The Internationalisation of Tourism Commodity Chains

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LEARNING OBJECTIVES

After considering this chapter, you will be able to:

- Describe the role of commodity chain analysis in explaining the internationalisation of tourism production
- Identify the key characteristics of tourism commodity chains within the context of chain governance and institutional framework
- Assess the degree to which commodity chains and places are connected

KEY TERMS

- Commodity chain
- Tourism production
- Governance
- Integration
- Institutional framework

INTRODUCTION: ANALYSING TOURISM ECONOMIC DEVELOPMENT

Much has been said about the growth and internationalisation of tourist flows, especially by supranational tourism organisations –such as the United Nations World Tourism Organisation (UNWTO) and the World Travel and Tourism Council (WTTC)– intent on promoting tourism development as a principal mode of economic development. While these organisations are keen to underline the quantitative changes (growth and increased internationalisation) experienced in the tourism sector, especially in emergent regions (i.e. the Middle East, the Asia-Pacific and Africa), the simultaneous qualitative and structural changes in the tourism sector (transformative globalisation processes) have by and large been overlooked. The few exceptions (e.g. Gotham, 2002 and Britton, 1982) have taken a destination-based approach to analysis, thus neglecting the meso- and macro-level of analysis necessary to understand the functioning of global economic activity and tourism development. However, tourism is best understood as a multiscalar economic activity that spans geographical scales (global, regional, national, local) and defies geo-political boundaries (Dallen, 2006). For Milne and Ateljevic (2001: 371-2):

> [t]ourism, in simple terms, must be viewed as a transaction process which is at once driven by the global priorities of multinational corporations, geo-political forces and broader forces of economic change, and the complexities of the local – where residents, visitors, workers, governments and entrepreneurs interact at the industry ‘coal-face’.

While destination-based analyses provide a detailed examination of local economic activity and interactions between local economic actors, tourism researchers need to recognise the importance of analysing the firm linkages that transcend individual geographical scales. Rather than providing yet another destination-based analysis, this chapter adopts a systems-based approach -by way of explaining and encouraging the use of commodity chain analysis- as a means of unravelling international business behaviours and relationships in the tourism sector. Specifically, the application of commodity chain analysis presents the opportunity to examine globalisation processes *in situ*, at the site of production, while simultaneously highlighting the connections between distinct places of production and consumption, as well as the actors that participate in the commodity chain. Briefly put, the concept of the commodity chains is used to track a product through the different stages of production, distribution and consumption. Key concerns for this type of analysis are the spatial distribution of production and the transformation processes involved in each step of production and consumption but more detailed objectives of the commodity chain analysis depend on its theoretical approach (the following section distinguishes cultural versus political economy approaches). The simplicity of the concept, but the difficulty of tracing all the connections is demonstrated in the case of the (case-study vignette).

[Insert case-study vignette near here]

The chapter begins with an outline of the conceptual frameworks of commodity chain analysis and the various interpretations based on the context of application. The challenges faced in applying commodity chain analysis to the tourism sector and its particularities as a form of economic activity are then considered by focusing on the political economy approach. In particular, the governance and institutional framework of commodity chains are chosen for a more detailed discussion as these are seen as the most important aspects of this type of analysis which are lacking from other chain analyses. Due to a relative lack of published tourism research on commodity chains, this discussion is informed by prior work in the primary and secondary sectors (mainly agriculture and manufacturing), and it draws on examples from these as well as from the few case-studies in which commodity chain analysis has been applied to tourism.

COMMODITY CHAIN ANALYSIS: AN INTRODUCTION TO THE MAIN APPROACHES

In general, there have been two main approaches to the applications of the commodity chain concept in business-related research: the political economy and cultural approaches. The political economy approach uses commodity chains to unravel the complex system of international economic actions; to highlight the qualitative change in production processes; and to analyse the complex relationship between actors within the wider economic system. In contrast, the cultural approach examines the meanings attached to commodities during production, circulation, and consumption (see Leslie and Reimer, 1999; Hughes and Reimer, 2004). For instance, Ateljevic and Doorne (2003) have traced the path of a souvenir from its creation in China to its continuous consumption by the purchasing tourist and her receiving friend and family in New Zealand. Meanings associated with the artefact successively shift through a series of stages from a local female factory owner in China -who has experienced female empowerment through her work, and who can provide for her children's education to guarantee them employment- to the New Zealand tourist who uses the souvenir as a surrogate 'of human relations and representations of identity' (Ateljevic and Doorne 2003: 123). Other perspectives from the cultural approach focusing on ethnic food and fashion (Cook and Crang, 1996; Jackson, 1999) have challenged globalisation theories of cultural homogenisation, global culture theory or McDonaldisation theory (Ritzer, 2000). They have demonstrated the power of consumers to shape their personal relationship actively and to interact with goods, with the result of creating their own meanings for commodities. What these examples reiterate is that a socio-cultural understanding of production and especially consumption that transcends the economic transaction is required in order to appreciate the complexities of the capitalist system (Britton 1991; Ateljevic and Doorne 2004). However, the focus of this chapter is the political economy approach and the as yet unacknowledged potentials this offers for researching the tourism system – through concepts such as chain governance and the institutional setting.

