



Insight

Three megatrends to change
the face of the Thai tourism industry





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Three megatrends to change the face of the Thai tourism industry

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Published in March 2017

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Executive Summary

Megatrends are creating global waves of change that will force businesses in the tourism industry to adjust. The three major global trends are; 1) demographic change, especially rising numbers of senior citizens, who will account for an ever larger share of international trips and travel spending, 2) intensified international competition for arrivals and tourists' spending as governments ease visas and promote tourism-related investments, and 3) the rising dominance of smartphones and social media in everyday life and consumer behavior, forcing businesses to adapt.

Tourism businesses should prioritize the senior citizen segment, which is growing fast. Older tourists have greater spending power and more free time, yet their demands vary widely. The groups with the highest potential are senior leisure travellers, which have the highest trip spending per person of any age group, and foreign retirees. The increase in travel to Thailand by senior tourists has lifted the number of foreign retirees here. Thailand can expand its market among foreign retirees by targeting rich countries with large numbers of senior citizens, such as the United Kingdom, United States, Japan and Germany.


As more and more nations vie to attract tourists and travel spending, creating a more competitive marketplace, tourism businesses should explore new niches. Throughout the Asia-Pacific region and Middle East, governments are promoting the development of new tourist attractions. Because tourists will have more and more destinations to choose from, Thai tourism business owners will encounter greater competition. Rather than promoting well-known destinations, businesses should focus on expanding new tourism market niches, such as activity-based travel and adventure tourism, which rely on value-added services and unique experiences rooted in local cultural and natural heritage.

Today's explosion in online information and services has helped drive fast growth of free and independent travel (FIT) while also increasing tourists' sensitivity to prices. As a result, online marketing is ever more important, and competition from new entrants is rising. New global businesses like online travel agencies enable easier comparisons but make consumers more sensitive to price. Smartphones and social media have driven the rise of marketing via bloggers and 'influencers,' who share their personal experiences of travel. New business models are disrupting old ones; Airbnb allows individuals to rent out their private residences to tourists. In many countries, Airbnb has had a significant impact on hotels, especially those in the mid- and low-price ranges. It is likely to pressure Thai hotels going forward. Already, over a million Chinese tourists have used Airbnb, whose number of accommodations in Bangkok has more than doubled in the past year or so.

EIC recommends three strategies for Thai tourism businesses to cope with change and increase competitiveness. The strategies are 1) differentiate to attract quality tourists, such as by promoting new market segments that face less competition and rely on the uniqueness of local places and culture, 2) partner with related businesses in order to add value, such as by taking advantage of Thailand's strengths in medical tourism to create packages for older travelers and foreign retirees, and 3) use technology and online media to reduce costs and expand customer reach. These megatrends presents both opportunities and challenges. Thai businesses should get proactive as soon as possible.







1

Megatrends reshape tourism industry

The megatrends reshaping business are also transforming tourism. Three key structural trends are especially important in this industry: changing demographics, rising international competition for tourist arrivals and spending; and the impact of new technology. These three megatrends will present ever-greater opportunities as well as many challenges.



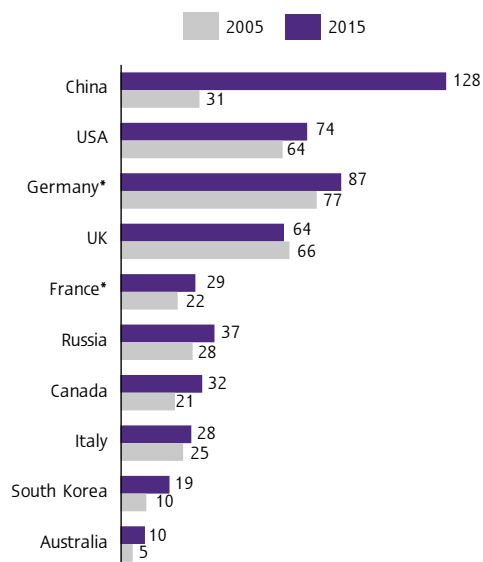
1.1 Demographics: older travelers drive tourism

Most of the world's major tourism markets today are so-called “aged societies,” nations whose citizens age 60 and above account for at least 20% of the total population. The ten countries that spend the most on tourism are mostly developed economies with large proportions of seniors, such as United States, Germany and the United Kingdom. China tops the list, and even its relatively young population, with seniors at 15% of the total, will soon reach “aged” status. In 2030, senior citizens will be 25% of China’s populace.

1 Aged societies lead in numbers of tourists

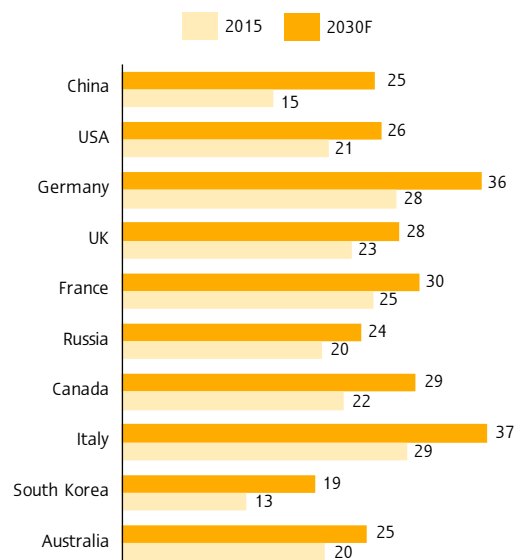
Number of international tourist with highest spending - Top 10

unit: million persons



Share of senior population to World Population Prospect (2015 – 2030F)

unit: %



* EIC estimated figures for 2015

Source: EIC analysis based on data from UNWTO, International Monetary Fund (IMF) and World Bank.

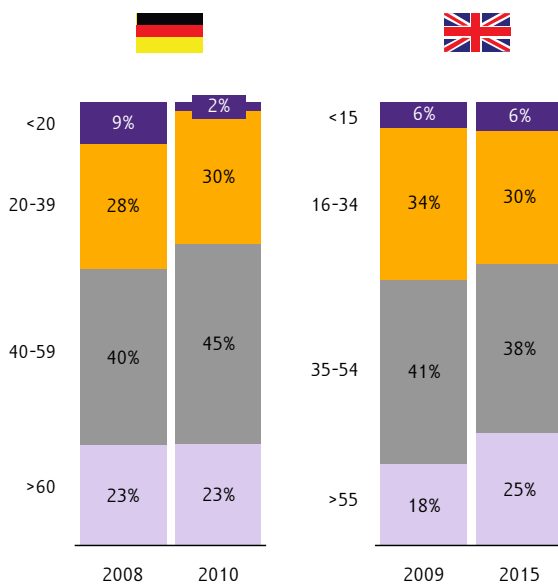


Growth in the number of senior tourists is outpacing that of other age groups. For instance, both Germany and the U.K. have seen increases in the proportion of outbound tourists who are seniors. Among British tourists, the ratio jumped from 18% in 2009 to 25% in 2015. Likewise, American retirees made up 15% of outbound U.S. tourists that year, up from 13% in 2012.

2 Growth in senior tourists outpaces other age groups

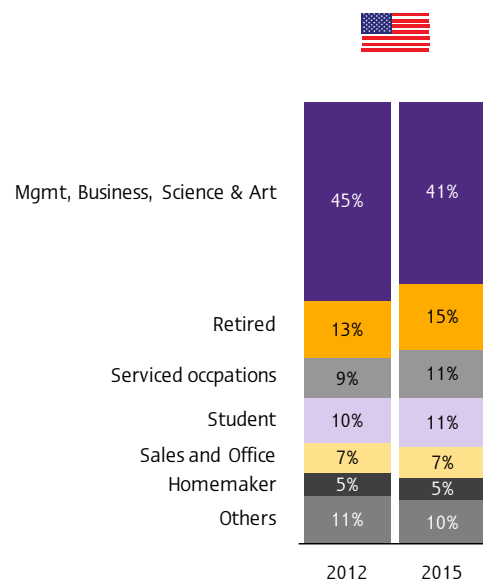
Share of international tourist - by age

unit: %



Share of international tourist - by occupation

unit: %






Source: EIC analysis based on data from the German National Tourist Board, the U.K. Office for National Statistics, and the U.S. National Travel and Tourism Office.

Most senior tourists are Baby Boomers. This large, affluent generation has different travel preferences from those of Gen X and Millennials. Boomers spend 1.5 times as much as Gen X, and 3 times as much as Millennials. According to a survey by TripAdvisor.com in 2016, Baby Boomers—the post-WWII generation born between 1946 and 1964—have the highest propensity to travel for the sake of leisure and recreation, with a stronger interest in experiencing local culture. Their travel decisions are not much affected by flight prices and promotional offers by hotels. They rely heavily on print media for travel information. On the other hand, Millennials, born between 1980 and 1999, place more emphasis on cost and often go online to compare prices before making reservations, especially for flights. The preferences of Gen X travelers are somewhere in the middle; they are prone to seek good value and respond to hotel promotions.

Among the three groups, senior tourists present important business opportunities. Older travellers place greater emphasis on quality. They have more free time and therefore prefer taking trips off-season to avoid crowds. They usually visit multiple cities on each trip, which lasts around 15 days to 1 month. They seek convenience and safety during travel, which translates into higher spending.

3 Different travel behavior across the generations

Travel trends survey by TripBarometer, 2016

	 51 years old+ Baby Boomers	 36 years old+ Gen X	 17 years old+ Millennials
Tourism spending (USD)	8,736	5,700	2,915
▼ Tourism patterns across generations			
Lifestyle tourism			
Emphasis on recreation	82%	79%	77%
Bookings made through online platforms	84%	82%	90%
Online comparison of options	72%	71%	80%
Factors influencing selection of tourist sites			
Culture and society	52%	46%	46%
Recommended by friends	22%	28%	36%
Low flight costs	13%	21%	36%
Inexpensive promotional accommodation packages	22%	23%	18%
Accommodation-specific	20%	18%	11%
Media influencing decisions			
Film	5%	10%	18%
TV	11%	19%	22%
Print	15%	17%	15%

Source: EIC analysis based on data from TripAdvisor and Virtuoso.

1.2 Global competition: nations vie for tourists

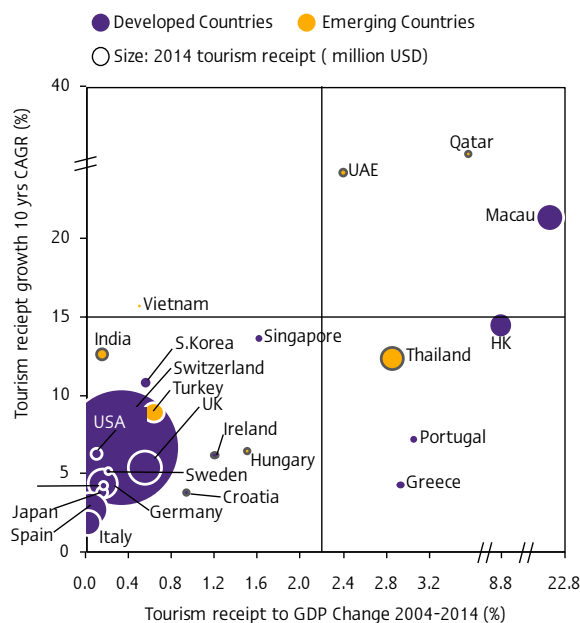
The tourism sector has become a vital part of most economies throughout the world, especially in Asia and among developing countries. From 2011 to 2015, worldwide tourism receipts grew on average 7.2%, up from 5.6% per year during 1995-2010. Asian economies like Macao, Hong Kong and Thailand, as well as developing countries in the Middle East, like the United Arab Emirates and Qatar, now prioritize development of tourism. Compared to developed countries, they have higher ratios of investments in transportation and tourism relative to GDP.

