



Distribution channels and ownership of upmarket hotels in a transition economy



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1. Introduction

Vietnam began the transition from a command to a socialist market-oriented economy with the adoption of its economic reform policy of Doi Moi (renovation) in 1986. On becoming the 150th member of the World Trade Organization in 2007 the country committed to achieving the move towards a full market economy by December 2018 (Tran, 2007). This transition has brought about significant changes to tourism, a sector which had been identified in 1994 as an essential part of Vietnam's socio-economic development by Directive No 46/CT-TU of the Vietnamese Communist Party. Under Doi Moi international visitor arrivals increased from just 250,000 in 1990 to 7.9 million in 2014 (VNAT, 2014a). Domestic travellers recorded a growth from one million in 1990 to 38.5 million in 2014 (VNAT, 2014b). This paper examines the relationships between two aspects of the hotel industry in Vietnam which have arisen during the transition to a market economy: ownership and distribution.

To date there has been little work which has explicitly examined the links between business ownership and distribution in tourism. This is in large part due to the fact that most of the research on tourism distribution has been carried out in Western market economies in which state-owned tourism enterprises are now absent or play only a negligible role. Examining tourism in transition economies throws the importance of ownership into sharper relief because changes in business ownership are a fundamental characteristic of the transition to a market economy. Restructuring and opening up of the Vietnamese economy has resulted in a range of new ownership types as many state-owned enterprises have been privatized, the domestic private sector has developed and liberalization of the economy has permitted international joint ventures and even wholly foreign-owned enterprises to be established.

Moreover, as Vietnam has moved from a command economy in which supply and demand were determined by central policy mechanisms to one operating more openly in response to market conditions, developing effective and efficient distribution channels has become increasingly important to reach both domestic and international markets, to generate demand, and to be competitive. Distribution

channels constitute 'paths to the market', bridges between producers and consumers (Lewis, 1968). They are central to all market economies.

It is in this context that this paper seeks to establish the distribution structures of upmarket hotels in Vietnam under four types of ownership and to identify the commonalities and differences between them: state-owned, domestic privately-owned, international joint ventures, and wholly foreign-owned hotels. In particular, the paper addresses the following questions:

1. What is the current pattern of ownership of upmarket hotels in Vietnam?
2. What is the current pattern of demand for upmarket hotels in Vietnam?
3. What commonalities and differences occur by ownership group with respect to the key structural characteristics of distribution channels: channel mix, channel length and channel width?

2. Literature review

2.1. Tourism in transition economies

Transition economies are 'countries that have embarked on a process of systemic transformation from central planning to market orientation' (Athukorala and Tien, 2012, p.447). In post-communist Eastern Europe and the Baltic states this process has largely been completed; in parts of Asia the process is ongoing and, as is the case with China and Vietnam, economic reform is taking place without change in the political regime (Chon et al., 2013; Zhu and Fahey, 2000). While the specifics of the process vary and the rate of change differs from country to country, common features of transitional economies can be identified (Athukorala and Tien, 2012; Commander and Svejnar, 2012; Estrin and Mickiewicz, 2011; Havrylyshyn and Wolf, 1999; IMF, 2000). These include:

- privatization of state-owned enterprises and of the wider economy and a re-orientation of production towards meeting market requirements;

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- reduction and/or elimination of subsidies and state ownership so as to create a more equal business environment, foster competition and improve efficiencies;
- creation of an appropriate legal framework and instruments to enable a free market system to operate;
- attraction of FDI (foreign direct investment) to stimulate development.

Tourism may play an important role in the transitional process as its development encourages integration into the global economy through the movement of people and capital; makes a net contribution to GDP and employment; acts as a development catalyst for infrastructure and other sectors; contributes to a shift in consumer expenditure; strengthens the country's profile; and acts as a management transfer instrument via FDI (Hall, 2008; Harrison, 2001; Jaakson, 1996; Simon, 1995). However, Williams and Balaz (2002) warn against over-generalizations about the nature and extent of tourism development due to the 'shape, timing and content' of the transition and the contexts in which it takes place. Differences may also be observed between sectors. 'Characterized by a diversity of ownership structures, including foreign companies, private companies, collective enterprises, joint ventures between Chinese companies and foreign companies, and the Chinese government' (Qu and Ennew, 2005, p.86), competition in the hotel sector in China is less regulated than travel services, a sector in which state-owned companies have remained dominant.