COMMODITY CHAINS AND POLITICAL ECONOMY

In contrast to the cultural, the political economy approach concentrates on the resource allocation processes that characterise the production, consumption and experience of the commodity. In effect, it implies that the passage of the commodity along the chain is the outcome of a sequence of political negotiations between actors over the transfer of resources. As such the production, distribution and control of capital in form of commodities and the role of actors and institutions are at the heart of the political economy approach to commodity chain analysis. This implies a vastly different approach to other types of chain analysis in tourism such as supply chains, value chains and distribution channels.

[insert table 1 near here]

Distribution channels are the various means by which the product reaches the consumers, as such the analysis of these types of channels is merely concerned with the linkages between production and consumption and is primarily concerned with the improvement of marketing. This type of analysis has recently received increased attention in tourism research (Buhalis and Laws, 2001) especially by work undertaken at Victoria University in New Zealand (e.g., Pearce *et al*., 2004). In contrast to distribution channels, supply chains focus exclusively on firms and their relationships with suppliers. Their applications in tourism research centre on the relationships between tour operators and their suppliers to guarantee certain ethical criteria set by the tour operators in order to achieve economic, environmental and social sustainability beyond their firm boundaries (CELB and TOI, 2004). In comparison to the limited scope of distribution channel and supply chain analyses, value chains identify value added in the processes associated at the levels of production, distribution and consumption. Poon (1993) has undertaken this type of analysis for the tourism sector and provided a detailed analysis of value added of six primary activities (on-sire services, transportation, wholesale packaging, retail distribution, marketing and sales and customer services). However, the value chain analysis is merely concerned with the competitive advantage of organisations within the chain. Although the determination of value-added is a component of the commodity chain analysis, the political economy approach to commodity chains does not just try to identify where in the process value is added, how and by whom. It also aims to answer the following questions: who can participate in commodity chains and why? What and where are the barriers to entry for full participation, and how are these constructed? Evidence of privileges and sources of disadvantage may be identified. As such, the political economy approach to commodity chains attempts to posit production, distribution, consumption and experience at micro-level (i.e. of the holiday, the souvenir) within much wider social, cultural and political frameworks. These conditions have the potential to influence the relationships between actors in the chain – organisations and individuals - but ultimately the flow of the commodity remains a function of the behaviours and interactions of the respective sets of actors.

In this respect, the fictional account above demonstrates one of the key challenges for the application of a commodity chain analysis in tourism: the complexity of the sector. This raises serious questions for choosing the depth of analysis, i.e. how far does the researcher extend the analysis of the chain in order to deliver meaningful insights and where should the boundaries of the chain be drawn? For instance, should processes involved in hotel operation, such as outsourced laundry or security services, be included in a commodity chain of package tourism? This example demonstrates the subjective nature of determining the extent of the chain and of choosing the processes or nodes – as these are referred to in commodity chain research – of relevance. For instance, Mosedale (2006) offers a relatively crude analysis by only focusing on the relationship between the main nodes without taking their suppliers into account, whereas Clancy (1998) investigates the governing structures of the hotel and airline industries in isolation to one another. While it may be argued that Mosedale (2006) offers too simplistic an analysis of the chain, Clancy (1998) fails to adequately address the vertical production/consumption process of tourism; instead, he provides an analysis of two separate nodes in isolation of other production/consumption processes within the chain. While the term 'chain' is still used, researchers realise that production, distribution and consumption systems are more appropriately viewed as networks as they may consist of several sequences of parallel nodes or sites of production. Also, inter-firm linkages are dependent on social relations between various actors in the 'chain' and within the 'node'.

