1988

Comparison between U.S. tour wholesaler industry & China International Travel Services

Dongping Nie

The University of Montana

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A COMPARISON BETWEEN
U.S. TOUR WHOLESALER INDUSTRY
&
CHINA INTERNATIONAL TRAVEL SERVICES

By
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B.A., Hangzhou University, China, 1986

Presented in partial fulfillment of the requirements
for the degree of MBA
University of Montana
1988

Approved by

[Signatures]
Chairman, Board of Examiners
Dean, Graduate School

[Date]
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INTRODUCTION

Purposes of the paper:

The tourist industry has become one of the major economic activities in developed as well as in developing nations throughout the world. Taking the spirit from the ongoing academic activities in the field of tourism, the purpose of this paper is to compare and contrast the structure and functions of tour wholesalers in the United States of America and the People's Republic of China.

The present report attempts to elucidate functions performed by tour wholesalers in general — how they operate and what contributions they make to the traveling public and other suppliers in the travel industry. A thorough comparison has been made, in specific, between the U.S. travel wholesalers and China's International Travel Services, with an emphasis on four areas — classification of travel agencies and their roles, structure, package tours, and revenue. The structural and functional aspects of the two systems have been reviewed to provide an overview of how different systems work in each country respectively. In addition to the above, suggestions have been made with regards to modifications and further improvements for the Chinese travel industry to leap into the future.

It is obvious that the Chinese government has made outstanding progress in the travel industry. However, it
seems that the industry is unable to meet public demand due to problems in the aviation system, communication technology system, and foreign exchange currency system. The problems within the tourist industry such as organizational structure, motivation of workers, and profitability of tourist operations are also barriers to the industry's future development. After a thorough discussion, some recommendations and suggestions have been made to improve the quality of China's International Travel Services.

Material and Methods:

Secondary research will be the sole source of material for this paper. Even though the material on tour wholesalers is limited, an effort is made to refer to all pertinent books, journals, articles and other publications on the travel industry. In addition to this, the personal experiences and associations with the Chinese International Travel Services branches in the capacities of a student, researcher and internee, have facilitated the author to have a basis to understand, study and interpret the different aspects of tourism. Thus, much of the information and many of the ideas about China's travel industry are the outcomes of the author's previous understanding from classes, conventions, discussions, seminars and research.

No comprehensive, industry-wide study of tour wholesalers
has been performed either in the United States or in China. The book, "Tour Wholesaler Industry Study" by Touche Ross Company, which was sponsored by: American Express Company in cooperation with: OLSON TRAVEL, INC. TAUCK TOURS, INC. THOMAS COOK, INC. TRAVELWORLD, INC. (1975), plays an important role in providing adequate statistical data so that the author can present graphics and information to interpret the ideas and concepts of the tour wholesaler industry.
CHAPTER ONE

CLASSIFICATION OF TRAVEL AGENCIES

DEFINITION

The travel agency is the general term for the travel agency industry, or the travel services industry. According to the nature of operation, the travel agency can be classified into two groups: tour wholesalers and tour retailers.

The tour wholesaler refers to the large travel agency whose major business consists of creating an itinerary, organizing a package tour, advertising and promoting it, selling it directly to customers or through small travel agents. A precise definition may be an intermediary who negotiates with hotels, transportation companies, and other suppliers and combines these vacation components into a package tour, promotes the product and sells it directly to customers or tour retailers. So it has another name: tour operator.

The tour retailer, sometimes called the travel agent, is responsible for the tour retailing business. It is more than a middleman between tour wholesalers and customers because it is also responsible for ground tour arrangements and represents airline companies to sell tickets.

However, this kind of classification is theoretical and
not absolute. Some travel agencies are both tour wholesalers and retailers, and some even expand into hotel, airline, and entertainment businesses. This classification is not practical in the United States since most travel agencies sell airline tickets, make hotel reservations and once in a while organize a special package tour. In the U.S.A., seventy-one percent of tour customers are served by independent tour wholesalers; one percent by steamship companies; one percent by retail travel agents; twenty percent by others (Table 1, Touche Ross, 1975).

