

Interview with Terrie Lloyd, CEO of Japan Travel KK, Travel Web Portal

Non-Japanese Expert Helping to Restore Japan's Status as a Tourism Powerhouse

By Japan SPOTLIGHT

Terrie Lloyd, a dual national of Australia and New Zealand who has lived in Japan for more than 40 years, is a distinguished entrepreneur, having founded almost 20 companies. One of them is travel web portal, Japan Travel KK. The portal is the largest by content volume and has over 18,000 contributors who have written more than 40,000 articles in 13 languages. Besides this portal business, he runs a market entry service to Japan, as well as software and website development and support.

Japan SPOTLIGHT had a chance to interview him about the future of tourism in Japan and how his business could work to help it recover from the worst of the Covid pandemic.

(Online interview on March 31, 2023)

The Pandemic & Business

JS: How has your travel web portal business been affected by the pandemic, and how do you assess the current situation?

Lloyd: There are three sectors to travel in Japan. There's the domestic sector, the outbound sector and the inbound sector. My business *japantravel.com* is focused on the inbound sector, so most of our customers are not Japanese. For the inbound sector, as I am sure you are well aware, Japan was just before Covid-19 ranked 12th or 11th in terms of the most popular destination in the world. It had roughly 32 million annual inbound visitors, of whom about 30% were Chinese.

Those numbers introduced a number of issues relating to overcrowding, over-shopping and over-consumption.

When the borders were locked down, of course the industry went from a very healthy and buoyant situation to basically no business at all. Fortunately, as a vertically integrated company, some of our three businesses continued to operate, in particular our publishing, marketing, and advertising business, where our customers are mostly regional governments in Japan and large Japanese travel corporations. However, our second business division, a Type 2 travel agency, was heavily impacted, especially since it specializes in wealthy Western tourists coming into Japan. Our third division, a software and systems business, was still in product development, and so wasn't yet commercially viable anyway.

During Covid our travel agency business went from tens of millions of yen in monthly revenue to zero in a period of about six weeks.



Terrie Lloyd

What was very harsh for both us and many other travel agents was that in travel we often work on a fee deposit basis. Customers will prepay deposits to secure their hotels and other arrangements, and with the sudden travel ban, we had to make many refunds to customers. This meant that not only did we have no revenue, but we also had negative drawdowns because we had to make all those refunds. It was a very difficult situation all around and some of my competitors wound up firing their staff and essentially closing down their operations. They kept one or two people in each team, and in the case of one foreign company downsized from 120 staff to probably around 30. Many of those fired employees left the travel sector all together – a consequence of which is a staffing shortage

plaguing the sector now.

However, my company is not a foreign company, and we didn't want to fire our loyal staff, so we worked hard to keep them. This meant that during Covid we were under severe financial pressure. We did get some subsidies, but the subsidies were not intended to pay everything; they basically covered around 70% of costs, leaving fully staffed firms like us to slowly hemorrhage the other 30% for almost three years. Yes, it was tough. In the first year I was somewhat confident of a full recovery. For the second year I was less confident, and last year I was extremely worried about whether the Japanese government would actually keep the borders closed even longer. Luckily for all of us, they reopened in October 2022.

In fact, the government's timing turned out to be very good for the inbound industry. The reason is that when foreign families, couples, and groups are booking, often the arrangements are done by one of

the domestic (often female) partners, who usually research and book about two to four months ahead of their trip. So for trips happening in March to catch the cherry blossom season, they would be booking in December and January, just weeks after everyone found out that the borders were reopening. I think it's the same for most Japanese inbound travel companies, that around 25% of their annual revenue is earned in the first quarter of the year – mostly in February and March. So the timing was good. Even better, the cherry blossoms stayed open longer than usual and this has also been very good for business.

I'll note that the Chinese market has not yet recovered, but instead we are seeing much higher volumes of Western and non-China Asian tourists who have bigger budgets, and who are more interested in spending money on experiences rather than just buying things. Although, when they do buy things, it includes crafts, which, along with experiences like ikebana or cooking, are a much better form of revenue for Japan.

Now in general the inbound travel market is quite buoyant, and my company has substantially recovered. If we took the last six months and annualized the income, we are probably at a similar level to FY2019 already. It's a big relief after three worrying years.

Digitalization & Tourism

JS: I understand that lots of companies were in difficulty during the pandemic and started thinking about different kinds of tourism such as digital tourism. Have you heard of this?

Lloyd: Yes, in fact in 2019 we started offering virtual tours. My company participated as one of 10 Japanese suppliers to Amazon in the United States, as part of a test program. We developed and supplied a number of tours to Amazon customers. I think we charged between \$35 to \$50 per person per tour and what was unique was that customers could ask the guide to go shopping for them. So many of the tours were in Shimokitazawa, Harajuku, and Shibuya. Typically the guide would go with the virtual customer, who was physically located in New York or wherever, to a Tokyo clothing shop and view different clothes or accessories, allowing the customer to purchase any that they liked. We'd then pack and ship the goods back to them in the US.