Much of the focus in the literature has been on the regulatory and policy measures which have enabled privatization and the structural changes in the industry which have resulted. Williams and Balaz (2002, p.40) distinguish between 'distributive privatization whereby the property rights to existing assets are redistributed; and creative privatization, or establishing new privately owned assets.' In the former Czechoslovakia direct sales, tenders and coupon/mass privatization were the most common forms of distributive privatization. Johnson (1997) provides a detailed account of the complex pattern of the re-organization of the Hungarian hotel sector in the 1990s. This involved the franchising of some state-owned hotels and various forms of privatization of others by partial or complete sale to international hotel chains or by the sale of shares to small domestic investors. In other instances hotels formerly owned by trade unions, county tourist offices or county catering companies were transformed into joint stock companies. New hotels were built by attracting FDI.

2.2. Distribution channels

According to Green (2005, p.7): 'Distribution strategy has quickly become the function in hotel marketing that can have the greatest impact on profitability'. Growing awareness of the vital role which distribution has in developing and maintaining a competitive advantage for tourism businesses has led to an extensive body of literature (Kracht and Wang, 2010; Pearce, 2009a, 2010). In his review, Pearce (2009a) identified five major approaches to research on tourism distribution: structural; behavioural; functional; evaluative and strategic. The most frequent of these has been to focus on the structure of distribution channels as establishing this is generally a first step to addressing other distribution issues. Recent attention has been directed at examining processes of disintermediation and re-intermediation brought about by technological changes to traditional distribution channel structures (Kracht and Wang, 2010).

Today, multiple distribution channels are available to hoteliers: traditional travel trade intermediaries (inbound operators, tour wholesalers, travel agents); tourist information centres; airlines and other providers; online services; direct sales via phone, fax and websites... Most hoteliers now employ multi-channel systems but considerable variation may occur in the number and type of channels used and the ways in which these are structured (Green, 2005; Pearce, 2008, 2009b; Pearce et al., 2007). Key inter-related structural characteristics are:

- *channel mix*: which channel or combination of channels is used? A first distinction can be made between direct and indirect distribution, that is, whether or not distribution occurs directly between the hotel and guest or with the aid of a third party or intermediary. What proportion of room sales is direct and indirect? Consideration can then be given to the particular types of channels used, both offline and online.
- *channel width*: how many different outlets or intermediaries are used for each type of channel? For example, does the hotel distribute via multiple websites? Are numerous wholesalers used or only a select few?
- *channel depth*: in indirect channels how many different types of intermediaries or channel members perform distribution functions between the hotel and the guest (e.g. retail travel agents, tour wholesalers and inbound operator)? In other words, how many links in the distribution chain are there between provider and end-user?

Structural variations have been found between the distribution channels used by independent and chain hotels (Pearce et al., 2004) but analysis of differences in ownership within the accommodation sector has not been a common focus of distribution studies. Where there is an interest in ownership it has centred on questions of integration, particularly amongst travel trade intermediaries (Chaintron, 1995; Reid and Pearce, 2008) and the power and control of different channel members in the value chain, especially intermediaries located in developed countries and providers in developing countries (Lapeyre, 2011; Mitchell and Faal, 2007).

Qu and Ennew (2005, p. 86) studied attitudes to market orientation amongst a sample of tourism industry managers in China and found a widely held belief 'that state ownership, with its outdated management mechanisms and systems, is one of the most significant barriers to the development of market-oriented activities'. Little attention, however, has been directed at the actual marketing activities of tourism enterprises in transitional economies, in particular their distribution practices, despite the apparent concern in such economies with becoming more market-oriented. One exception is Marinov and Kazandzhieva (2010) call for hotels in Bulgaria to adopt a more systematic, multi-channel approach to distribution, one which integrates information and reservation functions and in which traditional travel trade intermediaries are complemented by online channels. However, they did not examine whether distribution needs and practices differed by types of hotels or forms of ownership.

The paucity of research into the links between ownership and distribution practices in the hotel sector is also found in other industries in transition economies (Chan, 2008; Luk, 1998). According to Chan (2008, p.122), information about the strategic importance of marketing channel distribution among foreign market entrants in China is 'sketchy' and 'although China has a huge market, little is known about how its marketing channel distribution works'. Veljkovic et al. (2015) examined the interdependence between company ownership origin and the use of modern marketing practices in Serbia and Montenegro. They identified four categories of businesses in terms of brand origin and company ownership: originally domestic brands (both brand origin and company ownership are domestic); quasi-local brands (originally domestic brands bought by a foreign enterprise); acquired local brands (the brand has originally been developed abroad but is now owned domestically) and wholly foreign (both the brand's country of origin and company ownership are foreign). Their empirical analysis of 93 consumer goods companies showed foreign-owned ones more consistently implemented modern marketing practices, including distribution.

3. Hotel development in Vietnam

Suntikul et al. (2008) present a five phase periodization of hotel development since Doi Moi was introduced. They trace the emergence

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