



The Way Forward Is “Shorter, Cheaper, and Closer to Home”: The Tourism Industry Will Recover Even Without Inbound Tourism!

Hoshino Yoshiharu, CEO, Hoshino Resorts

One of the industries most severely hit by the COVID-19 pandemic has been the tourism industry. Some small and medium-sized traditional inns have even gone bankrupt, so what can be done to revive the tourism industry? *Bungeishunju* asked Hoshino Yoshiharu, CEO of Hoshino Resorts, who is the manager of luxury traditional inns and hotels.

The declaration of a state of emergency was lifted and travel across prefectural borders was once again permitted starting on June 19, so people are gradually returning to the tourist attractions. The tourism industry lost a major market in the so-called Golden Week due to the COVID-19 outbreak, so it's positive that this development started speeding up ahead of the important summer season. It felt like there was a glimmer of hope.

The number of reservations for the facilities we run in Japan are also approaching normal levels. The exceptions are Tokyo, Okinawa and Hokkaido. The recovery in these places is slow due to the disappearance of inbound tourism demand and, in the case of Hokkaido, the outbreak of a second wave. Recovery is unexpectedly quick for our twenty-four other facilities in Japan.

Even so, this will be for nothing if infected persons are found in those areas. We're working at all the facilities to implement measures to ensure full avoidance of the “3Cs” of closed spaces, crowded places, and close-contact settings and show that domestic travel is safe.

Especially popular among our guests is our check-in and check-out procedures. We have previously done our best to create a welcoming atmosphere to stage something “extraordinary,” but we have now simplified the procedures and are taking the guests to their rooms with minimal human contact. At the same time, we never skip the check-in temperature measurement. It would appear that such visible measures facilitate a sense of security among the guests.

The guests themselves likewise wish to avoid the “3Cs” inside the facilities. This is why we also developed a “visualization” service for how crowded the hot spring baths in the facilities are. You read a QR code with your smartphone, and it will indicate the degree of crowdedness classified into three levels. This is popular since you can check how crowded it is in advance, which eliminates the stress of having to come and go between the room and the bath.



Hoshino Yoshiharu, CEO, Hoshino Resorts
Photo: Courtesy of Hoshino Resorts



Check-in temperature measurement at Hoshino Resorts
Both photos: Courtesy of Hoshino Resorts



Hoshino Resorts has developed an application which displays the degree of crowdedness classified into three levels on a user's smart phone.

The “first test” of whether we will survive the COVID-19 outbreak is how much of the market we can bring back in July and August, as we’re thoroughly enforcing these measures to avoid “3Cs,” the “first test.” This holds true for the whole industry as the difference between “surviving or not” depends on whether you can limit the year-on-year sales decrease for July and August to 20% or to 50%. There is no stopping the drop in room occupancy for the time being, but the accommodation market will definitely come back. This is why it’s important right now to “stop” the losses at a reasonable level for the whole year.

Uchimura Kanzo’s “Secrets to Success”

It has been 106 years since Hoshino Resorts opened the first traditional inn in Karuizawa, Nagano Prefecture in 1914. During this time, we have faced a large number of “crises” and have overcome every single one of them. The current COVID-19 outbreak certainly is an unprecedented situation, but taking into account past experiences, everyone in the company agrees that “At times like this, the most important thing is surviving.”

“If you solidify the base, business development will naturally follow.”

This was one of the ten “secrets to success” that Uchimura Kanzo, a Christian leader and thinker (1861–1930), sent to Yoshimasa, my grandfather and the second-generation manager of the Hoshino Onsen hot spring. At the time, Uchimura was a frequent visitor to the Hoshino Onsen and so offered his advice to the still young and careless Yoshimasa because he worried about him.

Personally, I have never made a decision based on the ten points, but there have been times in my long life as a manager, encountering a variety of phenomena, when I felt that I understood some of the meaning of each and every one of those ten.

“Depend on yourself and not on others.”

“Think of your employees as brothers. Treat your guests as family.”



Uchimura Kanzo (1861-1930)
Photo: Courtesy of Uchimura Kanzo Memorial Stone Church

These maxims and others make you think during this COVID-19 outbreak.

One maxim in particular stands out.

“Do not hurry but drive things like automobiles as slowly as possible.”

You might wonder what this is connoting, but the meaning is actually straightforward. At the time, my grandfather was a reckless driver, and the story goes that he once drove Uchimura who was so panicked that he scolded him harshly after getting out of the vehicle. But I guess he felt he had been too harsh. Uchimura apologized by writing the “secrets to success” that evening and giving them to my grandfather. Even then, he added the words “drive [...] as slowly as possible.” It’s indicative of how dumbfounded Uchimura was by my grandfather’s reckless driving!

