

E-TOURISM: AN INNOVATIVE APPROACH FOR THE SMALL AND MEDIUM-SIZED TOURISM ENTERPRISES (SMTEs) IN KOREA

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Abstract

This paper deals with e-tourism, innovation and growth. The Internet is revolutionising the distribution of tourism information and sales. The Korean small and medium-sized tourism enterprises (SMTEs) with well-developed and innovative Web sites can now have “equal Internet access” to international tourism markets. This paper examines problems and solutions related to electronic commerce in the tourism industry and suggests recommendations for successful e-commerce strategies in tourism to be applied by the industry and the government in Korea.

Introduction

The definitions of tourism innovation (*e.g.* product, service and technological innovations) remains unclear, with the exception maybe of the Internet. New technologies can produce an essential contribution to tourism development.

For tourism businesses, the Internet offers the potential to make information and booking facilities available to large numbers of tourists at relatively low costs. It also provides a tool for communication between tourism suppliers, intermediaries, as well as end-consumers. OECD (2000) revealed that the advent of Internet-based electronic commerce offers considerable opportunities for firms to expand their customer base, enter new product markets and rationalise their business. WTO (2001) also indicated that electronic business offers SMEs the opportunity to undertake their business in new and more cost-effective ways.

According to WTO, the Internet is revolutionising the distribution of tourism information and sales. An increasing proportion of Internet users are buying on-line and tourism will gain a larger and larger share of the online commerce market. Obviously, the Internet is having a major impact as a source of information for tourism. However, the SMTEs are facing more stringent impediments to the adoption of new information technology, in particular, e-business. Part of the problem relates to the scale and affordability of information technology, as well as the facility of implementation within rapidly growing and changing organisations. In addition, new solutions configured for large, stable, and internationally-oriented firms do not fit well for small, dynamic, and locally-based tourism firms.

Despite these challenges, SMTEs with well-developed and innovative Web sites can now have “equal Internet access” to international tourism markets. This implies equal access to telecom infrastructure, as well as to marketing management and education. According to a UN report (2001), “it is not the cost of being there, on the on-line market place, which must be reckoned with, but the cost of not being there.” It is certain that embracing digital communication and information technology is no longer an option, but a necessity. Thus, one of the most important characteristics of

electronic commerce is the opportunity and promise it holds for SMTEs to extend their capabilities and grow.

Recent research on e-commerce in tourism industry

The study of e-commerce in the tourism industry has emerged as a 'frontier area' for information technology. The literature on e-commerce in the tourism industry was critically reviewed with a view to developing a framework suitable for this study. E-commerce is defined as the process of buying and selling or exchanging products, services and information via computer networks including the Internet (Turban, Lee, King & Chung, 2000). However, adoption of Information and Communication Technologies (ICT) is only part of the story. In particular, network access costs, dissemination of information on electronic commerce, training, skill development and human resources provide big challenges for smaller companies.

The difficulty in addressing issues of trust and confidence also makes SMTEs more vulnerable than large firms to problems linked to authentication/certification, data security and confidentiality and the settling of commercial disputes (Buhalis, D. & Schertler, W. 1999, OECD, 1999).

However, a SME Electronic Commerce Study done by APEC reported that "Small and medium enterprises are significant players in business-to-business electronic commerce, which constitutes more than 80 percent of all e-commerce activities. SMEs that can demonstrate their capabilities to use e-commerce will have a competitive advantage in the e-commerce marketplace."

Most research suggested that government plays an important role in facilitating the use of electronic commerce for the tourism industry and in increasing their ability to reap the benefits, (*e.g.* via awareness building and training programmes). Governments in partnership with the private sector should establish a more comprehensive and consistent policy approach to the tourism industry and electronic commerce, and apply evaluation mechanisms to assess what works and does not work (UN 2001, OECD, 2000, Korea Information Society Development Institute 2000, APEC-TEL 1999).