With so many countries relying on tourism for economic growth, competition in the global tourism market is heating up. In Macao and Hong Kong, the ratio of tourism receipts to GDP rose to 23% in 2014, up from only 9% in 2004. The countries with the highest rates of tourism income growth during the past 10 years include Thailand, at 36%, Qatar, at 12% and the United Arab Emirates, at 24%. These and other countries will each pump more money into developing their tourism sectors in order to raise tourism competitiveness.

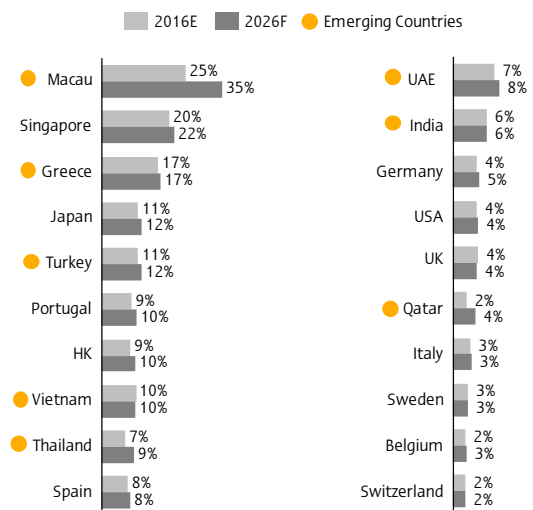
4 As more and countries rely on tourism for economic growth, competition is heating up

Significance of tourism industry to economy

Proportion of investment in tourism industry to GDP



Unit: % (2016E, 2026F)



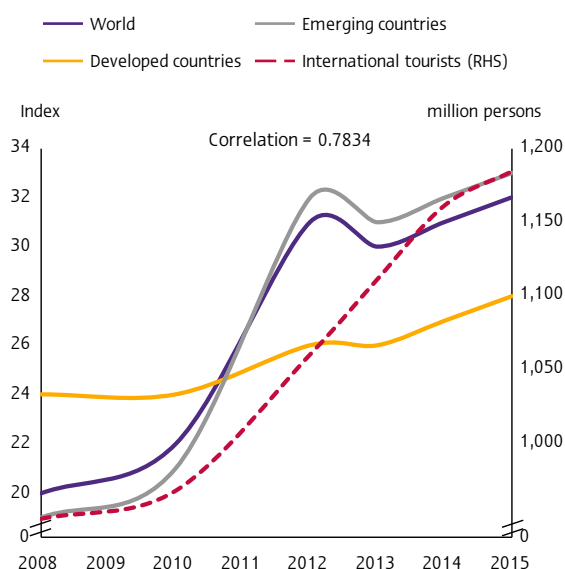
Source: EIC analysis based on data from World Bank

As Middle East countries like Qatar and the United Arab Emirates reduce economic reliance on production of oil and gas, they are pushing development of tourism. Qatar recently opened Hamad International Airport in Doha to accommodate a boom in travellers. Passengers grew from 23 to 30 million and are expected to 53 million per year in 2020. Qatar invested heavily in constructing attractions like football stadiums for the 2022 World Cup and The Pearl-Qatar, an artificial island with hotels, condos, marinas and shopping centers. New policies aim to attract more foreign direct investment in tourism-related businesses. These include easier visas, various public-private partnerships (PPP), and liberalization of trade and investment.

Developing countries are relaxing visa regulations to boost arrivals. The Tourism Visa Openness Index, published by the United Nations' World Tourism Organization, shows a big rise between 2010 and 2015, when these countries vied to ease travel visas, mostly using visa-on-arrival and eVisa programs. During the same period, these countries claimed a much larger share of all visas issued globally, leaping from 8% to 21%. By reducing visa application steps and processing time, these countries bring in more travellers.

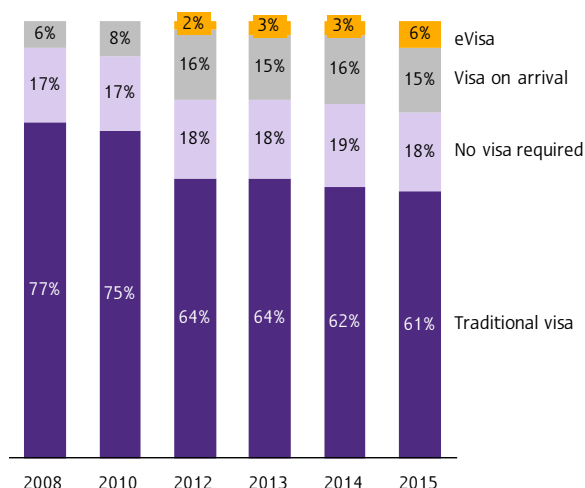
5 Developing countries ease visa rules to boost arrivals

Visa Openness Report 2015 and number of international tourists



Share of Visa by type of Visa - World

Unit: % share



Source: EIC analysis based on data from UNWTO

1.3 Technology: Internet becomes engine of travel

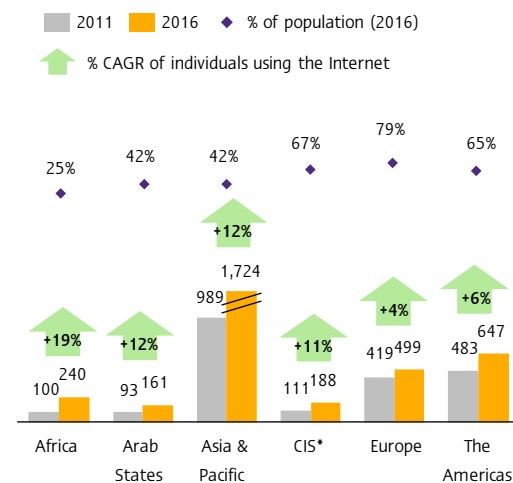
More than any other factor, information technology is transforming the travel experience and the travel industry. We're now moving toward the age of automation. Whether it be the internet of things (IoT), or artificial intelligence (AI). Leapfrogging technologies are altering business operations, with less and less labor required. Also, shifting consumer behavior, social media and smartphones became nearly ubiquitous in daily life throughout the world starting several years ago. Suddenly, they are everywhere in travel as well.

Doubling from 2012 levels, internet users now make up more than half of the world's population. Internet services have become hugely efficient, with ever-higher speed and ever-wider coverage at lower and lower cost, giving travellers instant access to communications and limitless information. While the high cost of roaming mobile service used to limit the internet's usefulness to international travellers, free Wi-Fi and cheap SIM cards now fill the gap in most situations. Global connectivity just keeps on growing.

6 Smartphones drive explosion in internet use

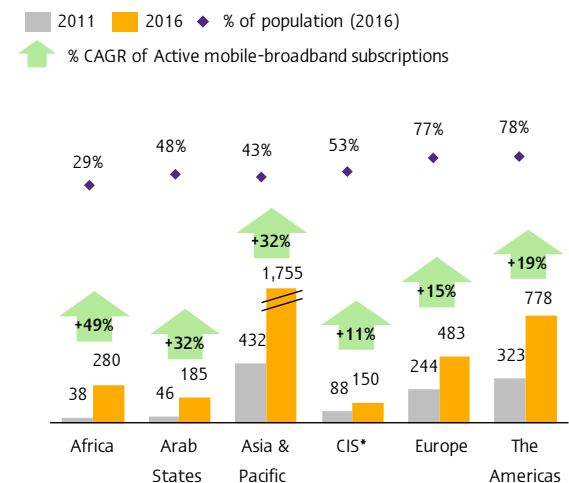
Individuals using the Internet

Unit: million persons, %



Active mobile-broadband subscriptions

Unit: million persons, %



*Commonwealth of Independent States including Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Uzbekistan

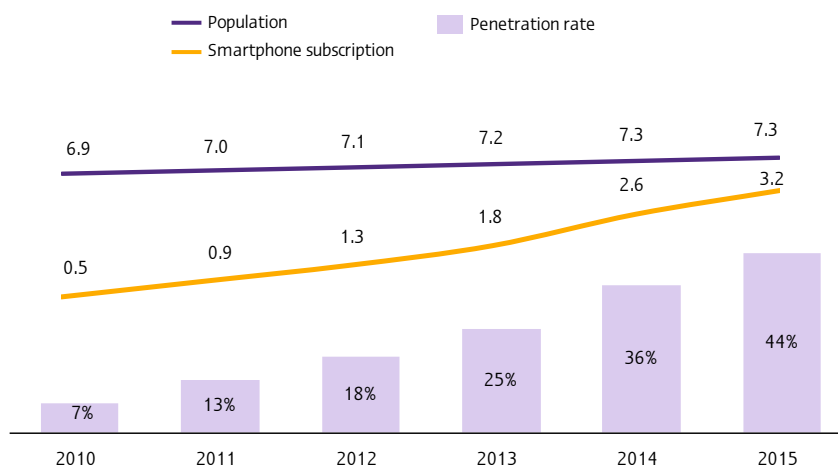
Source: EIC analysis based on data from ITU

Over 42% of tourists use smartphones to plan their travels. Over 50% use smartphones for maps and navigation to restaurants and tourist sites. A 2016 TripAdvisor survey found that the smartphone has become a crucial part of any travel kit. 87% of Millennial travelers use smartphones on their trips. The rate is 73% among Gen Xers and 55% for Baby Boomers.

7 Global smartphone penetration rate reached 44% in 2015, double the rate of 2012

Smartphone penetration

Unit: billion persons, %



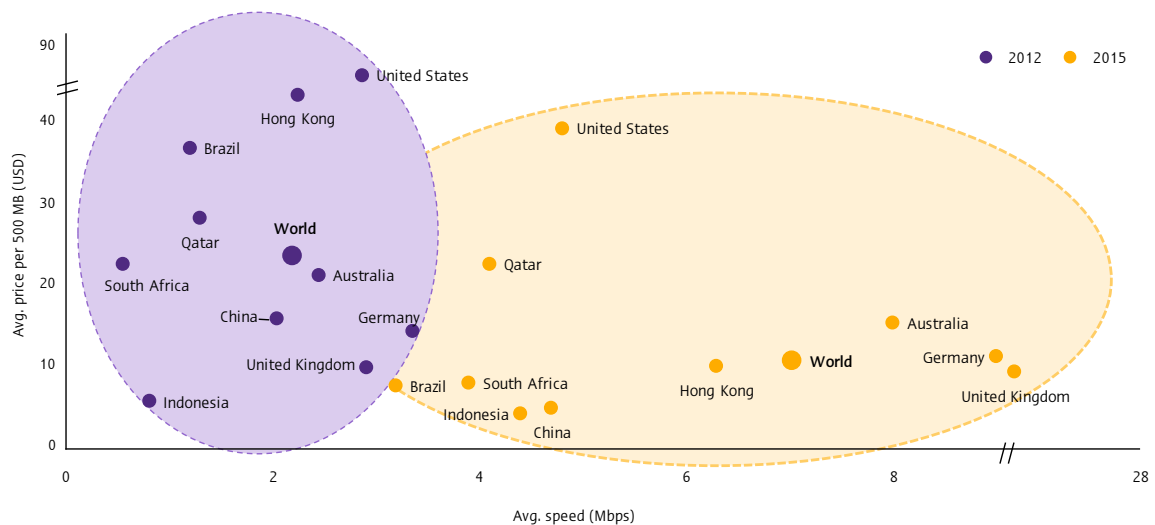
Source: EIC analysis based on data from World Bank and Ericsson.

Mobile apps are now the key to internet-enabled travel, displacing websites. The GooglePlay Store features over 100,000 mobile phone applications specifically for travel. The Google Maps app is a leader, providing easy geo-navigation and pinpointing tourist attractions, restaurants and accommodations. Many travel apps feature content sharing, so that fellow travelers and locals help keep visitors up-to-date and informed.



8 Mobile data fees are falling in many countries and speed has risen

Mobile broadband



Source: EIC analysis based on data from ITU and Akamai.