Lessons from the Coronavirus Crisis

Since becoming CEO of Hoshino Resorts at age 31 in 1991, I have continuously told the staff that, “Our competition is neither Mamepei Hotel nor Prince Hotel (in Karuizawa). From now on, foreign-owned companies will be targeting Japanese tourist destinations.”

In fact, when Park Hyatt Tokyo opened in Shinjuku in 1994, foreign-owned companies started expanding to Tokyo and Osaka one after the other. That wave also hit the resorts. In order not to be overcome by this wave, we also need a bit of size to remain in the match. This is why we started doing business and management to resuscitate the resort facilities, and now we’re running forty-two facilities in Japan and abroad.

It could be said that this greatly transformed Hoshino Resorts in my generation, but rather than me changing it, I think it’s more correct to say that we were forced to change in response to the changing times.

Now, another big wave of change is hitting us in the form of “COVID-19.” In the thirty years or so since I started this job, I have experienced the bursting of the economic bubble, the Global Financial Crisis, the Great East Japan Earthquake and much more. The ways to attract guests during these crises when there are no fundraising measures or demand are a form of tourism knowhow that you definitely won’t learn in normal times, so they taught myself and the organization so much.

I’m certain the coronavirus crisis also hides many such lessons. If we can overcome this crisis, I think it will help our staff grow and develop big self-confidence for the future.

So, what should the tourism industry do specifically to overcome this crisis?

The first thing I want to say is that inbound tourist demand has grown considerably in the last several years. People frequently ask me about the effects of inbound tourists nearly disappearing because of the COVID-19 outbreak. However, even though it’s true that inbound tourism has grown, it makes up less than 20% of Japan’s total tourism market.

Japan’s entire travel market was 27.9 trillion yen in 2019. The domestic market, including day trips and overnight stays, makes up 22 trillion yen, the inbound tourism 4.8 trillion yen, and Japanese outbound tourism 1.2 trillion yen.

In recent years, the tourism industry has had a big focus on inbound tourism since the Olympic Games and other international events were coming up, but we mustn’t forget that in reality, almost 80% of Japan’s travel market consists of domestic travel by people residing in Japan.

Moreover, when it comes to Japan’s outbound tourism, just the money spent inside Japan is a 1.2-trillion-yen market. If we take into account the money directly spent at tourist attractions and

restaurants abroad, the actual market is two or three times larger. Now that people can't travel abroad due to COVID-19, it's possible that this consumption will go back to domestic travel.

This means that even if we lose 4.8 trillion yen in inbound tourism, the 2–3 trillion yen that Japanese people used for outbound tourism might come back to the country. This informs us that the loss of inbound tourism doesn't represent a decisive blow to the Japanese tourism industry. If we restore domestic travel demand, there's a market big enough to ensure the survival of the tourism industry.

