

13th Strategy Workshop for the Future of Jeju Tourism

Post THAAD, the Way Jeju's Tourism Should Move Forward

June 9, 2017

■ Presentation 1: Ways to vitalize inbound tourism focusing on demand

- Presenter: Park Jung-Ha (Head of Overseas Marketing Department, Jeju Tourism Organization)
- The inbound tourism market has focused on China and Japan, considering them to be our main market and have experienced a gradual decline in securing tourists visiting Korea. The market is facing a situation staggered with complex risks and it needs to come up with countermeasures to expand its demand for each market. As to the Chinese market, more fierce competition due to price drops of Japanese tour products is expected. It is hard to secure passengers for flights even in the popular seasons of July and August and it is also expected that it will take time to restore the number of cruise visitors.
- Regarding the Japanese market, there are prevailing negative opinions due to tensions between North and South Korea. As for the Taiwanese and Hong Kong markets, the pace of growth is slowing due to various reasons in and outside of the markets. In other Asian and Middle Eastern markets, tourism demands in June will not be positive because of Ramadan.

[Marketing Direction]

- In the Chinese market, women in their 20s and 30s are leading the Korean inbound tourism market and they are highly likely to obtain tour-related information via mobile or SNS channels. Finding diverse tourism content which may be attractive to various types of customers is needed.
- In the Japanese market, the share of tourists in their 20s has drastically dropped pressuring the government to seek policies such as supporting passport-costs to attract more tourists and the Japanese tourists tend to consider the cost-benefits of a tour product. To attract these tourists towards local tours, efforts are being made by introducing programs such as Premium Friday while seeking ways to encourage repeated visits of individual travelers (F.I.T.).
- The Taiwanese and Hong Kong markets are considered an alternative target to the Chinese market and efforts should be made to intensify tourism content for them with year-round (four seasons) products, new experience programs, outdoor products, or gourmet tour products.

- Other Asian and Middle Eastern markets showing growing interest in the Korean-Wave. Therefore, marketing strategies that provide Korean-Wave tailored content or pursuing joint promotions with companies in private sectors focusing on such preferences is expected to be effective. For markets in Europe and America, many tourists visit Korea in order to meet their friends or relatives living in Korea. In this regard, promotions engaging in expat students living in Korea or marketing strategies utilizing foreigners who have been living in Korea for a long time should be considered.

[Developing consumer-tailored products and content]

- Products and contents need to be developed for Muslims, travelers visiting Korea to meet friends or relatives, gourmet tourists, fans of the Korean Wave (K-pop culture), leisure and outdoor activities, travelers with interests in historic and cultural attractions, and life cycle tailored products (kid friendly, middle aged women, elderly citizens, or mother and daughter, etc.).

[Building Tourism Acceptance]

- To manage inbound tourism infrastructure, efforts of quality control and a rise in the competitiveness of accommodation facilities, improvement and advancement in the food-tourism information system, quality management and enhancement of tailored services in tourism information service areas, and building an interconnected transportation system based on more active cooperation among municipalities should be considered.
- Building infrastructure focused on F.I.T would be possible for items such as fostering specialized and professional guides on year-round leisure sports, or developing B&B (pension) products targeting foreigners with families or friends.
- We may be able to also establish better tourism acceptance through efforts such as support in attracting more FITs, or enhancement of a risk management system (more intensified online monitoring or public-private cooperation).

■ Presentation 2: Jeju Tourism Product's Distribution Structure and the Necessity to Diversify them

- Presenter: Kim Yong-Min (Head of Planning and Policy Research Team, Research Institute for Regional Government & Economy of Korea)
- These are the results of research conducted from October to November 2016 on the tourism products' distribution structure. It surveyed 77 businesses on tour-sites, souvenirs, duty free stores, accommodations, restaurants, and tour agencies.
- As for tour-guides, there are two types. One is those who receive commission fees

from their tour agencies and then make settlements regarding expenditures. The other is those who receive commission fees directly and then deliver the fee to tour agencies. All of them earn their income which is in proportion to the sales and it causes problems since these tour-guides tend to induce shopping.