In fact, the most commonly-applied type of global commodity chain (GCC) analysis was developed by Gereffi (1994) which consists of four stages of analysis:

1. input-output at the individual nodes,
2. the spatial distribution of nodes,
3. the organisational/governance structure of the chain, and
4. the institutional setting in which the chain and the individual nodes are embedded.

Gereffi (1994) identified just the first three stages of the GCC analysis in his earlier work, but later added the institutional framework after some criticism (Gereffi, 1995). Global commodity chains thus are situated as:

> '… sets of interorganizational networks clustered around one commodity or product, linking households, enterprises, and states to one another within the world-economy. These networks are situationally specific, socially constructed, and locally integrated, underscoring the social embeddedness of economic organization' (Gereffi *et al.*, 1994: 2).

Despite the clear outline of the GCC analysis into four distinct stages, the majority of studies employing the GCC analysis have put emphasis on determining the controlling actors or nodes (i.e. the governance structure) '… since this is where the key notions of barriers of entry and chain co-ordination appear' (Raikes *et al.* 2000: 393). By ignoring the role of institutions in shaping the environment in which these economic actors operate i.e. the institutional framework in which commodity chains are embedded and focusing on governance structures, firms and places seem to have little control over their actions as they are dependent on the structural conditions and constraints of the commodity chain. This point of view, however, does little to explain different types of commodity chains and economic development. As Henderson *et al.* (2002: 441) observe, '…inter-firm networks link societies which exhibit significant social and institutional variation, embody different welfare regimes and have different capacities for state economic management: in short, represent different forms of capitalism'. The following sections will therefore discuss the governance and institutional framework of commodity chains in more detail.

GOVERNANCE

Despite its importance for GCC analysis, the concept of governance has only been loosely defined as 'authority and power relations that determine how financial, material, and human resources are allocated and flow within the chain' (Gereffi, 1994: 97); that is, '… non-market coordination of economic activity', and direct or indirect 'influence' (Gereffi *et al*., 2001: 4). Gereffi *et al.* (2001) identify chain governance as '… the ability of one firm in the chain to influence or determine the activities of other firms in the chain'. This can take a number of forms, such as: determining the product provided by suppliers (e.g. via quality as well as health and safety standards); deciding on entry into or exit from the chain; and offering technical expertise to preferred suppliers in order to gain the expected product/service. Commodity chains differ in the type, level and concentration of governance exercised by key actors and the mode of 'applying' governance.

Early commodity chain research in the primary and secondary sectors identified two types of governance structures (Gereffi, 1994), mainly depending on the location of the influencing node in the chain. Large, often transnational corporations coordinate production via integrated subsidiaries, with the effect of leading firms in *producer-driven* commodity chains. Power is located in the headquarters of these corporations and is transmitted downwards through the subsidiaries. Value follows the opposite route; it is generated by subsidiaries and gathered at the headquarters. Industries that exhibit such governance patterns include mainly manufacturing such as automobiles, aircraft, computers, and semiconductors, and they are typically capital- and technology intensive.

[insert table 2 near here]

Gereffi (1994) uses the multilayered production system of automobile manufacturing as a prime example of *producer-driven* commodity chains. Although the chain comprises thousands of firms, with varying links between each other (parents, subsidiaries, and subcontractors), the parent companies, especially Japanese and US, organise and coordinate the production process and build the automobile including the parts supplied by others. In contrast to the capital- and technology-intensive industries of producer-driven commodity chains, buyer-driven chains are frequently encountered in labour-intensive production, such as garments, footwear, toys, and consumer electronics. They are organised in decentralised production networks across a number of countries, with large retailers or brand merchandisers controlling and influencing the entire production process yet without being involved in the actual production process. As the controlling firms do not produce any goods themselves but instead focus on the design, marketing/branding and distribution of these products, they have been termed 'hollow' corporations (Clancy, 1998: 126). A case in point is Nike, a footwear corporation, which has devised a division of labour between postindustrial and newly industrialised countries (Korzeniewicz, 1994). The corporation has succeeded in appropriating increased value by subcontracting all the production processes to newly industrialised countries and focusing on distribution, marketing and advertising from its base in postindustrial economies:

> 'Marketing, advertising, and consumption trends dictate what will be manufactured, how it will be manufactured, and where it will be manufactured … manufacturing processes are secondary to the control over the symbolic nature and status of athletic shoes.'
>
> [Korzeniewicz, 1994: 263]

