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Briefing Paper

Leveraging GVC Analysis to Strengthen the Kenyan Tourism Sector*

Introduction

Rapid globalization, notably through innovations in telecommunications and transport, have driven many firms to spread their production processes across different actors and regions worldwide. These are known as global value chains (GVCs), meaning that different activities in production take place across different borders and geographies. When the actors and available channels of distribution are carefully studied, developing countries can better understand such phenomenon so as to utilize them to enhance export capacities and development opportunities in various sectors.

The tourism sector is characterized by chains of firms that coordinate activities across international borders and is of critical importance to many low-income and least-developed countries (LICs/LDCs). Tourism is an important driver of economic growth around the world, supporting an estimated 277 million jobs, generating US$7.6 trillion in revenue, and supplying 9.8% of global GDP in 2014.[1] In Africa the tourism sector grew 6% in 2013, as compared to the previous year, which accounted for 56 million international arrivals. As these countries attempt to generate higher economic returns from tourism, the GVC framework provides a useful frame for analyzing how countries can harness existing resources by helping local actors connect with entrenched networks of companies.

With a focus on the leisure tourism GVC in Kenya, this Briefing Paper highlights the broad structure of GVC analysis with a lens on the distribution intermediaries and 1st tier service providers engaged in the chain. It concludes with some considerations on strengthening the tourism GVC in Kenya.

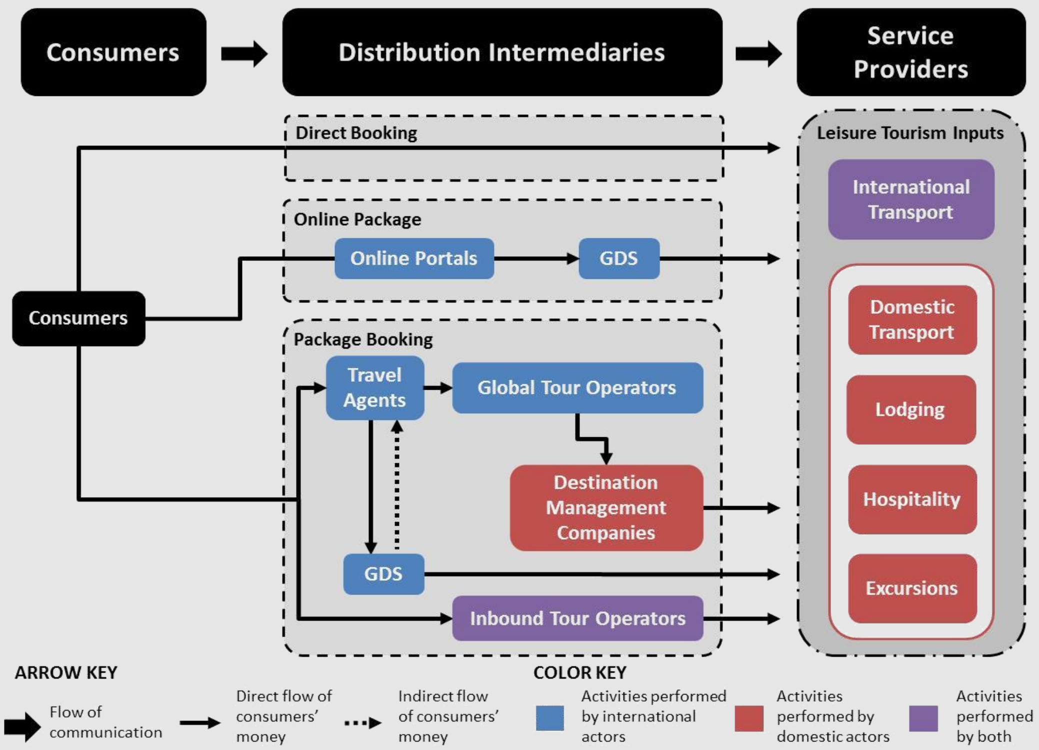
The GVC Framework & Tourism

In general terms, GVC analysis involves identifying the input-output structure, geographic scope, and lead firm dynamics (i.e. "governance") of a particular value chain in order to understand how materials, financial resources, and information flow between firms and other stakeholders in the chain. Once mapped (in terms of the activities and firm location) comparative benchmarking can be undertaken to assess the position of a specific firm, cluster or country relative to competitors. This can help to identify potential trajectories for increasing production, expanding exports and moving into higher-value-added positions in the chain (i.e. "upgrading").

The leisure tourism chain can be divided into 3 sets of actors: consumers, distribution intermediaries, and service providers (see Figure 1).

