 years (born before 1946)	Large group travel (more than 4 people), deep pocket, long vacations, big spend	Upscale, traditional hotel concepts	Tour groups, word of mouth, family	Fearful, limit travel

Source: Everydaymarketing, Index Creative Village Public Company Limited, Krungsri Research

II. Individualization

The tourism sector has hitherto been focusing on developing new and emerging destinations[1/] that appeal to tourists, regardless of age. But the COVID-19 crisis has exposed and deepened differences in needs and behaviors between the age groups. And, developing new tourist attractions is resource-intensive in time and capital, both human and financial. Following the pandemic crisis, this might no longer be an appropriate strategy. Instead, **operators need to carefully analyze the varied consumer needs in the market. This will place operators in a better position to respond to the group-specific needs, including individual travel plans, preferred activities, and/or budget. To do this, players can now exploit recent technological advances that make collecting and analyzing data much easier and more efficient. Hoteliers will be able to develop and offer more customized services,** for example, by building awareness through public relations and marketing activities targeted at specific groups and attracting tourists who would benefit from government measures to stimulate domestic tourism.

1/ New tourist destinations include Buriram and Saraburi.

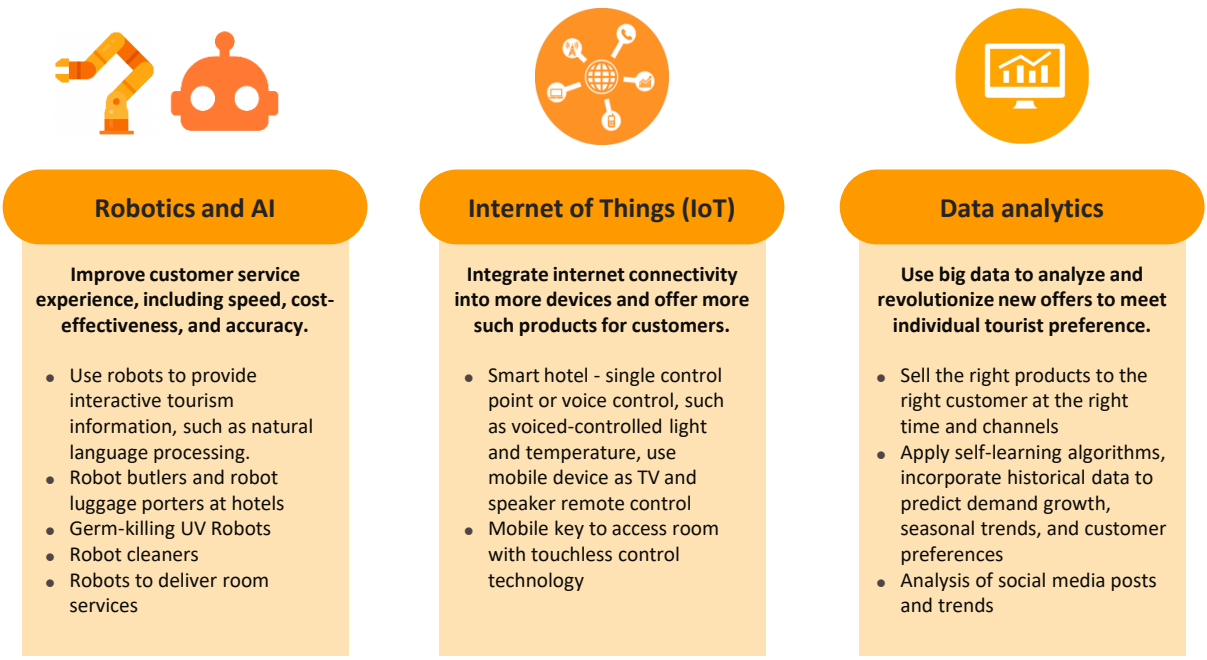
III. Digital transformation and automation

Technology is playing an increasing role in daily life, whether in communication, education or consumption. Hoteliers have been benefiting from this by expanding technology applications in tourism operations, for example, to make online bookings and payments. Technology also has an important role to play in supporting marketing efforts, from creating interest in and demand for hotel services, to making hotel stays more convenient and comfortable, organizing and collecting customer assessments of services, and encouraging return visits. **And, with social distancing and reduced physical contact being the *new normal*, hotels and other players in the travel sector can be expected to make greater use of technology to build confidence in their services and to remain competitive.** New technology is also finding a role in developing complicated tourism value chains that involve complex linkages between players active in a wide range of areas, including hotels, guides, transport companies, restaurants, retailers, suppliers of raw materials, and local businesses. Technology provides a way for this disparate group to connect on different platforms and to generate new business by responding to diverse and varied consumer needs.

Examples of how technology may be used to overhaul hotel operations.

- **Robotics and AI**: These are already being applied at reception, check-in, to translate travel information in several languages, to move luggage to/from guest rooms, to provide in-room services, and to disinfect rooms with UV and other types of robotic equipment. In addition, computers are getting better at mimicking human interaction and can soon be deployed in applications that demand speed, accuracy, skill and efficiency.
- **Internet of Things (IoT):** This may be deployed to make stays more pleasant and to meet the challenges of social distancing measures. It will also allow travelers to enjoy the experience of staying in 'smart' hotel rooms, for example, allowing guests to control electronic devices in the room (e.g. lighting, heating/cooling, and television and music services) through a central control unit or voice-activation, or the guest's mobile devices.
- **Data analytics:** This involves the systematic analysis of big data resources to design goods and services that better meet the individual needs of travelers and guests, for example, by suggesting packages that closely match their needs and requirements. Data analytics is also used to analyze historical data to predict demand growth, seasonal variations, and tourist preferences, and to analyze data mined from social media to identify market trends and changing consumer interests.