Clancy (1998) is one of only a handful of researchers to have applied the commodity chain analysis to tourism. In his investigation of the hotel and airline industries, he offers another different type of governance structure in which contractual agreements between economic actors take centre stage. His so-called *contract-driven chains* have similarities with buyer-driven chains in that core firms accrue value by externalising production (table 1). Mosedale (2006) also calls for a broadening of Gereffi's (1994) rigid bi-partite characterisation of commodity chain governance. Rather than identify new forms of chain, he argues that European package tourism commodity chains have elements of both producer- and buyer-driven chains. Economies of scale and scope represent barriers of market entry for potential new firms as do the horizontal, vertical as well as diagonal integration of production processes. For Mosedale (2006: 454),

> 'In contrast to increasing outsourcing of production and the concentration of firms in the manufacturing sector on marketing and branding, the tourism industry is experiencing an intensification of integration in order to internalise profits, expand their market share and at the same time gain control over all the primary nodes in the Commodity Chain'.

The coordination of production processes via the integration of firms under common ownership is a popular business strategy in the tourism industry. Similarly to Clancy's (1998) analysis of hotel and airline commodity chains, Gómez and Sinclair (1991) use a broader definition of integration to include contractual agreements between firms under separate ownership. There are different types of integration, which depend on the production process of the firm to be integrated in comparison to the parent company. Horizontal integration occurs when a parent company acquires a business in the same level of the production chain, such as tour operators, for example the attempted acquisitions of First Choice by Airtours and of Kuoni by First Choice in 1999. The consequences of horizontal integration are an increasing concentration of the industry. Despite a lack of data for market share of tour operators based on tourist numbers, the share of Air Travel Organisers' Licences (ATOL) can be used as substitute variable (see Table 3). The data reveal a concentration of market share for the UK in the in the mid to late1980s with subsequent decrease eventually leading to investment abroad (Mosedale, 2005).

[insert table 3 near here]

Vertical integration, on the other hand, refers to the linkages of production process both upstream and/or downstream. Examples in tourism include for instance the integration of tour operators, travel agencies, airlines, hotels and destination agencies into large corporations such as Thomas Cook AG with 33 tour operator brands, 67 airplanes, 2.400 travel agencies as well as a world-wide network of hotels.

It is important to note that any increase in vertical integration will have spatial consequences as all the primary nodes of the commodity chain (in the source market as well as the destination) can be integrated into one large tourism corporation. One of the few studies illustrating the effects of such vertical integration in tourism explores the case of the Virgin Travel Group and its influence in the Caribbean (Mosedale 2006). This vertically-integrated tourism group, which is comprised of a scheduled airline, an outbound tour operator and a retail travel agent, used the integrated, non-market relationship between its airline and tour operator as a competitive advantage in gaining its high market share of UK package tourism to St. Lucia.

While both horizontal and vertical integration take place between firms within the same production system (at the same level for horizontal integration and between stages of the system for vertical integration), *diagonal integration,* in contrast, is concerned with a new entry to the industry from a non-related sector. Examples of diagonal integration in tourism include Preussag, which has transformed itself, with the initial acquisition of Hapag–Lloyd in

1997, from an industrial corporation mainly in mining and steel to a service oriented firm focusing on tourism and shipping (Stier and Laufer, 2005). In fact, in only three years Preussag managed to become the leading European tourism firm with a turnover of €7 billion, which represented almost 50% of the corporation's total turnover. Another example for diagonal integration into the tourism sector is the much slower entry of Rewe, a food retailer and wholesaler, with the acquisition of German travel agencies in 1988 and 1994. However, Rewe did not enter the top ten integrated tourism corporations until 2000 with the acquisition of DER (Deutsches Reisebüro), ranking eighth in Europe, and it further improved its standings with the acquisition of LTU Touristik, another integrated tourism corporation in 2001.

While the previous examples demonstrated diagonal integration into the tourism sector, Poon (1993) focuses on the diagonal integration of tourism corporations into associated products and firms, such as holiday insurance, car hire firms and estate agencies. TUI, for instance, has set up a car hire company (TUI Cars) in Mallorca and has entered into a partnership with a local real estate agent (Parador Properties) to sell second-homes in Thomson travel agencies in the UK. This type of diagonal integration by tourism corporations into real estate is being seen by both industries as a logical step due to the changing tourism demand towards second-home ownership due to the emergence and rise of low cost carriers to popular European destinations such as Mallorca (Ultima Hora, 2005). This strategy of diagonal integration is indicative of a larger trend of product and market diversification in the tourism sector.