Most travelers use online platforms to research and book accommodations. Apps and websites now cover a very wide range of destinations, offering myriad options. The leading online platforms for hotels and other services, including both apps and websites, are now major channels for booking travel. For example, Booking.com provides more than one million accommodation options in 226 countries. It books over 6 million nights of rooms per week on average. The website's advantages include wide coverage and clear price comparisons as well as convenience in booking, payment and confirmation. Businesses, too, benefit from online platforms: they reach a wider customer base without having to invest in expensive online marketing themselves.

New electronic payment systems will have a big impact on the tourism industry. E-payment facilitates seamless online reservations for accommodations and other travel services. And electronic payments using debit cards, credit cards, and smartphone applications will also play an increasingly important role at bricks-and-mortar shops, not only for travelers from developed economies, such as the U.S. and Europe, but also from China, where consumers are rapid adapters of new technologies.



BOX

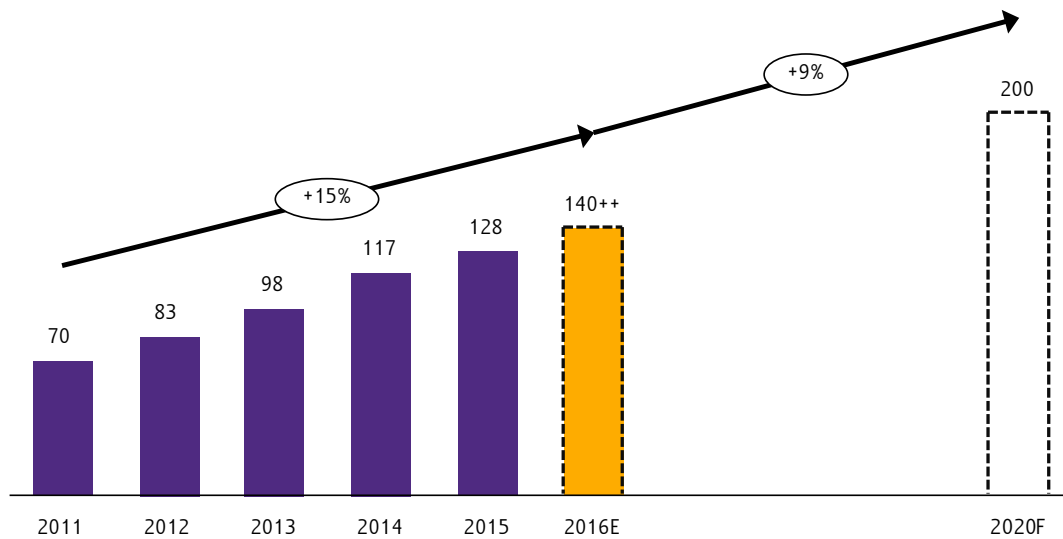
China's outbound travel boom spreads Alipay

The burgeoning number of outbound Chinese tourists has led businesses around the world to sign on for Alipay, China's most popular e-payment service. The number of outbound Chinese tourists is expected to expand by around 9% per year from 2016. By 2020, their annual total may well reach 200 million person-trips. Ant Financial, a fintech company in the Alibaba Group, has partnered with international payment providers like Ingenico Group and Worldline Global in Europe in order to allow Chinese tourists to make payments through Alipay. Alipay services are particularly popular among Chinese travelers to South Korea, Hong Kong, Thailand, Macau and Taiwan. Ant Financial has also joined hands with accommodation providers, such as InterContinental Hotels Group, Resorts World Sentosa and Marriott International, as well as with travel-related service providers, such as United Airlines, Uber and Grab.

9 Outbound Chinese tourists will grow 9% per year to reach 200 annual million person-trips by 2020

Number of Chinese outbound tourists

Unit: million person-trips



Source: EIC analysis based on data from McKinsey

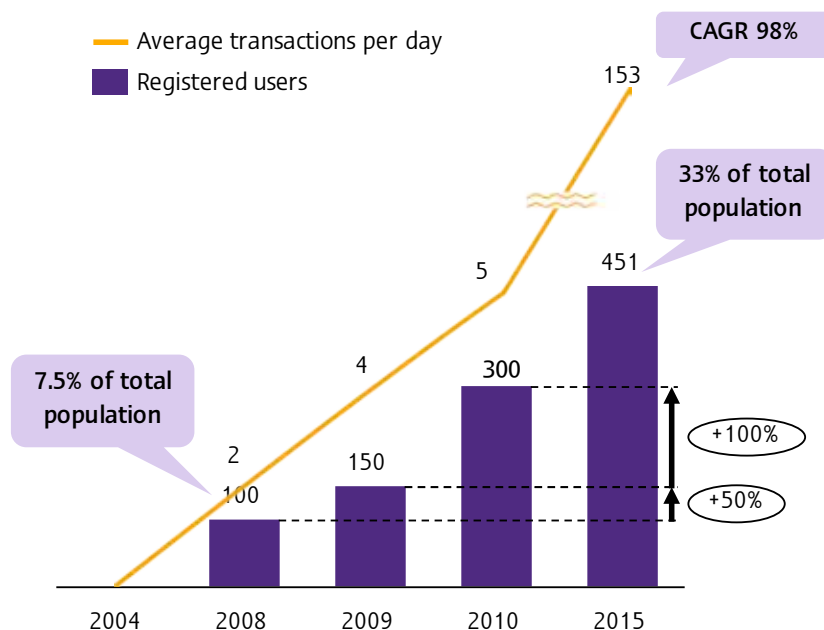
Ant Financial has been expanding Alipay services to include payments in retail stores via mobile phone. The number of Alipay users has skyrocketed, totaling 451 million accounts, or 33% of the Chinese population in 2015. About 70% of Alipay transfers and payments were made through mobile applications in 2016, up from 65% in 2015. Besides e-commerce services, Ant Financial is also strategically expanding to cover more of consumers' day-to-day spending, including payments in shops and restaurants and while on trips.



10 Alipay's exponential growth shows high consumer trust

Growth of Alipay; users

Unit: million times , million persons



Source: EIC analysis based on data from Alipay

Having multiple methods to accept payment gives any business an edge because it is more convenient for customers and opens up new sales opportunities. Electronic payment systems have become embedded in consumers' lifestyles. Thanks to fierce competition, payment service providers in all channels (online, mobile applications and electronic cards, including credit, debit and prepaid) are ramping up marketing offers such as reward point schemes and payment installation plans, prompting customers to spend more. E-payment also solves travellers' cash conundrums, reducing the need to carry money that might get lost or stolen and the confusion of coping with unfamiliar foreign banknotes and coins.

Although electronic payments help businesses reduce cash management costs, there are associated operating costs. Businesses have to pay for the payment devices, including installation and monthly rental fees. Each transaction made through payment network operators such as Visa or Mastercard costs an additional 2-3% in fees. However, the development of financial technology has upped the competition among service providers, who are racing to offer new services to business customers. One example is mobile point of sale technology (mPOS), which lets a smartphone or tablet serve as a payment device. Moreover, mPOS-linked applications can track and analyze sales information and present the data in a user-friendly manner. Business owners can use the real-time data to plan tactics and strategy.







2

Thai tourism industry faces new challenges and opportunities

The megatrends analyzed in the previous chapter will bring change and new possibilities to the tourism sector. The trends to watch for include senior citizens' vacation travel and retirement living; the need to tap new tourism niches amid more intense competition; the rise of independent travelers by social media. New challenges are emerging, as seen in Airbnb's rising competition with hotels.

Senior tourists trend

Increasing number of foreign senior tourists are visiting Thailand

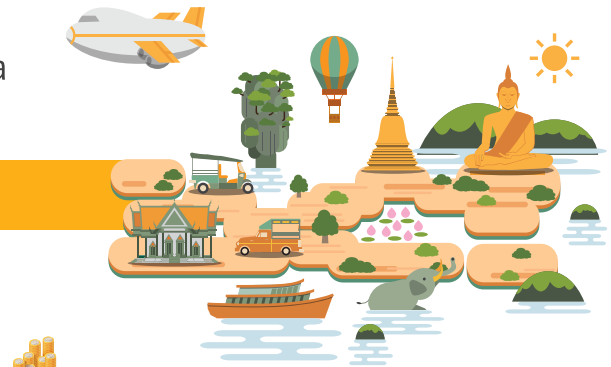
Senior tourists in Thailand, 2009-2015



Senior tourists from developed countries make up Thailand's key market, with the exception of China

Top 10 senior foreign tourists in 2015

Foreign tourists	Seniors (million)	Proportion (%)
China	1.30	16
Malaysia	1.05	31
Japan	0.38	27
South Korea	0.27	20
Lao PDR	0.24	20
US	0.22	25
UK	0.18	21
Australia	0.18	23
Singapore	0.18	19
Germany	0.15	18



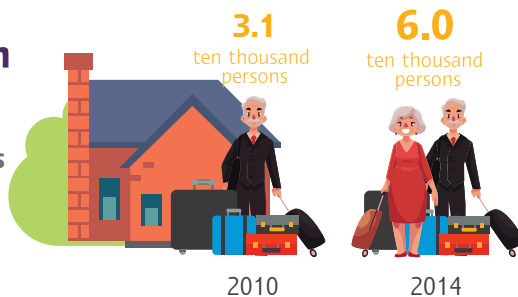
High potential market



Senior tourists from developed countries have high income, translating into high tourism revenues. They are a key target group for the Thai tourism industry.

Thailand: a foreign retiree haven

In the past 6 years, the number of foreign retirees in Thailand has doubled. Most come from Europe.



Top 4 ranks with highest number of long-term non-immigrant visa O-A applications

1	UK	15%
2	US / Germany	10%
3	Switzerland / Japan / France / China	6%
4	Australia / Norway	5%

5

draws for foreign senior tourists and retirees



Safe travels



Slow-life living



Adventure activities



Good healthcare



Multi-lingual communications

Source: EIC analysis as of 21 February 2017, based on data from Department of Tourism and the Office of Consular Affairs, Ministry of Foreign Affairs

2.1 Older tourists and retirement living are high-value segments

Thailand's tourism sector is changing in line with the world's increasing numbers of senior citizens. They made up about 19% of all tourists traveling to Thailand in 2015, up from 16% in 2009. Arrivals of seniors here are growing at the rate of 18% per year on average. In terms of absolute numbers of arrivals of senior tourists here, China, Malaysia and Japan top the list of Thailand's sources. In proportional terms, however, Malaysia has the largest share of seniors among its travellers to Thailand, at 31%, followed by Japan at 27%. Seniors who travel to Thailand include two main groups: those on vacation and those coming for long-term, post-retirement stays. The retirees here usually started out as leisure travellers to Thailand. After getting to know Thailand on vacation, and having good experiences as travellers, they decided to retire here.

Senior foreign tourists spend 4% more than the average visitor and account for 20% of all revenues from foreign tourists.

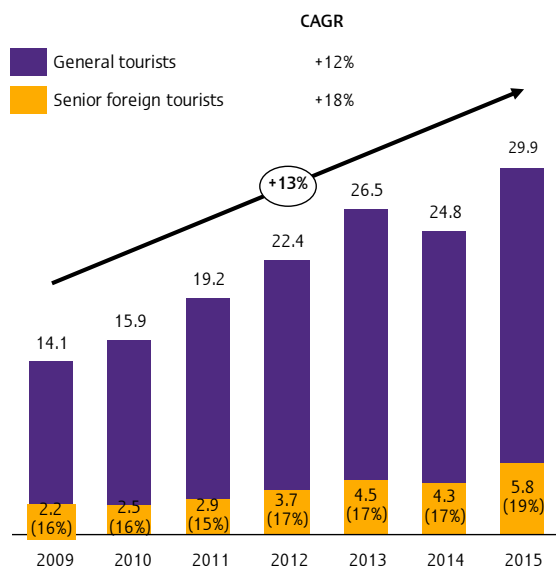
Although their average spending per person per day is 8% lower than the average tourist spending, at THB 4,728, their average spending per person per trip is higher, at THB 50,684, because they stay longer. They come for 10.72 days on average, or 1.25 days longer than the average trip. Revenues from older tourists reached THB 290 billion in 2015, making senior citizens one of the hottest "quality" markets for Thai tourism businesses.