[1] The tourism statistics are from the World Travel & Tourism Council (WTTC), accessible via http://www.wttc.org/datagateway/.

Figure 1: Actors in the Tourism Value Chain



Notwithstanding consumers who book their tours directly with service providers, distribution intermediaries include online portals (such as Expedia) as well as travel agents, global and local tour operators (who often serve as both manufacturers and wholesalers) and destination management companies (who often coordinate/aggregate local services and sell primarily to global tour operators). Service providers in the tourism GVC include international and domestic transport; lodging; hospitality (e.g. food, handicrafts); and excursions (e.g. national parks, beach).

Lead firms in the tourism GVC are the companies that have the ability to assemble and package individual services into cohesive tourism experiences while also having access to high volumes of consumers. Online portals and global tour operators are typically the most powerful of these, deriving much of their power from their geographic location as well as the nationality of (and hence access to) the outbound tourist/consumer. In terms of governance structures (i.e. how power is mediated between lead firms and other actors in the GVC), no overarching model emerges for the industry. Instead, these relations appear to be dictated by the specific firm and institutional arrangements in question (Christian 2016).

The Tourism Sector in Kenya

The ecological diversity of Kenya makes it a leading tourist destination in Africa, known in particular for its lush national parks and rich wildlife. The country has been one of the leading suppliers of the safari experience for global consumers, with 40% of visitors coming to the country to visit parks such as the Maasai Mara National Reserve. Despite more recent slowdowns in tourist arrivals (due primarily to security concerns) tourism in Kenya has a higher effect on GDP and employment than the African average, and visitor spending and foreign investments in the sector account for higher shares than the continental average.

Tourism GVC Analysis: The Case of Kenya

Input-output

The key starting point of GVC analysis is to account for the input-output structure. The ultimate goal here is to develop a comprehensive understanding of the industry and to determine the various points where value is added to the final product. What are the major stages of production? What are the inputs for each stage? What are the outputs? What is the value generated at each segment of the chain? What are the final products? Who sells the final products? Who distributes them? And who is responsible for maintenance?

In the case of tourism, Kenyan and otherwise, the key stages of production are related to the distribution intermediaries and the service providers. The main inputs, rendered primarily by service providers, are the choices of international transportation, domestic transportation, lodging, hospitality, and excursions. The outputs are the tourism packages, composed primarily in Kenya's case of visits to wildlife and national parks and reserves, combinations of Kenyan parks with a neighboring regional country, and packages that add beach experiences to the safari excursion. In terms of value addition, the global distribution intermediaries provide access to consumers, the domestic distribution intermediaries have knowledge of local inputs, and the service providers hold the inventory of inputs.

World Bank research has shown that lead global tour operators and international transport companies generally captured between 40-50% of the value of Kenyan leisure tourism products.[2] The remaining share is disbursed between domestic actors, with ground transportation, lodging, and park entry fees or nature permits most often representing the largest unit costs for the local distribution intermediaries that aggregate the individual services.

Geographic scope

The next stage of analysis involves better understanding the geographical composition of the GVC. We recall that the emergence of GVCs has been driven by firms' abilities to move production across borders, facilitated by innovations (including cost reductions) in telecommunications, transport, payment services and distribution.

Consumers of Kenya's leisure tourism products primarily emanate from Europe (France, Germany, England, and Italy) followed by the United States. While domestic demand for tourism products are higher in Kenya than elsewhere in East Africa, regional demand remains weak. As discussed further below, this helps to drive a governance structure that puts foreign lead firms in control of the GVC, notably global tour operators. Such operators include & Beyond and Wilderness Safaris (exclusive operators that specialize in unique safari experience in Africa), Abercrombie & Kent and Cox & Kings (luxury companies that offer custom and group packages both in Africa and in other locations), and the likes of Collette, Goway, Globus, and Tauck (mid-tier providers that concentrate on group tours inside Kenya and selected other EAC countries in addition to their global portfolio of offerings). Despite their control of the GVC, local demand has enabled select domestic operators to flourish, including Bunson Travel Services, Gametrackers, Somak Travel and Across Africa Safaris.

