

Tourism commodity chains: market entry and its effects on St. Lucia

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Abstract: Tour operators have received considerable attention as gatekeepers of the tourism system. However, corporate changes in the European package tourism industry via mergers and acquisitions have resulted in horizontal as well as vertical integration, changing the power structure of the system. This paper examines the structural organisation of UK package tourism by analysing the commodity chain to St. Lucia. First, the commodification process of tourism and the range of commodification are considered, before turning to a macro-level analysis of the tourism system following the vertical assembly of the tourism product. Finally, the paper underlines the additional importance of intra-nodal relationships by demonstrating that specific circumstances can lead to the amplification of pre-existing power structures.

Keywords: Commodity chains, vertical integration, market entry, St. Lucia

1. Introduction

Since the emergence of mass tourism in the mid 1960s there has been an almost continuous increase of international tourist flows coupled with an increasing distance between tourist origin and destinations – both cultural and spatial (Urry, 1991). Many development agencies and developing countries – especially small island states – see these increasing flows of tourists as an opportunity to gain foreign exchange, to establish local entrepreneurial activities and hence to support the local economy. However, dependency theorists (Hills and Lundgren, 1977; Britton, 1981 and Pearce, 1989) emphasise the positionality of the tourist destination in the tourism system, i.e. the power relationship between developed (tourist origins) and developing countries (tourist destinations), which places destinations of developing countries in dependency to tourist-generating regions. This, however, is an oversimplification of the interactions and relationships within and between the actors of the complex tourism system. This paper aims to answer Britton's main criticism of geographic tourism research, namely the lack of research on the role of "...all the social institutions designed to create, coordinate, regulate, and distribute exchange values: enterprises, industries, markets, state agencies" (1991: 453-454), thus giving an indication of the political economy of UK package tourism. Similarly, Shaw and Williams (1998) in their examination of the entrepreneurial process within destination economies, stress the influence exerted by the inherent structure and organisation of the tourism sector on local economic development.

While Ioannides (1998) focuses on tour operators as the main controlling actors in the tourism production system, it needs reminding that local characteristics of the tourism infrastructure and therefore the relative competitiveness of the destination can also have considerable influence over the distribution of power. It is the relationship between all the actors within the tourism sector – both at the origin and the destination – that shapes the general development of tourism.

Tourism, in simple terms, must be viewed as a transaction process which is at once driven by the global priorities of multi-national corporations, geopolitical 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' (Milne and Ateljevic, 2001: 371-372).

It is this link between the 'coal face' and the economic structure of the tourism industry that this paper aims to analyse with the use of the commodity chain approach while simultaneously demonstrating the dynamic nature of its structure. This paper thus aims to contribute to academic research and debate on the economic globalisation of tourism and more specifically on the influence of the changing industry structure on destinations.

The first part of this paper will explore the general concept of commodity chain analysis, before evaluating its specific use in tourism research. The second part will then trace the commodity chain of package tourism from the UK to St. Lucia, before the discussion finally moves to demonstrate the dynamic nature of commodity chains by analysing the market entry of a particular actor into the chain. St. Lucia was chosen as a case-study due to the importance of package tourism from the UK to the local economy and, because as a typical 'sun, sand and sea' (3S) destination it is not only competing with Caribbean destinations but also with other comparable 3S destinations.

2. Commodification

... tourism is part of the process of commodification (or commoditization) and consumption inherent in modern capitalism. Tourism is therefore best conceptualized as a global process of commodification and consumption involving flows of people, capital, images and cultures (Meethan, 2001: 2).

Following Marx (1932) in his argument on the dual nature of commodities, the tourism product contains an exchange- and a use-value. A product becomes a commodity, or commodified, when the exchange value allocated to it in capital transactions exceeds its use value. Postmodern society increasingly views products as commodities and representations of the authentic (Urry, 1991), with a switch of focus towards consumption and away from the production method.

According to Marx, human labour is the main factor in adding value to commodities. Following this thought the process of commodification hence necessarily involves a transaction (monetary or otherwise) to purchase labour or the added value of the commodity. This inevitably leads to a detachment of consumption and production through the purchase of human labour, thus distancing the consumer from production.

Instead of being organically and transparently linked within praxis, the relation between production and consumption is indirect and mediated through markets, money, prices, competition and profit – the whole apparatus of commodity exchange (Slater, 1997: 107).

In addition to the two values that Marx assigns to commodities (exchange- and use-values), Watson and Kopachevsky (1994) agree with MacCannell (1976) that commodities can also contain symbolic value, something MacCannell has termed sign-value, as the tourism product can attain a significance beyond the importance of labour by representing a status symbol, life style or other symbolic significance to the consumer (Shaw and Williams, 2004). Authenticity is relative and no longer sought after, the consumption of signs and symbols of 'the real' are sufficient (Pretes, 1995; Meethan, 2001).

Different levels of commodification are apparent in tourism, with backpackers on the one end of the scale and all-inclusive package tourists on the other. The significant difference is the distance of the consumer to the production-side. While both types of tourists purchase services and products of the tourism industry such as transportation, accommodation, guiding literature etc., the backpacker is actively involved in the packaging of the product by investing his/her own human labour to combine the different elements of the product and is thus part of the production. All-inclusive tourists, on the other hand, purchase a ready-made product, which requires the least amount of their time and effort possible. Almost all human labour involved in the production of the tourism product has been purchased and often the only action required of the consumer is to arrive at the local airport.

Shaw and Williams (2004) classify the level of commodification into four groups according to degree of commodification (partly and non-commodified) and type of commodification (direct and indirect). They then apply this categorisation to four different types of tourism: individual (camping), individual (urban), mass (beach), second home (rural) (See Figure 1). This classification is based on the ownership of property rights as unless the attraction is owned there can be no direct commodification. Rent can only be extracted from properties if these are owned by individuals, firms or organisations. The amount of labour performed by the tourist decreases with increased commodification, thus distancing the tourist from production in terms of involvement in the process rather than spatial distance as the tourist is always present in the tourism production process.