We also did a number of virtual tours with universities, including Texas A&M, where they asked us to develop specialized content related to the core studies of their students. This content included historical influences on Tokyo, and so we took them through the Ueno area as well as Shibuya and Shinjuku (for contrast). We also worked with the Ministry of Agriculture and did a number of tours on YouTube and Zoom relating to food and food production. On one

particular tour I think we had up to 400 people from around the world attending at the same time. All in all, these virtual tours were quite successful.

JS: How about digital tourism as a business itself? Will that continue to be affected by IT such as digital shopping with a guide?

Lloyd: Now that physical tourism has rebounded, digital tourism has fallen away. There is still some demand, but I think it is becoming more of a marketing function for actual physical visits rather than being a service itself. There are of course other areas of technology which are having a huge effect on the industry. One of these is ChatGPT.

JS: On that note how do you assess how you predict or foresee the impact of ChatGPT and other such technologies upon the tourism industry in Japan in particular?

Lloyd: Japanese SME companies are generally speaking not very good at technology, due to lack of internal resources, and typically only engage in technology when it leads directly to profit. It's hard for them to invest for two or three years into the future. There are of course some exceptions, but generally speaking I would say that's the case. As a result, some foreign companies have been able to come into the Japanese market and they are doing better because they have better technology. We decided to build our own travel agency back office software, which is called "Toursoft".

But as for ChatGPT, in November of last year I was invited to be an early user for ChatGPT. When I tried it I quickly realized that it was going to have a huge and beneficial effect on the travel industry. So, how do we use it? Most people talk about it as being a quick way to develop content, and while that's true, unfortunately ChatGPT is also programmed to prioritize natural language responses, not necessarily to give true and accurate content. So you can't tell if the output is the machine making it up or whether it's actually true. Furthermore, if there's no data, ChatGPT is useless because it only works if there is enough data to train the model.

What I found ChatGPT to be best at, so far, is identifying top locations in each city that we send our customers to. It has made it much easier for us to help customers who want to have an off-the-beaten-track experience. In essence, the customer gives us some different locations that they've read about online, and we are able to develop content and recommendations very quickly for them to fill their itinerary with activities and new places to see. The reason that ChatGPT can do this well is because there is enough basic

information available on the web for the AI to function. That said, there's so much conflicting information on travel in Japan that sometimes it can get confusing even for expert humans. At any rate, ChatGPT does a good job of doing advanced searches where it not only searches the results but also orders and prioritizes which results it's going to use. This ability saves a huge amount of research time for my staff and also for customers.

I think ChatGPT and general Machine Learning (ML) will merge over the next three years once we as users can pick up small local but disparate data sets and still be able to make sense of them. As an example, there are many gaps in transfers data in Japan, meaning for connecting trains, buses, and taxis. In fact, I would say that one of the main reasons that foreign tourists still use a travel agent is because the transportation options are so confusing. Now it's OK if you have a Japan Rail Pass and that works just fine, but as soon as you need to choose a bus or local train because of special needs or because you have a group, then most foreigners give up and turn to agents for help. With ChatGPT and ML over the next three to five years, solving this problem will really open up regional tourism to foreign visitors.

JS: Perhaps the recovery of inbound tourism in Japan will be robust and greatly assisted by these technologies. Given this, how do you assess the potential of Japanese inbound tourism in the future?

Lloyd: As I mentioned at the beginning, one of the biggest problems with large volumes of travelers is that they all go to Tokyo, Osaka and Kyoto. Now, Tokyo and Osaka are not so impacted because they are large cities and can absorb those numbers of people, but Kyoto is surely suffering from over-tourism. The answer to this problem is to send our foreign guests to other more regional destinations. As we all know, there are many small cities all over Japan that have beautifully preserved areas, and we need to send foreign tourists to such places – anywhere other than Kyoto.

The problem is how to design content to get them to want to go there. That is I think one worthy short-term goal for ChatGPT and ML. If we were able to do that successfully, I guess that Japan could comfortably support about 60 million tourists per year without over-tourism. Instead of Kyoto, they might go somewhere else with a similar ambience, like other locations in Kyoto-fu such as Miyazu, Ine, or Kyotango, or places further afield such as Akita or Minami-Satsuma. Anywhere that has well preserved small towns with samurai influence.

Infrastructure for Tourism in Japan

JS: Infrastructure is very important in developing the

tourism industry. The pandemic damaged lots of infrastructure related to tourism, and which would need to recover, such as souvenir shops, restaurants, and so on. How do you assess their prospects for recovery? Could it be easily done over a short period or will it take some time?