11 Growth in arrivals here by seniors outpaces other age groups

Share of senior tourist in Thailand

Unit: million persons



Top 10 senior tourists in Thailand

Unit: million persons, % ratio per tourists in each country

International tourist	Number of senior tourists (million persons)	Proportion (%)
China	1.30	16
Malaysia	1.05	31
Japan	0.38	27
South Korea	0.27	20
Lao	0.24	20
US	0.22	25
UK	0.18	21
Australia	0.18	23
Singapore	0.18	19
Germany	0.15	18

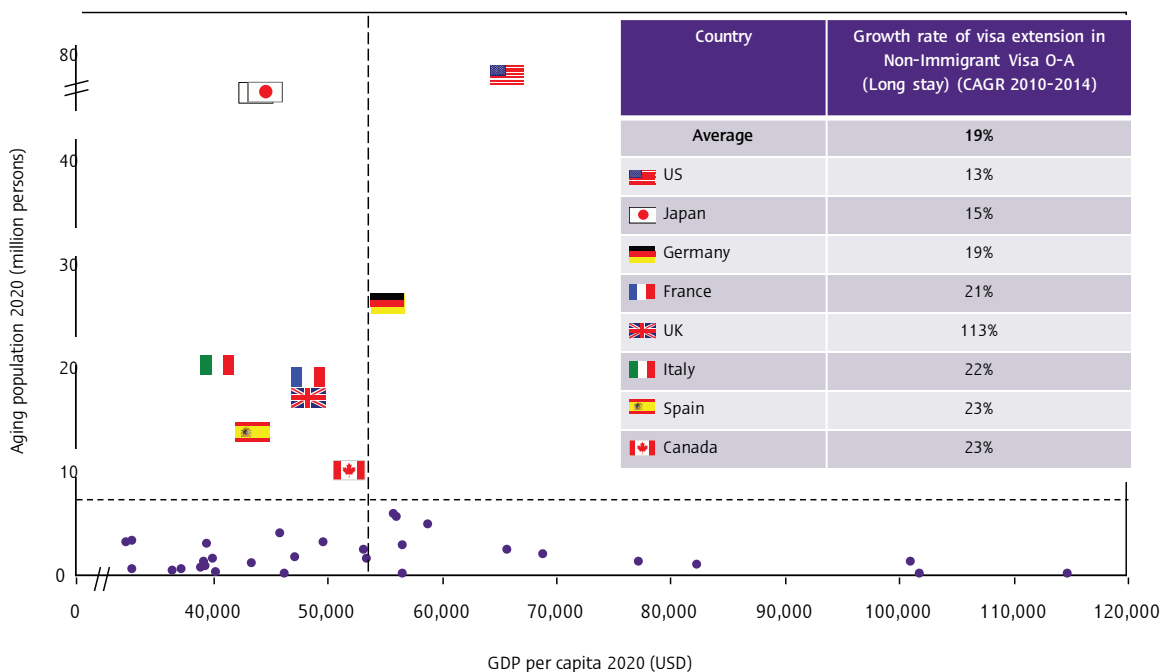
Source: EIC analysis based on data from Department of Tourism



Most seniors coming to retire hail from developed countries. This group is expanding by around 18% per year. The high cost of living in developed countries persuades many senior citizens to relocate to cheaper places for retirement so that they can enjoy a better quality of life. International Living's Annual Global Retirement Index 2016 ranked Thailand seventh on the list of the most popular countries for post-retirement living. The foreign retiree market generates about THB 6 to 7 billion per year for Thailand. This number has plenty of room to grow. Thailand can target countries such as the U.K., the U.S., Japan and Germany since these are high-income countries with lots of old people. The proposed extension of the non-immigrant O-A visa (long stay) for retired foreigners, from 1 year to 10 years, has helped attract interest among foreign retirees.

12 Thailand is popular among senior tourists from developed countries

Forecast of aging population and GDP per capita in developed countries

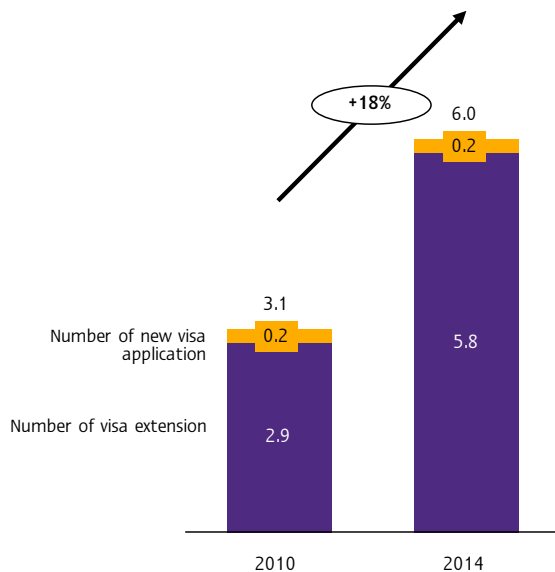


Source: EIC analysis based on data from World Bank and United Nations Department of Economic and Social Affairs.

13 Number of foreign retirees in Thailand doubled between 2010-2014. Most came from Europe.

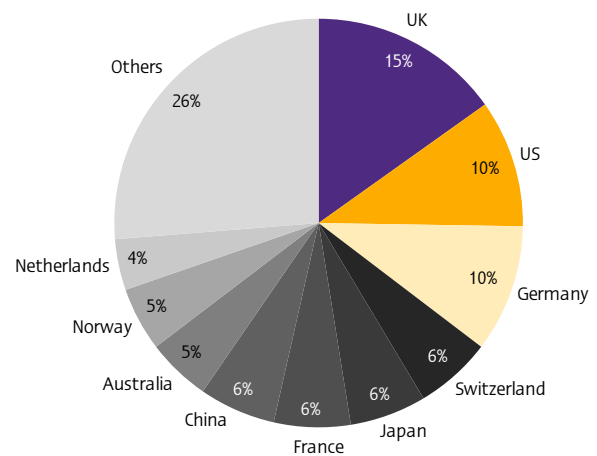
Number of visa application in Non-Immigrant Visa O-A (Long stay)

Unit: ten thousand persons



Visa application in Non-Immigrant Visa O-A (Long stay) by country

Unit: %



Source: EIC analysis based on data from Department of Consular Affairs, Ministry of Foreign Affairs and Immigration Bureau.

The market for long-term accommodations targeting foreign seniors is likely to grow by 21% per year on average.

The growing number of visa applications correlates with the continuously expanding proportion of senior tourists each year. The proposed extension of the long-stay visa to 10 years might increase demand for long-term accommodations, which would require more investment. The investment of long-term accommodations is expected to reach around THB 37 billion by 2020. Currently, most of these accommodations are situated in major destinations like Phuket, Chiang Mai and Chonburi (Pattaya), but only six accommodation sites are officially certified by the Department of Tourism. Certification guarantees safety standards and the quality and readiness of in-room facilities and service personnel. Accommodation providers should therefore improve their services and design their properties with senior occupants in mind, including selection of the appropriate construction materials.





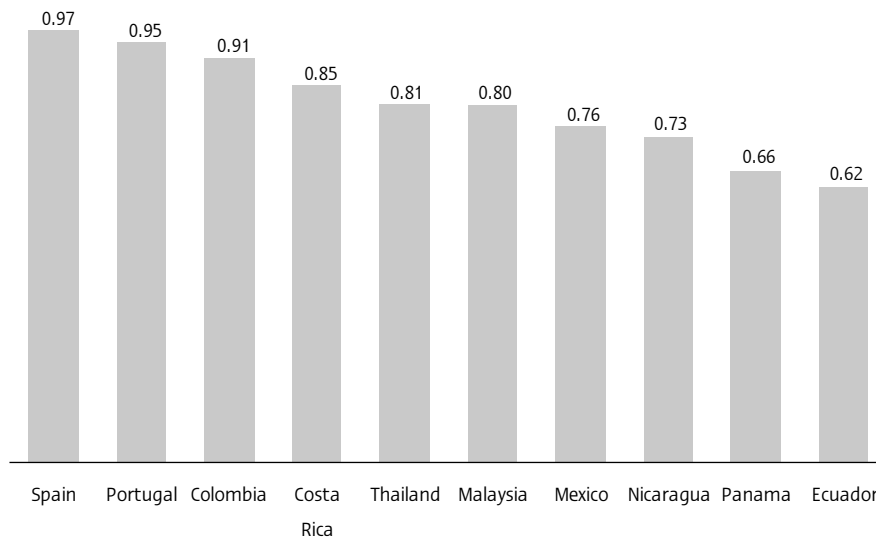
The real estate sector can expect gains from the senior tourism market. Foreigners can hold a 49% total ownership stake in a condominium building, or they can rent long-term. Although Thai law does not allow full ownership of property by foreigners, real estate developers can offer long-term leases of up to 30 years. Such a lease reverts to the property owner after expiry or upon death of the tenant, allowing the property to be rented to another tenant. Developers that have foreign retirees as tenants can further profit by providing cleaning and laundry services as well as food and beverage service.

Accommodation providers can partner with healthcare businesses to offer comprehensive retirement living services. Thailand's healthcare system ranks fifth among the world's top 10 retirement destinations. The country's supply of experienced medical personnel, modern facilities and reasonable healthcare costs have earned Thailand international recognition and helped attract foreign seniors here. Thai developers seeking appropriate business models can look to Australia, where residential units and related facilities are designed especially for seniors, with on-site medical services and personnel available 24 hours a day. Thailand can draw on its strengths in healthcare to compete in the retirement living market. And, indeed, projects that combine accommodations and healthcare have already started to spring up in provinces popular with tourists.

14 Thailand ranks among top 10 countries for retirement living

Healthcare system index of the world's top 10 retirement destinations ranking by Global Retirement Index 2016

Unit: Index = 1

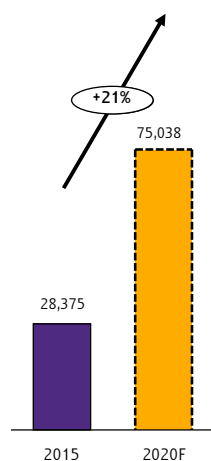


Source: EIC analysis based on data from World Health Organization (WHO) and International Living.

15 Market for long-term accommodations for retirees is growing 20% per year

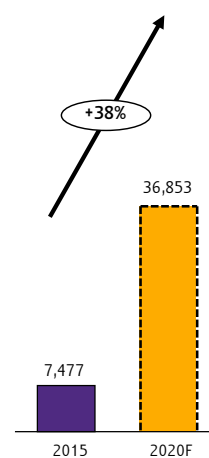
Estimation of revenue for long-term accommodations*

Unit: THB million



Estimation of investment for long-term accommodations*

Unit: THB million



*Estimate revenue and investment of long-term accommodations by forecast the number of visa application in Non-Immigrant Visa O-A (Long stay) with include inflation rate

Source: EIC analysis based on data from Department of Consular Affairs of Ministry of Foreign Affairs, and Immigration Bureau.