Tourist Type	Travel	Accommodation	Recreation	Material souvenirs	Labour	Commodification
Individual (camping)	● cycling	● camping	○ walking	○ sketching	↑	↑
Individual (urban)	● car	□ hotel	⊗ heritage site	□ traditional crafts	↑	↑
Mass (beach)	□ flight	□ hotel	● beach activities	□ factory facts	↑	↑
Second-home (rural)	● car	● second home	● house-based activities	● own-production	↑	↑

⊗ direct commodification	□ indirect commodification
● partly commodified	○ non-commodified

Source: Adapted from Shaw and Williams (2004: 26)

Figure 1. Categorisation of commodification

But what exactly is the commodity of the tourism industry? What does a tourist purchase in the transaction?

As Shaw and Williams (2004) demonstrate in their categorisation of commodification, the tourism system constitutes of a variety of industries coming together to produce the final product. Smith (1994), however, states that rather than an assemblage of different services provided while on holiday, it is the overall experience that is sold to the client. In his seminal

book on the sociology of travel and tourism, Urry (1991: 131-132; emphasis added) focuses on the experience of tourists and the tourist gaze in particular.

... what is the minimal characteristic of tourist activity is the fact that we look at, or gaze upon, particular objects, such as piers, towers, old buildings, artistic objects, food, countryside and so on. The actual purchases in tourism (the hotel bed, the meal, the ticket *etc.*) are often incidental to the gaze, which may be no more than a momentary view. Central to tourist consumption then is to look individually or collectively upon aspects of landscape or townscape which are distinctive, which signify an experience which contrasts with everyday experience.

Because this experience is intrinsically personal, there is no such thing as a generic tourism product. Rather, numerous forms of different products cater to different types of tourists (Watson and Kopachevsky, 1994). The tourism sector is therefore producing a product that is constituted of both tangible products (transportation, accommodation *etc.*) as well as intangible products (tourism experiences). This dual nature of the tourism experience offers specific problems for the application of a commodity chain approach to the study of tourism.

3. Commodity chains in general

... commodification mediates the economic relationship between tourism and place (Shaw and Williams, 2004: 27).

The commodity chain approach follows the vertical assembly of products beyond national and regional boundaries. This kind of analysis is undertaken for a variety of reasons: to analyse the structure of a product's life, the structure and spatial distribution of the industry, the unequal distribution of production and capital accumulation compared to value added, or the effects of economic restructuring in production and consumption networks and/or chains. It is therefore often used in popular education as a tool to bring global issues closer to home as it draws attention to the effects of western consumption on individuals in developing countries.

The grapes that sit upon the supermarket shelves are mute: we cannot see the fingerprints of exploitation upon them or tell immediately what part of the world they are from. We can, by further enquiry lift the veil on this geographical and social ignorance (Harvey, 1990: 427).

Barndt (1996), for example, has followed the path of tomasita the tomato from a Mexican plantation to a fast food restaurant and used this in various educational strategies such as popular theatre and school-based photo stories at the local fast food restaurant.

As such commodity chains are not merely an approach dealing with economic aspects of exchange processes. They have also been used to link the cultural and economic by analysing changing meanings of commodities, thus following Appadurai's concept of the 'social life of things' (Appadurai, 1986). In tourism research, Ateljevic and Doorne (2003) have for instance traced the journey of Chinese tourism artefacts purchased by tourists from New Zealand to show the changing meanings throughout the production process and the subsequent consumption of the artefact by the tourist and her friends and family. Commodity chain analysis of ethnic food and fashion has further attempted to demonstrate the effects of globalisation, thus challenging the theories of cultural homogenisation or global culture theory (e.g. Jackson, 1999; Cook and Crang, 1996). While this type of commodity research has rightfully received increasing attention with the cultural turn in economic geography, the aim of this paper is to return to traditional economic geography in order to analyse the interrelations between production and consumption from a political economy perspective and the position of the actors in the package tourism system. The following section will therefore give an overview of the global commodity chain approach (GCC) used in this study.

Anglophone research into the manufacturing production has largely been traced via the GCC approach, which maps out the processes and spatial attributes of production from the inception of a product to its final consumption (Leslie and Reimer, 1999; See Raikes *et al.* (2000) for a review of different approaches to commodity research). The notion of the GCC technique can be traced back to world-systems theory, pioneered by the work of Wallerstein (Hopkins and Wallerstein, 1986). Hence, it is of little surprise that the intent of the GCC is to uncover the causal relationships and regional differentiations between the core, semi-periphery and periphery. More recently, it has been used to go beyond this classification into

core and periphery as such an analysis focuses on the links between all the production steps involved. This focus on linkages within the chain is beneficial to mapping the relationship between the local and the global (Clancy, 1998).

The GCC approach analyses three themes of the chain:

1. input-output at the distinct nodes (one of the steps in the commodity chain), although this step is often neglected in commodity chain analyses (Henderson *et al.*, 2001),
2. the spatial distribution of the nodes and
3. the organisational structure of the entire chain (Clancy, 1998).

However, the influence of world-systems theory on GCC is evident as the focus is primarily on the global linkages and the dynamics within the commodity chain, rather than on the relationships between individual nodes (Leslie and Reimer, 1999). The nodes are situated at the points of connection of incoming chains of commodities that will form part of the end-commodity.

The commodity chain approach engages in encompassing comparison that begins with the global production process. Local development patterns must be seen in relation to that larger process [and *vice versa*] (Clancy, 1998: 124; brackets added by author).