Lloyd: I think for major destinations like Kyoto, it's merely a function of market demand. Heavy visitor flows to Kyoto ensure that even as some companies shut down, others appear to replace them. But for more remote prefectures, the damage is greater and more long lasting. I am a consultant for a prefecture in Shikoku and almost all their foreign inbound marketing team was reassigned to other jobs during Covid. It's not an obvious infrastructure component, but as part of the prefectural government, no marketing team means that small companies in the prefecture no longer have a resource to attract foreign guests.

So that prefecture needs to restart, and in so doing will need to renew their relationships with surviving service providers around the prefecture and help them to rebuild. The impact for those smaller prefectures has been quite severe and I would guess it could take three to five years for them to recover. I did find it interesting that the Japan Tourism Agency (JTA) announced earlier this year that it is going to start promoting 11 regional locations around Japan. This hopefully demonstrates that the Japanese government itself is going to put some serious budget and effort towards improving marketing and infrastructure. As far as I recall, the Japanese government is still charging a traveler departure fee within air ticket prices, so they do have the financial means to invest. I'd like to see the departure fees being used directly to help struggling regional areas improve their marketing.

JS: It's not only infrastructure but also software. Software requires human resources and so we would need to invest more in human resources in order to restore the tourism business. Do you think that would be possible?

Lloyd: Just before I go into the software side, I'd like to comment that the biggest shortage in the industry right now is bilingual people who can act as tour guides and shop staff. Many bilinguals left travel and have already moved to other sectors. So bilingual staffing is a huge problem for everyone.

As far as the software side is concerned, I think for the inbound market such as what we are addressing, we can solve the shortage of technical resources by forming development teams in other countries. Indeed, my company has teams in Hong Kong, Vietnam, Bangladesh,

India, Sri Lanka and the Philippines, and that is how we have coped.

But honestly speaking, I would rather nurture talent in Japan because when your people are abroad you have to educate them over and over again about how things are done here and why Japan is different.

JS: Your portal service must be one of the keys to restoring the development of the Japanese tourism industry, because as you said information is the key. Do you think that Japanese portal services in general have been improved in recent years?

Lloyd: If you don't have a portal you can't do effective marketing, and if you can't do effective marketing you don't have customers. So what I'm seeing in most big Japanese travel companies is that they are leaving the marketing and brand building to foreign partners and basically giving up a large margin to foreign partners who are good at these things. That is not healthy for Japanese travel companies, because firstly it means that by abdicating responsibility for marketing they are removing any incentive for their own staff to build their own capabilities, ever. Secondly, because they earn such small margins, they can't reinvest in solutions even if they wanted them. Thirdly, because they're not the ones doing the marketing, their brands in foreign markets are unknown, allowing foreign online travel agency (OTA) brands to dominate.

When I created *japantravel.com* basically I saw my competition as not being Japanese travel agencies but rather foreign OTAs. It's a shame we don't see more Japanese companies making decent websites with strong functionality and up-to-date information. It is true that the JNTO and JTA are producing websites, but they are government and so there is kind of a disconnect between their projects and actual market needs. I personally feel that instead of investing money in their websites, the government should make subsidies available or create funds for Japanese travel companies to develop their own websites. At the end of the day, the travel agents and travel services companies know and understand what the foreign tourists need and if they have the budget and the marketing power to do it, it's going to be better for Japan because right now all the profits are going to the foreign OTAs.

Team of Non-Japanese & Japanese Working Well

JS: Perhaps the best way might be to have a good team of non-Japanese like yourself, who know the attractions of Japanese tourism spots very well, and Japanese people whose travel industry success is

the key to economic success. Such a team might achieve greater success, would you agree?

Lloyd: In 2013 I was invited by the JTA, which was founded not long before, along with a number of other foreign experts, to give a five-year forward-looking analysis of what foreign visitors wanted from Japan in the way of tourism. At that time Japan was number 33 or 34 in terms of preference for foreign destinations. At that time there were perhaps five or six foreigners in the advisory panel, and we were interviewed and did a number of roundtables in Kasumigaseki at the Ministry of Land, Infrastructure, and Transport (MLIT). I thought it was a very good panel and one of the interesting things to come out was that the JTA folks were expecting us to say that "cherry blossoms" or "temples" were the main attraction point for foreigners. But actually, as foreigners we told them that the main attraction point of Japan is the people. So there's a very big difference in opinion between Japanese and foreign viewpoints. As a result, when the JTA started its marketing planning it did indeed focus on people, and I feel that was a very good thing to happen.

I find it strange that there hasn't been the same level of foreign advisory interaction since then and it's definitely needed. As I mentioned, I am helping one prefecture in Shikoku in particular, and I sit on their tourism advisory committee as the only foreigner. It's very important for local Japanese government teams to understand how foreigners think. After all, the foreign inbound market is double the size of the Japanese outbound market and so it's a big net earner of revenue for the country. This is a huge benefit for the country because the profit margins on inbound travel are very good.