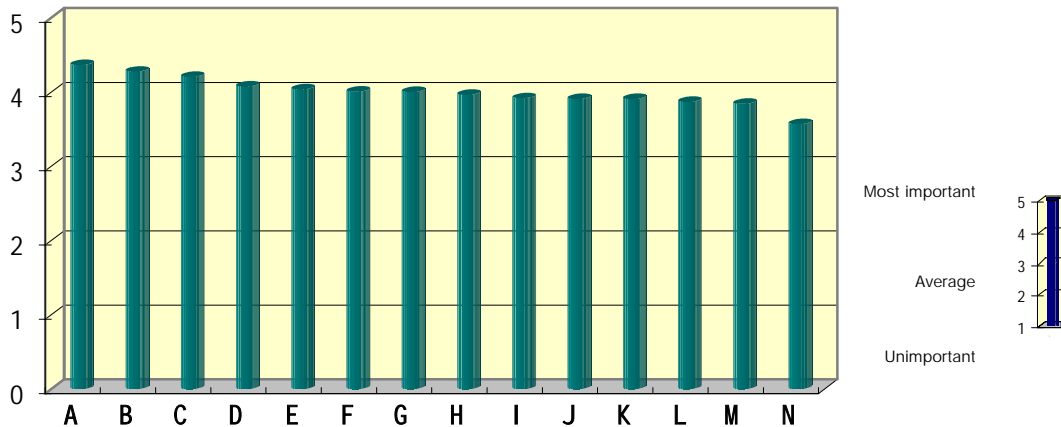
Key factors for successful e-commerce for SMTEs

Research was performed to collect the secondary data regarding e-commerce for the tourism industry. Based on those data, a questionnaire was developed to get information on the challenges and opportunities faced by the tourism industry. The survey covered e-commerce activities, benefits, barriers and key success factors. It covered essentially the Korean SMTEs. SMTEs are defined as businesses that have 300 or fewer employees or sales from USD 2 million to 20 million, depending on the characteristics of business.

Benefits of e-commerce for SMTEs

Respondents considered that the main benefits of e-commerce for tourism enterprises are 'providing easy access to information on tourism services,' 'providing better information on tourism services,' and 'providing convenience for customers'. This result implies that respondents are less aware of many other benefits of e-commerce, such as 'creating new markets,' 'improving customer services,' 'establishing interactive relationships with customers', 'reducing operating cost', 'interacting with other business partners', and 'founding new business partners' (Figure 1).

Figure 1. Benefits of E-commerce

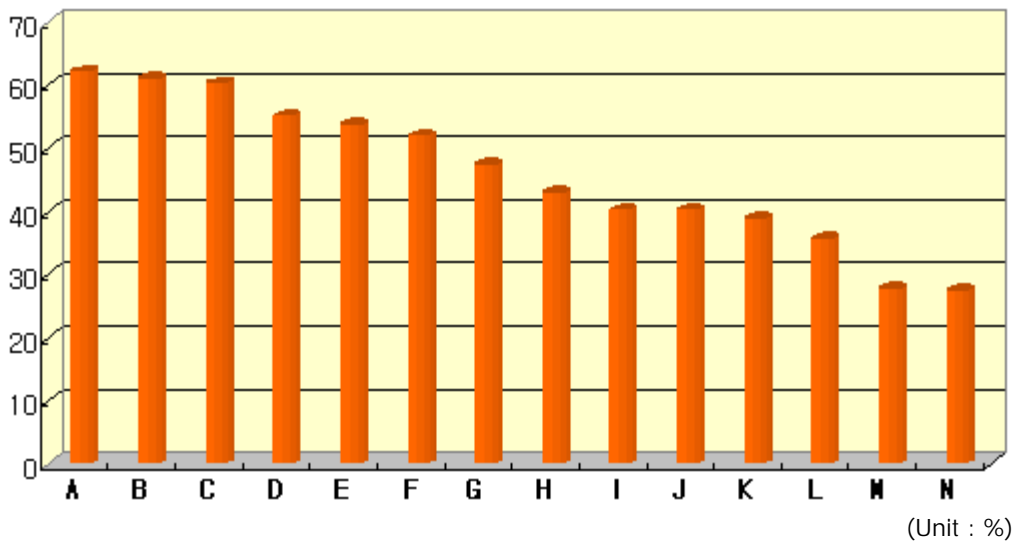


A : Providing easy access to information on tourism products and services **B** : Providing better information on tourism products and services **C** : Providing convenience for customers **D** : Expanding choices by customers **E** : Creating new markets **F** : Establishing interactive relationship with customers **G** : Improving customer services **H** : Improving image and public recognition of the small & medium sized tourism enterprises **I** : Saving time for providing tourism services **J** : Providing customized & specialized tourism products & services **K** : Reducing operating cost **L** : Simplifying the process business **M** : Interacting with business partners **N** : Founding new business partners