The predominant question is which node controls the structure and dynamic of the commodity chain. Hence, Gereffi (1994) and Gereffi *et al.* (1994) distinguish between two types of commodity chains that are set apart by the prevailing power structures within the chain: producer-driven and buyer-driven commodity chains. The main difference between the two types of commodity chains is the location of the key barriers of entry (Gereffi *et al.*, 1994). *Producer-driven commodity chains* are characterised by large international or transnational companies who are in the position to control the production process and also backward and forward linkages within the chain. The key barriers of entry according to Gereffi *et al.* (1994) are capital and technology. *Buyer-driven commodity chains*, on the other hand, are controlled by large marketers or retailers, often located in the periphery where the

core enterprises subcontract many, if not all, the labour intensive production processes and are thus able to remain flexible and highly competitive. These enterprises concentrate on labour, which highly increases the value of the commodity, such as marketing and distribution, hence the actual production is externalised. The trend in manufacturing, according to Gereffi *et al.* (1994) is to move from producer-driven to buyer-driven commodity chains. This change signifies a shift of control from producing firms to 'hollow firms', whose main occupation is controlling the producing network and marketing the brand or product.

Clancy (1998) has introduced a third categorisation for explaining the organisational structure of the hotel industry, which could be seen as a variation of the buyer-driven chain. These *contract-driven* commodity chains show a close similarity to buyer-driven chains but differ in the level of control exerted by the hotel chain or group. Hotel companies increasingly set up management contracts with hotel operators in order to be in direct control of most operational aspects of the hotel chain (Clancy, 1998).

Table 1: Characteristics of different commodity chain governance forms

	Producer-Driven Commodity Chains	Buyer-Driven Commodity Chains	Contract-Driven Commodity Chains
Drivers of Global Commodity Chains	Industrial Capital	Commercial Capital	Commercial Capital
Core Competencies	Research & Development	Design; Marketing	Marketing; also Operation
Barriers to Entry	Economies of Scale	Economies of Scope	Economies of Scale
Economic Sectors	Consumer Durables Intermediate Goods Capital Goods	Consumer Nondurables	Tourism
Industries	Automobiles; Computers; Aircraft	Apparel; Footwear; Toys	Hotel
Ownership of Manufacturing Firms	Transnational Firms	Local Firms, predominantly in developing countries	Mix of Transnational Firms and Franchises
Organisation of Production	Integration	Externalisation	Externalisation

Main Network Links	Investment-based	Trade-based	Contract-based
Predominant Network Structure	Vertical	Horizontal	Horizontal

Source: adapted from Gereffi (1999: 8), Clancy (1998)

Table 1: Characteristics of different commodity chain governance forms

The commodity chain approach was originally designed to examine agricultural produce and manufacturing; and few studies have used the framework for the analysis of service industries (for an exception see Clancy, 1998). While there has been an interest in the role of services in commodity chains, they have – thus far – not constituted the main area of investigation. However, Clancy (1998) in an examination of the commodity chain approach to the study of tourism ascertains that the service sector does not lend itself to the GCC framework, as it is invisible, eclectic and intangible and therefore cannot be studied in terms of a classical input-output analysis, which is one of the main – although often neglected – steps in the commodity chain framework. This paper also does not attempt to analyse value added at each node, it is instead focussing on the spatial distribution and organisational structure of the chain, using the case study of UK package tourism to St. Lucia.

4. Commodity Chain Structure of European package tourism

The structural organisation of the chain is one of the most important aspects of the global commodity chain approach, as it provides the researcher with a foundation on which to base the analysis of power distribution. It is also useful to examine the spatial distribution of the nodes in order to facilitate the detection of imbalances in the production and distribution of the commodity. Due to the complexity of the tourism system and the usual temporal and financial limitations on research, the research was limited to the first-order nodes of the chain. According to Hartwick (1998), the commodity chain should be seen as a bundle of

nodes that consists of different orders, depending on the complexity of the chain or network (See Figure 2).

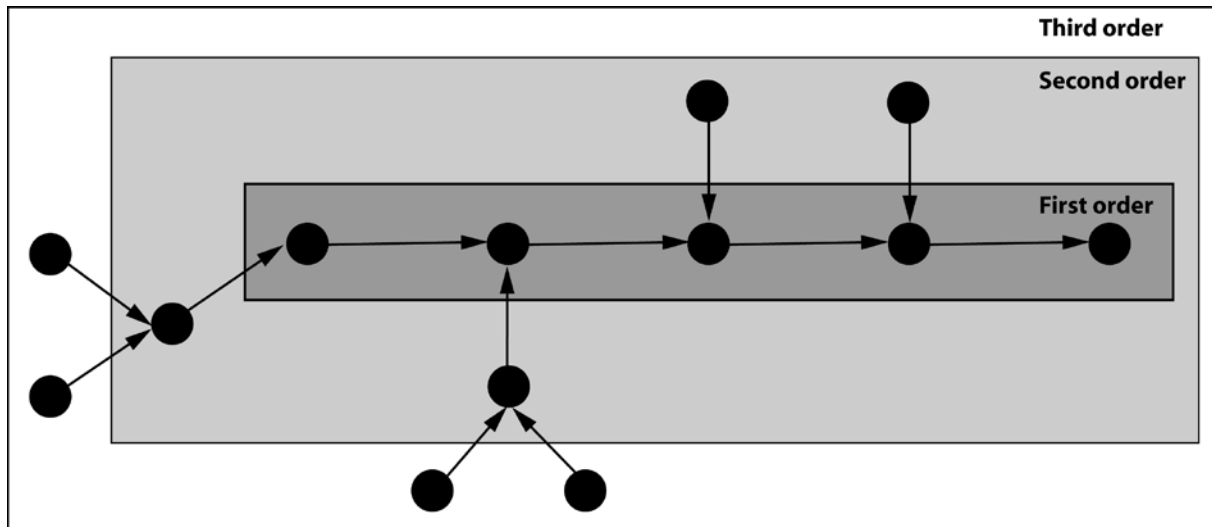


Figure 2: Commodity bundle

Figure 3 demonstrates the general structure of UK package tourism to St. Lucia, which can be divided into three types of linkages. Primary linkages comprise the major components of the package (accommodation, transportation etc.), whereas secondary linkages are connections not directly involved in the production or distribution process of the package tour or where one company has outsourced certain activities, such as representation or sales and marketing. The third type of linkage is the optional link, which occurs when some companies use an intermediary node, rather than directly linking to the following node in the chain.

Reasons for this variation in the use of intermediaries can be due to different organisational structures of firms, as well as different size and ownership.