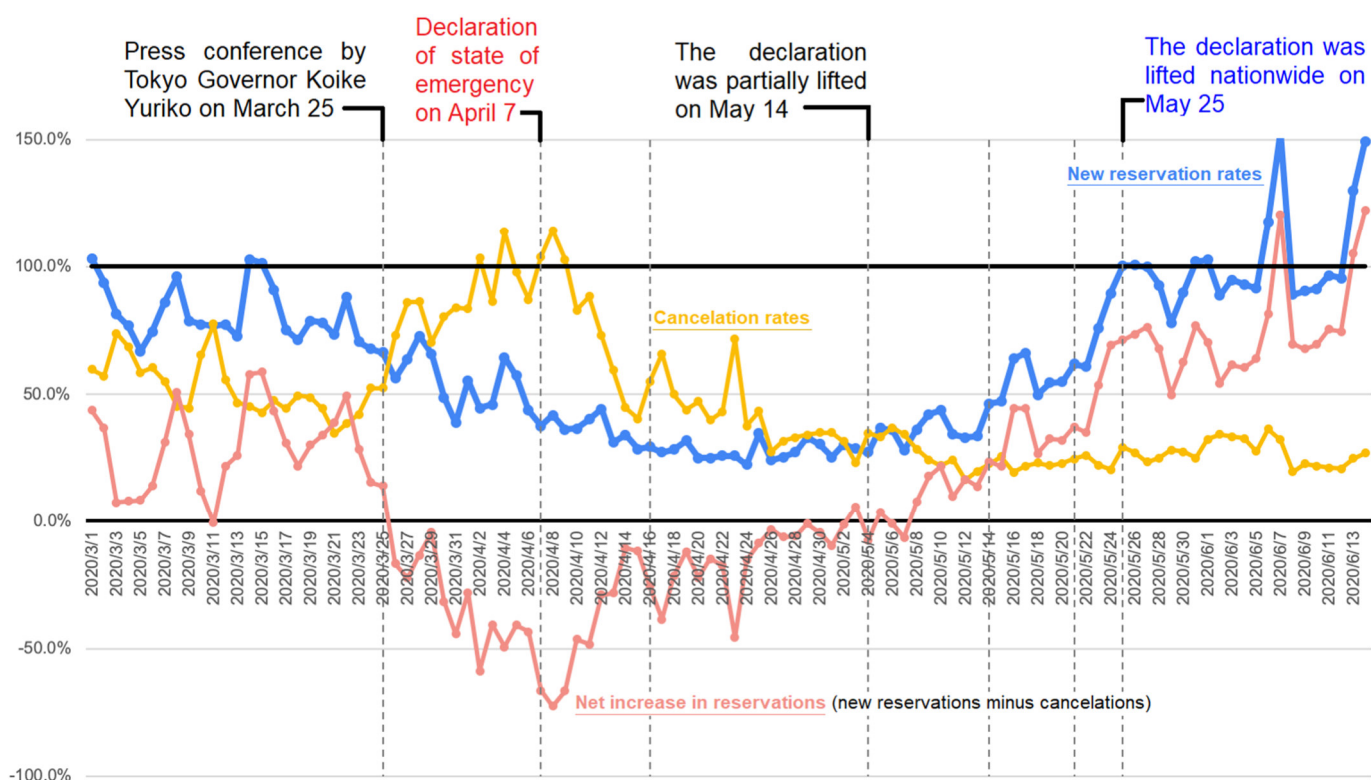
How to Survive Eighteen Months

So, how do we get back that domestic travel demand? I'd like to introduce our initiatives.

We created an "eighteen-month plan" in late March.

The effects of COVID-19 are long-term. It will continue until all of society feels a sense of security that "we can go anywhere without a problem" through the development of a vaccine or herd immunity. We estimated that it would take eighteen months to reach that state of security, so we thought about how to survive in the meantime. Based on that, we're now coming up with a variety of measures and concrete plans.

Changes in reservations at Hoshino Resorts facilities over three months during the COVID-19 outbreak



Note: Figure shows reservation rates at the twenty-four domestic facilities of Hoshino Resorts except facilities in Hokkaido, Tokyo and Okinawa.

Source: Hoshino Resorts

The declaration has now been lifted and we're in a first relaxation period, but there will be repeated rounds of "self-isolation" and "relaxation" if second and third waves come in the future. Tourism demand during that period will likely develop in a special fashion that differs from the normal.

Changes in reservations at Hoshino Resorts facilities in the past three months (Figure) show that cancellations exceed reservations. That is, the net increase in reservations did not become negative until March 25, right after Tokyo Governor Koike Yuriko asked people to refrain from “non-essential travel in the weekend” at a news conference. From then until the issuance of the declaration of a state of emergency on April 7, there was a big wave of cancellations.

Down 80–90% Year-on-Year

The tourism industry experienced an unprecedented drop in sales in April and May. Our facilities have gone down 80–90% year-on-year, including room occupancy. We had a similar drop at our facilities in Fukushima Prefecture following the Great East Japan Earthquake in 2011, but it didn’t affect other facilities so much. This is the first time we have a drop this steep nationwide.

Things would have been more serious if this situation persisted, but reservations fortunately started recovering from around mid-May when there was talk about lifting the declaration. Including the new reservations that weren’t there during the declaration, summer reservations came back and the daily rate of reservations exceeded the normal. However, in the end, we weren’t able to fully make up for our late start, so we’re predicting a decrease compared to the previous summer, although we think it’s much smaller than what we originally anticipated.

During this time, we didn’t do things like lower accommodation charges. To begin with, the reason for the drop in reservations in April and May was not “high prices” but “not knowing what will happen with COVID-19.” Lowering the prices would not necessarily give a corresponding rise in demand or revenue. Rather, thorough implementation of measures to avoid the “3Cs” will appeal to customers more. Our policy will continue to be one of not lowering prices.

Reassuring Words Are Needed

At present, the reservation rate has recovered, but our task now is how to accelerate this development further. The key lies in how the market develops for those “undecided” about whether or not to travel.

In early June, we conducted a survey involving 20,000 Kanto residents aged 20–70, asking them “Do you intend to travel domestically before the end of 2020?” The result was 42% responding “I wouldn’t mind,” 31% “Undecided,” and 27% “Don’t want to.” I wasn’t expecting to get this many “Undecided.”

Of particular interest are the “reasons” for the undecidedness. The most common one was “The infection risk,” which is to be expected. However, I was surprised to see that the second most common one was “I don’t know if travel is allowed.”

At a time when the infection was spreading across the country and prefectures were adopting a range of measures, there were quite a few local governments using strong words like “Please don’t come right now.” Reactions in some such prefectures could at times be excessive, such as people reporting or damaging cars with number plates from outside the prefecture. It seems that the market still remembers the news from that period quite well.