Another kind of common classification is based on the content of the operation. One type is to organize domestic people to visit other countries. The second type is to organize domestic people to travel within the country. The third type is to organize people from other countries to visit a country.

**CHARACTERISTICS OF THE INDUSTRY**

Since the writer is more interested in the wholesaler, the emphasis is put on the analysis of tour operators and package tours. Starting travel services operation as a tour operator is relatively easy and inexpensive compared to other industries because no fixed assets need to be invested. All that is needed initially is some knowledge of the destinations, a means of communication, marketing skills, and the ability to negotiate. A relatively small
**TABLE ONE**

OWNERSHIP PATTERNS OF INDEPENDENT TOUR WHOLESALERS*

<table>
<thead>
<tr>
<th>Figures</th>
<th>Percent of Tour Wholesalers</th>
<th>Percent of Passengers Served</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steamship Company</td>
<td>80</td>
<td>20</td>
</tr>
<tr>
<td>Retail Travel Agent</td>
<td>40</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>Independently Owned</td>
<td>40</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: "Tour Wholesaler Industry Study", Touche Ross, 1975

* Based on a sample of 56 independent tour wholesalers

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amount of capital is required to start with. But experience is very important in the U.S travel services industry because of high competition, complicated official regulations and changing airline rules. Creditability is vital for a firm to survive in the industry. With the computer-assisted reservation network, some American tour wholesales are more competitive than others.

In China, the tourist industry is relatively new. The government monopolizes the whole field. The industry lacks strategic planning. The present demand to visit China indicates a great market potential. Nevertheless, a lot of serious problems have unexpectedly arisen due to the poor planning at the initial stage.

**WHY ARE TOUR OPERATORS NEEDED?**

Traditionally, the tour operator has played the critical role in promoting package tours. He both conceives and organizes them. There are currently over 1,000 tour operators in the United States. These firms sell package tours to both domestic and foreign destinations. Package tours represent a significant portion of the domestic tourism industry. For example, in 1982 seven million tour packages were sold in the United States (Waters, 1984). According to the *Travel Weekly* Harris study (1984), travel agents currently are making unprecedented use of the products of tour wholesalers. There are two main reasons...
for the existence of tour operators.

First they increase occupancy or usage rates and reduce promotional costs for suppliers; meanwhile they reduce the cost to travel agents and consumers of locating information on the destination since communications and bookings with many different suppliers are reduced to one. According to the markets and hierarchies approach of Williamson (1975), market structure assesses the efficacy of the trades in the marketplace giving rise to tour operators. The fact that tour operators are much better informed of the product than the individual tourists helps reduce the transaction costs and complete a related set of tour transactions. The tour product can be a room, an airline ticket, a tourist resort, or even an itinerary.

In China, package tours seem the most convenient and common way for foreigners to travel to China. The transaction procedures for an American tourist to visit China are more complicated than those for an American tourist to visit any European countries because of the cultural differences and system differences. It is indispensable to use travel agencies to simplify the transaction procedures and reduce the transaction costs. All package tours are purchased through the private travel agencies in other countries which have business relationships with the Chinese official agencies.
CLASSIFICATIONS BY THE CHINESE GOVERNMENT

Tourism has played an important role in bringing in foreign currencies which are in urgent need for China's national modernization goal. The industry has received priority attention from the Chinese government. The first regulation regarding the travel services industry was "Temporary Rules And Regulations On Travel Agency Management" issued by the Department of Congress in 1985. In the document, Chinese travel agencies are categorized into three classes:

1) Travel agencies that arrange for foreigners, overseas Chinese, compatriots from Hong Kong and Macao and compatriots from Taiwan to visit China, see relatives or return to hometown. China International Travel Agency (CITA) and China Travel Agency are examples who have business offices abroad.

2) Travel agencies that do not go abroad to hunt for tourists but cater and entertain foreigners, overseas Chinese, compatriots from Hong Kong and Macao, and compatriots from Taiwan brought by the first class travel agencies and other government departments.

3) Travel agencies that deal with domestic tourists.