Barriers of e-commerce for SMTEs

There are a number of barriers for SMTEs in adopting e-commerce in Korea. These barriers include ‘limited knowledge of available technology,’ ‘lack of awareness,’ ‘cost of initial investment,’ ‘lack of confidence in the benefits of e-commerce,’ and ‘cost of system maintenance.’ These barriers also include ‘shortage of skilled human resources,’ and ‘resistance to adoption of e-commerce.’ In terms of market situation, one might also mention ‘insufficient e-commerce infrastructure,’ and ‘small e-commerce market size’ (Figure 2).

Figure 2. Barriers to Adopting E-Commerce

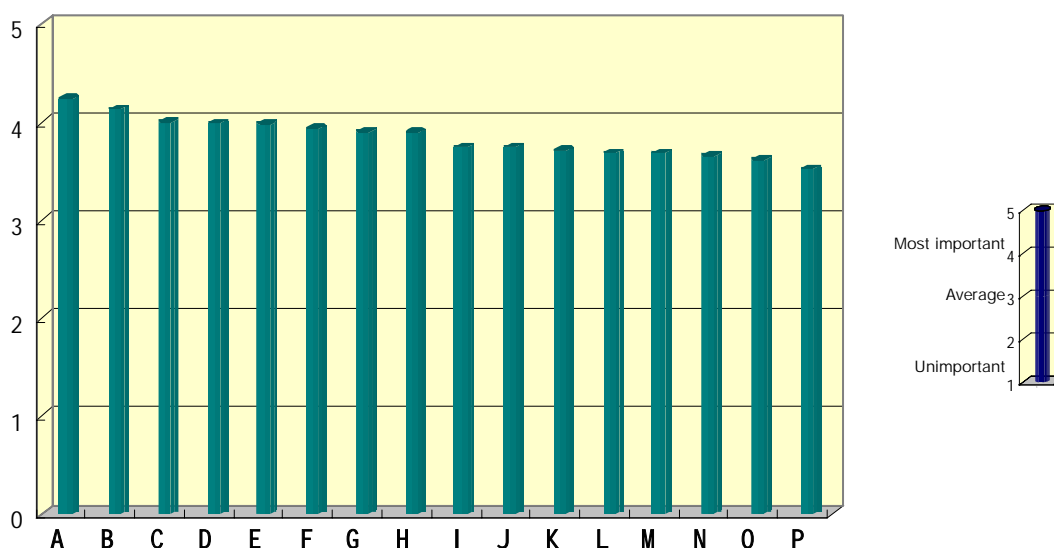


A : Limited knowledge of available technology B : Lack of awareness of e-commerce C : Cost of initial investment D : Lack of confidence in the benefits of e-commerce E : Cost of system maintenance F : Cost of securing skilled human resources for e-commerce G : Shortage of skilled human resources H : Difficulty with integrating e-commerce & existing system I : Cost of training human resources for e-commerce J : Insufficient e-commerce infrastructure K : Lack of government support L : Relatively small e-commerce market size M : Fear of changes in corporate culture N : Resistance to adoption of e-commerce

Factors for successful SMTEs e-commerce practices

The two main factors for conducting successful e-commerce are ‘security of the e-commerce system’ and ‘user-friendly Web interface’, thus recognising that building customer trust and convenience for customers are essential to succeed. ‘Top management support,’ ‘IT infrastructure,’ and ‘customer acceptance’ were also considered as important factors. On the other hand, most SMTEs do not recognise the importance of ‘sharing knowledge and information between SMTEs’ and ‘business partnerships’ as (Figure 3) as e-commerce successful strategies.