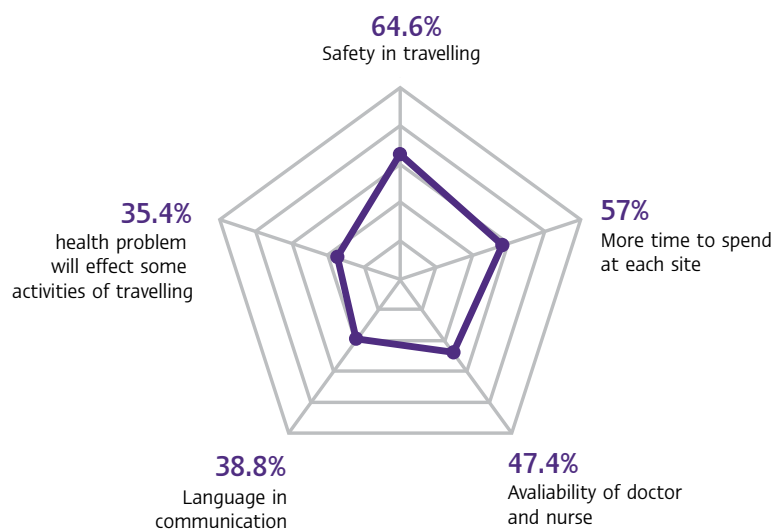
Tour operators should offer more “slow tourism” packages to meet the growing demand from senior travelers. These packages cost around 37% more than the average, because more emphasis is placed on safety and quality and more time is spent at each site. Slow tourism packages offer more services, including additional food services, as well as travel and health insurance. The tours move at a slower pace, with an emphasis on local culture, allowing more time to learn and absorb the travel experience and surroundings than with normal tour packages.



16 “Slow tourism” addresses senior travelers’ preferences

Survey concerns of senior tourists in Thailand

Unit: %



Source: EIC analysis based on data from Adarsh Batra (2009) *Senior pleasure tourists: Examination of their demography, travel experience, and travel behavior upon visiting the Bangkok Metropolis*

2.2 Competition from other destinations drives need for niche offerings

The fast-growing number of tourist attractions in Asia-Pacific region and the Middle East is putting extra competitive pressure on the Thai tourism industry.

Although Bangkok was the world's most visited city in 2016, according to 2016 Mastercard report, major efforts by other countries to develop their tourism sectors will inevitably have an impact on Thailand. For instance, public investment in new tourist attractions in the United Arab Emirates led to a 19.8% increase in the number of tourists each year between 2009 and 2016. Dubai, the U.A.E.'s top destination, made over USD31.3 billion in tourism revenues in 2016. Also, after Japan started to prioritize tourism and relax visa requirements for tourists from many countries, the numbers of visitors to Osaka soared by 24% per year from 2009-2016, the highest rate of increase of any city in the world. Visitors to Tokyo grew 18% per year, the world's fourth-biggest jump.



17 Tourism businesses in Thailand will face stronger competition from other destinations, particularly in Asia-Pacific

Top 10 cities with highest number of tourist in 2017

Rank	City	Overnight Int Visitors (million persons)	Visitor Spending (USD billion)
1	Bangkok	21.47	14.80
2	London	19.88	19.80
3	Paris	18.03	12.90
4	Dubai	15.27	31.30
5	New York	12.75	18.50
6	Singapore	12.11	12.50
7	Kuala Lumpur	12.02	11.30
8	Istanbul	11.95	7.50
9	Tokyo	11.7	13.50
10	Seoul	10.2	12.30

Top 10 cities* with fastest-growing number of tourist during 2009-2016

Rank	City	2009-2016 CAGR (%)	Region
1	Osaka	24.15%	Asia-Pacific
2	Chengdu	20.14%	Asia-Pacific
3	Abu Dhabi	19.81%	Middle East & Africa
4	Colombo	19.57%	Asia-Pacific
5	Tokyo	18.48%	Asia-Pacific
6	Riyadh	16.45%	Middle East & Africa
7	Taipei	14.53%	Asia-Pacific
8	Xi'an	14.20%	Asia-Pacific
9	Tehran	12.98%	Middle East & Africa
10	Xiamen	12.93%	Asia-Pacific

Source: EIC analysis based on data from Mastercard

*Cities with more than 1 millions tourists per year

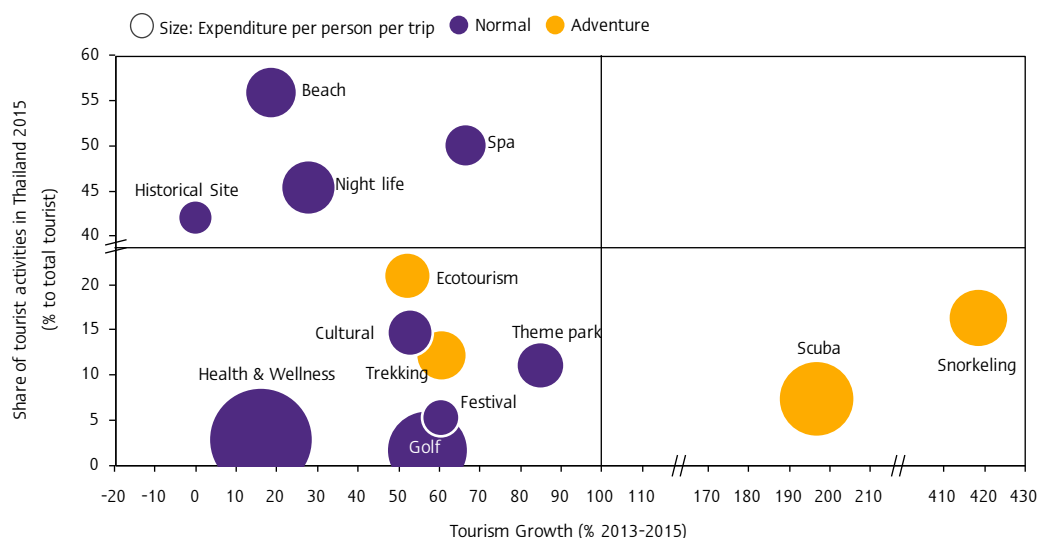
Thai tourism businesses should offer unique services. Competing in the mass market will only hurt the bottom line. Competition from low-cost carriers, for example, has made it difficult for airlines to raise prices, despite the growing number of passengers. Similarly, despite high demand, low-end hotels in Thailand have not been able to raise their prices. Average revenue per room actually dropped 0.1% in 2016. Businesses should concentrate on expanding their markets by offering new services, such as value-added, activities-based tourism.

Adventure tourists make up more than 42% of the total number of tourists globally according to the UNWTO. Their high spending on equipment and specialized activities present good opportunities for Thai businesses. Some 69% of adventure tourists are from Europe and the U.S. This market can be divided into two levels: soft adventure, such as trekking and rafting, and hard adventure, such as scuba diving, skiing, and surfing. Because hard adventure travel requires specialized personnel, the average cost per trip is USD 1,500¹, according to 2013 data. Add another USD 500 for equipment, and each adventure tourist's spending is twice that of the average traveller.

Adventure travel accounts for only around 10-20% of tourists coming to Thailand today. However, the market has been growing rapidly and will continue expanding. More than half of tourists in Thailand are here to relax, whether by spending time at the beach, getting beauty or spa treatments, enjoying nightlife or visiting historical sites. On the other hand, only 10-20% come for adventure activities, such as eco-tourism, trekking, snorkeling and scuba diving. However, the number of adventure tourists actually doubled between 2013 and 2015, dwarfing the 0.4 times growth of other types of tourists. Given that the market is still small, adventure tourism shows high potential for growth. This offers a prime opportunity for businesses that have local expertise and the ability to cater to this specialized niche.

18 Adventure tourism in Thailand has expanded fast, but still has room to grow

Share of popular activities in Thailand - 2015



Source: EIC analysis based on data from TAT: Tourist Behavior 2013-2015

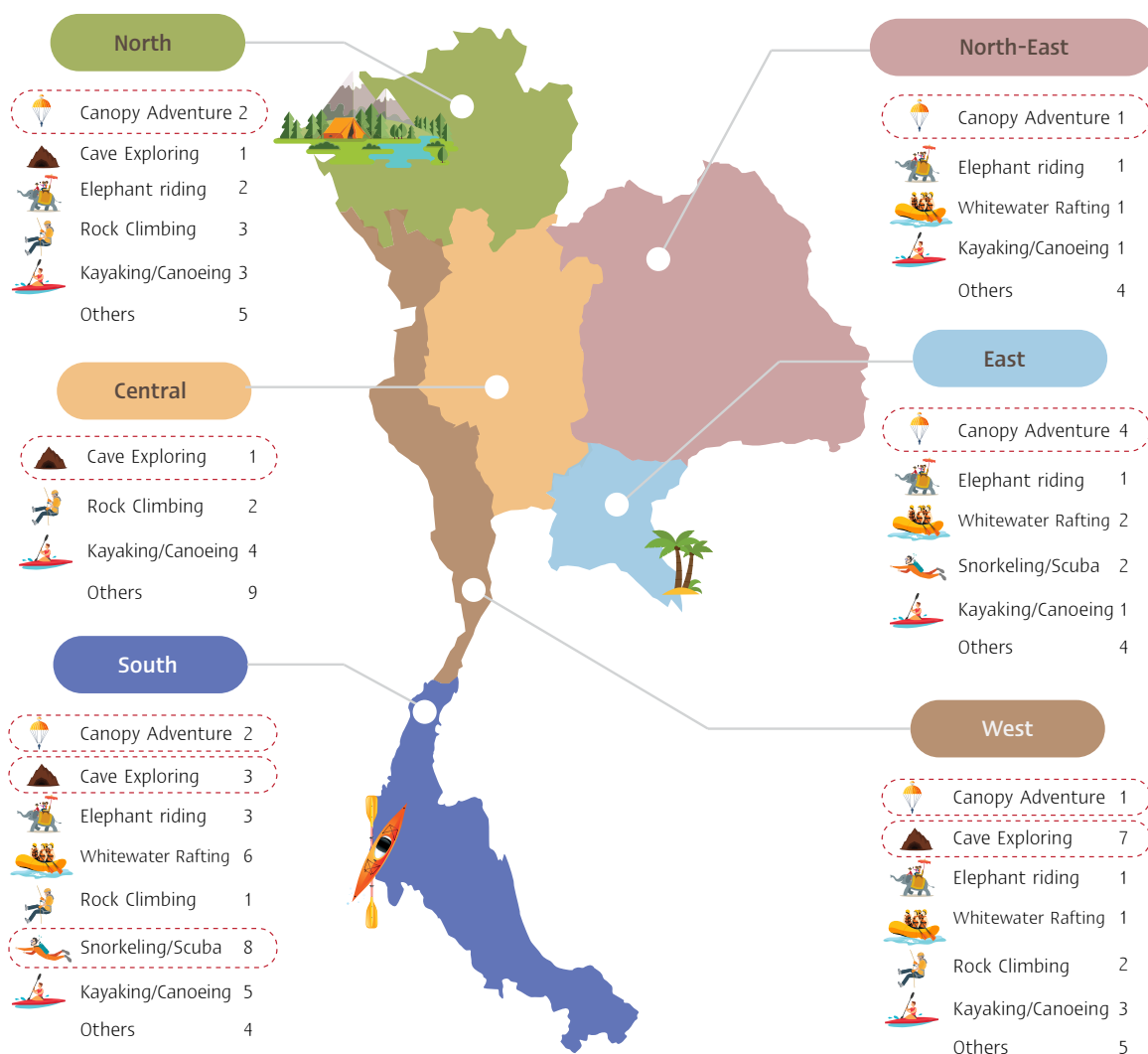
¹ According to the Adventure Tourism Market Study 2013 by The George Washington University

Hard adventure activities requiring specialized service are in particularly high demand; there are currently not enough providers on the market. Plenty of operators already offer semi-adventure, eco-tourism services, such as rafting, snorkeling and trekking. These activities are rather simple and cost only around THB 1,000-3,000. The competition among these operators is therefore intense. On the other hand, only a handful of businesses now offer hard adventure tourism options, such as scuba diving, parachuting and cave exploration, all of which require specialized personnel. Bear in mind that one hard adventure trip can cost up to THB 5,000-10,000, and so the value-added is higher. Hard adventure travel is a good choice for businesses looking to provide customers with a unique experience.

