



Article Title

Inbound Tourism, Hospitality Business, and Market Structure [Summary]

Citation

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Abstract

In this article, a standard model is used to examine the economic effect of market structure in travel destinations. We show that favorable changes in the push and pull factors are good for enhancing local hospitality business to the extent that they stimulate external tourism demand. We also find that rising competition in the hospitality industry, albeit boosting its sales, may have no effect on its revenue but can affect its profitability adversely due to resulting price drops that are desirable only to incoming visitors. Our policy implication is that there is no need to push for competitive industry structure, which is locally inefficient given that hospitality business catering to nonresident tourists is for profit and not for altruism.

Keywords tourism demand, hospitality supply, market structure, oligopoly, competition, local welfare, travel destination

Summary:

In this article, we show that favorable changes in push factors stimulate tourism demand from source markets. Enhanced pull factors from travel destinations also give a boost to the demand while reducing the production cost and selling price of hospitality output supplied to visitors. Such good variations in both types of factors improve hospitality business for individual firms in terms of their revenue and profit. Those results are obtained in the context of Cournot game for an oligopolistic market as the most realistic formulation of a hospitality industry. Our findings are consistent with, and also provide theoretical support for, extant empirical studies in tourism and hospitality (Prayag & Ryan, 2011).

We establish that heavier competition is bad for hospitality business among individual firms by depressing their sales, revenues, and profits. For the whole industry, rising competition, albeit boosting its sales, has no effect on its revenue but affects adversely on its profitability. This result about the link between industry concentration and business profitability is confirmed by some evidence as in the Taiwan hotel industry (Pan, 2005) but at odds with other empirical observations as for the U.K. hotel sector (Davies, 1999). This inconsistency may have little to do with market structure but rather with other key elements such as market liberalization as in Macao (Eadington & Siu, 2007).

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