At the service provider level, as noted earlier, international transport captures a significant share of the value of the chain. Kenya Airways holds the dominant position here, supported by the partial ownership stake of KLM (26.7%) and the access this provides to their international network. While domestic low-cost airlines face a number of barriers (see more below), a number of firms have been established (e.g. Air Kenya Express, Precision Air, and SafariLink). Domestic ground transportation tends toward domestic ownership, as

[2] World Bank. (2010). Kenya's Tourism: Polishing the Gem. Retrieved from http://siteresources.worldbank.org/KENYAEXTN/Resources/Tourism_ReportESW_Kenya_Final_May_2010.pdf.

does the hospitality and excursion segment. Lodging for the leisure segment are primarily nationally owned (63%), although joint ventures (23%) and foreign direct investment are also common (14%). Various international brands control multiple properties throughout the country and East Africa region, including Serena Hotels, Governors Camp Collection, Sanctuary Retreats, and Marasa Africa.

Governance

Governance analysis enables an understanding of how a chain is controlled and coordinated in the presence of actors with different levels of power. It thus seeks to determine how lead firms derive their power and how they use that power to influence downstream actors. GVC scholars have identified five different governance structures, which differ along two main elements – the differential in power between firms and the extent to which firms explicitly coordinate between themselves. In order of low to high power differential/explicit coordination, they are: (i) market; (ii) modular; (iii) relational; (iv) captive; and (v) hierarchy.[3]

Lead firms in the tourism GVC derive much of their power from their geographic location as well as the nationality of the outbound tourist, as tourists tend to use tour operators based in their home region. Michelle and Nathan (2013) attribute this to various factors, including the trust and legal recourse created by shared location. Hence, with the demographics of Kenya's leisure tourism originating primarily from the European and North American markets, and the fact that the package booking distribution channel[4] is their primary access point, the governance structure puts foreign lead firms in control of the GVC, notably global tour operators. This consequently discourages the economic upgrading of Kenyan firms since these clients can be expected to choose tour operators with direct links to their home market as opposed to Kenyan-based operators.

At the same time GVC analysis examines power relationships, it also asks how local, national, and international conditions and policies shape each segment of the chain. The local institutional and economic context includes the availability of raw materials, labor costs, quality of infrastructure, access to finance, and tax, investment, and regulatory regimes.

Economic Upgrading

Economic upgrading focuses on how firms, countries, or regions integrate into chains and improve their position by moving to higher value-adding activities. This portion of the research process investigates specific steps that suppliers have taken to increase revenue or efficiency. Perhaps most significantly for policy makers, it also identifies the most immediate barriers and constraints that private businesses face as they attempt to grow. Such trajectories could include improving their product ('product upgrading'), making their process more efficient ('process upgrading'), implementing new functions to increase competiveness ('functional upgrading'), or by leveraging existing capabilities with related firms/chains ('chain upgrading').[5]

While all forms of economic upgrading can be detected in Kenya's tourism value chain, functional upgrading (i.e. acquiring/abandoning functions and capabilities to enhance competitiveness) for distribution intermediaries and product upgrading (i.e. moving into more sophisticated product lines) for service providers have been the most frequently observed. This includes travel agents or tour guides becoming destination management companies and then inbound tour operators, or inbound tour operators opening a lodging

[3] For more on the governance typology see Gereffi, Gary & Karina Fernandez-Stark. (2011). *Global Value Chain Analysis: A Primer*. Duke CGGC.
[4] This involves the traditional network of foreign travel agents, tour operators and destination management companies that coordinate individual services providers to bundle various experiences.

[5] See Gereffi & Fernandez-Stark's GVC Primer for a more detailed review of the four types of upgrading traditionally identified in the GVC literature.

facility or becoming a regional/global tour operator. Service providers, such as lodging facilities, tend to pursue improvements to their property before expanding size, moving into the luxury category and then becoming branded properties.

A variety of factors can influence upgrading in the tourism GVC, including access to consumers, finance and/or training, as well as policy barriers that may promote or hinder investments (both domestic and international. External shocks (e.g. security and health concerns) can also have a significant impact on upgrading efforts.

Policy Recommendations

The GVC-informed analysis of Kenya's tourism sector can be used both to identify lead firms, the linkages that exist with domestic businesses and the barriers that may prevent Kenyan companies from undertaking further economic upgrading. Some of the policy interventions that could be adopted include the following:

Evaluate investment and concession policies

The investment framework, notably vis-à-vis hotels along the coast in Mombasa, resulted in an oversupply of accommodations and resorts. This dampened demand due to perceptions of being 'overcrowded' (as compared to nearby alternatives in Tanzania) and ultimately weakened the negotiating position of domestic service providers with distribution intermediaries. More targeted policies and concessions in the future could help mitigate similar perceptions emerging in newly developed locations and strengthen the negotiating power of domestic service providers.