By assembling a package of individual components of the tourism product, tour operators act as connecting gatekeepers between the consumer and the diverse industries of the tourism sector (Ioannides, 1998). This position in the tourism sector gives them the ability to exercise considerable control over the tourist destination.

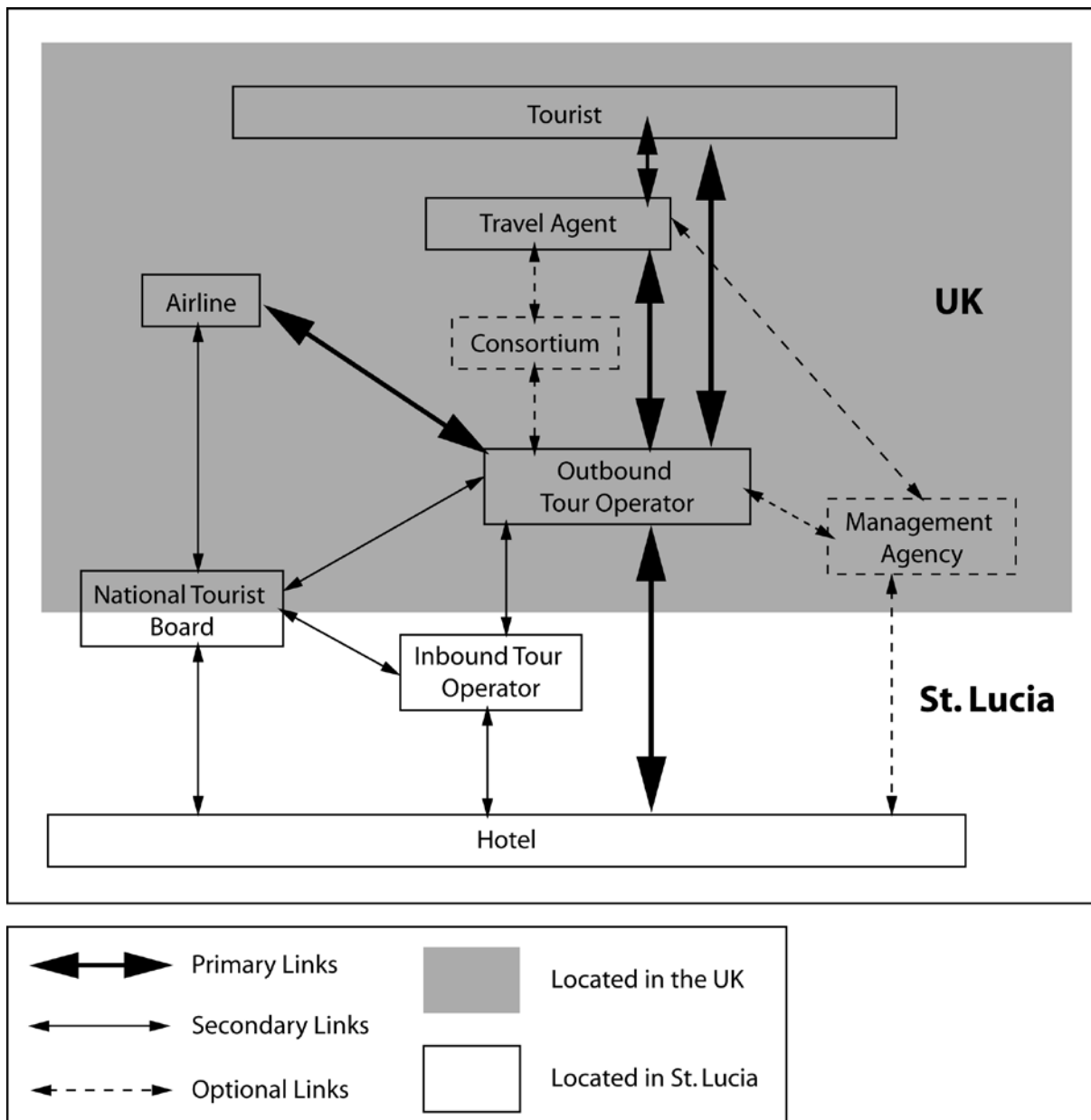


Figure 3: Commodity chain structure of UK Package Tourism to St. Lucia

The standardisation of packages offered by tourism operators is ideal for taking advantage of economies of scale. Even though the profit margin for individual units are slim, the sale of a high volume of package tours generates the profit accrued by the operators (Shaw and Williams, 2002; Witt *et al.*, 1995). Because of the large amount of packages that operators sell, they are able to negotiate significant discounts (ranging from 10% to >50%) for the individual components that constitute the package (Sheldon, 1986). As such, market share is very important in the tour operator industry and tourism companies in the UK compete for

market dominance. The four largest tour operators in the UK, for instance, had a combined market share of 74% in 1998. This highly competitive environment of the UK and Germany tour operator industry, however, has resulted in increased vertical and horizontal integration with simultaneous internationalisation thus creating large pan-European firms (Mosedale, 2005). These firms are mostly based around mass tour operators as these assemble package tours and establish their dominance over the chain via bulk purchases of the individual components.

The structure of the UK tourism industry has been widely analysed (e.g. Bray, 1996; Dale, 2000; Evans and Stabler, 1995; Gratton and Richards, 1997; and Renshaw, 1994), but the focus of attention has been the impacts on the UK market, with little interest on the effects on the tourist destination (see Klemm and Parkinson, 2000 for an exception). The following section will examine the state of tourism in the tourist origin (UK) and destination (St. Lucia) to give an indication of the importance of this commodity chain for businesses involved in the tourist-generating region and the destination.

“Relationships are everything.”
(Interview with the General Manager of a specialist tour operator,
September 2003)

The increasing competition between UK tour operators and 3S destinations for a large share of the UK package tourism market has resulted in a changing relationship between nodal points of the chain. Vertical integration and – as will be demonstrated – especially the non-market exchanges that can be realised in integrated organisation increases the ability of tourism companies (tour operators and airlines) to channel large volumes of tourists into St. Lucia and changes power relations with other companies in the system.