Figure 7: Technology-Driven Transformation of the Hotel Industry



Source: Revfine, Krungsri Research

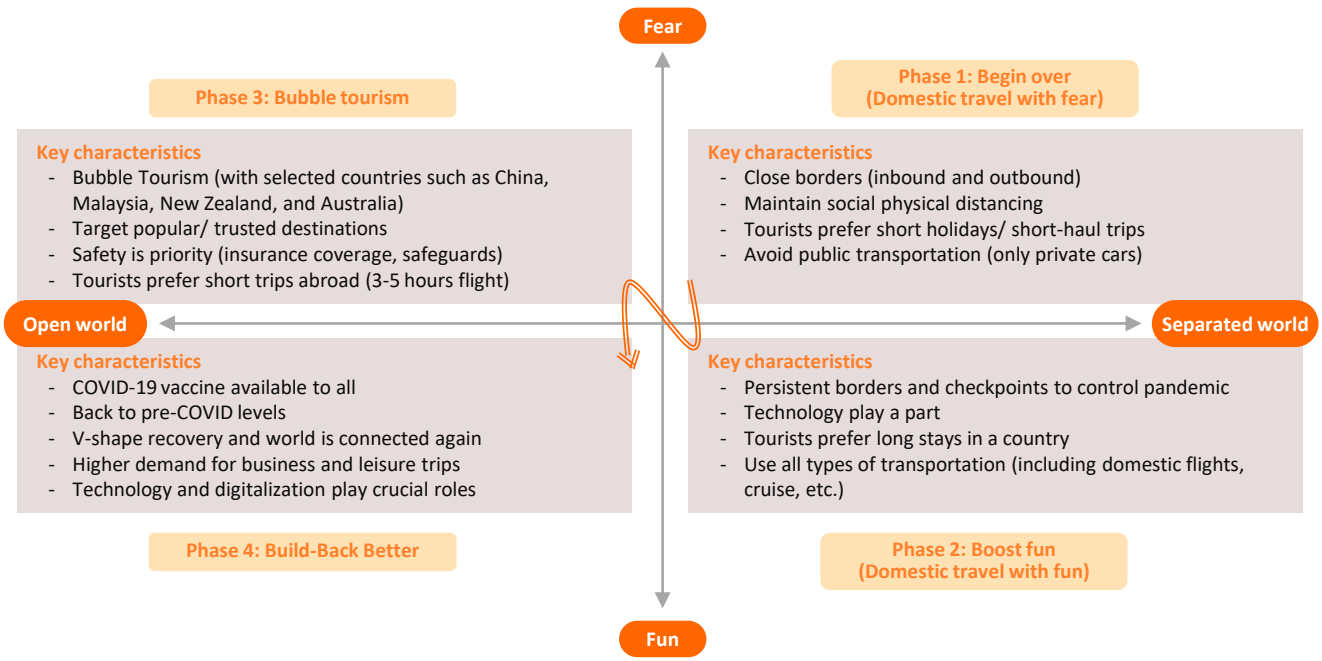
IV. The primacy of health and hygiene

In the future, health and hygiene will be much more important within the tourism and hotel industry. Indeed, there was already a significant uptick in interest in personal health and wellness several years before the pandemic. This was reflected in the growing trend for health and sports tourism (e.g., bicycle tours, marathons) and the rising number of people who exercise regularly. However, when the COVID-19 crisis ends, tourists will likely show greater interest in hygiene and public-health standards in travel destinations, including accommodation facilities. At the same time, to avoid enclosed, cramped or crowded places, outdoor activities are likely to become more popular. So, operators will need to work with local communities to develop the local area and to keep it safe and clean and reduce risk of infection.

The 4Bs – Paths to recovery for the Thai tourism and hotel industry

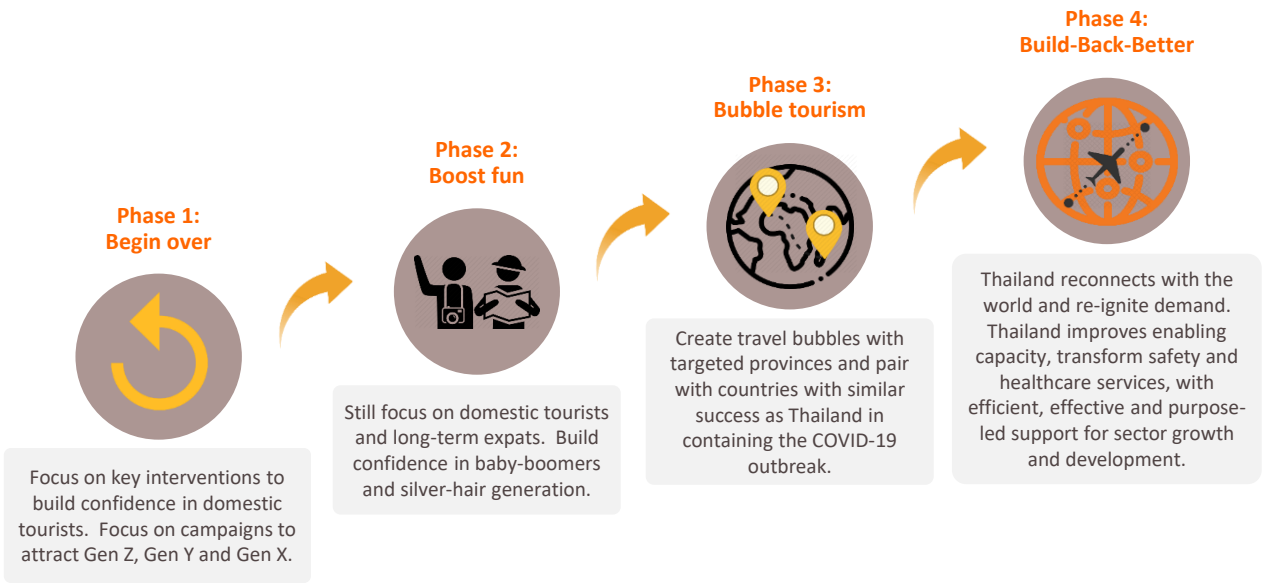
Against a worsening COVID-19 situation worldwide, **Krungsri Research analyzed the paths to recovery for the Thai tourism sector and how hoteliers might adjust themselves to this. The analysis is based on two principal factors, the degree of travel mobility (i.e., extent of entry restrictions on foreign tourists) and the level of fear of contracting COVID-19.** The results are summarized in Figure 8. On this, the horizontal axis represents *travel mobility*, with the left side indicating an 'Open world' and the right a 'Separated world'. The vertical axis represents the degree of *fear of travel* – it is high above the horizontal axis ('Fear') and low below it ('Fun'). **Hence, the recovery matrix is split into 4 phases.**

Figure 8: Phased Recovery in the Tourism Sector



Source: Copenhagen Institute for Futures Studies, Krungsri Research

Figure 9: Transition to Recovery



Source: Krungsri Research

Phase 1: Travel to Thailand … begin over

The first phase of the path to recovery would be marked by continuing and widespread fears of contracting COVID-19, which would deter many people. At the same time, international travel is still restricted, and the domestic population has to maintain strict social distancing. During this phase, tourism would be restricted to brief trips to nearby destinations, with travelers preferring to drive (rather than take public transportation) to areas that are relatively uncrowded.