Back when impactful messages like “Don’t come right now” were conveyed, I did think it might have lasting side effects. It’s difficult to build a tourist attraction brand, but when it crumbles it does so in an instant. The ban on “travel across prefectural borders” was completely lifted on June 19 and the “appeal”

for that was also de facto rescinded, but people won't immediately feel like visiting a tourist attraction after having been told "Don't come."

This is why I now want the leaders of local governments to make a strong appeal by saying "It's alright now. Please come now since we'll give you a warm welcome." More than anything else, we need reassuring words that can help restore the brand image damaged by COVID-19. Unless all of Japan creates a "welcoming mood," the effect of the state's "Go To Travel campaign" to support the tourism industry will be negative. We should first change the mindset of those who are undecided to "The tourist attractions will welcome me." I feel this is our most urgent task.

The Idea of Micro-tourism

If we can conjure up an image that domestic travel is safe and secure during this summer, then customers will return in time for the fall-leaf season. If we get through that, then comes the winter season next. Once we have a cycle like this going, I think tourism demand will gradually "recover."

Even so, we have to be prepared for the eventuality that the recovery doesn't come all at once. Customers will first return to the "micro-tourism" market. This is travel locally or to surrounding areas, covering distances that can be reached in one or two hours with a private car.

Next comes travel from the metropolitan areas using bullet trains or airplanes. The ban on inter-prefectural travel was completely lifted, but there still exists a wariness against long-distance travel. It will likely take some time before this market returns fully. Finally, the inbound tourists come back, but this lies far in the future.

In short, the biggest focus of the tourism industry in the first relaxation period ought to be stimulating demand for "micro-tourism."

Micro-tourism was something that existed all over Japan during the period of rapid economic growth. There's still quite a lot of this in all regions. There's the saying "*agezen, suezen*" (taking care of everything), but during the period of rapid economic growth, regional hot-spring resorts were bustling with people as places that offer a bit of luxury to the wives and mothers always busy with domestic chores who deserve some relaxation and good food once in a while. They were basically places for locals to "relax and have fun."

Nowadays it's considered a luxury to provide guests with "local production for local consumption," but this changes if those guests are locals as well. When I was a kid, the meals at a hot-spring inn in the mountains would have included spiny lobster and abalone as a matter of course. That's because such meals would have been luxurious for the people living in those areas. The idea of "micro-tourism" was also something I constantly kept in mind when I was working on the resort resuscitation. For example, skiing is very popular in Tomamu in Hokkaido, so people come from all over the world in the winter. However, crucial to the resort business is how to attract customers in the off-season and equalize occupancy. To achieve this, we thought long and hard about how to appeal to the local market, conveying its charm to customers within Hokkaido. Efforts like this have become even more important since the COVID-19 outbreak.

An Inconvenient Truth of the Tourism Industry

However, with the declaration of a state of emergency in April, travel across prefectural borders was

prohibited everywhere. But was this really a necessary measure in order to keep down the infectious spread?

For example, was it actually necessary to close the border between Shimane and Tottori Prefectures? It was a real problem for Tamatsukuri Onsen in Shimane that they were not able to attract customers from Yonago City right across the border in Tottori. If the response had been more refined so that the border was kept open because of its importance in the micro-tourism business area, it should have been possible to minimize the economic damage caused by the self-isolation period. At the very least, it should have been possible to soften this kind of extreme sales drop of 90% that we've seen now. I also think it was possible to adopt a more flexible approach of allowing mutual movement between, say, the six Tohoku prefectures and the four Shikoku prefectures.

The micro-tourism business area is small in terms of population, but it's possible for customers to make several visits a year. Even though you might not be able to travel from New York to Karuizawa four times a year, micro-tourism "shorter, cheaper, and closer to home" keeps travel expenses down and makes it possible to easily travel to the same place several times in a year. The charm of travel in Japan is the changing seasons, so it's possible to visit four times in a year.

This also provides a hint about how to resolve "an inconvenient truth that the tourism industry has willfully ignored." The baby-boom generation will all become so-called latter-stage elderly (over 75 years of age) by 2025, so it's evident that the travel participation rate will fall. If so, we cannot avoid a decrease in domestic travel, which we already said makes up nearly 80% of the tourism market. Yet if we're able to revitalize micro-tourism so that tourists, including the young generation, start making repeat visits and stay overnight, then there might be hope to maintain the domestic travel market in the future as well.

Looking ahead, the ideal is a market composition where micro-tourism is one-third, travel from the big cities one-third, and inbound tourism one-third. Of course, our first priority should be to "survive" the COVID-19 outbreak, but at the same time, we also need to set our eyes on the post-COVID-19, so it's also very important to speed up these kinds of "changes." This is why we intend to take the initiative to offer this mode of travel that is at once old and new.

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