“When we have airlines owning tour operators, owning travel agents, potentially we [specialist tour operators] are at a disadvantage.”
(Interview with the General Manager of a specialist tour operator,
September 2003)

Due to the competition in the UK tour operator market, the profit margins per individual package are low and large volumes of customers are necessary to create profit. The mass tour operators use the large volume they are generating to gain favourable rates with their suppliers (for example hotels and airlines). This increasing negotiating power of mass tour operators, coupled with increased competition between 3S destinations, have also resulted in reduced profit margins for hoteliers which especially puts small hotels in a difficult situation of having to break-even with the competitive rates of the larger hotels.

“So I find that most of them [mass tour operators] are asking to drop our rates to really ridiculous levels ... to the point where some of them [mass tour operators] are actually threatening me: If I don't get thirty dollars for my room, I will take you out of my programme. That is the kind of tactics now being used in order to drive down the price. At the end of the day, they [mass tour operators] are the ones making the money and not the hoteliers or the hotel operator.”

(Interview with the General Manager of a small hotel, July 2003)

Specialist tour operators, on the other hand, do not generate the same volume of tourists as mass tour operators, as they target the higher-end market by offering superior service, which is reflected in the price of the package.

With a lot of products [hotels] we work with there is a latent demand already and all we are doing is fulfilling demand. We are not [a mainstream outbound tour operator], we are not creating demand ... We are not big enough to dictate what the travelling public to the Caribbean want. ... We carry in the region of 6,000 people a year, which is just a drop in the Caribbean market.

(Interview with the General Manager of a specialist tour operator, September 2003)

Small hotels, on the other hand, cannot compete with competitive pricing and are left to cater for specialist tour operators, regional tourists and direct sales. Large hotels, however, need mass tour operators to channel a large volume of tourists into their premises and therefore need to take a cautious approach to direct sales.

“We cannot really publicly go out and say: ‘call [us] to book’, because the relationship with tour operators is far too important to really blatantly try and get direct business.” (Interview with the Account Director of a Management Agency, September 2003)

Larger hotels have enough capacity to be able to stay competitive by drastically reducing room rates and thus attracting the mass tour operators.

My hotel is big enough that I need them [mass tour operators] and they need me.

(Interview with the UK Sales and Marketing Director of a large hotel, August 2003)

Certain large hotels now operate with a break-even rate of 80% occupancy compared to a general text book rate of 60%. This, however, further increases their dependence on mass tour operators to provide the hotel with a steady influx of tourists. However, with the advent of the internet, it has become easier for specialist hotels to directly target and market to their customers. Some hotels have thus managed to brand themselves as a destination in their own right, which results in an average return rate of about 25% and a referral rate (word of mouth) of also 25%. This brand recognition ensures substantial direct business and eases the dependence on the mass tour operator.

“For [specific hotel], they are fairly well known and well established in the UK market anyways, any tour operator who has a St. Lucia programme is a fool if they think they can manage without featuring [the hotel]. It is such an icon, such a unique product and the consumer is very well informed because of the amount of marketing money they put into their advertising and PR. It is so often a consumer-led inquiry.”

(Interview with the Account Director of a Management Agency, September 2003)

As an insular, long-haul destination flying is the only mode of transport for mass package tourists who want to visit St. Lucia. Access to airlift is therefore paramount for successful tourism development.

“... the most crucial thing for our business on the island is airlift. Without airlift we don't exist.”

(Interview with the Director of Marketing of a large hotel, July 2003)

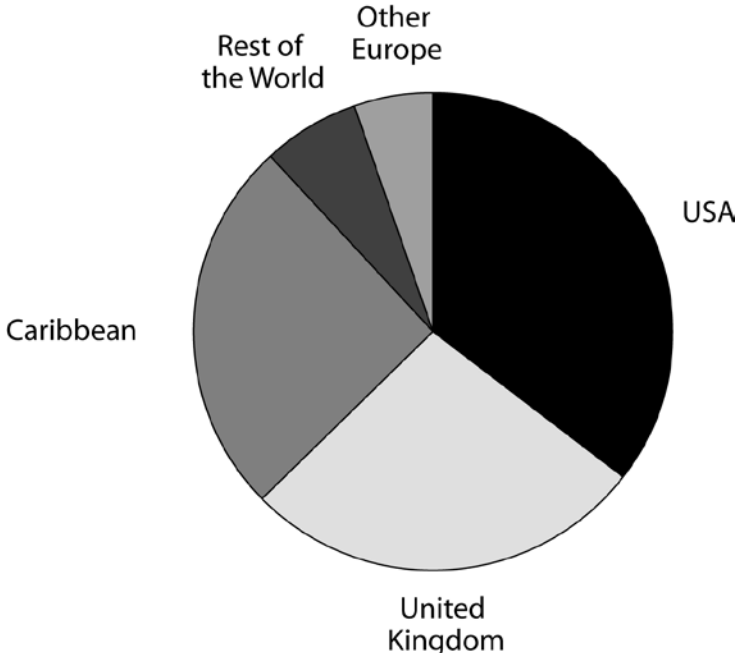
Following recent world events, however, the airline industry is in financial difficulties and competition for airlift in the Eastern Caribbean is intense. Since airlift was the limiting factor for scheduled tour operators to increase their capacity into the Caribbean, vertically integrated tourism companies were able to take advantage of world events in order to increase their seat capacity into St. Lucia. The competition between scheduled and charter

airlines in the Caribbean has had the effect that charter airlines will only service a route if governmental support is granted via risk sharing agreements or non-monetary contributions such as accommodation for the crew and a reduction of landing fees.

“Now no airline, charter or otherwise, flies without a [financial] guarantee”.
(Interview with the General Manager of a small hotel, July 2003)

The main aim of the government is to maintain their level of quality, to retain their scheduled airlift and offer a tourism experience that distinguishes itself from other islands in terms of its value for money and not merely on price. As such, the government only supports charter flights if this results in incremental growth of tourist numbers (St. Lucian Government).