- When it comes to tour attractions, there are cases that duty-free stores pay an entrance fee instead of visitors. As for the shopping centers, there are no outlet or department stores in Jeju. So most of the shopping during tours is done at duty free stores.
- As for duty free stores, the actual ratio of commissions regarding tourists was found to be higher when the ratio is calculated based on the total duty free store sales than that based on total sales. And tour agencies tend to compensate their insufficient budget to pay for tour expenses by receiving commissions from duty free stores. Inbound tour agencies send Chinese tourists to duty free stores which provide more benefits and determine the amount of commission rate through verbal channels. So, it's difficult to determine the actual amount spent on commission fees.
- To sum up, support is needed to expand markets to attract inbound tourists. In order for the market environment to operate as a system where fair trade is available, support is required and administrative manpower handling Chinese tourists should have a great deal of expertise.
- To realize qualitative growth of tourism in Jeju, it is necessary to identify problems in the structure of low-priced tour products to attract large numbers of tourists, improve competitiveness of small local businesses in the provinces, raise qualities of tour products and improve distribution structures.

■ DISCUSSION

[Agenda 1] Market Diversification

○ Kang Dong-Woo, CEO of Jeju Donglack travel agency

- Currently what we've neglected is the fact that the Chinese market cannot be considered a single unified market. Not only is the Northern market centered on Beijing and the Southern market around Shanghai, but also in the second, and third class cities more demand for tourism is being created. I think the entire Chinese market should be divided into more than five zones. We need to consider the diversification of the Chinese market.
- The number of passport holders in China has reached 190 million and the number is expected to grow to 600 million by 2020 (since 1998, 11 million Chinese visited Jeju). The Chinese market requires new strategies. It should not be given up and replaced by other markets.

○ Go Nak-Cheon (Head of Jeju Silla Duty Free Store)

- Due to the countries' conflict, THADD, it's now challenging to forecast future demand of Chinese tourists and possible markets we may seek to diversify are limited. At this point, with the current infrastructure and content of Jeju, I wonder what strategies we may build.
- Transportation infrastructure for foreign F.I.T. is poor while contents for tour attractions are similar to each other. So, it's hard to identify the unique characteristics of tour experiences in Jeju. As for the restaurants and accommodations, there are big gaps in terms of price and quality (tastes) among them, therefore it is hard to meet the needs of tourists.

○ Lee Min-Gyu (Head of Chinese Market Team, Overseas Marketing Department of Jeju Tourism Organization)

- Jeju's tourism industry does not have a clear goal for each target of the Chinese market. It has just been focusing on image marketing centered on the suppliers. We need to build new strategies targeting each region by segmenting the Chinese market.
- Whenever there is any risk for tourism, our tourism policies are changed and they lose consistency. We need strategies for long-term promotion and marketing. By coming up with integrated marketing communications strategies, we need to set a new direction in providing strategies for promotion and marketing.

○ Kim Nam-Jin (Vice Director General, Jeju Tourism Organization)

- Now it's time for us to seriously think about whether to exclude China from our market diversification. We also have been contemplating what strategies we need to adopt for Chinese F.I.T. travelers visiting Korea by using online tour agencies (OTA). Our previous China-targeting strategies focused on three Northeast provinces in China. But now we need to divide the Chinese market further and then expand our interests into Shenzhen and the Southeast regions.
- We cannot get our answers in China by going there. Surveys on the places where Chinese F.I.T. travelers prefer to visit and identifying their demand should come first prior to building our marketing strategies for them.

○ Byun Dong-Hyun (CEO of JayTrip)

- Currently, with the changing domestic tourism market environment, municipality governments are adopting different policies so it is hard for us to understand their policy direction. Our task is market diversification and accessibility improvements for

inbound tourists. The latter item remains a challenge for attracting Chinese tourists even after the THADD issue has been resolved. Therefore, we need to use this opportunity to work on improving Jeju's weaknesses.

- In terms of providing premium and diverse tour products, we need to re-focus on the Muslim and expat Chinese markets including the middle east, Indonesia, and Malaysia and attract travelers from these markets. At the same time, we need to raise and promote our value to the Western F.I.T. tourists and other incentive markets.

○ Kang Byung-Soo (Head of Sales Strategy Team, Ramada Jeju Hotel)

- I think the recent risk in the Jeju tourism industry due to the THADD issue somewhat helped us to establish strategies to identify and attract demand in other markets. With the reduced number of Chinese tourists, we are working on attracting more Muslim tourists. To meet the new demand, we will also improve our acceptance for them by preparing halal foods, prayer rooms, and carpets.
- I think we also need to make basic preparations for creating tourism demand in the regions of Japan, Taiwan, and Southeast Asia. Targeting the Southeast Asian markets, we will continue to carry out marketing activities.