This kind of classification is supposed to fit the real situations and needs of China's travel agency management and operation. For different classes of travel agency, the government has different regulations. For instance,
registered capital Renmingbi (Chinese monetary system, US$1 = 3.8yuan) five million yuan is required to open a first class travel agency. Three hundred thousand yuan is the required registered capital in order to start a third class travel agency. Since it is a new industry in China, it is easy for the government to manage the travel industry by setting up different services and sanitation standards and avoid unnecessary overlapping.

The reasons for the kind of classifications by Chinese government are political, economic and managerial considerations. The Chinese government has a special foreign policy towards Hong Kong, Taiwan and Macao. Granting favorable concessions and benefits in trading, tourism is part of the overall foreign policy. The economic reason is that tourism is considered one of the best ways of bringing foreign currencies. Price discrimination is exercised to maximize profits (Williamson, 1975).

Correspondingly, hotels are classified into categories. Foreigners are only allowed to stay in guest hotels which are designed solely for foreign tourists. The overseas Chinese can either stay in guest hotels or overseas alien hotels which are designed for them. The reasons that foreigners cannot stay in cheap domestic tourist hotels may be the consideration of safety, facility, language or even politics. The domestic tourists cannot afford to stay in deluxe hotels. The average price of a single room per
night in an overseas hotel is more than an ordinary Chinese worker's monthly salary.

The nature of the economic systems also influences the types of classification. America is a capitalistic country that is characterized by private enterprise and competition, while China is a socialist country with heavy government intervention. Travel agencies in U.S. are private entities, but in China, travel agencies are owned by the government.

**ROLES**

Despite the different classifications, the roles of travel agencies are almost the same -- reducing information and transaction costs for the consumer and reducing promotional expenditures for suppliers.

First, the travel agency functions as the bridge. It is the main distribution channel for the realization of the tourist product. It is the middleman between the tour supplier and tourist.

Second, the travel agency provides consulting and advising services. The travel agent is the first person in the travel industry who the consumer sees and consults with about his trip. It is the travel agent who stands before the client representing the various segments of the travel industry. Most travel agencies are very familiar with the tourist resources, products, customs and habits, transportation and food of the destination countries and
local areas they are selling, thus they provide accurate information for tourists and give good advice.

Third, the travel agency alters the balance between the need and demand for a certain area. Because of bridge and consulting functions, they try to influence unsophisticated tourists' travel directions by doing a lot of promotions to certain areas and setting competitive pricing to increase the demand to these areas. This is especially true in China. After President Reagan visited the Clay Warriors near Xian and exaggerated it as the eighth wonder in the world, many American tourists poured into this city. Because of inadequate capacity to entertain many tourists, Chinese travel agencies set high prices for a trip to Xian and promoted heavily other "cold" tourist cities to balance the demand and need, the overcapacity and undercapacity. American travel agencies may have little influence in this area because of price competition between individual entities. China has one international travel agency which is solely under the control of a centrally planned economy. This enables Chinese travel agencies to change prices easily without worrying about price competition.

Fourth, by careful planning and organizing, travel agencies can save tourists time and money. They can make all reservations, handle the tickets and generally fill you in on everything from how much to tip the bellhop to where to shop for local arts and crafts. They can get discounts
from the airlines and hotels for large purchase or through other bargains. They can provide exciting programs and best entertainment since they are sophisticated in this area. Sometimes, travel agencies can have easy access to remote areas in which an individual tourist may not be able to visit. For example, the preservation area of pandas is inaccessible to individual tourists because of poor transportation, facilities and regulations, but a package tour makes such a trip possible.

Fifth, travel agencies play a role in coordinating components of the tourist industry. One feature of the tourist industry is that it provides a complete product, including food, transportation, board, entertainment, shopping, etc. To achieve a complete tourist product and to satisfy tourists, travel agencies must coordinate different tourist suppliers and relationships between tourists and suppliers.

Sixth, travel agencies act as important revenue distributors to transportation and ground service suppliers since an extremely large portion of tour wholesaler revenue ($1.9 billion out of $2.1 billion, Touche Ross, 1975) passes to other travel industry segments. A substantial portion of the volume which is committed in advance serves as an important planning base for these suppliers. Further, many of these services are multinational and thus, this tour wholesaler volume is also an important element in
international trade.