As tourism to St. Lucia is of national importance – the service industry (which includes tourism) now makes up 73% of the national GDP (Central Intelligence Agency, 2003) – the government of St. Lucia has a vested interest in the development of its tourism in the destination and the implications of the structure of the commodity chain on the destination. St. Lucia as a tourist destination is dependent on two major markets: the US and the UK (see Figure 4).



Source: The Central Statistical Office of Saint Lucia

Figure 4: Origin of tourists to St. Lucia, 2003

UK package tourism to St. Lucia cannot be analysed in isolation from other destinations, as it is positioned in the global tourism system. It needs to be seen in the context of wider international trends influencing global tourism.

In the end, the palm trees and coconuts are everywhere ... it's not something where you can say: Come to St. Lucia we've got palm trees and coconuts.

(Interview with the General Manager of a large hotel, July 2003)

While the government of St. Lucia realises that competition for tourism flows is intense in the Caribbean region and monitors their neighbouring islands (especially Antigua which offers a similar product) closely in order to anticipate future trends, the position of the Caribbean in the tourism system compared to other long-haul 3S destinations is more important.

It is very important for the Caribbean Islands to look beyond their neighbours as competition and stop looking at Barbados and Antigua so closely and look at Mauritius, the Seychelles, these are the places that our clients have a choice [of visiting].

(Interview with the General Manager of a specialist tour operator, September 2003)

Although not directly involved in the production or distribution of the tourism product, the government is a secondary link as it provides the infrastructure, and offers potential investors (hotel or airlines) assistance. The main activity of the tourist board is managing the representation of St. Lucia; it therefore acts as a destination management agency, whereas the Ministry of Tourism is responsible for the development of the tourism product.

The St. Lucia Tourist Board, as a destination-marketing agency of the Government of St. Lucia, represents an important role in the relationship between the destination and the UK as the tourist generating country. It enters into joint marketing projects with mass tour operators, hotels and airlines in order to increase tourist numbers to St. Lucia, offers travel agencies educational material on the destination and therefore has considerable impact on the representation of St. Lucia in the UK. This allows the Tourist Board to market St. Lucia as an

upmarket destination in order to dissociate the island from the cheap mass tourist destinations of the Spanish Caribbean.

“Why they don’t have charter holidays here at the moment is because the government is reluctant to commit to charter holidays coming here. Their reason is they don’t want the charter tourist to come here because it brings down the level of clientele. Because they don’t want to become another Varadero in Cuba or they don’t want to become another Cancun or they don’t want to become another Punta Cana in the Dominican Republic. Where you have all this cheap, cheap mass tourism and the people just come there, book all-inclusive and not spend a single dollar on anything else”

(Interview with the General Manager of a large hotel, July 2003)

These relationships between the integrated mass tour operators and their suppliers demonstrate the dominant position they occupy in the commodity chain of UK package tourism to St. Lucia. But what type of governance structure is driving the commodity chain?

In this year, we – as the tour operators – have influenced the capacity change into St. Lucia. ... It was driven by *our* change in dynamics rather than the customers.

(Interview with the Purchasing Director of an integrated outbound tour operator, September 2003)

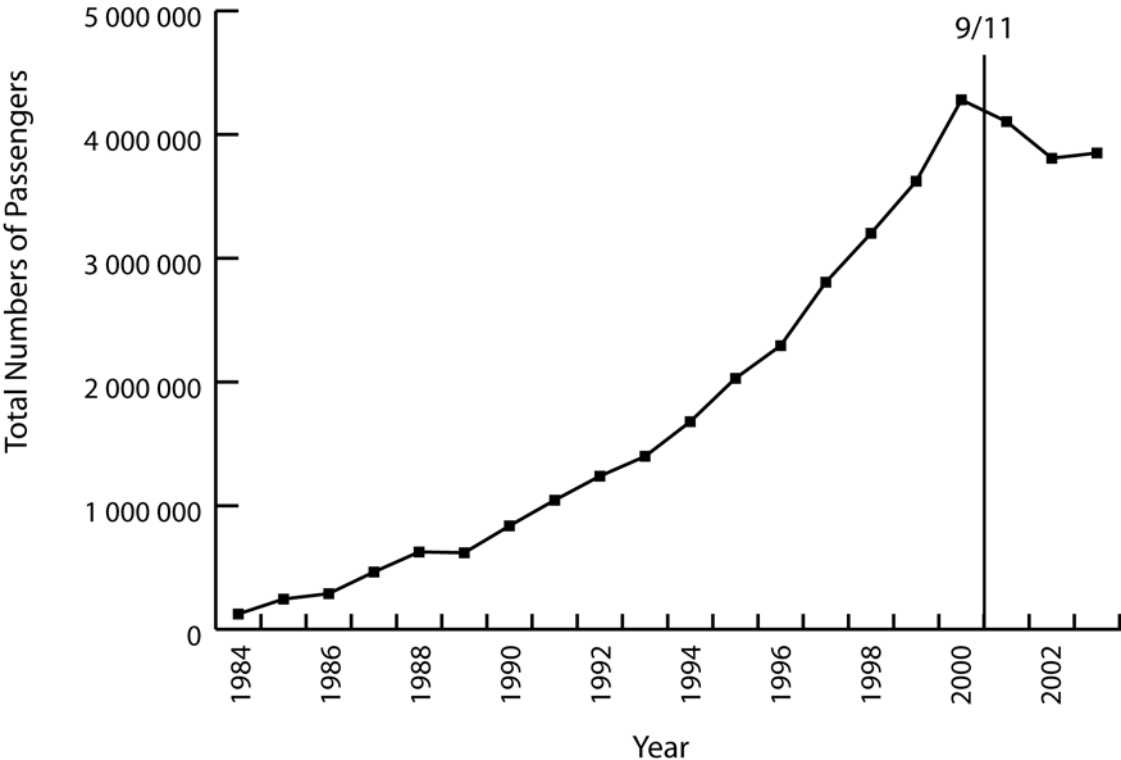
The European package tourism commodity chain is characterised by attributes of both producer- and buyer-driven chains as defined by Gereffi (1994) and Gereffi *et al.* (1994) (see Table 1): The barriers of entry are equally economies of scale and scope, as the organisation of production is centred around horizontal as well as vertical integration which has resulted in mergers and acquisitions creating large pan-European firms. This integrated organisation is atypical for controlling companies in buyer-driven commodity chains in manufacturing. On the contrary, these companies externalise much of their production processes and form so-called ‘hollow firms’ that specialise on marketing and strategic distribution (Gereffi *et al.*, 1994).

