

A Qualitative Study on Small Firms' Competitive Advantage Competencies in Laos Tourism Industry

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ABSTRACT

Companies can create core competencies or competitive advantages by adopting the marketing strategies. It can result in creating profitable relationship with customers, differentiation themselves to gain superior customer value than others. This study emphasizes on investigating how small tourism firms create their competitive advantage by investigating business environment of PEST analysis, and Porter's Five Forces Analysis and by using marketing analytic tools such as Segmentation-Targeting-Positioning (STP), service marketing of 7Ps. This research is conducted in qualitative study applying an in-depth interview with seven small business owners in tourism industry in Laos. The results show that motivation arises from being involving or experiencing in the business at young age, customer's satisfaction can be captured by differentiation and the well uses of 7Ps, supportive external environment enhance the competitive advantage.

Keywords: *small firms; competitive advantage; STP; 7Ps*

1. INTRODUCTION

Recently, tourism industry has become a major part of the world economy. In many countries, it is one of the largest service-exporting sectors, generating a significant contribution to the balance of payment, and acting as an important economic feature by creating jobs [8]. SMEs have vital impact on a country's economic. Their characteristics create advantage to their companies. The superiorities of SMEs are competitive structure, more efficient, easier to adapt to new technologies, active working style, more enduring to economic crisis, and providing more job opportunities and income to household. SME's target their market wisely, focus on their customers' needs and intimate relation with employees, and have more elasticity in the changing environment. They can adapt rapidly to the new technologies and innovations [5]. "A strategy is a set of related actions that managers take to increase their company's performance" [4]. A firm uses suitable marketing strategies that can create competitive advantage [8]. Competitive advantage can be possible when distinctive capability and customer needs show the existence of explicit benefit. Competitive advantage means creating value to product or service which is better than competitors. The focus of this research is to identify the factors which lead to small tourism firms in Laos to create their competitive advantage in tourism market. To identify this focus, this paper will have to understand these questions: 1) How can small tourism firms in Laos create their competitive advantage? How external environment affect their business? 2) Which marketing strategies that small tourism firms in Laos use to create competitive advantage?

2. LITERATURE REVIEW

2.1 Tourism Definitions and Terminology

Tourism is defined as "it is the system involving the discretionary travel and temporary stay of persons away from their usual place of residence for one or more nights, excreting tours made for the primary purpose of earning remuneration from the points en route" [7].

2.2 Marketing Strategies

Marketing is defined as "the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return" [6]. This definition can clearly illustrate that marketing is not just selling and advertising, but it is about creating a meaningful relationship with customers.

- *Marketing Mix:* marketing mix starts with analyzing the market. Then, plan the implementation and control. The control of marketing mix is under four factors (the four Ps), which are product, price, place, and promotion. Through these activities, the company can be eyeing closely and react to the actors and forces in the marketing environment [6]. Nonetheless, previous research suggests that the 4Ps model has some weaknesses especially in the service sector, so they employed three more elements into their research, which are Personnel, Process and Physical Evidence [1].
- *Customer-Driven Strategy (STP):* In the market, there are too many buyers. Companies realize that they cannot serve all consumers in the market. So, companies

will focus on doing business to the segments that will benefit them most. *Market segmentation* is the action that divides overall market into smaller segments that can create efficiency and effectiveness with products and services that match their unique needs. Segmentation can be divided into Geographic segmentation, Demographic segmentation, Psychographic segmentation, and Behavioral segmentation. *Market Targeting* arises after studying all segments and opportunities. Firms have to decide which segments can serve them best. There are four targeting strategies, Undifferentiated marketing (mass marketing), Differentiated marketing (segmentation), Concentrated marketing (niche target), and Micromarketing (local or individual marketing). *Differentiation and Positioning* is what the consumers define products or services on its important attributes. The place is that the product conquers in buyers' minds relative to competing products. Products are made in factories, but brands pop-up in the minds of consumers.

- **Porter's Five Forces Model:** This framework aims to analyze the external environment. Michael E. Porter have proposed a model to identify opportunities and threats. This model illustrates five dimension of forces which are: 1. Risk of entry by potential competitors; 2. The intensity of rivalry among established companies within an industry; 3. The bargaining power of buyers; 4. The bargaining power of suppliers; and 5. The closeness of substitutes to an industry's products. This model provides a simple concept of opportunities and threats, meaning that if the forces from those dimensions are strong, they are threats. On the other hand, if the forces are weak, that mean opportunities. But the strengths of each forces can change by time [9].
- **PEST Analysis Model:** This is a tool to analyze the macro factors, which any changes in these factors may lead to direct or indirect impact on the companies. The model consists of Political, Economic, Social, and Technology. It is emphasizing on the fact that enterprise has to react to changes in external environment [3].

