

The Impacts of Broadband Internet on the Value Chain of the Tourism Sector in Kenya

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The key impacts on Porter's 5 competition forces

- **Intensified competition between existing players;**
- **Increased bargaining power of suppliers;**
- **Increased the bargaining power of customers vis-à-vis the suppliers;**
- **Lowered barriers to entry; and**
- **Increased extent of disintermediation.**

Study data

- **Research design – exploratory**
- **Data collection**
 - **Key informant interviews with sales managers, directors, general managers or deputy general managers, IT managers, etc. from 38 firms**
 - **Review of secondary data, e.g. policies**
 - **Review of websites and other online resources**
 - **Data collected over twelve months, between April 2012 and March 2013**

Impacts of Broadband Internet

Forces	Impacts
Rivalry among existing competitors	<ul style="list-style-type: none">• Intensified rivalry due to lowered barriers to entry, leading to an increase in the number of competitors• Access to wider markets by existing players because of the ability to form global and local partnerships, in turn posing competition in new areas• Access to clients directly, without players going through intermediaries, thereby increasing competition for market share

Impacts of Broadband Internet

Forces	Impacts
Bargaining power of customers	<ul style="list-style-type: none"><li data-bbox="484 289 1856 889">• Increase bargaining power of customers vis-à-vis that of suppliers by enabling them to carry out research on travel options, compare prices and make reservations for hotels and airlines directly, leading to cost savings and less loyalty to suppliers<li data-bbox="484 932 1856 1218">• Increased transparency, especially access to cost information, in turn intensifying price competition and rivalry

Impacts of Broadband Internet

Forces	Impacts
Threat of substitutes	<ul style="list-style-type: none">• Increased disintermediation due to online sales to customers becoming the near substitutes for traditional service provision by travel agencies and tour operators
Barriers to entry	<ul style="list-style-type: none">• Drastic reduction in start up, distribution and operational costs, in turn intensifying competition
Bargaining power of suppliers	<ul style="list-style-type: none">• Enabling suppliers to not only access more cost-effective distribution platforms but also to interact directly with their customers

Challenges

- **High cost of developing and maintaining the ICT platforms**
- **Lack of skills to sustain the ever-changing technology**
- **High cost of online payment platforms**
- **Inadequate trust and security of online transactions**
- **Information overload and its apparent dichotomous challenge of inadequate online information in certain circumstances**
- **Inadequate quality of broadband connectivity**

Conclusions

Before	After
<p data-bbox="19 271 386 321">Competition</p> <ul data-bbox="19 328 869 642" style="list-style-type: none"><li data-bbox="19 328 869 642">• Basis known or almost predetermined i.e. price, customer loyalty, brand name, financial muscle of companies etc.	<p data-bbox="956 271 1323 321">Competition</p> <ul data-bbox="956 328 1912 892" style="list-style-type: none"><li data-bbox="956 328 1912 506">• New entrants i.e. beach operators and virtual operators<li data-bbox="956 514 1429 564">• New markets<li data-bbox="956 571 1806 635">• Lowered barriers to entry<li data-bbox="956 642 1796 763">• Reduced cost of products and services<li data-bbox="956 771 1845 835">• Increased power of buyers<li data-bbox="956 842 1912 892">• Increased power of suppliers
<p data-bbox="19 921 473 971">Intermediation</p> <ul data-bbox="19 978 898 1035" style="list-style-type: none"><li data-bbox="19 978 898 1035">• Known with known agents	<p data-bbox="956 921 1410 971">Intermediation</p> <ul data-bbox="956 978 1912 1220" style="list-style-type: none"><li data-bbox="956 978 1912 1092">• Re-intermediation – changed roles in intermediation<li data-bbox="956 1099 1825 1220">• Intermediation and disintermediation co-exist

Policy Recommendations

- **Policy and regulatory interventions to reduce the cost of ownership and use of ICTs by the consumer**
- **Creation of middle level colleges focused on development of engineering and technology technologists and engineers to address capacity issues**
- **Acceleration of the implementation of the planned integrated national payment system**

Policy Recommendations

- **The banking regulator takes regulatory interventions to bring down the cost of transactions on the payment platforms**
- **The ICT regulator takes serious actions against operators that do not meet the set minimum quality of service standards**
- **Government to provide support to informal entrepreneurs who are making efforts to enter the tourism sector**