



The tourists are back in droves this high season in Phuket, but more arrivals may not bode well for the future health of the island's golden tourism goose. Baz Daniel investigates.



Anthony Lark

### *The hypochondriacal goose. 2010...omelettes for all?*

Tourism is undoubtedly the golden goose that drives Phuket's economy and as a result influences the lives and livelihoods of a huge proportion of the island's populace. When the goose lays, both the local people and the huge number of seasonal migrant workers in the tourism sector are happy with the jobs and thriving businesses that depend on the spending power of the annual influx of visitors. For many years however, the Phuket goose has been decidedly under the weather battling one ailment after another. From the 2004 tsunami, to bird flu and SARS, to the 2007 global economic meltdown, to the 2010 political unrest and demonstrations in Bangkok and northern Thailand, the poor old goose seems to have been in and out of "intensive care" with the regularity of a hypochondriac.

The last ten months or so have seen a dramatic turn-around in the island's tourism-based fortunes and in fact bumper times seem to be back again. While the island's residents rush around Phuket's increasingly traffic-choked roads making the most of the current bounty of the high season, some of the industry's senior figures are wondering where all this is going to lead and whether the island is really geared up to manage the long-anticipated boom in arrivals.

Clearly golden geese need proper nurture, care and attention to continue their egg laying activities, but the Phuket goose could well be choking on her own success.

Phuket passenger traffic smashed all previous records with 3.5 million arrivals during 2010, representing a 22 percent growth over the previous year with new markets such as Russia and China emerging as the major drivers of this growth.

The island's leading tourism consultancy firm C9 Hotelworks latest research report indicates that annual tourism figures have dramatically recovered from the political confrontations of April/May last year and are now hitting new highs. C9 Hotelwork's Managing Director, Bill Barnett says, "Russia, China and East Asia have emerged as star performers and airline charter and direct flight capacity from these locations is a major driver of this fast track growth."

However, the switch from the classic legacy geographic markets like Western Europe upon which Phuket tourism used to depend has come at a cost. One clear price being paid for the new found boom in arrivals is shrinking average room rates, plus reduced length of stay, which of course means shrinking yield and profitability. While the newer replacement markets certainly represent potential revenue sources, the shift to these new markets continues to baffle hotel, resort and ground operators as to how to capture sufficient revenue to make up for the loss of the free-spending European and US visitors who are now staying home because of economic and currency stresses.

Anthony Lark, the urbane General Manager of the high end Trisara Resort and Villa Development near the island's northwest Naiton Beach put it this way: "We have switched from a higher yielding mid-market holiday island and are rapidly becoming a mass market 'bargain basement' destination. That means more arrivals, yes, but less yield and profit for the local economy. Of course, with greater numbers of arrivals the problems of congested roads, crowded beaches, environmental destruction and cultural impact all accelerate. This trend does not bode well for Phuket's future."

Data from the C9 Hotelwork's report shows that hotels and resorts have reduced their pricing resulting in a market-wide occupancy increase of four per cent in 2010, but that this has been offset by a three per cent fall in room rates.

Mr Barnett makes the point that the most important driver of the current arrivals boom is growth in airlift capacity, as traffic surpassed 2007's peak year by 19 per cent with growth of 28 per cent over 2009. Indeed China as a source market has now taken off, ranking second overall among international arrivals markets in 2010 and is forecast to accelerate even further as the country's economic boom and burgeoning travelling middle class continues to grow. International pressure for China's government to allow the Yuan to appreciate in value will also have a huge impact on this trend.

Bhuritt Maswongssa is the articulate Vice President for Marketing of the Phuket Tourist Association and Deputy GM of the Patong Resort Hotel. He expressed his views of Phuket's tourism trends this way; "Clearly, we live in a very volatile world in which both man-made and natural impacts on societies and

economies and therefore on tourism are occurring dramatically and rapidly all over the globe. As a result of economic and currency impacts, long haul arrivals into Phuket from Europe and the USA are down, but have been more than replaced by newer shorter-haul markets particularly those of emerging Asia; Russia and the Middle East. Obviously, the impact of the current turmoil in the Middle East is yet to be felt and of course there is already an ongoing impact on oil prices and corresponding fuel surcharges. Shorter haul visitors are tending to stay for shorter time periods...we are currently averaging 2.8 to 3.5 days per visitor, whereas the average for European long-haul visitors was 6 to 7 days. However, forward bookings suggest that we will see a continuation of the 'high' season later into the year in 2011... until the end of April and maybe beyond. We are also seeing a tightening of 'yield' from the tourists who are coming. Generally visitors are much more cost-conscious and while numbers are good, many first time visitors have been spurred to come as a result of the explosion in 'low cost carrier' air connections to the island."