Vertical and horizontal integration has resulted in a situation in which the lack of access to channels of distribution (especially travel agents) and economies of scale creates high barriers to entry (Dale 2000). Vertical integration has also internalised the supplier and buyer relationship, leaving independent suppliers and buyers with few clients. For example, the similar characteristics – especially of mainstream, sun-sand-and-sea tour packages – of the package tourism product that facilitates the substitution of one product with another, has lead to fierce competition between tour operators in the UK source market. UK tour operators compete on the basis of price in order to achieve a significant market share. This also prevents new entrants from establishing themselves in the marketplace.

The benefits of horizontal integration are increased economies of scope, larger geographical coverage, the access to different market segments, and – especially important for tour operators – economies of scale and synergies. Vertical integration, on the other hand, offers a company ultimate control over the tourism product (supply and distribution) by erecting barriers of entry for competitors, the integration of gains and improved brand marketing opportunities. Mosedale (2006) has demonstrated the consequences of integration of a scheduled carrier with a mainstream tour operator in the case study of the Virgin Travel Group and the long-haul destination of St Lucia. However, according to Ioannides and Debbage (1998) the tourism sector is a 'polyglot' comprised of a number of different modes of production. This multiplicity has clear implications on national and international industry organisation and may well result in differing governance structures of tourism commodity chains. In their comparison of package tourism chains to St Lucia and Jordan, for instance, Dörry and Mosedale (2006) identify different actors as controlling nodes in the chain despite the overall similarity of the chain structure. In contrast to large transnational corporations controlling much of the tourist flows to St Lucia, the situation in Jordan is such that a lack of economies of scale do not warrant the integration of production processes, but rather specialised, small and medium-sized tour operators (SMTOs) are the leading actors in the chain, although they are reliant on local suppliers such as tour guides and incoming agencies. As a result of a fragmented market and specificities of inter-cultural exchanges (see the Chapter Eight by Scherle and Coles) between firms of similar size and capacity, the dominance of specific nodes in the chain to Jordan is comparatively low relative to the dominance of the Virgin Travel Group in St Lucia due to the non-market, functionally integrated relationship between its tour operator and airline units.

INSTITUTIONAL FRAMEWORK

While firm organisation and governance of commodity chains are critical to explaining the structures that facilitate flows of tourists, capital, knowledge and information, it is equally important to analyse the transformation of these flows via individual places in the form of the institutional and social fabric of the destination. The examples of package tourism commodity chains to St Lucia and Jordan demonstrate that the organization and structure of tourism commodity chains can vary between destinations, and in turn, these signify the influence of national and local institutional features, cultural characteristics and historical developments. The step of analysing institutional frameworks, which Gereffi (1995) added to GCC analysis retrospectively, as well as how chains differ depending on the institutional and social context of production sites, has mostly been ignored in commodity chain research. Yet the question remains: how are commodity chains shaped by different regulatory bodies and institutional actors? And *vice versa*?

The importance of institutions in tourism research was recognised early on by Britton (1991: 453-454) who, from a political economy perspective, called for increased attention towards the role of '…all the social institutions designed to create, coordinate, regulate, and distribute exchange values: enterprises, industries, markets, state agencies'. The institutional regime of the economy can be categorised into the 'institutional environment' and the 'institutional arrangements'. The institutional environment refers to informal structures such as social norms, conventions and customs as well as officially formalised laws and regulations (e.g. competition, labour, trade, contract laws etc.) controlling socio-economic behaviour. Institutional arrangements, on the other hand, represent the organizational forms, which arise as a result of and are regulated by the institutional environment.

Institutions play a key role in the configuration of economic processes and are thus responsible for the resulting structural and spatial characteristics of the economy and commodity chain. Institutional factors operate at all levels and scales of the economy ranging from firms, to markets, states and supranational organisations such as the World Bank, which is providing capital (56 million US$) for a 'Cultural heritage tourism and urban development project' in Jordan or the OECD (Organisation for Economic Co-operation and Development), which has only recently published a study on the effects of climate change on tourism in the European Alps. Timothy (2003) offers an analyses of regional cooperation between supranational governance bodies within Asia, more specifically the Association of Southeast Asian Nations (ASEAN) and the South Asian Association for Regional Cooperation (SAARC) and concludes that although some form of multilateral collaboration is evident in regional tourism promotion and transport, there is room for further supranational negotiations covering such topics as environmental protection, flows of people, infrastructure development and tourism investment.