2.3 SME on Tourism

The previous research shows that motives for running enterprise are heterogeneous, and are not likely to be constant, or motives change over time. The regression analysis proved that only 'self-development and control' are significant. Some research found that major

characteristic of these SMEs are small in size and structure, short period of operation time, lack of management experience and market recognition. Another finding is that the increasing of competitive environment is threatening SME's firms' sustainability, decreasing the market share, and reducing profit level.

2.4 Conceptual Framework

Previous research suggests that if owner has motivation of doing business, it will push them to generate more income from their own endeavor. The relationship of "innovation" is to customize the business operation to match with customer needs that will result in customers' satisfaction. These factors will impact the customer's satisfaction and the owners will give full potential to their business which will result in creating the customers' value that leads to gaining competency. *Marketing strategy* creates positive relation to the company by creating customers value and maintain profitable relationship. Furthermore, marketing mix is the strategy that will help companies understand the market and use the 4Ps strategies at the most suitable way, and the relation is that companies can react to the market environment effectively. S.T.P selects the segments, targets, and position that will benefit the company [6]. Some researchers added three more Ps into their marketing mix model such as Personnel, Physical Environment, and Process [1].

Five Forces Analysis explains the forces from 1. Risk of entry by potential competitors; 2. The intensity of rivalry among established companies within an industry; 3. The bargaining power of buyers; 4. The bargaining power of suppliers; and 5. The closeness of substitutes [9]. If the intensity from each risk are high, it means low competitive advantage. On the other hand, if the intensity from those risks are low, it will enhance competitive advantage. *PEST analysis* model is used to explain the external business environment [8]; [2]. This model includes: Political Environment can be beneficial or harmful to the company based on local government regulations. Economics Pressure will affect consumers demand based on economics recession, depression, global competition, and new industrial alliance. Technological Pressure has raised the supply for consumer, reduces the imperative tome to marker, creates opportunities in e-commerce and e-supply, and increases global connectedness. Social Pressure affects the change in purchasing. It is dealing with national labor-rate, quality of working life, environmental and ethical issues.

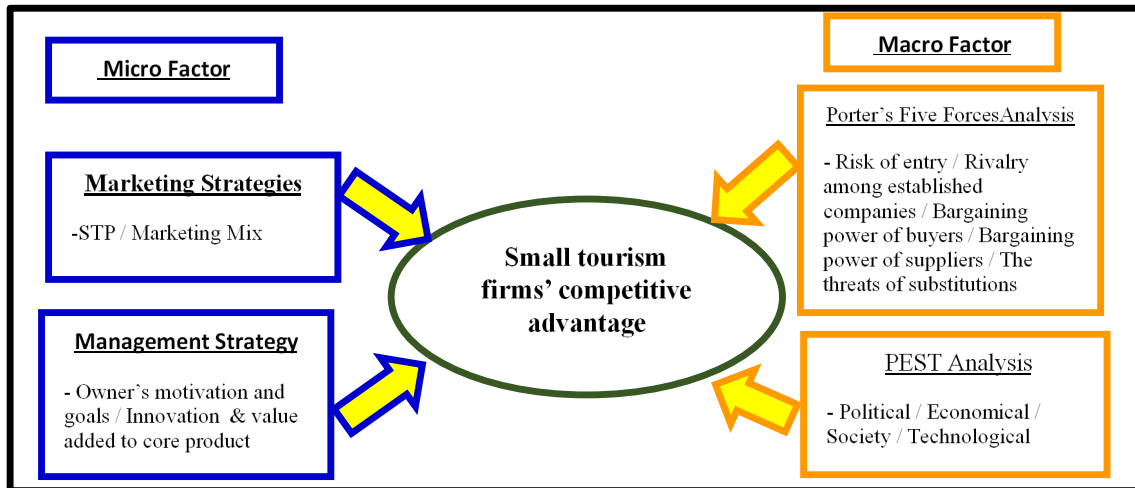


Figure 2.1 Conceptual Framework

3. METHODOLOGY

This research focuses on understanding the development of competitive advantage of small tourism firms. The study is conducted in Qualitative Settings with seven small tourism firms in Laos, and the reason to do this approach is to understand the owners' perspective, their experiences, motivation to do the business, and capture the unique ideas and thoughts from the owners. This study used in-depth-interview, online interview, and electronic device to collect the data. This study adopts the data planning matrix strategy to frame raw data and follow the procedures of writing memos, data coding, categorizing and finally main theme or concepts creation to repackage and aggregate the data.