The governance pattern of UK package tourism to St. Lucia seems to highlight the vulnerability of tourism destinations when facing exogenous factors such as the structure of international tourism.

5. The effects of a new market entry: the case of St. Lucia

This section will show that since airlift was the limiting factor for tour operators to increase their capacity into the Caribbean, the Virgin Travel Group was able to enter the package tourism market to St. Lucia and over time increase their seat capacity due to their non-market relationship with Virgin Holidays, their mass tour operator.

The Virgin Travel Group is a vertically integrated group, which includes a scheduled airline (Virgin Atlantic), an outbound tour operator (Virgin Holidays) and a retail travel agent (Virgin Travelstores). Since its origin in 1984, Virgin Atlantic, the principal in the group, has seen near exponential growth in numbers of passengers transported (see Figure 5). It has become the second largest long-haul airline in the UK and since its inception flight to Newark, New Jersey, has expanded to service 22 destinations in the Caribbean, the Far East, India and Africa from London Heathrow and Gatwick airports.

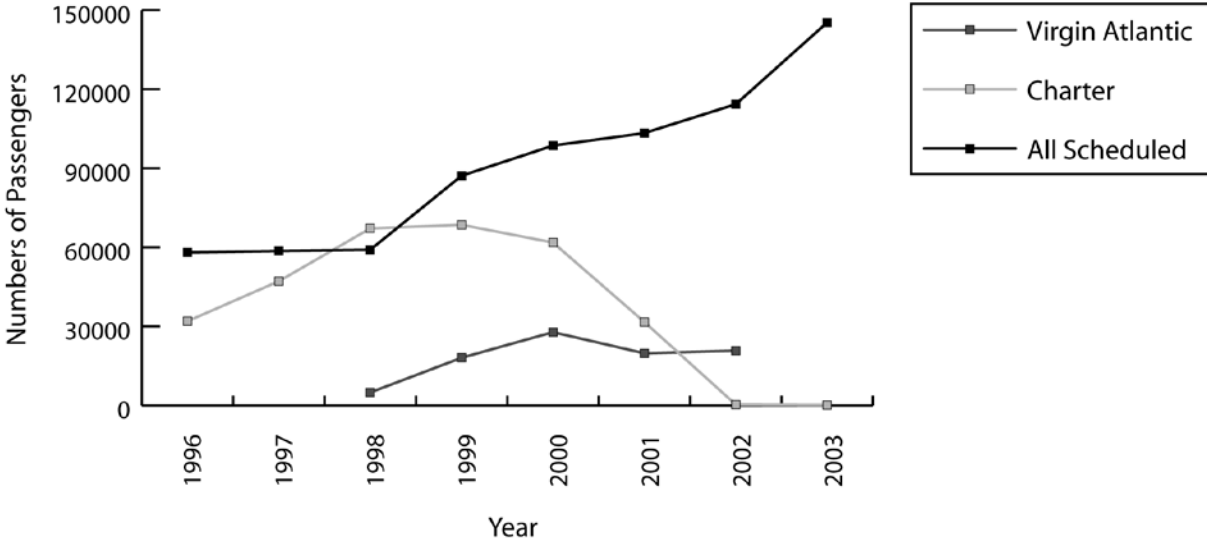


Source: Company Information

Figure 5: Initial success of Virgin Atlantic

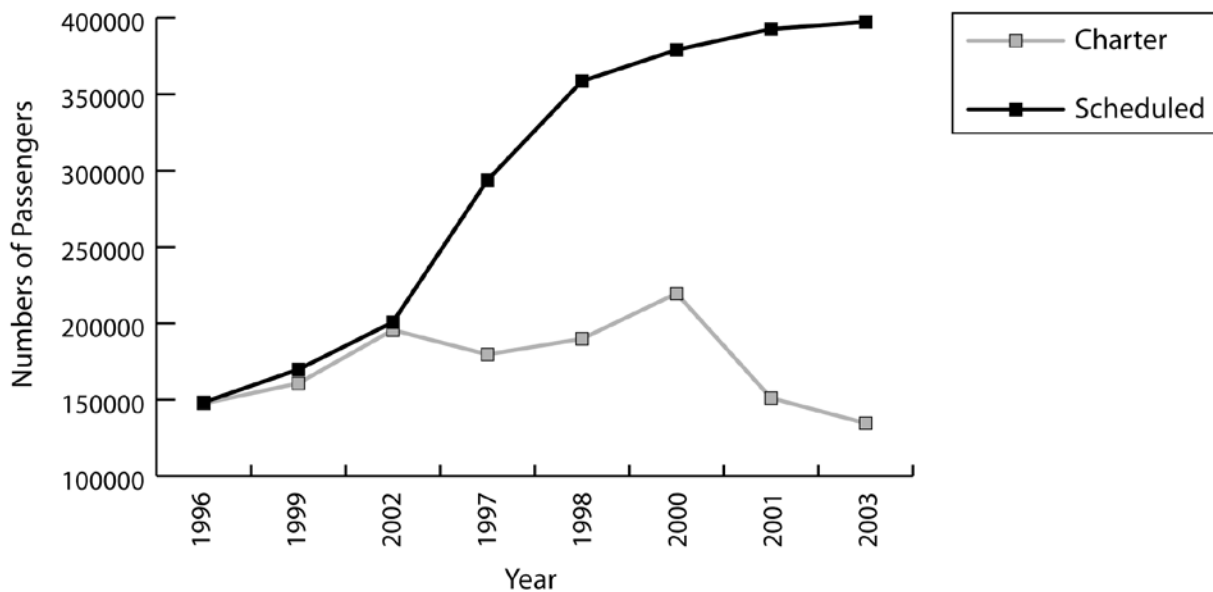
In 1998, Virgin Atlantic took advantage of an instability in the airline market and free runway slots at Gatwick airport that had become available, to increase its service to the Caribbean and simultaneously began its service to St. Lucia with a weekly flight into Hewanorra International Airport. Its competitive pricing and superior service, compared to charter flights, made the difference between charter and scheduled fares too insignificant for outbound tour operators to take the extra risk of taking fixed allocations on a charter (in effect underwriting the cost of the charter). As a result many charter companies cancelled their services to the Eastern Caribbean in 2000. While other Eastern Caribbean islands, such as Barbados, assisted the charter companies with risk sharing agreements and non-monetary contributions in order to retain their charter tourists, St. Lucia had lost her charter business by 2001.