The aim of the institutional framework within commodity chain analysis is to analyse these formal or informal systems that govern the relationship between the socio-political and cultural structures and institutions and their interaction to create the economic landscape:

> '… economic activity is *socially and institutionally situated*: it cannot be explained by reference to atomistic individual motives alone, but has to be understood as enmeshed in wider *structures of social, economic, and political rules, procedures and conventions.*'
>
> [Martin, 2003: 79, emphasis original]

Institutions are necessary to provide a framework in which companies and individuals can engage in economic exchange and social economic processes within a country but also across borders. Institutions are therefore required to provide and guarantee (over time) the basic conditions for economic exchange, such as markets, property rights and a monetary system. As the processes of economic exchange have experienced transformations, so have the institutions governing the conditions. History matters in the functioning of economic life; decisions and strategies undertaken by institutions are not just a reaction to contemporary conditions but they are dependent on the entire series of previous decisions and their resulting outcomes (they are path-dependent). This institutional history (as all history) is place-specific as relationships between economic agents, institutions and structures unfold in particular places. Crespo and Suddaby (2000: 359), for instance, compare the development of tourism development in Cuba, the Dominican Republic and Cancún and conclude that despite Cuba's different institutional framework in which the government is "… the owner/developer and utilizes from 40% to 60% of the available national resources to create and support tourism activity", it has "… achieved reasonable success in attracting a growing number of visitors".

Systems of regulation are historically specific institutional regimes "… for coordinating, stabilizing, and reproducing socioeconomic relations" (Martin, 2003: 81). These are not limited to formal macro-institutions regulating key areas such as transport (e.g. bilateral agreements in aviation and freedoms of the air which govern international air services by granting airlines certain rights of access to countries as discussed by Duval in chapter x), wage relations and competition or state agencies, business institutions and labour organisations, but include informal institutions of regulations such as place-specific social networks, cultures and traditions. For example, Mosedale (2006) noted the role of the St Lucian government, which decided to provide support (financial and in kind) only for charter flights if they would result in an incremental growth in tourist numbers. This policy was based on a 'moving up-market' initiative to increase the quality of St Lucia as a destination. Mosedale (2006) demonstrates that the Virgin Travel Group benefited from the loss of the charter business and considerably increased its capacity to St Lucia. As a result of close, non-market cooperation between Virgin's airline and tour operator, 60-70% of all seats were allocated to the tour operator.

This drive for control of the commodity chain and concurrent risk reduction is illustrated by a comment by Wolfgang Bremer, Portfolio Management Incoming & Guest Service for TUI: “We have taken a stake in these agencies in order to support close cooperation with them in the long term and to be able to have a direct influence” (TUI, 2006: 5).

CONCLUSION: COMMODITY CHAINS, TOURISM AND INTERNATIONAL BUSINESS

This chapter has attempted to demonstrate the importance of viewing the international tourism production processes in social, cultural and political economic contexts. It has been argued the that commodity chain analysis – in comparison to other chain analyses such as distribution channels, supply and value chains – provides such a nuanced reading in light of qualitative changes. Especially the political economy approach to commodity chain research offers a compelling opportunity to highlight the unequal distribution of production and capital accumulation in comparison to valued added, while also indicating the importance of industry structure and re-structuring trends for chain governance.

Notwithstanding, commodity chain analysis has received only scant attention in tourism research (Clancy, 1998; Dörry, 2005; Mosedale, 2006). Comparative research (Dörry and Mosedale, 2006) has demonstrated slight variations in chain governance which could be due to a number of factors such as different institutional and historic characteristics of the destinations and differences in the tourism product. Mosedale (2006) refers to anecdotal data to suggest that different chain structures and governance patterns are dependant on the evolution of the tourism industries in the source market.

At the same time, it has to be realised that commodity chains are not static as changes in industry structure, regulations, institutions and social trends continuously influence the composition, structure and governance of the chain. Dörry and Mosedale (2006) identify another important aspect of the commodity chain, the ability of specific actors and nodes in the chain to ‘upgrade’ their position within the chain. This has clear implications for international business as it may involve a changing governance structure of the chain, in the case when governance shifts from one node to another. Some hotels, for instance the Raffles hotel in Singapore, have become destinations in themselves and due to their ability to take advantage of direct distribution and repeat business are less dependent on tour operators (Mosedale, 2006). Another form of upgrading occurs when a firm that was active in one node of a chain expands its activities to include processes of a higher-level node. For example, inbound tour operators might take advantage of their relationships with suppliers in the destination-market in order to enter into the outbound tour operator market in a particular source market.