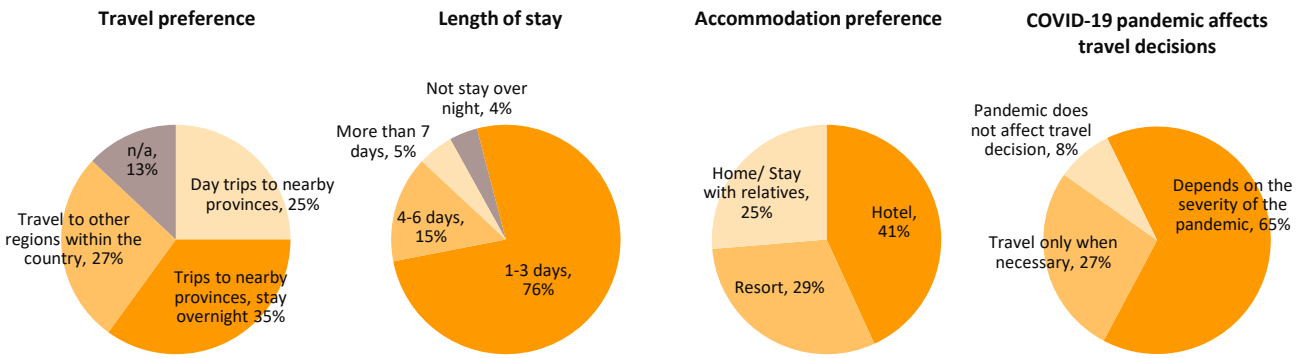
During this phase, hoteliers should focus on maintaining high standards of hygiene, while attempting to stimulate demand in all parts of the domestic market, although, Gen Z and Gen Y travelers are generally less worried about COVID-19 than the other groups. However, hotels should also enforce social distancing rules as this would help to attract Gen X and baby boomer guests.

Most residents are prepared to travel within the country in the near future, but most would be short trips (2-3 days) to nearby destinations, according to a survey by the Tourism Council of Thailand (TCT) carried out from 10 to 25 May 2020. The respondents, comprising 400 Thai nationals who earn more than THB10,000/month, were asked about their travel plans for the 3rd quarter of last year. 64% of respondents plan to travel, with 35% of these planning to take a multi-day trip to a nearby province, 27% plan to go to another region, and 25% would make a day trip to a nearby province. Among those who planned to travel for more than one day, 76% intended to stay for 1-3 days, 15% for 4-6 days, and 5% for a week or longer. On accommodation choices, 41% planned to stay in a hotel, 29% in a resort, and 25% in their own or a relative's home. **Thus, although this survey was carried out some time ago, it shows that even when the lockdown and COVID-19 fears were most intense, a large proportion of respondents remained positive and still had plans to travel in the near future. Given this, it is reasonable to assume the latest wave of COVID-19 cases will have temporary and limited impact on the tourism sector and could recover in the 2nd quarter of this year.**

Actions required at phase 1 of the recovery:

- Build confidence in the provision of public health (Amazing Thailand Safety & Health Administration, SHA) and raise the safety standards for tourists to assure them that they are visiting an area that is free from the risk of infection with COVID-19.
- Use pricing strategies to attract Gen Z, Gen Y and Gen X visitors and entice them to extend their stays to 4-5 days.
- Adjust services to reduce the risk of physical contact, for example by providing online check-in services and by making sure that cashless payment systems are available.
- Work with the local community to produce a plan for the recovery of local tourism and natural resources, develop a plan for local community tourism[2/] , and create a bookings or reservations plan so that local tourist attractions do not become overwhelmed by huge numbers of tourists arriving simultaneously.

Figure 10: Results of a Survey of Travel Plans for 3Q20



Source: Thailand Tourism Council, Krungsri Research

Phase 2: Strengthening Thai tourism … boost fun

At this stage, international borders remain largely closed to reduce imported COVID-19 cases. But, domestic travelers' fears are starting to abate and this could prompt tourism operators to offer a wider range of activities to attract to a wider group of travelers, including those from further away. Domestic travel would include longer distances and longer stays, and more tourists would be willing to travel on public conveyances such as plane or boat, in addition to private vehicles.

Krungsri Research suggests that during Phase 2, industry players should try to attract more tourists, and possibly returning to pre-COVID levels. The most important target groups will be the baby-boomer and silver hair groups because they have relatively higher purchasing power and can travel for longer periods. A research by Dusit Thani College into the travel behavior of elderly travelers shows that most travel to rest and recuperate, often travel with their families, and enjoy cultural, healthy and relaxing holidays. The research also revealed older tourists take longer to make purchasing decisions when it comes to travel services, because they are more concerned about getting value for money and high quality and safe services.

2/ Local community tourism (Nawatwithi in Thai) is tourism that helps to promote 'local wisdom' by encouraging tourists to develop an understanding of local ways of life and culture by learning about local livelihoods, food preparation techniques, etc. This differs from earlier attempts at community-based development, which focused on selling local produce in other areas.

Another path to recovery may be through the development of 'creative tourism'. This is an extension of cultural tourism but emphasizes learning about arts and culture through direct experience and interaction with a local community and their daily life, as expressed in the local identity. Two successful examples of this kind of creative tourism are: (i) *Ban Rai Kong Khing* in Chiang Mai, where visitors can stay in high-quality homestays or home-lodges, make organic products, try famous local dishes, and receive blessings through a performance of the khan dok dance; and (ii) *the Buddhist Votive Tablets Learning Center* in Sukhothai, where visitors can learn about Thai Buddhism material culture, participate in artistic, handicraft and weaving activities, learn the local dance, and also how to make celadon ceramics and Buddhist votive tablets. Interesting cultural and local-community-centric tourist sites such as these are dotted across the country. And so, to benefit the local communities and extend tourism receipts throughout the length of the industry's value chain, players might need to develop creative local tourism projects with the cooperation of all stakeholders.