19 Thailand has few “hard adventure” travel operators

100 venues for adventure activities in thailand from Tourism Division

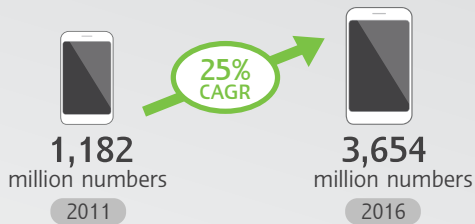
Unit: number of venue



Source: EIC analysis based on data from Adventure.tourismthailand.org

Hipsters and the new face of tourism

Fast growth of internet users, especially through mobile devices



DREAMING

Travel dreams inspired by social media

52% After looking at pictures shared by friends, 52% of Facebook users would like to visit places that their friends traveled to



SHARING

Share travel experiences through social media



Blogger and Influencer

Increasingly important role of bloggers and influencers. Rising number of reviews and comments on TripAdvisor



20 million persons in 2005 → **180** million persons in 2015

The Travel Cycle of Tomorrow



PLANNING

Travel planning like a pro



73% of tourists plan their trips by consulting online reviews



BOOKING



Great deals on flights, accommodation, and car rentals through online platforms

Online booking in Asia-Pacific projected to grow **17%** per year

EXPERIENCE

Travel with convenience



Mobile device as tour guide

67% for maps
56% for finding places to eat
51% for finding activities

Source: EIC analysis based on data from ITU, four-pillars.co.uk, TripAdvisor, and Barclays



2.3 The rise of FIT: online services put travellers in charge

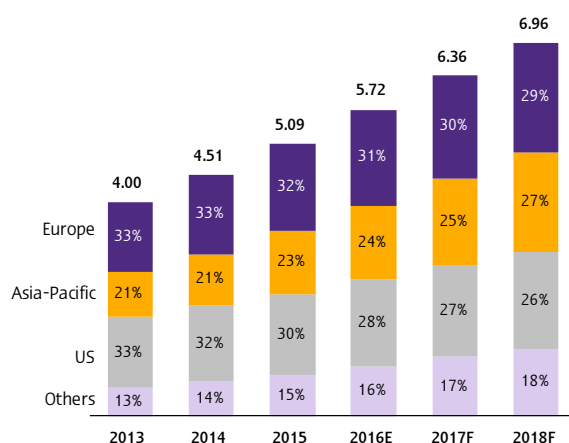
Online technologies have made it easier for people to plan travel on their own, bypassing bricks-and-mortar travel agencies, package tours and groups. Over the past decade, the number of outbound tour groups from Asia-Pacific countries has fallen from 32% to 29%. This reflects the continuing rise of so-called free and independent travel, or FIT, which has become much easier in recent years thanks to the huge access to travel information provided by the internet. Some 80% of tourists now plan their trips with the help of social media, according to a 2016 report by Barclays. Besides trip planning, travelers can also use online platforms to book and pay for accommodations, restaurants and tickets.

The market for online travel services in the Asia-Pacific region is likely to grow by 17% this year and next. Technology has changed the behavior of travelers, including how they access information and how they make payments. Most travel preparation can now be done online. At present, the online market for tourism and travel services is valued at USD 572 billion worldwide, or 40% of the overall tourism market, growing at annual rates of 10 to 13% during 2014-2016. Growth prospects are especially high in the Asia-Pacific region, where only 34% of reservations are now made online. Expanding from this relatively low share, online tourism services in Asia-Pacific are expected to grow by 17% per year in value terms during 2017 and 2018, well above the 12% global rate, according to Barclays. Thailand's tourism industry should therefore prioritize online channels.

20 As travellers flock online, businesses should follow

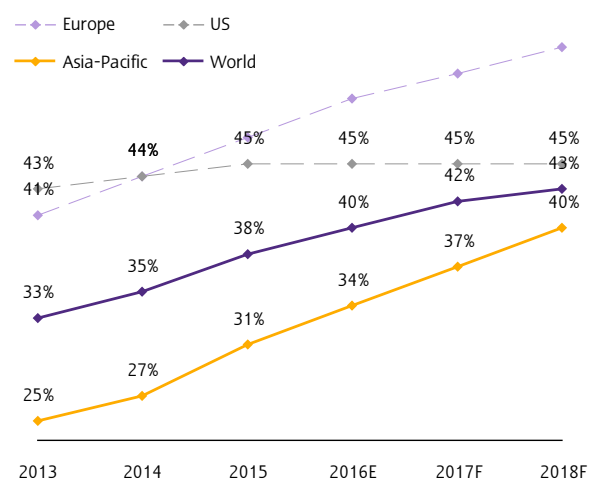
Online booking fee by region

Unit: USD hundred billion



Share of online booking fee to overall tourism market

Unit: % share



Source: EIC analysis based on data from Barclays

Today's online travel agencies (OTAs) are broad platforms, often global in scope, grouping numerous websites and apps that allow independent tourism businesses to sell online and expand their markets without the need to invest in their own expensive IT systems.

Online travel agencies grew 15% in the first quarter of 2015² (HVS). A market leader like Priceline Group offers comprehensive travel services on various platforms, such as Booking.com, Priceline.com and Agoda.com (for flights and accommodations); and Rentalcars.com and Opentable.com (for car rentals and restaurant bookings). These websites and apps have become essential for trip planning. The OTAs can help businesses, especially those without name recognition, to reach potential customers from all

over the world. OTAs are trusted and widely recognized, with a collective total of more than 300 million viewers per month. In addition, OTAs boast standardized platforms, access to local web domain names in most countries, and package marketing, all of which can be difficult for an individual travel business to provide on its own.



Nevertheless, online platforms also make it easier for travelers to compare prices, and so customers have become highly price-sensitive. Over 70% of all tourists consider the prices of flights and accommodations first and foremost when making travel plans. Websites that offer price comparisons, such as Booking.com, Expedia.com, Skyscanner.com, and Trivago.com, allow tourists to search for the best deals. Tourism businesses therefore face stronger price competition and have less room to maneuver. As individual bookings of accommodations and travel services in Thailand continue to grow--currently up to 80% of tourists here are FITs, and around 51% book their accommodations online--businesses that do not adjust will risk losing market share. Companies should therefore focus on developing sales online, whether through their own websites or via OTA platforms.

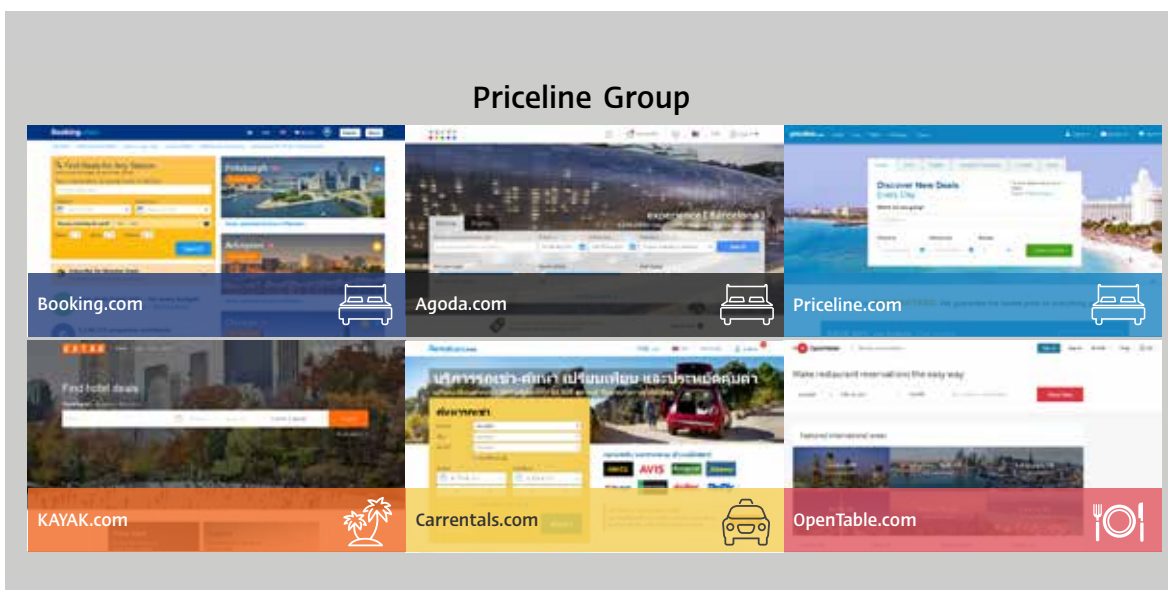
Profitability is likely to decline, especially for small hotels selling through online platforms, which charge a commission fee ranging from 15 to 30%. As small businesses seek to expand their customer base, they will likely have to rely on online travel agencies, since developing their own online systems is costly. But because online travel agencies tend to charge fees that are higher than the 10% commission charged by conventional sales agencies, the switch to online services will cut into profits. Nonetheless, businesses have to use all available marketing channels to reach as many customers as possible. According to a study by Cornell University, adopting online marketing through online travel agencies can boost accommodation bookings by 7.5-26%.

² Source : based on data from www.hvs.com

21 Although online platform fulfill the needs from travelers, but they squeezed out margin out of businesses from higher commission cost

Commission fee by type of booking

Online			Traditional	
15-30%	15-30%	0%	0%	10%
Online Travel Agency (OTA)	Global Distribution System	Company website	Direct (walk-In / Telephone)	Agency / Tour company



Source: EIC analysis based on data from company's website

Lastly, the rise of new technologies and FIT is opening up new opportunities to operate new kinds of businesses, such as storage, baggage delivery and travel planning services. Independent travelers might miss some of the conveniences provided by tour companies, such as baggage pickup and private group transport, as well as planning activities and booking tickets. Demand for these niche services will likely grow. Fortunately, the new technologies make it possible to develop innovative business models to provide these conveniences. For example, Japan's Yamato Transport provides baggage storage and delivery between airports and hotels, as well as between hotels. Customers can specify delivery times according to their travel schedules. Kayak.com provides travel-planning services via their website and mobile app. Other platforms connect travellers with local individuals who act as expert guides for a personalized tourism experience; one example is Takemetour.com. These are just a few types of technology-enabled services that make free and independent traveling easier than ever.

2.4 Technology reshapes travel marketing

When teenage travelers choose a destination, 75% rely on information from friends, often via social media. Travelers today are often persuaded by first-hand travel stories shared on social media. A 2012 survey by Four Pillars Hotels, a U.K. hospitality group, showed that more than 52% of travelers pick destinations based on pictures posted on Facebook. These younger tourists are also likely to travel more frequently and to prefer exotic destinations that can offer new experiences.

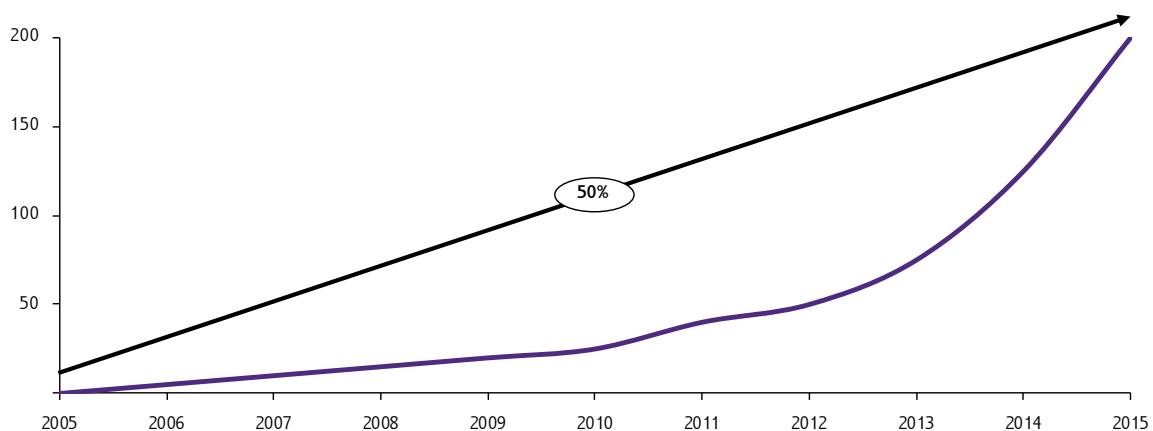
Customer reviews on online platforms strongly influence travellers' decisions, with a direct impact on the revenues of tourism businesses. Good scores based on positive reviews and satisfaction ratings can lead to higher occupancy rates, and perhaps also the chance to raise room prices. A 2012 study by Cornell University found that a 10% increase in a hotel's reputation score on online platforms results in 5.4% gain in occupancy, an 8.9% rise in room prices and 14.2% higher revenue per available room (RevPAR).