4. DATA ANALYSIS AND RESULT

4.1 Overview of Findings

The results from data analysis show that small tourism companies can create their competitive advantage by 1) *Differentiation*: create higher value to their product as well as to the customers, it can make the owners to charge higher price, gain more users, and catch customer's interest faster. 2) *7Ps strategies*: owner who can use proper 7Ps model results in customer's satisfaction and creating competitive advantage to their business. 3) *PEST analysis*: surrounding business environment may have direct or indirect impact to companies' competitive advantage. Political condition in Laos has both positive and negative impact on small tourism companies' competitive advantage. Social impact gives positive effect to small tourism firms in Laos. Economic situation is posing a threat because of high cost of living. Technology is similar to Political, because it has both positive and negative impact on small tourism firms'

competitive advantage. 4) *Five Forces Analysis*: shows that Laos tourism market has low entry barrier, highly competitive intensity, high customer bargaining power, low supplier bargaining power, and low threat of substitution.

4.2 Micro Factor (Motivation and Goal)

This section will look into the intentions and motivation that lead these owners to do their business. This section will be separated into two main parts such as Inspiration to do the business, Company's goal life and Motivation to reach the goals. The results are as follows:

4.2.1 Inspiration to do the business

Business Opportunities: As Mr. BS stated: "It was my personal preference that led me to this industry. I was born in this world heritage city which I have been involved in this part for a long time, later it inspired me to do this business." **Personal Experience:** Another reason that inspired was from the economic factor which attracted Mr. UN to state that "It started from my experience, before that I had no idea what is tourism? After my graduation, I was looking for a job. Then I saw people working in tourism business, so I decided to join. For many years I have been working in this industry, I have collected enough experience which turned into expertise. Finally, I decide to do what I am good at".

4.2.2 Company's goal and motivation

Sustainable Growth: Mr. BS stated that "Our goal is to increase sales year by year. To do so we will have to work harder to attract more customers by updating new products, better deal than competitors, and higher service quality" He then expressed his motivation to reach the goal that: "The motivation is in the goal already, we want to keep the

business improving because money is our motivation". Create a Win-Win situation: Mr. UN supported the argument saying that: "My goal is to increase the number of users and increase the profit. If we benefit, our partners and suppliers also benefit. Our company is like a chain, we connected many companies together and benefit together. Furthermore, he explains his motivation that "Motivation comes from some government support which are good. The nature and culture of Laos still attractive to foreigners, so it keeps making consistent customers for us"

4.3 Micro Factor (Marketing Strategies)

4.3.1 Segmentation

A) Segmentation leads to the loss of potential customers

Mr. PV stated that "I do business without segmenting the customers, not leveling, not specific. In my opinion, I want to serve customers as many as possible. No matter what region, genders, age or personality". Mr. BS had some opinion about this statement, he said "We are customer dependent, so our company doesn't segment customers, but most of them are foreigners. There are many customers from many regions, age, and different preferences using our services, but we can't be too specific. It will make us lost our potential customer".

B) Demographic Segmentation

Mr. TB and Mr. PC use this tool in their marketing strategy. As Mr. TB said that: "I choose to serve aging people because they are the main users and maintaining the satisfaction with this group is easier for us". Followed by Mr. PC who stated that: "The target that I serve are the two segments that I have mentioned. I advertise focus mainly to the offices that want to take their employees to relax. My company can book tickets and hotels for big amount of people".

4.3.2 Differentiation

Branding: Mr. PV stated about his special feature of his company that: "The uniqueness of my company is already in the name of the company. The name Off-road Laos represent that our company can take customers to go off-road as its special feature. I use the name off-road to tell my customers that the company can take them to the rural areas where roads are still dusty. The company also has bicycles, motorbikes, and trucks ready for customers who want to go off-road". Service Attractiveness: Mr. BS said: "What makes our company unique from the others is that we can serve customer in big groups. We can serve the groups which are more than 20 to 30 people. We give importance to our customers with high quality and responsibility, we also try to avoid mistakes during our service. We emphasize on the safety to our customers". Service Flexibility and

Friendly Manner: Mr. TB uses working time flexibility and friendly manner as his differentiation tool. He stated that: "The unique of my company is that, we don't fix our working time schedule. We are very flexible, sometimes customers contact us at 9PM or even mid-night we still need to work for them. We treat our customers like our close friends, so they will feel more comfortable using our service".