Figure 3. Important Factors for Successful E-Commerce



A : Security of the e-commerce system **B** : User-friendly Web interface **C** : Top management support **D** : Level of trust between customer and company **E** : Information technology infrastructure **F** : Customer acceptance **G** : Cost of establishing and maintaining e-commerce system **H** : Skilled human resources **I** : Market situation **J** : Integration with the existing corporate system **K** : Specific tourism products or services for e-commerce **L** : Corporate knowledge, culture & acceptance **M** : Relationship with other business partners **N** : Sharing knowledge and information between the small & medium-sized tourism enterprises **O** : Internal communication **P** : Government support

Importance and performance of SMTEs’ e-commerce

The study used Importance and Performance (IP) analysis to examine e-commerce strategies. For ‘Importance’ respondents indicated the importance of each of the 16 proposed factors for a successful implementation of e-commerce by SMTEs. For ‘Performance,’ respondents indicated how well their member economy performs regarding e-commerce, in relation to their response to ‘Importance.’

Four IP categories emerge from this analysis. The ‘Keep up the good work’ category means that both ‘Importance’ and ‘Performance’ are high. The category ‘concentrated efforts’ refers to ‘high importance’ and ‘low performance’ responses. The ‘low priority’ category refers to ‘low importance’ and ‘low performance’ responses. The ‘Possible overkill’ includes ‘high performance’ with low importance”.

Keep up the good work

Respondents considered the following factors as important; ‘Security of e-commerce,’ ‘User-friendly Web interface,’ ‘IT (Information Technology) infrastructure,’ ‘Level of trust between customer and company,’ ‘Customer acceptance.’ All factors are strongly related to consumer issues such as security and user convenience. These factors were also considered as relatively well-performed.

Concentrated efforts

The factors in this category include 'Top management support' and 'Skilled human resources'. These factors are considered as very important for implementing e-commerce but are considered as performed insufficiently. Thus, more efforts need to focus on these factors.

Low priority

'Government support,' 'Sharing knowledge and information between SMTEs,' 'Integration with the existing corporation,' and 'Relationship with other business partners.' received low marks in importance and performance. These factors, however, are actually critical to successful e-commerce of SMTEs. This implies that managers have limited information and knowledge on e-commerce. More information should be delivered to entrepreneurs about the importance of those factors.

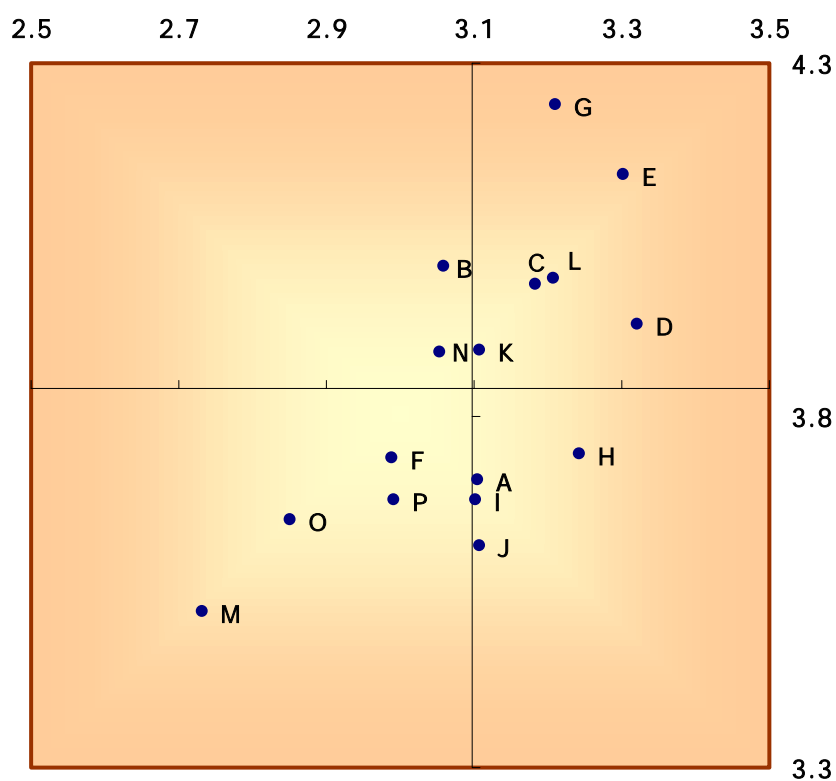
Possible overkill

'Market situation' falls in the 'Possible overkill' category. According to the survey results, managers of SMTEs utilise the Internet for market analysis (may include competitor analysis) but do not consider this factor as important. Researchers believe that this result has some discrepancy with previous reports that SMEs (Small and Medium-Sized Enterprises) usually do not use the Internet for market research.