More tourism businesses have turned to bloggers and online 'influencers' to support their online marketing. According to TripAdvisor.com, the number of comments and reviews shared on their website has been climbing at a rate of 50% per year. This trend has led to the rise of travel 'influencers,' individuals who frequently post their day-to-day travel stories and photos on various websites and social media. A survey by Tomoson.com finds that approximately 60% of tourism businesses around the world plan to devote more of their marketing expenses to reaching these influencers in order to broaden their customer reach, as well as to raise brand recognition and sales volume.

22 Social media posts by bloggers and 'influencers' are key sources of travel information today

Number of review and comment on TripAdvisor

Unit: million times



Source: EIC analysis based on data from TripAdvisor

The Hawaii Tourism Department created a successful social media engagement program called The #LetHawaiiHappen campaign, which invited influencers to share new travel images via Instagram. The main objective of the program was to attract new travelers and encourage repeat visits. It stimulated a surge in new user-generated content like visitors' photos and videos. Other users hash-tagged the original contents and re-posted them on social media. The program succeeded in generating over 100,000 social media posts in one year. Among viewers of the posted pictures and videos, 65% said they plan to visit Hawaii within the next two years.

Nevertheless, businesses need to stay on top of their reputation on online platforms so as to maintain a good brand image. Poor control of service quality or excessive claims in ads can generate a fast online backlash. According to Google consumer surveys by Go Fish Digital, businesses have potential to lose up to 22% if there is only one negative review on the internet and 70% if there are more than three negative reviews. A good brand image management strategy needs to cover all the bases, starting from how the business can be found online to the accuracy of important information like location, services provided and contact channels. Business owners should follow up on reviewers' comments, taking advantage of services such as Google Alert, Hootsuite and ReviewPro. To improve their service, they should analyze online data and respond with appropriate actions. Responsiveness to customers' inquiries helps travelers remember the brand and earn their trust.

23 Businesses should concern on promoting brand recognition though online marketing



Airbnb

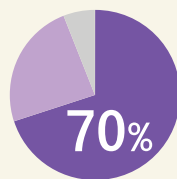
Taking the hotel industry by storm?

Airbnb's major customers



- Western tourists
- Around 35 years old
- Like to travel by themselves and experience local lifestyles

Thailand's major market



70% are from Asia stay for a short period, and prefer staying in hotels, unlike Airbnb customers

Although Thailand's hotel room rates remain attractive hotels

should not be complacent...

Average rate comparison
Airbnb vs hotels in popular areas

National Stadium
(Bangkok)

Unit: Baht/night

2,000 2,100

Airbnb Hotel

Nimman
(Chiang Mai)

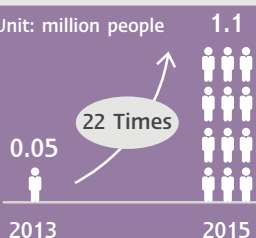
1,750 1,730

Airbnb Hotel

since more and more Chinese tourists are using Airbnb and the number of Airbnb rooms in Thailand is soaring

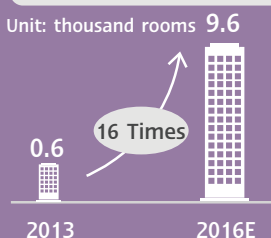
Number of Chinese tourists using Airbnb

Unit: million people



Number of Airbnb rooms in Bangkok

Unit: thousand rooms



EIC's View

Public sector

Clear regulatory framework needed to minimize impact on the tourism industry



Business owners

Hotel operators should upgrade service to gain a competitive edge



Other businesses can build on their current services, for example, by offering cleaning service to Airbnb room owners



Source: EIC analysis based on data from Airdna, Airbnb and Department of Tourism





2.5 Emerging business models threaten disruption

The tech-based business model of Airbnb, which lets individual owners make their rooms available to travelers through its website and app, is squeezing the revenues of hotels, particularly those in the mid- and low-price range. Since its launch in 2010, the number of rooms offered by Airbnb has increased at the rate of 130% per year. It now offers more than 3 million rooms in 190 countries, compared to the 1.1 million rooms offered by the world's largest hotel operator, Marriott International. Airbnb's market share of accommodations in major tourist cities, such as Paris, San Francisco and London, stands at around 10%. It holds an impressive 17% market share in New York, where it is still steadily growing. Most of the rooms on Airbnb are equivalent to a one-bed hotel room and do not cost too much, pitching the service in direct competition with hotels in the middle-to-low range. In London, a room on Airbnb costs GBP 50-100 per night on average, compared to the average hotel room rate of around GBP 145. In New York, the average Airbnb rate is USD 173 per night—37% lower than hotels.

Since its beginning just a few years ago, Airbnb has been operating in a legal gray area in most jurisdictions, not quite covered by existing regulations on hotel rooms and rental housing. In many localities, the laws are likely to become stricter and narrow some of its growth. But with clearer regulations, Airbnb might benefit from being able to enter the hotel market more openly.

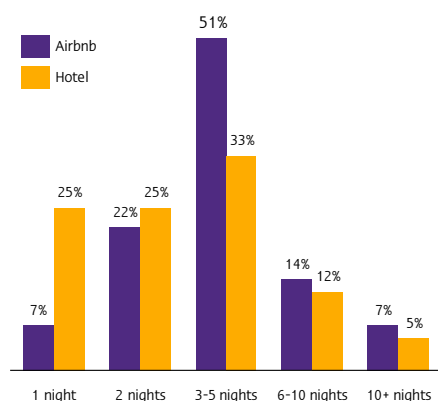
The exponential growth of disruptive businesses such as Airbnb, Uber and GrabTaxi has become cause for concern among regulators in many countries. Airbnb's rise has led to complaints about quality and safety standards, disturbance to local residents, a housing market squeeze and a loss of tax revenues. Many countries and cities have recently issued new regulations specifically targeting Airbnb. In Japan, for example, the minimum stay must now be at least seven nights. In New York and San Francisco, each Airbnb room owner may register only one unit. On the other hand, new regulations will put an end to Airbnb's sometimes-ambiguous legal status, allowing it to compete in the hotel market on an official basis, thereby expanding into the lucrative business travel sector. Airbnb has joined hands with major travel agencies, including American Express Global Business Travel, BCD Travel, and Carlson Wagonlit Travel.

For now, Airbnb's customer base does not overlap with the majority of tourists in Thailand. Thai hotel operators have therefore not been much affected by the competition. Most Airbnb users are Western tourists, around 35 years old. Most are from the U.S. Their choice of Airbnb might stem from their preference for traveling independently and experiencing local lifestyles. As they tend to stay longer (14-16 nights), they also tend to look for accommodation options other than hotels in order to reduce costs. In contrast, the average stay of travelers from Asia, who make up 71% of tourists in Thailand, is around 7 nights. Asian tourists prioritize safety and are therefore more likely to prefer hotels. In addition, hotel rooms in Thailand cost about the same as Airbnb rooms. Travelers are likely to choose to stay in a hotel because of the better amenities and service as well as higher safety standards. In Bangkok, a room in a 3-star hotel costs THB 2,500 per night on average. A comparable room on Airbnb costs around THB 2,000 per night. In Chiang Mai, the rates of both hotels and Airbnb rooms range from THB 1,500 to THB 2,000 per night. For these reasons, hotels in Thailand have not been much affected by Airbnb so far.

24 Currently Airbnb's customer base does not overlap with the majority of tourists in Thailand. Thai hotel operators, therefore, have not been much affected by the competition.

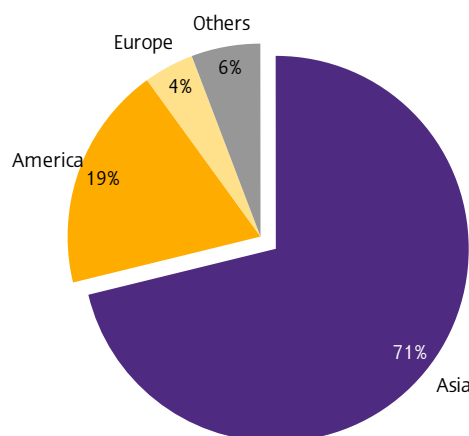
Customer's length of stay in hotel and Airbnb

Unit: %



Share of international tourist in Thailand by country

Unit: % to total international tourist



Source: EIC analysis based on data from UBS Research and Department of Tourism

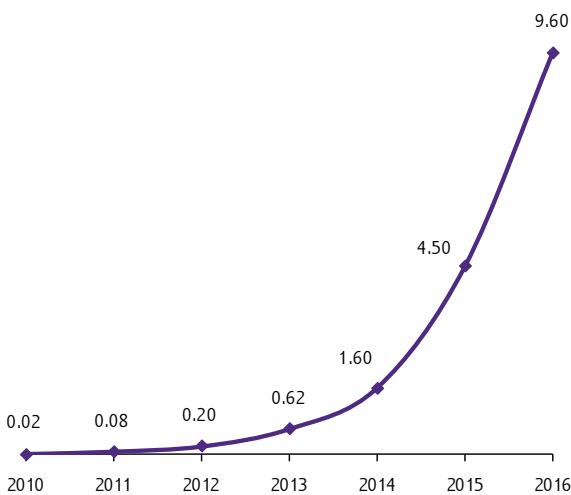
Still, Airbnb is poised to become a major competitor in the hotel market in the future. More than one million Chinese tourists now use the website to book accommodations. Its room offerings in Bangkok have expanded by more than 100% during the past year or so. Chinese consumers are open to innovations, including so-called 'sharing economy' services like Airbnb. In 2015 Airbnb teamed up with Union Pay and Alipay as part of its aggressive push into the Chinese market, resulting in a dramatic 500% uptick in users there. Since Chinese tourists make up 27% of the Thai tourism market, Airbnb won't have much difficulty driving up its market share here. Moreover, Airbnb has been expanding fast in Thailand: the website was offering around 9,000 rooms in Bangkok at the end of 2016, compared to 4,000 one year earlier. Airbnb also offers what hotels cannot: bigger rooms at comparable prices, not to mention kitchens.



25 Airbnb is poised to become a major competitor in the hotel market in Thailand, with more than one million Chinese tourists are booking rooms through the website and Airbnb room availability in Bangkok is expanding.