4.3.3 Marketing Mix (7Ps)

A) Price

Unique for high Price: Mr. PV explained the reason why he set the price high, because: "I don't buy programs or package from others. I work on the program by myself, I go to survey places, go to the villages and make a contract with locals for the homestay program. I can set the high price because the programs I provide is unique, not so many competitors are doing the same. Another reason is that our guides are road professional". Flexible Pricing: Mr. BS explained about his pricing strategy that: "we set our price into three packages. Beginning with standard, deluxe, and supreme. Customers can choose their preference based on the package we provide. Standard is the low pricing package; customers can only go with the trip we provide. Deluxe is a little more expensive, customers can go in private or smaller group with higher quality. Supreme is the highest quality and customer can customize their desire place to visit". Low Price: Other owners uses low price strategy to attract more customers. Mr. TB answered that: "I am using flat price rate. In one or two years I increase the price only 2 or 3 percent to prevent price sensitive. I don't use many pricing strategies because I want to make our price equal for every customer".

B) Product

Service Variety: Mr. TB explained about his product strategy that: "We try to make our service as variety as possible, so customers can use many services at once. We attach many services together and make it as a package. We charge our price based on the task we do, so customers won't feel that we are exploiting them".

Quality and Attractiveness: Mr. PV uses product feature as his main strategy. "The important is making the content of the package look good, the theme of the package, the place that we are going should look attractive. In one package there are many programs and many places to visit in one trip. I don't want customers to get annoyed by the tight schedule, I provide 15 or 20 days in one trip, so they can enjoy their time relaxing during the travel".

C) Promotion

Discount Strategy: Mr. BS, who uses discount as his promotion, said: "We only have promotion during the low season. For example: air ticket during this season, if customer booked for staying longer duration with us, the price will be cheaper. Value-Added to the product: Mr. PV explained that: "My company doesn't have any promotion. Our service has already served with good quality, provide

drinking water during the trip, also providing free T-shirt after they finish the trip, but the purpose is for advertising”.

D) Place

From the participants’ responses, most of them said that their locations are giving the advantage to their business. Mr. BS provided his opinion about the location of his company as *“Our location is in the perfect spot because it is located nearby many tourism sites such as Xieng Tong Temple and Mekong River on the left-hand side. There are many tourists passing by everyday”.*

E) Personnel

Great Attitudes: Mr. BS’ point of view about employees is that they need to serve the customers with friendly manner. He said that: *“Employees in the company is working very well. Especially working on field, clear information when talking to customers, and serve them with friendly manner”.* He further explained about the friendly manner that: *“We use friendly service manner, so customer will feel more comfortable. If they are working too professional, sometimes the customers might feel pressure”.* *Personnel Capability:* Mr. PV also makes his employees as a symbol of trust *“Sellers’ job is to sell the package that I create, based on their language professions. Those who are good at creating website, work on making it look good. Guides need to be professional and explain the details of the package clearly, they are also road specialists and navigator, and creating trust to the customers as fast as possible before taking the trip”.*

F) Process

Process relates to personnel: Mr. TB also explained about his company’s process related to employees as: *“Our process is fast and in good quality as well. Because it reflects our employees that we have trained. They will do their job very fast and clear. Which will make our business runs smooth with few error”.* *Smaller is smoother:* Mr. PC stated that: *“Being a small agent makes our process runs easier, we don’t need to deal with airlines by our self because we have the bigger agents deal for us already. So, our process is to deal with our suppliers only and the deposit money is not too high”.*

G) Physical Environment

Mr. TB thinks that physical environment and design do have impact on customers’ feeling. As he claimed that: *“The office had been renovated three times already. Every time I renovate it, it has impact on customers’ satisfaction and feeling. Our office design not to make it too modern but focus on making it more comfortable for all types of customer”.*

4.4 Macro Factor (PEST Analysis and Five Force Analysis)

4.4.1 Political

Impractical Government’s Policy: Mr. TV also had opinion about the government policies that: *“I am not criticizing the government’s policy. They adopted great policies which will be suitable to the tourism in Laos, but they can’t effectively use it. For example: When tourists came by the border, instead of collecting \$1 per person for the fee, some officers charge 2\$. Until now there is no clear approach to deal with the issue”.* *Peaceful and Stable political condition:* Mr. PV stated that *“Before the tourists visit any place, they already made sure that the place they are going should be safe and politically stable, luckily the political aspect in Laos is very peaceful and stable, only small thing that causes bad reputation is the officers that are trying to use law power to get money from foreigners”.*

4.4.2 Economics

Mr. PV affirmed that *“The growing of demand causes everything to rise up the price. For example: petrol, electricity, and food, if those factors are getting more expensive, it will make the price of other goods higher, also my services as well”.*