Consider reforms to aviation regulation

The emergence of low-cost air carriers in Kenya and the region could have a catalytic effect on tourism value chains, increasing consumers' ability to access markets (especially within the region). In order to harness this potential, multilateral negotiations to expand Air Service Agreements and reduce fees and taxes that drive up costs for airline travelers may be avenues for strengthening the sector, notably increased regional demand.

Implement product upgrades to boost regional demand

The tourism industry in Kenya has a large presence of European and American consumers which is reflected in the presence of foreign lead firms in the Kenyan tourism GVC. In order to help local distribution intermediaries upgrade, Kenyan stakeholders might consider product upgrades to excursions that target Kenyan and other regional clients more specifically. An option could lie in the Kenyan government outsourcing management of some of their parks to environmental or conservation NGOs, as was successfully done at Akagera National Park in Rwanda in 2009.

Tailor promotional content to overcome critical barriers to upgrading

Since Kenyan tourism products and services are geared towards Europeans and Americans, there are steps that can be taken to elevate the position of domestic distribution intermediaries. Specifically, the Kenya Tourism Board can help mitigate potential barriers to upgrading by considering the following strategies:

- Posting information about individual tour operators and destination management companies on its website;
- Initiating targeted campaigns of African Travel and Tourism Association (ATTA) members inside Europe and North America to highlight distribution intermediaries to outbound travel agents and tour operators;
- Encouraging participation in upmarket travel shows such as "We Are Africa in Cape Town" in addition to mass-market shows such as Indaba.
- Educating international visitors about common misperceptions, e.g. the 2014 Ebola virus risk, which was concentrated in countries in western Africa, but wrongly perceived as all of Africa.

Strengthen local linkages in chain

Most economic sectors have backward linkages with the tourism sector however construction and food processing have the greatest ability to influence the competitiveness of service providers[6] - increasing the supply of local food and beverage products reduces costs for lodging and hospitality providers; while the availability and competence of construction contractors can influence expansion plans for multinational hotel companies. National investment departments can serve a proactive role by creating databases of qualified contractors and suppliers; on the supply side, national development boards can educate local firms about the technical requirements for upcoming construction projects and assist in networking efforts to assuage concerns of foreign investors.

Assist the Kenyatta International Conference Centre (KICC) by creating a convention bureau

While similar to leisure tourism, business and conference tourism has its own ecosystem of distribution intermediaries. The KICC is responsible for evaluating and responding to proposals, assisting with the preparation and implementation of events, and producing promotional strategies and materials. While the centre fulfills these obligations, a convention bureau could strengthen the sector by better ensuring spillover into the leisure tourism chain as well as diversifying the country's Meetings, Incentives, Conferences and Exhibitions (MICE) profile by encouraging membership to industry associations such as the International Congress and Convention Association.

Encourage businesses and hospitality institutions to expand practical trainings

Although there are accredited universities and trade schools in Kenya (e.g. Utalii College), skills gaps remain and burden the potential of employment in the sector. This deficiency can be overcome by facilitating partnerships between service providers and local education partners to provide hands-on training modules and vocational training.

Continue to build EAC links

EAC governments of Burundi, Kenya, Rwanda, Uganda, and Tanzania have implemented a number of measures with the goal of driving regional integration, including a common entry visa, a standard classification criterion for hotels, and shared marketing platforms. Further steps can be taken, including continued transparency in the region, harmonization between touristic affairs such as travel visas and customs, and brokering agreements with Tanzania, for example, to facilitate participation in the common entry[7].

Conclusion

As tourism is likely to remain a critical source of Kenyan exports and overall contribution to the country's GDP, understanding the dynamics related with the global industry and how it links with domestic actors is an important consideration for improving the competitiveness of the sector in Kenya. Using the GVC lens to review the Kenyan tourism GVC, five barriers to economic upgrading for domestic businesses have been identified: access to consumers; access to finance; access to training; concession and investment policies; and external shocks. Policy interventions and their implementation, including those targeting the issues raised above will assist domestic businesses as they attempt to improve their overall competitiveness as well as their position within the value chain.

[6] For an illustration of the industries that have backward linkages to the tourism sector, see Jansen, Marion. (2013). Aid for Trade and Value Chains in Tourism. World Trade Organization. Retrieved from https://www.wto.org/english/tratop_e/devel_e/a4t_e/global_review13prog_e/tourism_28june.pdf.

[7] For more extensive recommendations about EAC regional integration, see forthcoming: Daly, Jack and Andrew Guinn. Primates and Beyond: Tourism Value Chains in East Africa. IGC.

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