Seventh, tour wholesalers provide the retailer and the public with a wide selection of tours to a large number of destinations at varying costs and seasons of the year.

Eighth, tour wholesalers provide advance notice and increased assurance of future passenger volumes to suppliers so that suppliers can plan ahead of time. This is especially true in the Chinese travel industry. The whole year's tour packages are arranged in January and February.

Generally speaking, the travel agency is the main distributor channel, the organizer of the product, the tourist's advisor, and the coordinator of supply and demand. The position of the travel agency is reduced when most American people travel by car and live in motels. But with the development of international travel, travel agencies become more and more important.
CHAPTER TWO

THE OVERALL ORGANIZATIONAL STRUCTURE

THE U.S. TRAVEL INDUSTRY

As indicated before, American society consists of privately owned enterprises with little government intervention. Travel agencies are, of course, private entities. Tour wholesalers, in general, are not licensed or certified by any federal or state transportation agency except in four states (California, Hawaii, Ohio, and Rhode Island). However, their businesses are constrained by the rules promulgated by the air carrier associations, such as the Air Traffic Conference (ATC) and the International Air Transport Association (IATA); the Governmental agencies, such as Civil Aeronautics Board (CAB); Federal Maritime Commission (FMC, The U.S. federal regulatory agency with authority over international passenger and cargo carriage) and Interstate Commerce Commission (ICC); state and municipal consumer agencies (Table 2, Shiji Liu, 1983).

"In general, the price of the air transportation component of a tour is fixed by the air carrier (ordinarily pursuant to an IATA rate agreement if the transportation is international) and reflected in a tariff filed with the Civil Aeronautics Board" (Touche Ross, 1975). The tour wholesaler may not buy airline tickets for resale to the public at a price other than the price at which the traveler

15
TABLE TWO

THE BASIC STRUCTURE OF U.S. TRAVEL INDUSTRY

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Note:
IATA: INTERNATIONAL AIR TRANSPORT ASSOCIATION
ATA: AIR TRAFFIC CONFERENCE


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can purchase it directly from the air carrier, and the tour wholesaler cannot discount the transportation to the public. Thus the pricing of a crucial element of the tour wholesaler's product is outside his control and within the control of air carrier and CAB rate-making procedures.

The tour must also meet ATC or IATA established standards if the retail travel agent is to receive a commission.

In connection with certain types of charter programs, the tour wholesaler is authorized to purchase air transportation at charter rates from air carriers and to resell to the public an element of a tour which is sold at a price fixed by the wholesaler. In these cases, the wholesaler is obliged to comply with CAB imposed rules governing pricing, tour length, advertising and bonding.

There are four kinds of organizations involved in the U.S. travel industry:

1) The official institution: there is a bureau of travel in the Department of Commerce of the federal government in charge of national tourist affairs; there is an office of travel in the state level to promote the state image. The Civil Aeronautics Board used to be a federal agency which regulated international air commerce to and from the U.S. domestic air commerce. The CAB had authority to license air carriers and exercise control over their routes, schedules and rates and their dealings with one another, other travel industry segments and the public.
2) The private association: a good example is an American Society of Travel Agents, called ASTA for short, which has a huge structure and business offices to provide information on the international and domestic airline rules, schedules and training programs. This fifty-year-old professional organization requires certain standards of performances from its member, for example, agents must have been in business for at least three years to be eligible for membership. Society members come from the airline companies, ship companies, railway system, public bus companies, hotels, and government tourist offices. The United States Tour Operators Association (USTOA) is a trade association for tour operators. The association has strict ethical standards, and only thirty-two of the 1000 firms in the United States are members. To qualify for membership, many travel companies and organizations must vouch for the firms' reliability.

3) The semi-official institution: it is organized by individuals with the support of government, usually located in big cities and capital cities of each state, like the Philadelphia International Sightseeing Center.

4) The private travel agent deals with detailed travel businesses such as organizing package tours, and making reservations.