Finally, the focus of commodity chain research on relationships across geographic scales is its main contribution to the study of international business. Global, regional, national and local factors appear to matter in various ways: global and regional supranational institutions frame the environment in which economic processes can be performed, national trade policies have influenced the participation in commodity chains, and cooperation at a local level facilitate the engagement with and access to source markets.

DISCUSSION QUESTIONS

- What is the ‘product’ of the tourism production system, and where is the production of tourism located?
- Does the production of a tourism commodity exclusively take place in the destination?
- What are the implications of vertical, horizontal and diagonal integration in source markets for tourism destinations?
- In context of current economic and social processes, what are the likely scenarios or trends in governance of the tourism commodity chains?

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CASE-STUDY VIGNETTE - TOURISM AND INTERNATIONAL BUSINESS IN ACTION.

The following fictional account demonstrates the complexity of the tourism commodity chain:

Thomas, a German tourist in his mid twenties living in Munich, Germany has decided to go on a typical sun, sand and sea holiday to Egypt with his girlfriend in order to avoid the cold European winter. His destination choice was based on his perception of Egypt as a warm country with an interesting culture, a travel documentary he saw on TV focussing on Egypt's cultural heritage and word-of-mouth as some of his friends enjoyed a week in Egypt the year before. He also googled 'Egypt' and found some general information provided by the Egypt Tourist Authority with their "Egypt: nothing compares" campaign. The marketing campaign initiated by the Egypt Tourist Authority after the 2005 Sharm el-Sheikh bombings coupled with massive price reductions of holiday packages have obviously been successful in restoring the destination's reputation.

He decides to visit his local travel agent - FIRST Reisebüro – in order to get some information on suitable resorts or hotels. The travel agent only just returned from Egypt on a familiarisation trip to the Robinson Club Soma Bay, Sharm el-Sheikh offered by the resort in conjunction with the tour operator, TUI Deutschland. The all-inclusive resort is set directly by the Red Sea and offers a variety of water sports such as sailing, kite and wind surfing, and fantastic dive spots such as the Seven Towers and Tobia Island. Thomas is really intrigued by the opportunity of doing his Open Water Diver certification at the resort and the travel agent can give first hand information on the resort from the fam trip. The wellness centre with aroma saunas, cosmetic procedures, Thalasso-Therapy, algal body peeling, ayurverdic massage, hydrotherapy and various hot tubs as well as a saltwater pool seems perfect for pleasing (or appeasing) his girlfriend while Thomas is off diving. The hotel offers the diving course in cooperation with a local dive school and the beauty centre is leased to an independent company.

Having made his decision on where to go and being a savvy consumer, Thomas shops around by checking travel websites for the best deal. He also checks whether low cost airlines provide access to Sharm-el-Sheik just in case organising the package on his own might just be that little bit cheaper. Although AirBerlin (a German low cost airline) offers a service to Hurghada on the west coast of the Red Sea, Thomas ends up buying the all-inclusive package to Sharm el-Sheikh through the travel agent because organising the transfer between Hurghada and Sharm el-Sheikh would be too time-consuming and he prefers human interaction to booking online. As the travel agent stresses the importance of travel insurance abroad in light of the inherent dangers when travelling, Thomas also purchases travel insurance – incidentally the travel agency has a strategic alliance with the insurance company.

By assembling a package of individual components, TUI Deutschland acts as connecting link or broker between Thomas and the resort, airline and inbound tour operator in Sharm el-Sheikh. The tour operator then uses various distribution channels (direct distribution, travel websites, travel agents etc.) to get the package to Thomas. Thomas therefore does not need to spend any considerable amount of time organising the travel itinerary and keeps transactions to a minimum. Because of the large amount of packages that tour operators sell, they are also able to negotiate significant discounts (ranging from 10% to >50%) for the individual components that constitute the package.

Finally, the long awaited holiday has begun and Thomas and his girlfriend travel by public transport to Munich International Airport where they are bound to catch their flight to Sharm el-Sheikh with TUIfly. As the airline is a charter flight operator, the risk of unsold seats lies with the airline unless it can be passed on to national governments. It is therefore common for airlines to negotiate agreements of support with governments such as risk-sharing where the government underwrites the cost of flights, guarantees compensation if a certain number of seats are not filled, free accommodation for the flight crews or a reduction of landing fees.