○ Master: Lee Jae-Hong (Director General of Jeju Tourism Organization)

- There are various opinions on how we may diversify our markets. Of course, we cannot exclude China in our consideration. Market diversification would be meaningful in reducing our dependency on a certain market. By constantly, and consistently pursuing strategies tailored to each region, we need to gradually increase their demand toward Jeju.
- Mobile centered services on promotion, marketing, and payment need to be available. Such services also need to immediately reflect the changing market trends.

○ Jung Seung-Hun (Head of Search and Planning Department, Jeju Research Institute)

- As the Chinese governments recently banned Chinese outbound group tours to Korea, we need to review the following points.
- ① Improving our basic posture toward the Chinese tourism market: Across the world, China is one of the most important tourism markets and efforts to attract tourists need to be focused on for the region. In the future as well, the fluctuation of Chinese tourists could be the most critical element affecting Jeju's carrying capacity.
- ② Diversification of the overseas tourism market: For the survival of the inbound market, market diversification is a mandatory requirement, not just an option. Our task is to support the quantitative growth of markets in Japan, Taiwan, and Southeast Asia, rather than China specifically.

- ③ Management of the Korean tourism market: With the drastic decrease of Chinese inbound tourists, Korean travelers have shown constant growth. On the surface, it has been said that due to the limited flight capacity, there is a limitation in the growth of the Korean tourism market. But with the increase of the available flight seats, Korean tourists visiting Jeju has also risen.
 - ④ Building a risk management system on tourism: Jeju is an island region which is especially sensitive to the changes of external environments. It is a growing necessity of an effective risk management system to identify possible future risks.
- Kim Nam-Jin (Head of Tourism Marketing Team, Tourism Policy Department of Jeju Special Self-Governing Province)
- I think the bipolarization of group tourists and F.I.T. travelers, or low-priced products and premium products would not be desirable. Analyzing market trends is very important and we need to build strategies for each with a focus on more segmented markets.
 - Detailed and segmented market analysis on China should be the role of the Jeju government and Jeju Tourism Organization while the Jeju Tourism Association and businesses actually conduct their activities on attracting travelers.
- Park Jung-Ha (Head of Overseas Marketing Department, Jeju Tourism Organization)
- For the promotion of projects by Korea Tourism Organizations, international online reports of those staying in Korea was very effective. And Chinese travelers tend to think that tour destinations that Koreans prefer would also be good for them. So, in order to manage the quality of tourist services in Jeju, market diversification is critical.
 - I think we need to identify how Jeju residents feel about foreign inbound travelers. The downtown areas of Jeju don't provide the image of an island to visitors. The overall image of the province needs to share one unified concept that is differentiated from other regions.

[Agenda 2] Conversion to quality focused tourism

- Kang Dong-Woo, CEO of Jeju Donglack travel agency
- The reason why Chinese inbound tour agencies are hardly found is the lack of funding power and the language barrier. Less than five tour agencies are currently working on the area. The group tour market has the issue of commission fees' size. But for F.I.T. products, it spends too much while earning less. So small Korean tour agencies in Jeju have a hard time maintaining their businesses.
 - Currently, some customers that are aware that duty free stores pay a commission fee to tour agencies request the amount be paid to them rather than the tour agency.

When major Chinese tour agencies receive around 15% of commission fees, Jeju's tour agencies only receive 2-3%. In the end, the structure only builds distrust among tour agencies.

○ Byun Dong-Hyun (CEO of JayTrip)

- The issues incurred due to the distorted structure of low-priced products or cruise products will remain unless their sales efficiency or size issue are resolved. The issues driven by shopping commissions such as No Tour Fee, minus tours, or minus Chinese tours can only be solved when we convert our focus from the distorted patterns of Chinese package products or cruise tours to products with better sales efficiency such as F.I.T., special purpose tours, tour incentives, and MICE products and by raising their size.
- We need to develop high quality long staying tour products which may generate better revenue. I think it can be an opportunity to attract recuperation tour programs which let tourists stay longer in Jeju in natural environments and various tourism infrastructure. By emphasizing natural environments as the major sales point, we can work on developing long-term recuperation tour products.