Remainder

Three factors including 'Specific tourism products or services for e-commerce,' 'Corporation knowledge, culture, and acceptance,' and 'Internal communication' fall somewhere between 'Low Priority' and 'Possible overkill.' One factor, 'Cost of establishing and maintaining e-commerce system' is between the 'Concentrated efforts' and 'Keep up the good work' categories. These factors were assessed relatively similarly as 'low importance' and 'middle performance.'

Figure 4. Importance-Performance (I-P) Analysis



- A: Specific tourism products or services for e-commerce
- B: Top management support
- C: Information technology infrastructure
- D: Customer acceptance
- E: User-friendly Web interface
- F: Integration with the existing corporate system
- G: Security of the e-commerce system
- H: Market situation
- I: Corporate knowledge, culture and acceptance
- J: Internal communication
- K: Cost of establishing and maintaining e-commerce system
- L: Level of trust between customer and company
- M: Government support
- N: Skilled human resources
- O: Sharing knowledge and information between the small & medium sized tourism enterprises

E-commerce strategies for innovation of the SMTEs

For Rayport and Jaworski (2002), e-commerce strategy should be implemented with the four critical forces: technology, capital, media, and public policy infrastructures. An infrastructure is defined as the foundation of a system. E-commerce strategies refer to these four infrastructures:

- The technology infrastructure means the technological foundation of the Internet, which enables the running of e-commerce enterprises, including the hardware of computers, servers, routers, cables, network technologies, software, and communications. Understanding technology infrastructure – and thus understanding what is and is not achievable – is essential to formulating travel and tourism’s vision and strategy.
- The capital infrastructure relates to how to secure funding for an e-business and subsequently value that business.
- The media infrastructure is an important issue for all e-commerce managers because the Internet is a mass communication platform. Managers who run on line enterprises must learn to manage a staff responsible for design interface, stylistic choices, and editorial policies, and content choices associated with the new communication venue. Therefore, the e-commerce manager is now a publisher of digital content on the Web. He/she should make choices about the types of media employed (*e.g.* print, audio, video), the nature of the media, and editorial policy, including style, content, and look-and-feel.
- Finally, all of the decisions related to technology, capital, media, and strategy are influenced by laws and regulation, that is, public policy decisions. The public policy infrastructure affects not only the specific business but also direct and indirect competitors. E-commerce managers should understand both the current laws and how the laws may affect their businesses and those around them.

This paper suggests different strategies according to the e-commerce infrastructure of the business and stage of e-business development:

- Internet start-up SMTEs should adopt a business model appropriate for their own e-business objectives and environments. External service providers have great potential for them. Marketing should be done selectively. Earning a good reputation in the local market should be the top-priority. Internet start-up SMTEs can develop a strategy to access international markets directly to sell their tourism products and services.
- Established SMTEs should focus on two key strategies: 1) expanding the range of services and products and 2) upgrading their quality. They should redesign their Web sites to focus more on ‘customer retention’ than ‘customer acquisition’ to ensure quality of service. The Internet is a useful tool to reach international markets. E-partnerships between SMTEs or large firms are important. They should utilise their resource to build an e-community.

Their e-business strategies should be formulated according to their business environments. Linkage to a site of destination management organization (DMO) is critical to success. Development of an online booking system is the most important technological aspect. Various measures to overcome lack of trust and confidence of consumers should be taken, such as utilization of ‘about us,’ ‘frequently asked questions (FAQs),’ and ‘call center’ services. Established SMTEs should consider e-

strategy issues, including; 1) target market segments, 2) building trust and confidence of e-consumers, and 3) expanding e-commerce activities.