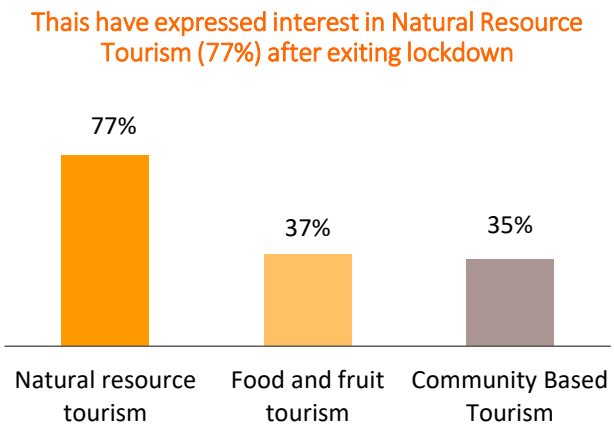
Actions required during Phase 2 recovery:

- Increase domestic tourists' confidence, especially among silver hair travelers who are typically more worried about contracting COVID-19.
- Use data analytics technology to better understand the particular needs of tourists in each segment of the market.
- Work with local communities to develop local tourist attractions, including e.g., famous local temples and restaurants. This will help provinces build their own unique attractions.
- Because foreign arrivals will remain extremely low at this stage, it may be necessary to continue to cut costs.

Figure 11: Behavior of Domestic Tourists



Since the COVID-19 pandemic, **90% of Thais** are more cautious of health, hygiene and safety



Source: Thailand Tourism Council, Krungsri Research

Phase 3: Pairing up ... bubble tourism

During Phase 3, countries would start to reopen borders to international arrivals but there would still be fears of contracting COVID-19, and local communities would still worry about the arrival of outsiders. Because of this, travel may be restricted to 'bubble tourism' with bilateral agreements to allow free travel (e.g., travelers from participating nations would be exempt from quarantine rules). Thailand might agree to open its borders to visitors from low-risk countries where domestic transmission is contained, and from countries which were once Thailand's major source of inbound tourism such as China, Singapore, Vietnam and Australia (Figure 12). During Phase 3, it would be necessary for the government to maintain high safety and hygiene standards, including working with insurers or issuing clear policies to prevent the emergence of new clusters of COVID-19 infections.

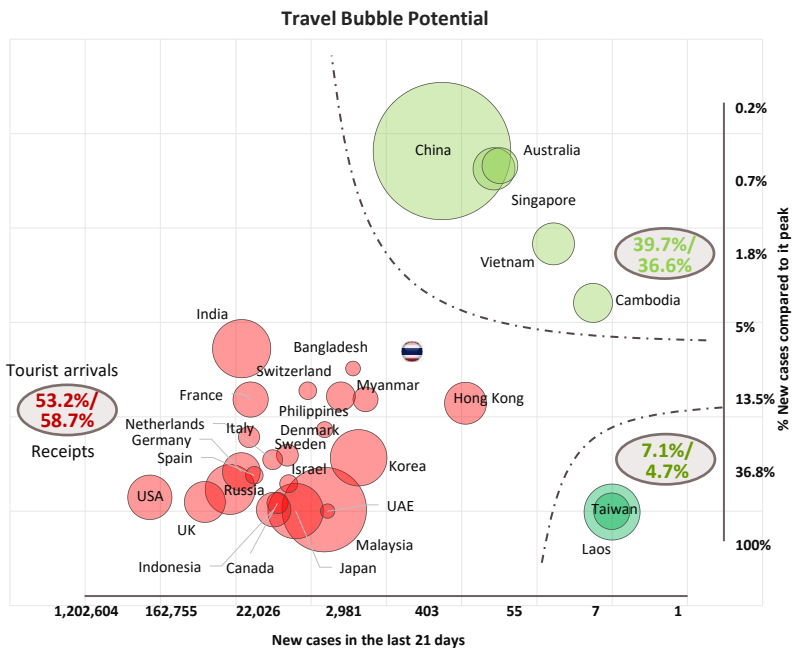
Foreign tourists will be increasingly confident about overseas travel during this phase but they will continue to exercise a degree of caution. A survey of 200 foreign tourists by the TCT over 1-20 May 2020 revealed that 52% of respondents planned to travel again when the COVID-19 pandemic ends and 31% when vaccines were available (Figure 13). Research by *figgy.com* and *Ctrip* (China's leading online travel website and the 2nd biggest in the world) also revealed that when the crisis passes, the most popular overseas destinations for Chinese travelers would be Thailand, followed by Japan and Singapore (as of May 2020).

Krungsri Research expects Thailand to establish travel bubbles with several countries this year. However, to keep risks contained, Thailand may restrict leisure travel to domestic destinations that are highly dependent on foreign tourism, for example Phuket and Surat Thani (for onward travel to Kho Samui). The travel bubbles may not attract pre-pandemic tourist numbers but would be an important milestone in paving the way towards full reopening in the coming period.

Actions required during Phase 3 of the recovery:

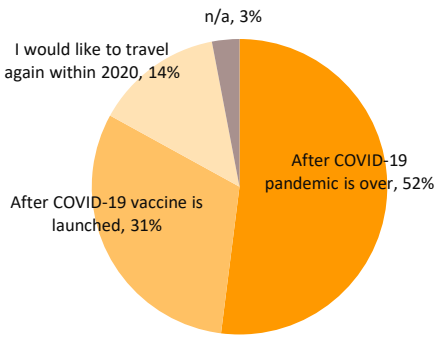
- Continue to build and maintain confidence in public health and hygiene standards and Thailand's ability to manage COVID-19 risks (recognized as exemplary by the WHO). Emphasize that many operations have been awarded the Safety and Health Administration stamp of approval, which assesses hotels' health and safety standards for tourists.
- Establish tourism clusters or pilot provinces as models to find the best way to restart the inbound tourism industry. These should be areas whose revenue is heavily dependent on foreign tourism and, to make management easier, that are somewhat self-contained (e.g., Phuket and Kho Samui).

Figure 12: Travel Bubbles



Note: A size of bubble denotes the number of tourist arrivals in 2019
Source: CEIC, WHO, Krungsri Research

Figure 13: International Tourist Confidence in Future Travel Plans



Source: Thailand Tourism Council, Krungsri Research

Phase 4: Recovery … build-back-better

Phase 4 represents the return to normality for the tourism sector. By this point, the country would be fully reopening to international arrivals, travelers would be able to travel freely, and there would be less fears of contracting COVID-19 following worldwide immunization programs. Air traffic would return to normal, as will the number of arrivals and popular activities, whether traveling for pleasure, business, or attending international conferences and trade shows. It is still unclear when we would reach this stage of the recovery. If Phase 3 is successful and most countries reopen international borders, this would mean recovery is underway. Thai hotels and other businesses linked to the tourism industry should work to enhance their capacities and competitiveness by developing their strengths and overcoming their weaknesses (see Box 1 for details). This would help players to prepare for **a future that will be shaped by 5 principal factors, as described below.**

Future of Tourism

Demand pattern: More personalized (Medical Tourism, Creative Tourism, Cultural Tourism)
Sustainability: Environmental and health concerns
Technology: Digital transformation (data analytics, IoT, Robotics and AI)
Borderless industries: Demands from different businesses are closely integrated
Risk and uncertainty: Cautious of risk mitigation and responses



Demand pattern

Within the travel sector, consumer demand will be differentiated by age groups, while travel plans will have clearer objectives. Hence, players should adapt their operations to these changes, for example, by marketing to specific segments such as Gen Y, Gen Z and elderly travelers, or by establishing more unique sales propositions, e.g., offer personalized experiences that are responsive to more fragmented and varied market demand.