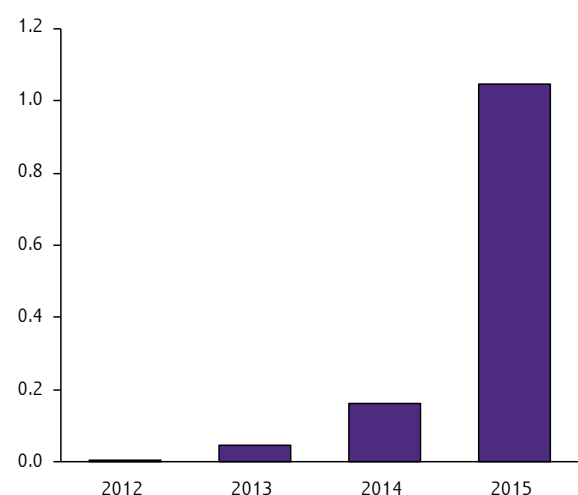
Number of Airbnb’s rooms in Bangkok

Unit: thousand rooms



Number of Chinese tourists using Airbnb - worldwide

Unit: million persons



Source: EIC analysis based on data from UBS Research and Department of Tourism



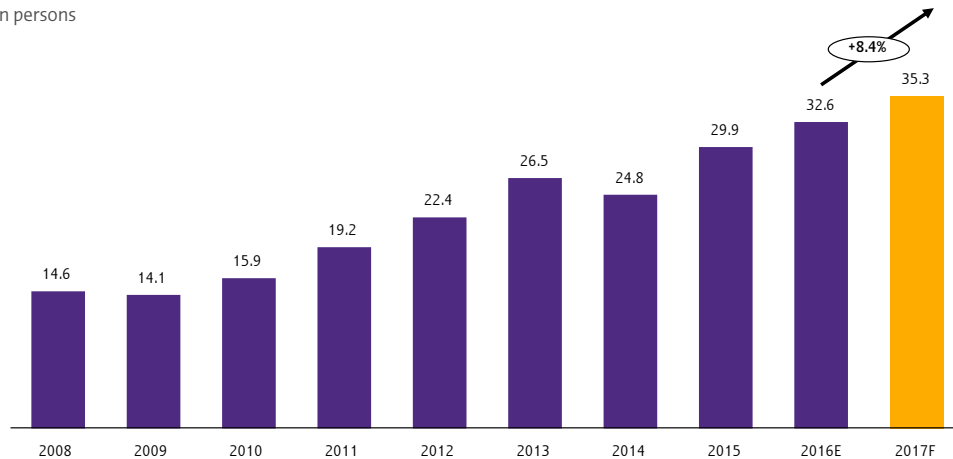
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Outlook: Thai tourism
trend in 2017

26 Thai tourism set for steady growth in 2017

Forecast of international tourist - overall

Unit: million persons



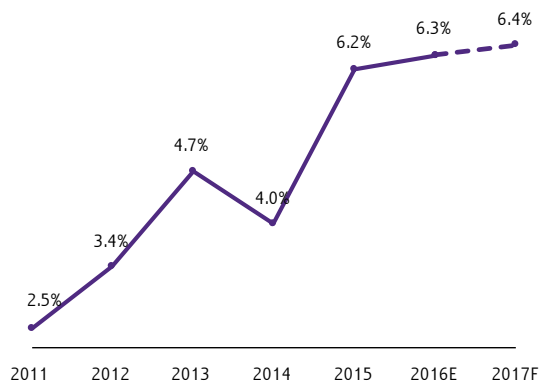
Source: EIC analysis based on data from Department of Tourism

Thailand's number of foreign tourists is expected to grow by 8.4% in 2017, thanks in part to a resurgence in arrivals from China and an increasing number of other Asian visitors. Despite the slowdown in arrivals during the last quarter of 2016, the number of visitors is expected to pick up this year, partly as a result of supportive government policies such as a recent cut in visa fees. Chinese travellers' continuing interest in traveling to Thailand will also drive growth. Arrivals from CLMV will grow around 20% and from India by 16%. The recovery in oil prices will also help by supporting growth in both arrivals and spending by Russian tourists.

27 Economic growth in Thailand's major tourism markets will drive arrivals and spending here

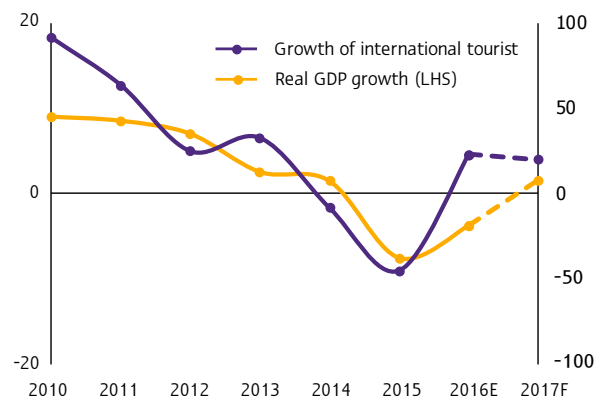
Share of Chinese tourist in Thailand to overall Chinese outbound tourist

Unit: %



Change in Russian tourist to GDP

Unit: %YOY

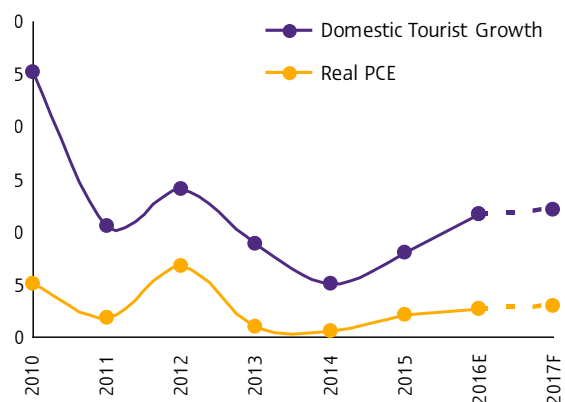


Source: EIC analysis based on data from CEIC and IMF.

28 Domestic tourism will continue growing thanks in part to supportive government policies

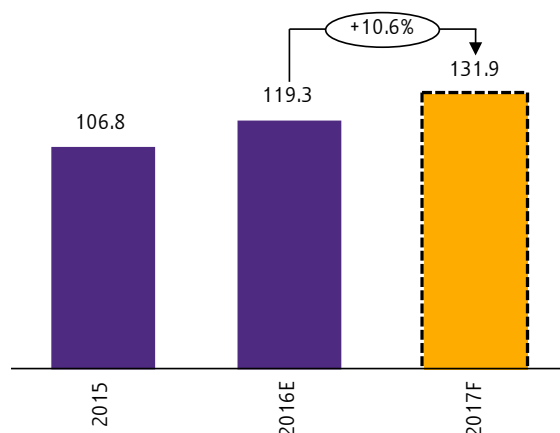
Change in domestic tourists to real PCE growth

Unit: % YOY



Forecast of Domestic tourists

Unit: million person-times



*Private Consumption Expenditure

Source: EIC analysis based on data from NESDB and Department of Tourism.

Domestic tourism is likely to continue its recovery, with growth reaching 10% owing to a better economic environment and supportive government policies.

Given the correlation between any country's economic conditions and the health of its domestic tourism industry, Thailand's ongoing economic recovery will likely result in more trips and travel spending by Thais. In the past two years, the government's stimulus measures have included domestic travel tax credits and the declaration of additional public holidays. With the support of such policies again this year, domestic tourism should grow comfortably.

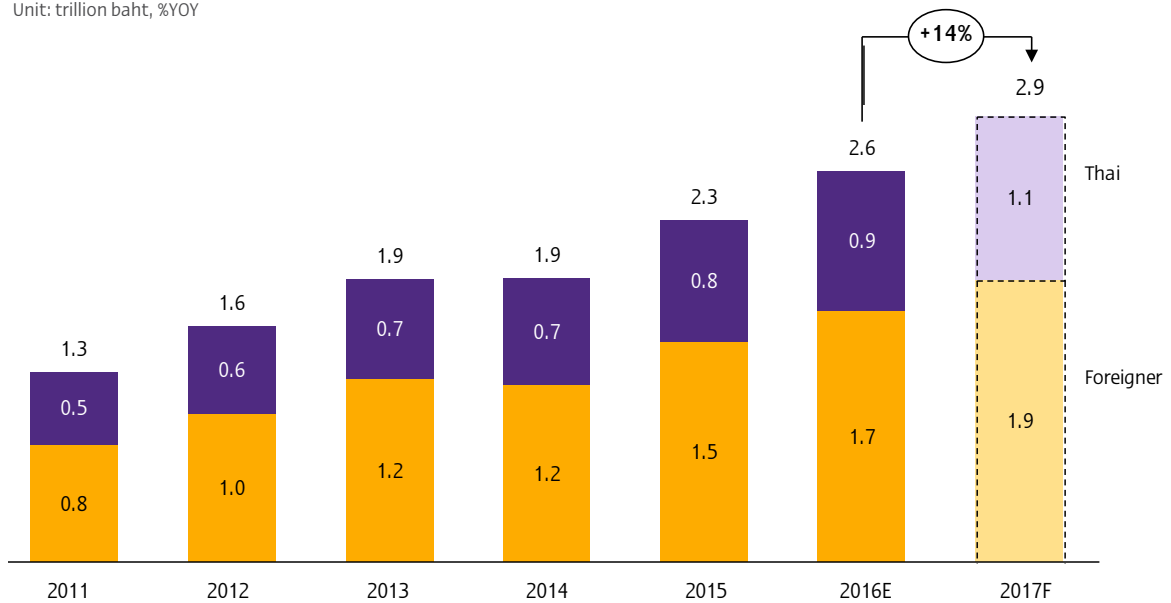




29 Local travellers and foreigners will lift Thailand's tourism revenues by 14% in 2017 to THB 2.9 trillion

Forecast of tourism receipt

Unit: trillion baht, %YOY



Source: EIC analysis based on data from Department of Tourism

Revenues from both foreign and domestic tourists are likely to rise, thanks in part to government measures. With regard to foreign visitors, current policies prioritize quality over quantity. This will help foreign tourist spending to rise to THB 53,000 per person per trip in 2017, up from THB 50,000 the year before. As for Thai tourists, they are likely to spend more thanks to favorable tax policies.



Epilogue

Three keys to surviving change and thriving

Thailand's tourism business operators must adapt to the present era of changing demographics and the digitization of everything. A defensive stance won't be enough as competition heats up and takes new forms. Doing business as usual will only lead to lower revenues and profits. EIC recommends that Thai tourism businesses take a proactive stance, with the following ideas in mind:

Differentiate to attract quality tourists. Pursuing the hyper-competitive mass market and competing on price will only hurt the bottom line. For instance, the revenue per room of Thailand's low-end hotels actually went down last year, despite the burgeoning number of tourists. Investment in serving new tourism segments is the answer, whether it's the senior citizens' tourism market, where customers pay more for quality, or the adventure tourism market, where competition has not heated up and where businesses can develop unique selling points, presenting places and activities using special expertise. The idea is to allow tourists to experience Thailand's rich cultural and natural heritage, differentiating the Thai travel experience from what is available elsewhere.

Businesses can also leverage Thailand's strength in medical tourism in order to target senior tourists and foreign retirees. Comprehensive services can be provided, combining tourism with healthcare and wellness activities. Both segments are quality segments, since spending on healthcare and wellness services is higher than for typical tourism services.

Join hands with other businesses in order to add value. Tourism businesses can partner with other businesses in order to add value and respond to customer demand. For example, providers of accommodations for foreign retirees can partner with healthcare businesses in order to offer medical personnel for elderly care. Slow tourism operators, targeting senior tourists, can also work with related service providers in order to attract more customers. Examples would include spa services, domestic care personnel and extra-large transport vehicles for seniors' convenience. These kinds of partnerships can better meet customer needs. A good customer experience then becomes a selling point for promotional packages and marketing. In addition to tourism-related services, businesses should also consider working with tech companies to stay up to date with innovations and incorporate them into their business models.

Make smart use of technology and online media. Thai businesses should take advantage of technology and digital media, not only to cut costs but also to access new markets and manage brand reputation. Today's typical consumer relies heavily on the internet for services and most information. Even senior consumers are increasingly tech-savvy. As such, digital media can be a cost-effective promotional tool. No longer do businesses have to wait for government support measures, such as the Amazing Thailand and Unseen Thailand campaigns. Social media provides a popular platform for travelers to share their experiences, sparking more interest in the attractions. But businesses have to choose the appropriate online channels to target their customers effectively, keeping in mind access restrictions in some countries. For example, Facebook, Instagram and YouTube are banned in China. At the same time, businesses have to weigh the pros and cons of new technology. For example, accommodation providers selling through online platforms may be able to drive up bookings, but too much reliance on them will cut into their profits due to higher commission fees.

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Sutapa Amornvivat is Chief Economist and First Executive Vice President at Siam Commercial Bank (SCB), where she leads the Economic Intelligence Center. She previously set up and led Risk Analytics Division under Risk Management Group. Sutapa currently sits on Subcommittee on Finance, Banking, Financial Institutions and Capital Markets, The National Legislative Assembly.

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