America has formed a comprehensive travel network supported by its government, including travel agencies,
airline industries, automobile companies and hotels.

On June 29, 1961, the United States Travel Services (U.S.T.S.) was established under the control of Department of Congress. Its membership composed of people from departments or offices of transportation, agriculture, finance, welfare, energy resources, housing, urban development, trading, communication, legal affairs.

**DEREGULATION**

Things have changed after President Reagan's deregulation policy. In deregulating the transportation industry, a ripple effect has created which extends to the entire travel industry. Travel agents are the primary sales intermediaries for airline transportation. In 1980, travel agents sold sixty-three percent of all domestic airline transportation. It is obvious that airlines and travel agencies have always been highly interdependent. On January 1, 1983, domestic airlines were no longer required to file or abide by any set fare structures. On December 31, 1984, the Civil Aeronautics Board ceased to exist. Before this, the CAB investigated all agreements between the airlines and travel agencies to see which should remain and which should be phased out, with the criteria being whether the agreements benefited the public. Prior to February 1980, all domestic airlines offered the same set commission rates to travel agents. These rates were approved by the
CAB. In February 1980, the CAB deregulated domestic commissions, contending that the set commission structure was anti-competitive (Table 3). The result of the decision was a myriad of commission plans from the airlines and a rise in the overall average domestic commission rate (Quinn, 1981).

Since the Air Deregulation Act of 1978, airlines have been free to set fare prices anywhere within a "zone of reasonableness" approved by the CAB, and total price competition in air fares took effect in January, 1983.

THE CHINESE TRAVEL INDUSTRY

China's tourist industry has experienced ups and downs due to political reasons. The first travel agency in China can be traced back to 1927. Cheng Guangpu, a banker, initiated "China travel agency" in Shanghai. Just after Mao's liberation, it was the only travel agency dealing with both domestic and international travel. In June, 1954, it ended its business.

In October, 1953, China International Travel Services was founded in Beijing with several branches in Shanghai and other areas. The target market was experts and foreign guests from North Korea, Vietnam, Russia, and eastern European countries. In the early sixties, China entertained a limited number of tourists from Japan and Western European countries. In 1956, Overseas Chinese Travel Services were
### TABLE THREE

**EVENTS IN THE PROGRESS OF THE CAB COMPETITIVE MARKETING CASE 1978-1984**

<table>
<thead>
<tr>
<th>Date Range</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 1979</td>
<td>The CAB begins its investigation of domestic airline/travel agency relationships.</td>
</tr>
<tr>
<td>Jan.-June 1980</td>
<td>Parties in the case prepare exhibits to be presented to the CAB.</td>
</tr>
<tr>
<td>February 1980</td>
<td>CAB rules in favor of open commissions for domestic air transportation.</td>
</tr>
<tr>
<td>June 1980</td>
<td>Exhibits submitted to the CAB by all parties in the case.</td>
</tr>
<tr>
<td>July 1980</td>
<td>CAB rules to allow airlines to barter air transportation for goods and services normally purchased, including commissions and promotional activities.</td>
</tr>
<tr>
<td>July 1980</td>
<td>CAB clears the way for government agencies to accept airline bids for discount air fares for government employees' official travel.</td>
</tr>
<tr>
<td>July 1980</td>
<td>New IATA agency rules approved by CAB on an interim basis.</td>
</tr>
<tr>
<td>July-Aug. 1980</td>
<td>CAB and ATC rule to allow airlines to operate outside the Area Settlement Plan by supplying tickets stock directly to agents and receiving remuneration directly from their agents.</td>
</tr>
<tr>
<td>September 1980</td>
<td>CAB approves new ATC agency rules on an interim basis.</td>
</tr>
<tr>
<td>December 1980</td>
<td>CAB removes issue of agent commissions for federal travel from the case and orders pricing issues to be considered first in the hearings.</td>
</tr>
<tr>
<td>January 1981</td>
<td>Final hearings in the case begin before Judge Ronnie Yoder.</td>
</tr>
<tr>
<td>May 1981</td>
<td>CAB strikes down domestic and international bans on travel agent commissions for official government travel.</td>
</tr>
<tr>
<td>July 1981</td>
<td>CAB tentatively proposes maximum tariff concept as its final decision on pricing issues.</td>
</tr>
<tr>
<td>Jan.1, 1982</td>
<td>Domestic route regulation by CAB ends.</td>
</tr>
<tr>
<td>Jan.1, 1983</td>
<td>Domestic air fare regulation by CAB ends.</td>
</tr>
<tr>
<td>Dec.31, 1984</td>
<td>CAB ceases to exist*.</td>
</tr>
</tbody>
</table>