Sustainability

Sustainable tourism: This places a much greater emphasis on the environment, nature, local customs, traditions and culture. And to ensure more equitable sharing of profits generated from tourism and the involvement of local communities, this will take on greater importance. In the past, extreme crowding or over-tourism at many tourist spots posed a serious problem for the industry, to the extent it might lead to a decline in tourism over the long term. To avoid this, hoteliers need to place more weight on sustainable tourism, while working harder to appeal to tourists who are increasingly concerned about the environment. A survey of European travelers revealed that 87% believed it was important to reduce the environmental impact of tourism and would stay in hotels that reflected these goals. This group was also prepared to pay higher prices to stay in hotels that clearly maintained high sustainability standards. In the same survey, 71% would participate in activities that benefited the local community, and 61% were happy to see prices raised by 5-10% if this would benefit society or the environment.

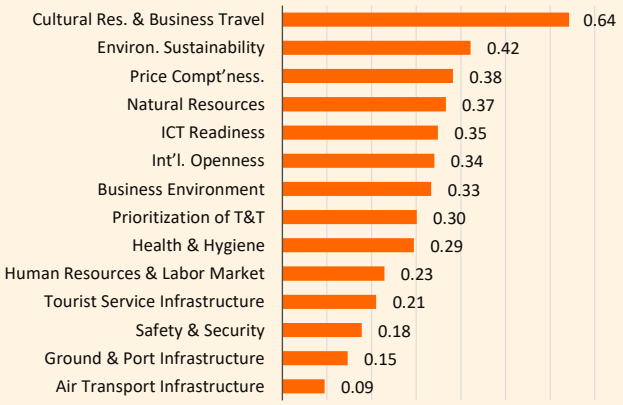
Box 1: Potential of the Thai Tourism Sector

Thailand benefits substantially from the strong competitiveness of its tourism sector. The Travel & Tourism Competitiveness Index, published by the World Economic Forum (WEF), placed Thailand 31st place in 2019 out of 139 countries, a slight improvement from its 2017 ranking at 34th place. On the positive side, Thailand has a strong natural resource base, its tourism infrastructure is well-developed, and costs are relatively low. But on the negative side are concerns about safety, hygiene and the environment (Figure 14).

Krungsri Research used a gravity model to analyze the travel preferences of respondents from 48 countries. It shows **Thailand is one of the top 10 destinations for residents of most countries** (Figure 15). For travelers from India, Russia and Cambodia, Thailand was in 2nd place, while for China and Malaysia, the nation was in 8th place. This shows strong potential for the inbound tourism sector when the COVID-19 crisis is contained.

The same model also shows **factors related to access to cultural and tourist attractions, the environment, and pricing are the most important determinants of travel decisions.** Considerations related to travel infrastructure were the least important.

Figure 14: Factors influencing Foreign Tourists to Thailand



Sources: CEIC, OECD, WEF, Krungsri Research estimates

Figure 15: Tourist Preference by nationality

	Rank 1	Rank 2	Rank 3	International Tourists' Perception of Thailand
China	Safety & Security	ICT Readiness	Cultural Res. & Business Travel	8
Malaysia	Price Compt'ness.	Natural Resources	Health & Hygiene	8
India	Price Compt'ness.	Natural Resources	Prioritization of T&T	2
Korea	Tourist Service Infrastructure	ICT Readiness	Tourist Service Infrastructure	8
Laos	Business Environment	Price Compt'ness.	Int'l. Openness	4
Japan	Cultural Res. & Business Travel	Price Compt'ness.	Safety & Security	8
Russia	Price Compt'ness.	Natural Resources	Cultural Res. & Business Travel	2
USA	Price Compt'ness.	Natural Resources	Cultural Res. & Business Travel	8
Singapore	Health & Hygiene	Natural Resources	Price Compt'ness.	10
Vietnam	Cultural Res. & Business Travel	Health & Hygiene	Environ. Sustainability	10
Hong Kong	Safety & Security	Cultural Res. & Business Travel	ICT Readiness	8
UK	Price Compt'ness.	Natural Resources	Tourist Service Infrastructure	8
Cambodia	Tourist Service Infrastructure	Price Compt'ness.	Health & Hygiene	2
Germany	Natural Resources	Tourist Service Infrastructure	Price Compt'ness.	4
Taiwan	Safety & Security	Tourist Service Infrastructure	Health & Hygiene	9
Australia	Price Compt'ness.	Natural Resources	Tourist Service Infrastructure	11
France	Price Compt'ness.	Natural Resources	Cultural Res. & Business Travel	4
Indonesia	Price Compt'ness.	Health & Hygiene	ICT Readiness	10
Philippines	Tourist Service Infrastructure	Price Compt'ness.	Safety & Security	9
Myanmar	Int'l. Openness	Tourist Service Infrastructure	Business Environment	11

Low High

Natural and cultural resources
Tourism promotion
Safety, security, health and hygiene
Price
Tourism infrastructure
Other infrastructures

Source: CEIC, OECD, WEF, Krungsri Research estimates

Looking at the top 20 countries that supply the largest number of visitors to Thailand, the 3 most important factors that influence decisions to holiday in Thailand are price, safety and the presence of natural or cultural tourist attractions. For Chinese travelers, safety is the most important consideration, followed by level of ICT development, and access to cultural tourism sites. For visitors from Malaysia, India, Russia, the US and the UK, price is the most important factor.