More Tourism Means Greater Market Entry

JS: You also provide a market entry service into Japan. This also had a downturn during the pandemic but may be picking up again now. What do you think would be key to increasing market entry to Japan? More tourism will lead to more investment but are there any other policies to encourage market entry in general?

Lloyd: One of my other companies, Japan Inc. Holding (JIH), does market entry in general, versus travel, and we are seeing a recent surge of trade interest in the Japanese market. We are expecting a very strong next two years in that space.

Just a side note on the economic impact of inbound travel: it was about 0.8% of GDP in FY2019 and this fiscal year maybe it'll be 1%. This sounds like a very small figure, but we need to remember that the cost of this particular slice of GDP is almost nothing. With

inbound tourists the government doesn't need to invest in any extra infrastructure or social services. No extra aged care facilities, no extra hospitals, no extra childcare or schools. No extra anything. Those tourists just come in, use existing infrastructure, consume high-value sustainables (food, services, etc.), then they go home again.

Back to market entry, though. When inbound travel is robust, major Japanese corporations have more discretionary income. A good example is Japan Railways. I think JR will announce later this fiscal year that it had a very good year because so many people are buying the Japan Rail Pass – which is surplus seats that they would not normally sell. As a result, such Japanese companies have more cash, which according to trickledown theory means consumers will also have more cash, which means that those foreign companies wanting to do market entry will have a better market to sell their goods and services. It's a virtuous circle, and I think there is a connection between inbound travel and the health of the economy overall. Thus, I think market entry will have a very strong next two years at least even if there is a global recession.

Another comment is that successful market entry to Japan follows certain themes and channels. Those channels which are really popular at the moment are mostly based around demand in Japan that can't be filled locally – such as food and technology. I'm a technology guy, so one of the hottest spaces I'm seeing right now is security, such as cybersecurity. Japanese cybersecurity is not very good and as a result hackers from various nearby countries are attacking Japanese corporates non-stop. You never hear about it because such companies don't want people to know their vulnerabilities, but I can tell you that there are some serious security problems going on. That means there is a very good opportunity for foreign companies in that sector. If I were the Japanese government, I would spend more time identifying other key sectors that have future potential, but unfortunately usually we see them focusing on the same things over and over again.

That said, one constant import is food, and people need to eat. I'm pleased to see that FoodEx this year was very successful, and many foreign companies came to Japan. The trend in food is that consumers are feeling a little more relaxed, so consumption of specialty and health items is increasing, and foreign companies in those spaces are responding accordingly.

Japanese Youth & Rising Entrepreneurship

JS: In terms of entrepreneurship, one factor limiting foreign direct investment and market entry into Japan might be bureaucracy, including in large companies. However, today young Japanese people seem to be more interested in starting up businesses than

working for large companies. How do you assess these young Japanese entrepreneurs as a well-known entrepreneur yourself in Japan?

Lloyd: I'm quite involved in an organization called EO (Entrepreneur Organization, or *Entrepreneur Kyokai*) which has about 850 members here in Japan. I belong to a chapter called EOTM, an abbreviation of "Entrepreneur Organization Tokyo Metropolitan", and which is a bilingual chapter. The EO is focused on helping entrepreneurs to cope with all the issues that occur as a startup, so I'm happy to say that actually they offer a great set of resources for those young entrepreneurs nowadays.

But even with such resources, unfortunately, one of the biggest hurdles for a young person to start a company is the fact that if their company fails the founder is personally held responsible for the failure. Such conflation of liability can wreck the founder's career and financial future. Even though Japan has limited liability laws for companies, the reality is that the system is set up so that the founder doesn't have limited liability. Indeed, they usually have an extremely heavy liability, for any loans, leases, and employee well-being issues. So if the company goes under for whatever reason, then that young founder's life can be ruined as a result. It's very harsh. I think young Japanese are generally very receptive to the idea of starting a company until they find out that they're going to be held responsible if things do not go well. Of course, this puts them off and I think that's entirely understandable.

Since the Japanese economy needs new startups, the government should introduce legislation that allows limited liability companies to work as originally intended. This means that even if the company may go bankrupt, the founder should not have to go bankrupt as well unless there was some malfeasance. Tying the two is such an unreasonable, strict and old-fashioned idea that needs to go away. If the law is changed, then I believe that there will be many young Japanese who will want to set up their own companies. Already we can see rising confidence in the young people of today. They're certainly moving around a lot more and switching jobs, so a certain number of them will become entrepreneurs if the right environment is there for them. **JS**

Written with the cooperation of Joel Challender who is a translator, interpreter, researcher and writer specializing in Japanese disaster preparedness.