○ Moon Seong-Hwan (Head of Duty Free Business Office, Jeju Tourism Organization)

- As a solution to the issues of low-priced tour products, I would like to suggest to develop value-added products, improve the distribution structure of tour products, and the system to directly attract tourists. Currently there's no clear differentiation between cheap and premium products. It means that Jeju cannot provide various tourism content.
- I think the current issues driven by low-priced group tours were also caused by the government which didn't recognize tourism as an industry and failed to develop a seamless legal system. As a result, the government failed to prevent the market structure from deteriorating. The issues cannot be solved by the voluntary efforts of the market itself. By providing legal support, we need to come up with various measures to restrict unfair market practices.

○ Kim Nam-Jin (Vice Director General, Jeju Tourism Organization)

- While we are witnessing the business practices of current low-priced group tours, we also need to look into the impact of tourism on our life. Today's Jeju residents are increasingly satisfied with the altered situation where portions of tourists were changed due to the THADD issue.
- When we conducted a survey, even a commission rate which can be classified as an

illegal practice according to the Tourism Promotion Act was discovered. Forcing everyone to discuss such commissions within legal boundaries, legal criteria on the commission fees for agencies needs to be restricted.

○ Go Nak-Cheon (Head of Jeju Silla Duty Free Store)

- The duty free stores were to resolve the issues due to low-priced tour products by making voluntary efforts for improvement. But since THADD became a problem, the damages we have received are quite critical. The number of visitors decreased by 90% while sales were cut by 50%. Accordingly, across the nation, the commission rate had to be adjusted. (But the Chinese inbound tour agencies have developed another type of income structure.)
- For duty free stores, THADD became an opportunity to review our revenue structure. I don't think we will follow the same direction that we used after this situation. Even though there are cases that tour agencies individually attracted tourists who will visit duty free stores and even had to pay a reverse-commission fee.

○ Kang Young-Soon (Chairman, Association of Tour Interpreters for Chinese)

- All international inbound tour agencies should be obliged to report their inbound travelers. Such reports should specifically include per capita amount of inbound expenditures (tour schedules, accommodations, attraction entrance fees, vehicle costs, guide fees, and meal costs). The governing organization classifies products whose per capita cost is less than 30% of the standard cost as low-priced tour products.
- Composite investigation teams (provincial government, police, and tax office) should be created. So, the team should conduct quarterly investigations on samples and reported companies. Additionally, the rights of an investigation should be legislated as an enforcement ordinance or provincial regulation so that the team is able to check tax reports or payment details of tour agencies on whether such details are aligned with the report the tour agency has made on their tour products.
- Introduction of a local guide system (A registration system for tour guides in Jeju): By letting tour guides who meet a certain criteria and stay in Jeju, management of such tour guides should be provided. The government needs to identify the current status of registered tour guides, provide basic training for them, seek models for sustainable tourism in Jeju, and regularly crack down on illegal tour guides. By doing so, the activities of illegal or unqualified tour agencies shall be eradicated.

○ Jung Seung-Hun (Head of Search and Planning Department, Jeju Research Institute)

- To improve the tourism structure focused on low-priced Chinese group tour products, we need to take a two channel approach on ① the commission fee issues and ② the task of controlling tour agencies specialized on group inbound Jeju tour products.

- To improve our control on the tour agencies specialized on group inbound Jeju tour products, the central government should consider whether to enact a new law (e.g. act on tour businesses) or revise the existing Tourism Promotion Act.
- Regarding commission fee issues, we need to think of approaches of ① revising Customs Acts and Tourism Promotion Acts, ② issuing a legal notification from the Fair Trade Committee, and ③ making voluntary efforts by members of the Jeju Tourism Association on the adjustment of commission fees.
- To improve the current structure relying on low-priced Chinese group tour products, constant Sino-Korean government cooperation should also be maintained in terms of policy and information sharing. Quality control of group tour product markets will be possible only when such a cooperative relationship is established.

- Jeju Tourism Organization is proactively suggesting various policy solutions to provide measures to solve pending issues in this regional society.
- We would like to come up with more reasonable and forward-looking alternative solutions that can be made based on the results of this workshop in order to contribute to the increased quality of life for Jeju residents and to the region's development.



Issuance Date: August, 2017

Publisher: Choi Gap-Yeol

Publishing Organization: Jeju Tourism Organization (Jeju Welcome Center, 23, Seondeok-ro, Jeju-si)

Managing Team: Research and Study Center (TEL. 064-740-6044 Fax. 064-740-6038)

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