Despite these advantages, Thailand is likely to experience greater competition in the coming period because many countries are stimulating economic growth by investing in national infrastructure and promoting and expanding their tourism sectors. This is especially true for countries that are beginning to slowly reopen the door to tourism, and that are relatively new arrivals on the world tourism stage, such as Vietnam which benefits from its novelty, readily available tourist resources, climate and topography that are similar to Thailand's, and government plans to invest in expanding the national transport network. Some countries are also beneficiaries of foreign investment (especially from China) that is directed to ensure rapid development of infrastructure.

Crowding at tourist sites could be a serious problem for the Thai tourism industry in the future. This has been an issue for some time now, especially during long holidays, when many major tourist areas were packed with Thai and foreign tourists. It can get worse if new attractions are heavily publicized but are not sufficiently developed to accommodate future growth in tourist numbers, or they may simply be badly managed. Over-crowding at tourist attractions is a major problem in the major tourist areas of Pattaya, Phuket, Hua Hin and Chiang Mai; it has reached a level that is reducing their appeal. As a result, foreign tourists are increasingly looking for new travel destinations that offer similar attractions to those found in Thailand, and they are finding these in other parts of ASEAN region, including Vietnam, Myanmar and the Philippines.

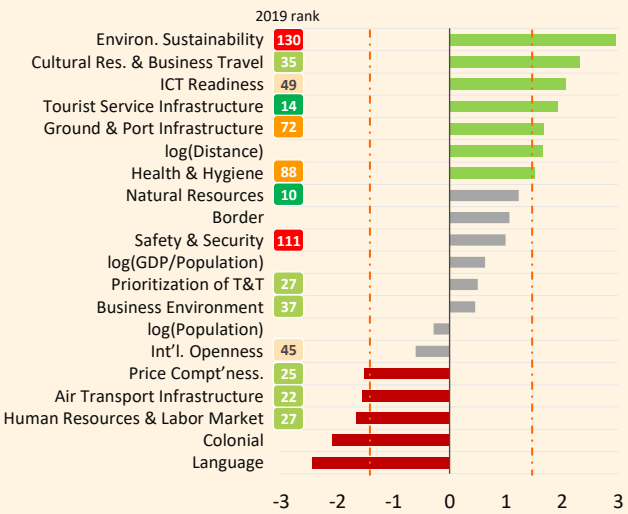
Long-distance travel to other regions would decline, while domestic and intra-regional travel will increase in popularity given greater uncertainty over the outlook for the world economy and fears of contracting COVID-19. The switch from long-haul travel to domestic and regional trips is also being driven by tighter budgets and measures by many countries to boost domestic tourism to replace lost international markets, which future remains unclear. These changes are in line with a report by the World Tourism Organization (UNWTO) which suggests slow growth of international tourism in the coming period, especially the long-haul segment.

Issues related to the environment, access to cultural tourist attractions, and the state of ICT infrastructure, are increasingly important factors in determining travel decisions. The important determinants also include the quality of tourism infrastructure, land transport network, and public healthcare services. However, air transport and costs have relatively small influence (Figure 16).

Changing demands in the tourism market can seriously undermine the competitiveness of the Thai tourism sector. Looking ahead, Thailand's conventional selling points, i.e., human resource, domestic air transport network, and low prices, will be less important to travelers. However, environmental issues, where Thailand scores badly, are becoming more important factors in influencing market direction. Beyond this, many countries also have ambitious plans to develop domestic infrastructure that will also serve their tourism sector, are keen to develop national tourist attractions, and are increasingly opening their borders to foreigners. This is particularly the case for Thailand's neighbors; and because they are new, relatively unexplored and cheap, they will slowly erode Thailand's position as a preferred travel destination.

Although Thailand is competitive in international tourism currently, its lead in the region is narrowing. This will change views on these countries, and with that, Thailand's position in the international market. Thailand will change from welcoming foreign arrivals to both receiving arrivals and moving them on to other destinations in the region. This will not just reduce price competition within countries but will also help to lift the competitiveness of other countries and boost the range of tourism options. Factors that will determine how well countries would be able to co-operate will include visa policies and transport infrastructure that link these countries, including the Bangkok-Phnom Penh-Ho Chi Minh City and Phuket-Phang Nga-Ranong-Andaman Sea highways, and the Had Yai-Kuala Lumpur-Singapore railway.

Figure 16: Factors influencing tourism



Source: CEIC, OECD, WEF, Krungsri Research estimates

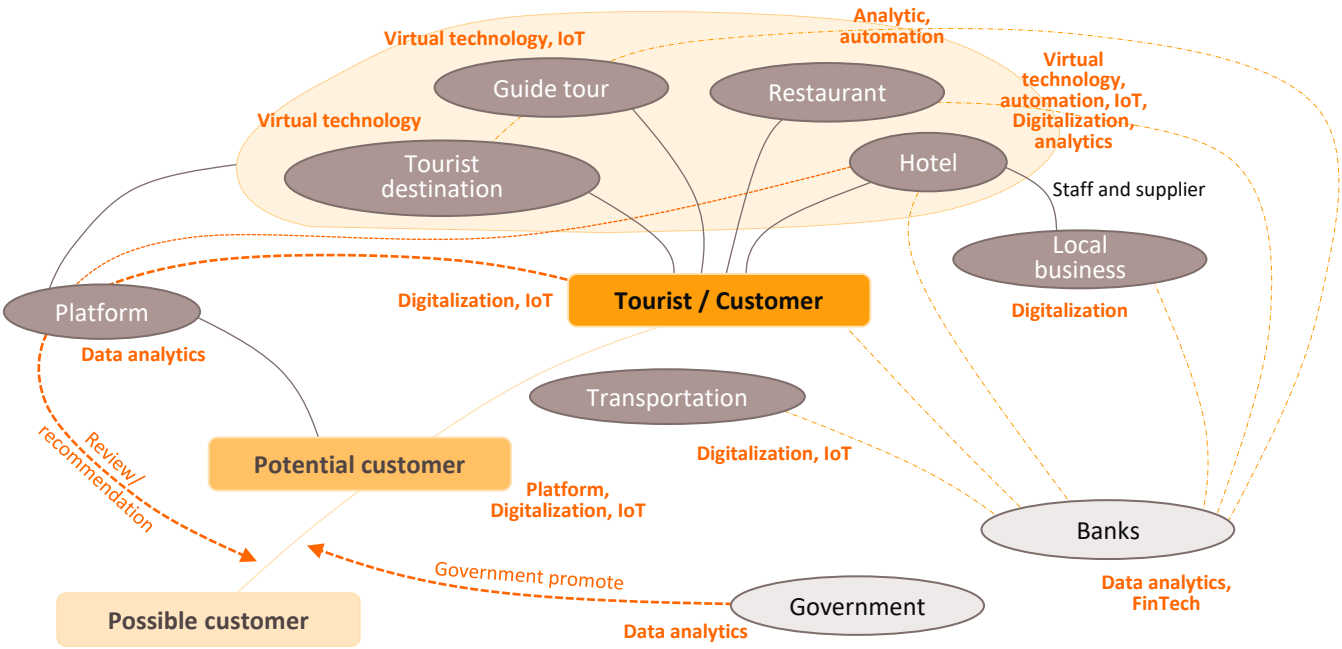
Technology

Technology will be increasingly used to attract tourists and to respond to changing consumer behavior. As technology becomes ever-more seamlessly integrated into daily life, digital and mobile technology, virtual reality and data analytics will play an increasingly important role in the industry in the near future (Box 2).