4.4.3 Social

Benefit from Laos social practice: Mr. UN gave an opinion about this matter that *“We have diverse of ethnic groups of people, some of them are still living with nature. Their life styles are being call slow-motion, which creates interest to foreign customers”.* *Social Opportunity:* Mr. TB said: *“The changing of social factor has transformed our way of doing business. Before that, our business was only doing work in the office, customers need to visit us. Lately we have added a new type of service which called (door to door). We send our employees to customers’ house and explain about the process and what they need to prepare. This will reduce the time that customers spend to visit our place”.*

4.4.4 Technology

Technology creates individual tourists: Mr. TV strongly asseverates that the pace of technological development is harming his business. He explained that *“Customers can excess to information directly. Customers have turned into individual travelers rather than using agent. They can do everything by themselves and it becomes handier because of the development of internet and smart phone. Some online companies are usurping our customer because they can reach customers faster than us”.* *Technology is an advantage:* Mr. PV said that: *“We use technology as our advantage, I use website and other online platform to promote my company. The good thing about modern technology is that it can provide information by the touch*

of a finger. People invented this platform to make things easier, so we better adapt to it”.

4.4.5 Five Forces Analysis

The following data result is based on Porter’s industrial analysis. Mr. TV complained about the low barrier of entry that: “The barrier of entry is very low; more people are entering this section because they see that it’s easy to make money. Foreign companies are also taking advantage by launching their own branches and serving tourists from their own countries”. Mr. BS stated about this issue that: “The competition is very intense right now. New companies can do similar things to us, poaching our customers, and there is small exit barrier because starting capital in this industry is not so high”. Mr. PC’s answered that: “Customers have a lot of power to bargain because the intensity among

competitors are high. If they feel that your service is too expensive or unsatisfying, they will look for another until they find the best suits for them”. Mr. PV explained that his company does not rely on suppliers, he stated: “Suppliers don’t really matter to me. They don’t have bargaining power over me because I am self-dependent. I do not rely on others to provide customers or package, so it is a good thing that we can do everything by ourselves, even though it is quite tired”. Mr. UN provided the explanation about the issue that: “Substitution is not a threat, but online platform and direct sales are slowly damaging our company. The development of technology makes people access to online advertisement easier than visiting our website, so customers are being taken by online companies”.

The study finalizes the summary of macro environment as given in figure 4.1.

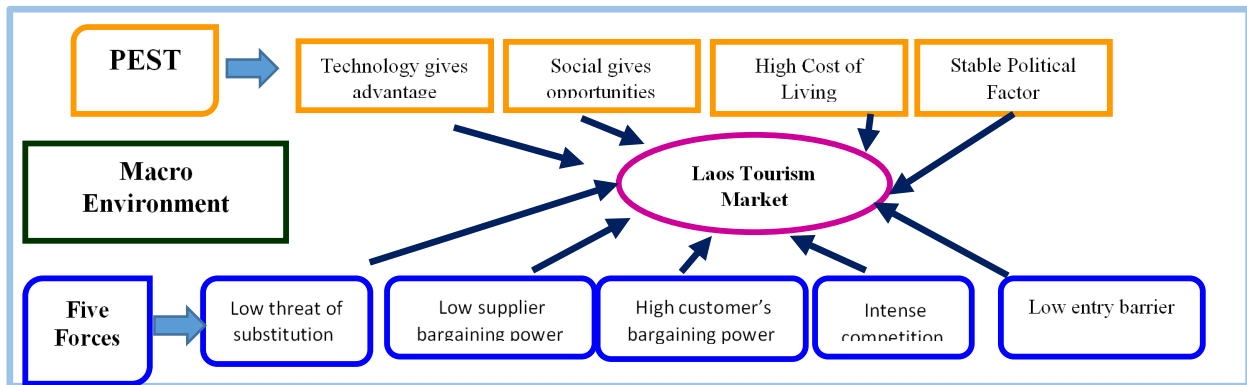


Figure 4.1 Summary of Macro Environment

5. CONCLUSION

The result gathered from the interview shows that, both Micro and Macro Factors have impact on small tourism firms’ competitive advantage. Beginning with Micro factor, the marketing strategies give businesses competitive advantage, if they use it properly. The result also shows that Segmentation and Targeting are not a common use, but Differentiation is making the big impact on competitive advantage. 7Ps are also playing an important role for companies in mixing their strategies in order to generate the highest advantage. Macro factor, the external business environment sometimes has impact on business competitive advantage, either directly or indirectly. The PEST Analysis shows that, in general the business environment in Laos is supporting the small tourism firms to create their advantage. Five Forces Analysis on the other hand shows that Laos tourism market is not attractive because the entry barrier is too low, having highly competitive intensity and high customers’ bargaining power.

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