Bill Barnett

### **Some parts of Phuket get more eggs than others.**

The current booming arrivals trends are not applying to the all parts of the island in equal measure. Patong is the greatest beneficiary and is experiencing wildfire growth

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Sue Ultmann

and so a transforming change is underway for this central entertainment district where projections show more than 50 percent of new hotel supply will be massed over the next five years. This evolution will see a “destination within a destination” emerging where the growing price-sensitive mass tourists congregate into one small area in which the cheap accommodation is located, e.g..Patong.

### ***This is already a visible trend.***

Walk down Patong’s Beach Road then along Surin Beach and finally through Phuket Town’s old Sino-Portuguese centre. You will immediately be struck by the different types of tourists you see in each location and the activities they are pursuing.

Patong has always been the night life centre for the island, but low-cost mass market tourists are now driving away families, the middle class and more discerning couples to other areas and an economically-based segregation is well underway. Add to this the sleaze and traffic woes of Patong and you have a formula which could well damage Phuket’s continuing appeal.

Anthony Lark speaks of a growing reluctance of his high end guests to engage with Phuket’s problems in this way; “We are seeing something of a ‘Fortress Trisara’ attitude in our discerning clients. Increasingly, they are shying away from engaging with the traffic hassles, long travel times, over-building and the environmental problems outside the gates

of the resort. This year we have the highest rate of returning guests on the island...over 30 percent have stayed with us before...and so they know both Phuket and Trisara very well. Previously, they would taken a drive to Patong, Phuket Town, or the south to go to a restaurant like Mom Tiri’s Boathouse, now they prefer to take our own *Trisara One* launch for a sunset cruise down the west coast to avoid the land-based hassles. Even our proximity to the airport, just 15 minutes by road, is a big plus. After a tiring flight the last thing our guests want is a long trip down the island’s congested roads!”

The downgrading in the quality of Patong tourists also has an impact on a high-end restaurant brand like Baan Rim Pa, one of Phuket’s best known and most successful restaurant groups. Sue Ultman is the group’s Director of Marketing and says; “The character of Patong is definitely going down-market and it is only the well-established nature of our brand and our huge percentage of ‘repeaters’ that is insulating us against this trend. Even so, we are seeing people becoming much more price sensitive and spending less when they dine with us than in previous years.”

### ***Too many eggcups?***

In response to the late 2010 surge in arrivals the ongoing explosion in development and construction of new accommodation infrastructure accelerated and as a result the new hotels that opened added 1,389 more rooms representing an increase of 3.2 percent

for Phuket's existing 43,036 rooms registered in accommodation establishments.

C9 Hotelworks says that Thai developers increasingly dominate the overall hospitality investment horizon in Phuket mainly in the mid-market segment, contributing 77 percent of new projects in the pipeline. Future development sees 5,749 more rooms, representing a 12.9 per cent increase to existing supply, while delayed openings from 2010 pushed into 2011 will also contribute to the total of 1,472 rooms entering supply in 2011.

This is a dangerous trend says Bill Barnett as supply outpaced demand for the first time in a decade which undermines market stability. The key storyline for 2011 will be rate and yield reductions in all sorts of accommodation in order to keep demand apace with the exploding supply. Another potent factor in the down market trend that is becoming Phuket's future.

### Is the goose laying too many eggs?

Clearly higher numbers of tourist arrivals mean more environmental, cultural and social impacts and this will not bode well for future sustainability unless these impacts are effectively managed. The problem we have at present is that most in the industry and indeed Thailand's government have a very short term attitude and are only concerned about survival and profitability right now, rather than longer term sustainability.

Khun Bhuritt sums it up like this; "There are many new directly competitive good value

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Asian destinations to Phuket coming on stream in Cambodia, Myanmar and Vietnam. If Phuket's appeal declines through environmental damage, traffic congestion, tourist rip-offs and so on and at the same time our costs rise, potential visitors will vote with their feet and take their holidays elsewhere. We need to put in place strong government and private sector bodies which have the mandate to control and regulate the way in which tourist developments occurs. They need to be well-funded and have the 'teeth' to actually make policy really work. But at present I can see little will power to do this.

"Governments continually change in Thailand and new ministers and governors come and go and they are all focused on making money right now. For all the TAT's rhetoric about boosting the high-yield tourist sectors, in truth they still focus on achieving the highest number of arrivals so they can justify next year's increased budget. It is not an encouraging situation."

While the tourist industry can certainly rejoice in the fact Phuket's golden goose is laying prodigiously once again, there are increasing concerns that too many "eggs" may eventually result in a fatal dose of high cholesterol!



Bhurrit Maswongssa