Figures 6 and 7 show a comparison between passenger number of schedule and charter airlines to St. Lucia and Barbados respectively.



Source: UK Civil Aviation Authority

Figure 6: International Air Passenger Traffic from the UK to St. Lucia, 1996-2003



Source: UK Civil Aviation Authority

Figure 7: International Air Passenger Traffic from the UK to Barbados, 1996-2003

While Virgin Atlantic is a scheduled airline, which services a wide variety of long-haul destinations, it provides Virgin Holiday with a seat allocation of 60-70% on its flights to St. Lucia.

[Virgin Holidays] became operational in January 1986 with a view to selling seats on the new Virgin Atlantic routes to New York, Orlando and Miami. (Virgin Holidays, 2005)

Because of this special, non-market relationship between the two Virgin companies, Virgin Holiday provides St. Lucia with a high proportion of UK tourists and is therefore in a strong negotiating position *vis-a-vis* hotels and destination agencies.

“In this year, we – as Virgin Holiday the tour operators – have influenced the capacity change into St. Lucia. We as a tour operator are very fortunate to have our own airline. So we didn’t have to go to another airline to say: ‘we want to increase our passenger numbers to St. Lucia will you do it?’.” (Interview with a Manager of Virgin Holiday, September 2003)

This control over airlift and hence tourist volume from the UK to St. Lucia also means that the St. Lucian tourism sector is largely dependent on Virgin Travel Group. Increased dependency on one integrated tourism company leaves local firms even more susceptible to market changes and global events. Virgin Holidays, for instance, accounts for three quarters

of the occupancy of a large resort complex. Reversal of this dependency will necessitate significant concessions for new charter operators unless the brand of St. Lucia can be considerably strengthened in the market place.

6. Discussion

This research has shown that there are two important factors that influence the location of control in the package tourism chain. Mass tour operators are driving the commodity chain as they are able to exploit their ability to generate large volumes of tourists by insisting on favourable contracts from associated businesses and organisations. The second factor is the vertical and horizontal integration in the tourism industry, which has further increased the tour operators' capacity to produce tourist flows and amplifies their powerful position in the commodity chain. It is the combination or centralisation of nodes via vertical integration that drives UK package tourism.

However, the governance structure of the package tourism chain demonstrates that the classification into two main types as proposed by Gereffi (1994) and Gereffi *et al.* (1994) is too rigid and does not adequately fit the structure encountered in the tourism system. In contrary 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.

Commodity chain research analyses the spatial assembly of a product, however, the production of the tourism product (the experience) is spatially fixed. Although this minimises the possibility of taking advantage of locational or site-specific advantages the interchangeability of 3S destinations counteracts this advantage for destinations unless a strong destination brand can be developed. It is therefore essential for destinations to create a strong and unique brand in order to become independent from larger processes in the

tourism sector. Recent global events, however, have resulted in even lower profit margins for all companies involved in the tourism industry in order to offer significant discounts to attract tourists. This development, however does not alter the power structure of the tourism industry, it merely amplifies the control exerted by mass tourism operators. The fact that St Lucia is a small island economy, tourism is the main economic activity and local government involvement (Wilkinson, 1989), means that this further increases its dependence on overseas influence. So, while theoretically the local has the overall ability to contest the global, recent events have increased the dependence of the local on global production processes.

Far from being a static system, the relationship within the “maze of linkages and alternate channels” (Britton, 1991: 457) are constantly re-negotiated as powers shift with the entry of new actors, mergers and acquisitions and changing tourist preferences. The Virgin Travel Group has benefited from a static situation in the Caribbean to pursue its growth strategy by aggressively targeting certain destinations and using non-market relationships between its integrated companies and thus considerably increase its market share into St. Lucia. As a result, it has gained considerable power in the commodity chain without changing the actual structure of the chain but rather by integrating strategic nodes – airlines and tour operating – and refining existing relationships. This change must be seen in relation to the structure of the European package tourism commodity chain, the global strategy of Virgin Travel Group to use its integration to foster non-market exchange between its airline and mass tour operator and the local opportunities offered by St. Lucia, a small Caribbean Island connected to the global tourism system via the commodity chain as well as through competition with other 3S destinations.

Rather than focussing on detailed research of tourism industries in isolation of other associated tourism companies, such as the hotel or airline industry (Clancy, 1998), this research suggests that a wider (albeit less detailed) examination of the connecting nodes of the chain is more appropriate for the study of tourist flows to a case study destination and its

position in the global tourism production and distribution system. Such a positioning of the research offers the advantage of being able to analyse the position of the controlling node and examining its influence on other nodal points in the chain. Of special interest is therefore the specific link between the controlling node and the destination: a more detailed analysis of vertically and horizontally integrated tourism firms and their connections to destinations. But as this paper has shown, of importance are also the relationships between the actors at the controlling node. While integrated tourism corporations are the controlling node in the commodity chain in the particular case of UK package tourism to St. Lucia, it was Virgin Travel Group that managed to take advantage from favourable circumstances to take a controlling position in the chain/node.

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