

Competitive Tourism

What can Japan do to better tap the potential of its tourism industry?

Ryu Arakawa got some answers when he spoke with Yoshiharu Hoshino, president of Hoshino Resort Inc.

In recent years, Japan has ranked 28th and 32nd in terms of the global competitiveness of its tourism sector. In fiscal 2007, Japan [est. pop. 130 million] welcomed approximately 8.3 million visitors from abroad. The most competitive country, France [est. pop. 60 million], attracted 80 million foreign visitors. Japan's figure is obviously too low."

So says Yoshiharu Hoshino, president of Hoshino Resort Inc. He is in the limelight for his bold business of rehabilitating resort facilities and long-established inns with hot spring bathing facilities in Japan, activities that have earned him the nickname "Business Reviver."

A competitive tourism industry is important not just because of its immediate effects on the economy.

Says Hoshino, by way of example, "We may somehow find the same food more delicious while traveling than we do at home. Partly due to their good memories of the trip, Japanese people may tend, for instance, to continue drinking the same wine they enjoyed in Bordeaux, France after returning to Japan. This means that tourists' consumption stimulates French exports and agriculture and creates a virtuous circle for its economy."

There are three factors decisive to the competitiveness of the tourist industry, according to Hoshino: name recognition, transport convenience (efficiency and cost) and security.

According to Hoshino, the top five nations in the tourist industry are France, Spain, the United States, China and Italy. These countries each attract 40 million to 50 million visitors from overseas per year on average. It is certainly not surprising when we think of the levels of the above three key factors achieved by these leading countries.

Hoshino insists that Japan's tourist industry in fact has considerable potential with respect to the three key factors mentioned above.

"It would not be surprising if Japan were among the world's top ten most competitive nations in the tourism sector. I believe that Japan has great potential. Other countries have difficulties in terms of security and name recognition. We should think that Japan already has a well-developed tourism infrastructure."

Hoshino became president of Hoshino Resort in 1991 after completing his Master's degree at the Cornell University School of Hotel Administration in the United States. His company then acquired and rehabilitated ALTS Bandai Resort and other unprofitable businesses. Since 2005, it has been providing support for the rehabilitation of venerable inns with hot spring bathing facilities through a joint investment with U.S. investment bank Goldman Sachs. Hoshino has been serving as a member of the governmental Strategic Meeting for the Promotion of a Tourism Nation since 2004. What does he think is missing from Japan's tourism industry?

First, Hoshino remarks that private businesses lack originality and ingenuity and lists specific challenges, namely improving productivity, streamlining working-level operations and upgrading the attractiveness of individual tourist destinations.

"Japan's manufacturing industry represented by automakers and electronics manufacturers pursued a long process of trial and error to bolster its productivity and the efficiency of its working-level operations in the 1960s and the 1970s, before expanding their operations to the world. The tourist industry must also work more seriously on these reforms," he says.

From the perspective of private-sector investment, the financial returns sought by investors refer to the profit margins that represent an increase on the amount invested. Hoshino notes that greater profit margins may be earned by investing in weak sectors than in areas that are currently strong.

"Paradoxically, the Japanese tourism industry has great potential because the country is not part of the top ten list. More specifically, provincial areas have greater potential than Tokyo has."

But what of the high labor costs that are often perceived as being one of the impediments to improving productivity in Japan's service industries, including tourism?

Hoshino denies that there is a link. He points out that labor is by no means cheap in the top five tourism countries mentioned above. Among the plants of Japanese automakers, those located in Japan, not those outside the country benefiting from lower labor costs, achieve the highest levels of productivity. Based on these facts, Hoshino asserts that labor costs have nothing to do with productivity.

"Moreover, Japanese people still share such traditional terms as *omotenashi* (a polite word with a meaning of "treatment") and *okizukai* (a polite word meaning "consideration"). They are more suited to the service industry than many other nations in the world. They commonly use expressions like 'attentive to what is frustrating to others' in everyday life and even use honorific expressions. Japanese people have an innate aspiration to please their guests."

A Focus on ROI

Let us take a closer look at each of the three challenges specified by Hoshino.

The first task is to improve operational productivity. Hoshino stresses that business operators should shift their focus from profits compared to sales to return on investment (ROI).

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an emphasis on profits compared to sales. This is where taxes are imposed. However, management with a focus on ROI is important for attracting investment from inside and outside the country. It will be tough for Japan to attract domestic and foreign investment unless this takes root among provincial operational companies.”

In Japan and abroad, private-sector investment is based on the same principle, which is namely the ROI. It is true of overseas investors and regional banks in Japan alike.

“In other words, the question is as to where it is more likely for worldwide investors to gain the investment returns they seek, in China or in Japan, or to choose from within Japan, in Tokyo or in other regions. Given that they have this criterion for investment, it is vital to develop the tourist industry with a level of investment returns and productivity sufficient to attract investment,” says Hoshino.

He goes on to say that private-sector investment would come to Japan spontaneously from inside and outside the country if the three challenges mentioned earlier were addressed quickly and appropriately.

However, he adds that the point is that the ROI in this context suggests investment with a marketing perspective.

“For example, it is inappropriate to rebuild or renovate facilities simply because they are now obsolete or dirty. A clearer stance on capital investment is required. In other words, an aggressive marketing approach is needed. For example, the purpose of remodeling a particular part of the facilities should be to give it a new appeal and thereby to attract new customers, or to stimulate new demand from organizers of meetings and formal conferences as well as traditional demand from couples.”

Hoshino also refers to the importance of lowering transport costs, es-

pecially the airfares and railway fares for domestic transport.

“To travel from Great Britain to ski in the French Alps, the one-way airfare costs around 8,000 yen. In Japan, flights from Tokyo to Sapporo have a comparable flight distance but they cost more than 30,000 yen one way [catalog price]. The transport cost from Tokyo to any other part of Japan is so high that a large majority of visitors to Japan just enjoy sightseeing in Tokyo and its environs and return home without visiting the rest of the country. This is a huge adverse factor if potential for the tourist industry is greater in provincial areas than it is in Tokyo,” explains Hoshino.

This is important not merely for attracting foreign visitors to Japan but also for stimulating domestic demand. The Japanese government needs to introduce some innovative measures. □

Ryu Arakawa is a journalist.