Technology is embedded throughout the customer's entire, from the initial decision to travel, which is increasingly influenced by social media. Greater familiarity with technology and its integration in daily life are also encouraging travelers to view technology as an important factor when choosing to buy tourism-related goods and services.

In addition, technological progress is helping operators to build up their competitive capabilities. So, investing in areas such as data analytics, automatic control systems, and other types of digital technology that will help businesses overhaul their operations is a high priority. Predictive analytics may also be used to better understand consumer behavior, while exploiting data gathered from social media will help operators offer travel packages that are better suited to individual needs.

Figure 17: The Role of Technology in the Tourism Ecosystem



Source: Krungsri Research

Box 2: The Role of Technology in a Changing Tourism Sector

- **Digital and mobile technology** has made accessing news and information massively quicker and easier for consumers. Deloitte estimates that over 80% of the world's population now has at least 1 smart phone, making this experience almost universal. Indeed, around 33% of consumers in developed economies and 50% in developing ones use their smart phone within 5 minutes of waking. Given this widespread adoption of smart devices into daily life, travelers will be among those now able to access information almost without restriction. Players in the tourism and hotel industries are also now able to benefit from marketing through social media or through a number of different types of application, including those used to book rooms (directly with the hotel or through an OTA), rent vehicles or view digital maps.
- **Augmented and virtual reality technologies,** which may mix artificial environments or objects with the real world through alterations to what a user sees, feels, hears or even smells, may have a future role to play in the tourism sector, for example, when deciding on a travel destination, making a virtual trip to a museum or acting as a tour guide. A clear example of this is Google street view, which allows users to view locations around the world or to lead tours.
- **Data analytics** will help increase operators' abilities to respond to customer needs. By interrogating the huge and growing store of data that is available on tourists and on how and where they have traveled and stayed, players will be able to understand consumer needs more fully and so put themselves in a much better place to respond effectively, especially with regard to their ability to target offerings to narrow market segments. Gathering and successfully using the insights offered by data analytics will also have an important role to play in building brand differentiation and awareness.

Borderless industries

Across the economy, **the lines dividing the different industries are becoming more permeable and, in some cases, have disappeared.** This allows players in the tourism sector to seek new partners in related industries to offer seamless new experiences. This includes tying up with the food industry to develop gastrotourism (i.e. traveling to regions with notable local food culture), with the health industry to offer health, wellness and medical tourism, and with businesses to offer *bleisure* to provide leisure breaks based around business travel. These new developments are not only helping to strengthen the sector's competitiveness, but also opening interesting new markets for players in these industries.

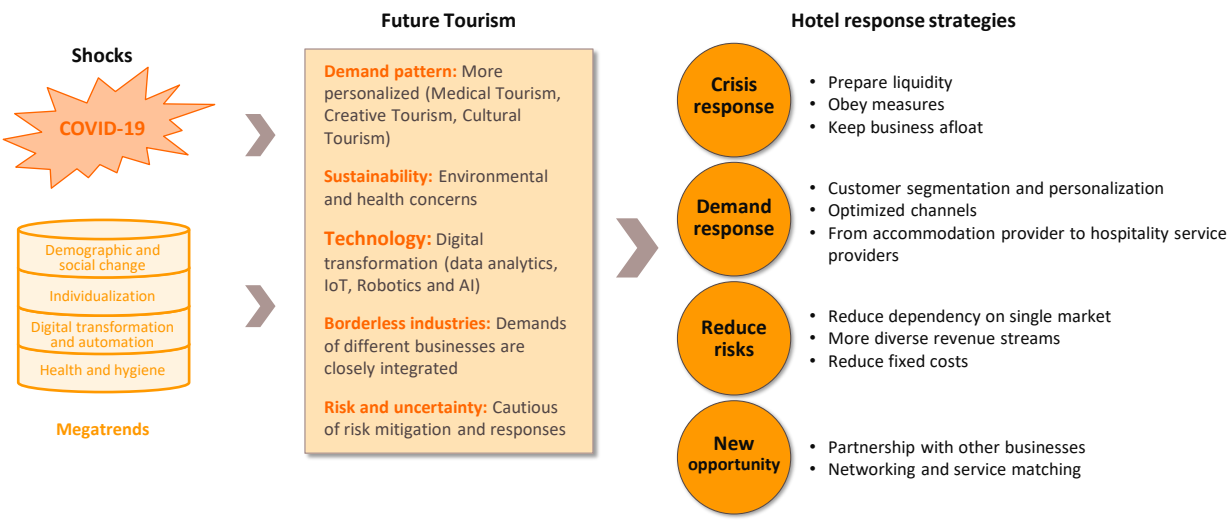
Risk and uncertainty

The need to manage risk and uncertainty has been clearly highlighted by the COVID-19 pandemic. This has forced the world to focus more on these areas, whether in the form of natural disasters, political violence, or environmental problems (for example, air pollution). Therefore, it is imperative that players develop ways to systematically manage risk and uncertainty that will allow operators to protect against, navigate and overcome the impacts that future challenges may bring.

Redesigning business strategies amid a changing landscape in the tourism sector

Krungsri Research sees sluggish conditions persisting in the tourism sector for the next 2-3 years, until recovery starts with the emergence of a 'new normal' for the industry. However, simply carrying on as before might not be sufficient to meet changing consumer demand. So, hoteliers and other players in the tourism sector need to thoroughly review their business strategies and operations if they want a more sustainable footing. This will include managing liquidity, meeting travelers' needs more directly, managing risk, and looking for and exploiting new opportunities in related industries. The details are presented below.