Before boarding the flight Thomas and his girlfriend take full opportunity of the waiting time to exchange money, go duty-free shopping and then buy a few drinks in the departure area. On arrival in Sharm el-Sheikh, the tour operator representative ensures they catch the transfer from the airport to the resort where they finally get to indulge in the luxuries of the all-inclusive resort.

Although Thomas and his girlfriend have booked an all-inclusive package, after a few days they get bored of the food offered in the resort and decide one night to visit Safaga, a local town situated 18km from the resort, for a romantic dinner. They also leave the resort on a day-trip to Luxor organised by Travco Travel Company of Egypt, a destination agency contracted by the tour operator. The tour takes Thomas and his girlfriend on a journey of discovery of the famous monuments built by the Pharaohs, including the Valley of the Kings.

In our hypothetical case, Thomas has booked their all-inclusive holiday with TUI Deutschland through the travel agency FIRST Reisebüro, flew to Sharm el-Sheikh with TUIfly, stayed at the Robinson Club Soma Bay and took a day-trip to Luxor with Travco Travel Company of Egypt. All these companies are subsidiaries of TUI AG, the largest integrated tourism corporation in Europe with tour operators in 18 European countries, 279 hotels comprising of a total 164,844 beds, seven airlines with a total fleet of 125 aircraft, 35 incoming agencies in 36 countries, and two cruise companies with a total fleet of 9 cruise ships. Being an integrated tourism corporation facilitates the collaboration between the tour operator and the individual components of the tour package and can lead to non-market exchanges between the companies. The sheer number of tourists transported by the corporation is also beneficial in negotiations with non-corporate entities such as independent hotels, in-bound tour operators, tour operator representatives, and governments.

Table 1: Comparison of different types of chain analysis

	Distribution Channel	**Supply Chain**	**Value Chain**	**Commodity Chain**
Scope	Distribution	Production	Production, distribution and consumption	Production, distribution and consumption
Process	Analysis of the distribution strategies of tourism businesses	Examination of the inter-firm relationships	Identification of the cost and value (profit margin) of activities undertaken by organisations in the chain.	Four stage analysis: 1. Input–output, 2. spatial distribution, 3. organisational structure and 4. institutional framework
Main Objective	Evaluating channel organisation and operation for improved tourism marketing	Understanding and managing the supply chain for effective business relationships	Determining competitive advantage of organisations within a chain	Revealing the complex system of international economic actions and highlight qualitative change in processes at each step of the chain.

Examples from the tourism literature	Pearce *et al*. (2004), Buhalis and Laws (2001)	CELB and TOI (2004)	Poon (1993)	Clancy (1998), Mosedale (2006)

Source: Author

Table 2: Characteristics of different commodity chain governance forms

	Producer-Driven Commodity Chains	Contract-Driven Commodity Chains	Package tourism Commodity Chains	Buyer-Driven Commodity Chains
Drivers of Global Commodity Chains	Industrial Capital	Commercial Capital	Commercial Capital	Commercial Capital
Core Competencies	Research & Development	Marketing; also Operation	Design; Packaging	Design; Marketing
Barriers to Entry	Economies of Scale	Economies of Scale	Economies of Scale and Scope	Economies of Scope
Economic Sectors	Consumer Durables Intermediate Goods Capital Goods	Tourism	Tourism	Consumer Nondurables

Industries	Automobiles; Computers; Aircraft	Hotel	Package Tourism	Apparel; Footwear; Toys
Ownership of Manufacturing Firms	Transnational Firms	Mix of Transnational Firms and Franchises	Mix of Transnational and Local Firms	Local Firms
Organisation of Production	Integration	Externalisation	Integration	Externalisation
Main Network Links	Investment-based	Contract-based	Investment-based	Trade-based
Predominant Network Structure	Vertical	Horizontal	Vertical, Horizontal & Diagonal	Horizontal

Source: Adapted from Mosedale (2006: 442)

Table 3: Top tour operator's share of all ATOL holidays, 1982-2005

	1982	**1985**	**1988**	**1992**	**1995**	**1998**	**2002**	**2005**
Top 5	38.0	37.3	62.2	54.3	55.8	46.2	46.4	45.2
Top 10	52.3	49.5	76.1	68.0	67.6	57.4	56.4	54.0
Top 20	67.5	63.2	82.4	76.5	74.9	67.1	67.2	65.7

Source: based on data from Civil Aviation Authority (1992-2006) and The Monopolies and Mergers Commission (1986, 1989).