Implications for tourism policy

The role of government is very important. The key principle is that the private sector leads the market. The government should avoid creating undue obstacles to e-commerce and its aims should be to support and enforce a predictable, minimal, consistent and simple legal environment if governmental involvement is needed. Active government support to foster an entrepreneurial culture is important. Key policy agendas include; 1) improving the legal and regulatory framework, 2) moving government procurement on line, and 3) facilitating e-transformation in industry sectors.

Legal and regulatory issues should consider consumer protection, legal resource mechanisms in disputes (*e.g.* e-commerce mediation committee), intellectual property protection, and validity and enforcement of contracts. The policies cover issues such as what taxes should apply to Internet transactions, the identification and residence of users, and the problem of tax avoidance. The guidelines of international organisations such as APEC and OECD can be a basis for e-commerce laws and regulations. To support consumer trust and confidence, a programme of e-trust certification could be effective. Online government procurement and government participation in e-transformation of industry sectors should be planned and implemented in the medium- and long-term. Government support can be provided in tax reductions, monetary support, and sharing of knowledge and information between industries and research organisations.

In Korea, a pilot project aims to construct a B2B network in all key industries. The government has also implemented a 'System to Certify Venture Tourism Business,' which indirectly supports the industry. In 2001, 11 companies were selected as venture tourism businesses and can receive support and benefits. Applications for the status of venture tourism are evaluated twice a year. Most domestic software companies in Korea do not have distribution channels of their own. Therefore, they pay a commission of almost 40% to distributors of their products. This is a major disadvantage in the competitive market. To solve this problem the government established a software cybermall. The Internet shopping mall, which opened in 1998, provides product demonstrations and the ability to purchase products electronically. The mall is linked to the sites of many vendors.

Finally, government could help the growth of e-commerce in various ways through, planning, creating the legal and regulatory framework, building capacity in information technology infrastructure, skill formation and manpower planning, and also undertaking promotional and incentive measures. The government should function as a facilitator, promoter, educator, and 'anchor tenant' for testing and pilot deployment of new applications. It is expected that OECD member countries facilitate international strategic alliances at government-to-government (G2G) and industry-to-industry (I2I) levels and help local firms to grow, regionalise and also globalise. Government can also help create markets in emerging areas at the initial stage and help remove regulatory obstacles that may impede the growth of markets and businesses. Again, the ultimate objective of the government remains the promotion of private sector initiatives in e-commerce development (Kahn, 2002).

Conclusions: recommendations for e-tourism innovations

In conclusion, this paper suggests some recommendations for decision makers, entrepreneurs and practitioners in the tourism industry field, particularly for SMTEs. These recommendations are made to the Korean e-tourism market, however, they can probably apply to the tourism industries in other countries.

The government should develop a national vision, a strategic plan and policy guidelines for SMTEs e-commerce activities. The development of e-commerce strategies should involve all tourism stakeholders. The policy makers are also responsible for establishing the appropriate laws, regulations and service standards that will enable to build trust and consumer confidence.

Entrepreneurs need to adopt business models which are tailor-made for their own e-business objectives and the SMTEs environment. SMTEs can combine various e-business models. External service providers have great potential to assist SMTEs.

Stakeholders should also find ways to integrate SMTEs into industry-wide associations. This will encourage SMTEs to stop competing at the destination level, and to develop networks for mutual benefit. In line with this co-operation, they need to formulate and implement networking or strategic alliances through partnerships with other SMTEs or large firms, especially in the area of brand management, customer relationship management, and human resources management.

As regards marketing, association with e-shopping will allow SMTEs to conduct Internet-based e-commerce without bearing all the start-up costs, improvements cost, advertising and technical difficulties, which could be shared by all the merchants in the mall instead. Associations of e-shopping will provide SMTEs with the opportunity to take advantage of e-commerce systems *e.g.* interactivity, mass customisation, real time and a database of customers.

In the established stage, SMTEs may need to re-design their website to focus more on 'customer retention' than 'customer acquisition'. They should also try to develop and manage their own digital brand. Brand power is more important on line than off line because the main stage of e-business is the virtual world where consumers are more dependent on recognised brands.

Finally, both the policy makers and the entrepreneurs should work together to raise awareness of e-commerce through training and education for stakeholders, employees and consumers. E-commerce cannot be implemented without empowering and enabling tourism stakeholders to take advantage of new Internet and e-commerce technologies.

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