Figure 18: Adaptive Strategies for the Hotel and Tourism Industries



Source: Krungsri Research

Crisis response

Ensure sufficient liquidity by preparing cash reserves and seeking new sources of capital: The COVID-19 pandemic has forced hotel operators to endure an extended period of significantly reduced revenues. Because of this, the ability to maintain liquidity has become a determining factor in whether a business is able to successfully traverse this crisis. On this note, managing cash reserves and identifying new sources of capital have taken on much greater importance.

Maintain strict adherence to public health measures: The pandemic has ramped up fears around the world, and those concerns will persist for an extended period because the public is much more sensitive to health, cleanliness, social distancing, and other issues. It is extremely important for hotels to secure the trust of current and potential guests by maintaining the highest possible standards. This will strengthen their image.

Preserving occupancy rates and building alternative revenue streams: If businesses want to keep their heads above water, it may be necessary to employ several strategies, including competing more aggressively on price, offering travel packages in conjunction with other businesses, and building demand in the domestic market and develop a greater reliance on regional markets because international tourism will not recover so soon. To diversify and develop alternative sources of revenue, hotels could offer daytime room rentals or develop food services.

Crucial to prepare for when Thailand reopen borders to international arrivals: It is extremely important for hotels to be prepared for the return of international tourists. And to maintain customer confidence, it is imperative that the tourism and hotel industry impose measures to protect guests against COVID-19 and when necessary, to prevent an outbreak.

Demand response

The ability to meet customers' demands is the primary success factor for hoteliers. To do this, players need to build an experience that matches expectations along the length of the customer's journey, from initial booking through communicating with the hotel, the style and quality of guest room, amenities, up to the provision of other services, including making travel arrangements and the standard of food at its premises. These will collectively help to build and retain brand loyalty.

It is important to offer a range of booking and communication options: Maintaining a wide range of channels through which guests can book rooms and communicate with hotel staff would make it more convenient for guests from different age groups because they would have different preferences and skill levels (to handle new technology). And it also helps to build confidence in the quality of the hotel's services.

Increasingly fragmented and varied customer demands: In response to a more diverse market, players need to practice customer segmentation and personalization. This would help hoteliers to respond better to customers' desires and expectations. For example, middle-class customers may look for value for money accommodation, elderly guests may be more concerned about public health and hygiene and a comfortable experience, guests looking to relax may want better quality rooms, travelers looking for creative, nature-based or local community tourism will put more emphasis on experiencing nature, and solo travelers may need some travel-related services. This is an area where technology can assist, and data analytics can be used to help operators understand the needs of individual groups and to respond appropriately.

Increasing business flexibility: It is common for hotels to underutilize assets, especially during the low season, with conference rooms, swimming pools, gyms, and restaurants running at below-capacity for extended periods. To remedy this situation, hoteliers should review how these assets are managed and change how access is governed. For example, assets could be more profitably exploited, for example, by offering room rates for day use, allowing paid day-access to gyms and swimming pools, and renting out meeting rooms by the month.



Managing risk

In addition to risks arising from factors connected to the economy, politics and other dangers (such outbreak of disease, terrorist attacks and natural disasters), businesses in the tourism sector also have to contend with large seasonal fluctuations in demand. This can translate into volatile revenues across the year. In response to this, operators may be able to manage and reduce risks by doing the following.

- **Reduce excessive dependence on a single market**: This will reduce hotel's exposure when unexpected events disrupt that market. So, businesses should disperse and diversify risk by making greater effort to sell to more international markets and to a larger base of domestic travelers.
- **Expand services portfolio:** Hoteliers should consider offering services to non-guests during the low season to extract additional income from fixed assets such as restaurants, conference facilities, gyms and swimming pools.
- **Reduce fixed costs:** The Cornell Hospitality Quarterly estimates that on average, a hotel's fixed costs[3/] reach 35-55% of total operating costs. For instance, if a hotel falls near the lower end of this band, with 40% of its costs attributable to fixed assets, a 50% drop in occupancy would feed directly into a 50% drop in revenue but only a 30% decline in costs. This would reduce profitability. Hence, to reduce risk of financial losses from unanticipated events, operators need to reform their cost structure. This would also improve their cost competitiveness in the future.



New business opportunities in related areas

Operators should consider developing new revenue streams to build up competitiveness. The strategies could include the following:

Developing partnerships: These may be with restaurants, health centers, and tour and transport companies. Hoteliers can also cooperate with local communities, which would supply popular local dishes and provide access to locally-run rehabilitation facilities and mindfulness and wellness centers.

Networking and matching services: This would involve offering a range of services to clients utilizing either the hotel's own facilities (e.g., meeting rooms and gyms) or facilities managed by third parties in the local area. This would allow hotels to offer a broader range of services and to expand their customer base.

3/ Fixed cost = employee's wages, public utility expenses, and hotel management fee

Box 3: Policy Recommendations for the Industry

- **Develop disease control measures and enforce health standards:** Following the COVID-19 pandemic, travelers are more concerned about public health measures. So, getting recognized certification from accredited bodies will help to build confidence in travelers and hotel guests. To this end, marketing and public relations efforts should focus on informing domestic and international travelers about national measures to control the spread of communicable diseases. Operators should also ensure that all staff are aware of such measures and guidelines, practice them at all times.
- **Players still need targeted measures to support the tourism industry:** The industry will require government measures to support demand as long as borders remain closed to foreign tourists. Hence, Krungsri Research believes that the *We Travel Together* program (to encourage domestic travel) should be extended at least until the end of 2021. If the government does this, operators will have much better chance of staying afloat until the COVID-19 crisis ends. The government could also consider additional holidays to encourage greater domestic tourism.
- **Ramp up competitiveness by reinforcing the industry's strengths and addressing weaknesses:** Given the competitiveness analysis (see Box 1), Krungsri Research suggests operators build on their strengths, especially access to natural resources, the state of ICT infrastructure, and educating local communities to raise the profile of second-tier cities as tourist destinations. They can develop new tourist attractions and help to overcome local problems (e.g., improve safety and public hygiene measures, and manage the environment and natural resources in a more sustainable manner). In the future, hoteliers will also need to offer a wider range of services to meet changing consumer demands; greater utilization of technology will be important in achieving this goal. Beyond this, operators need to cooperate more deeply with businesses in other industries, for example, by adapting hotels to serve as treatment centers, though this could require new funding and expertise. The government also has an important role to play in developing the foundations required for these changes to raise potential in the sector, by improving industrial capabilities, and creating opportunities for those working in the tourism sector to reskill and upskill.

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