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set up in major cities. During the Cultural Revolution (1956 -- 1966), all travel agencies closed their doors. In 1973, the Alien Chinese Travel Agency resumed, but as a part of the overseas Chinese affairs office to take care of overseas Chinese, compatriots from Hong Kong, Macao, Taiwan and foreigners of Chinese descent who came to visit relatives.

As mentioned above, the first class of travel agency assumed tasks from the government and became a part of the foreign affairs office. CITS did not calculate costs and paid no attention to profits. It was more like a government administrative unit. In 1979, a nation-wide economic and system reform campaign occurred. National Tourism Administration (NTA) pointed out that the core of the tourist system reform was to change from a government administrative unit to a business entity and focus on economic efficiency.

The National Tourism Administration is a government administrative institution in charge of the national tourist industry through China International Travel Service and China Travel Service (Table 4). These two business organizations have branches in major tourist cities which own some hotels and guest buses. Each province has a bureau of tourism administration which is subject to double controls from the central National Tourism Administration and local government.
TABLE FOUR

THE BASIC STRUCTURE OF CHINESE TRAVEL INDUSTRY

<table>
<thead>
<tr>
<th>NATIONAL TOURISM ADMINISTRATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHINA'S TRAVEL SERVICES (CTS)</td>
</tr>
<tr>
<td>200 CHINA'S TRAVEL SERVICES BRANCHES AND SUB-BRANCHES IN &quot;OPEN-DOOR&quot;* CITIES. AREAS AND ALIEN CHINESE HOME TOWNS IN GUANG DONG AND FUJIAN TOURIST AREAS.</td>
</tr>
<tr>
<td>ORGANIZE TOURISTS FROM HONGKONG, MACAO AND TAIWAN**.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHINA'S INTERNATIONAL TRAVEL SERVICES (CITS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MORE THAN 125 CHINA'S INTERNATIONAL TRAVEL SERVICES BRANCHES IN 23 PROVINCES AND AUTONOMOUS REGIONS: SUB-BRANCHES IN &quot;OPEN-DOOR&quot; CITIES AND PROVINCES.</td>
</tr>
<tr>
<td>ORGANIZE FOREIGN TOURISTS.</td>
</tr>
</tbody>
</table>

Note:
* "OPEN-DOOR" CITIES indicate cities that Chinese government allow foreign tourists to have free access to. Otherwise, a special official permit is required for a foreigner to visit other cities.

** Before November, 1987, there is no direct access for taiwanese to the mainland of China due to the political reasons. Most taiwanese had to become part of Japanese or Hong Kong tourist groups in order to visit China. Now thousands of taiwanese visit China through Taiwan Red Cross and CTS. It is becoming one of the major tourist sources.
The National Tourism Administration is a government sub-department. It has full administrative authority over China Travel Agency and China International Travel Agency. China Travel Agency is responsible for organizing tourists from Taiwan, Hong Kong and Macao; while China International Travel Agency is responsible for organizing foreign tourists to China. China International Travel Agency has more than 125 branches in big cities. The relationship between China International Travel Service and its branches in each city is very complicated. China has a centrally planned economic policy. At the beginning of the year, CITS usually has a whole year of package tours scheduled. Responsibilities for groups and itineraries are assigned to individual branches. Each branch has full obligation to accomplish the assigned tasks from CITS, but is independent economically, which means, it can calculate costs and profits separately. Suppose a special medical group from America is assigned to Shanghai International Travel Services Branch. It receives the whole payment from an American travel wholesaler who cooperates with CITS for this special trip. The group arranges a visit to Hangzhou. During their stay in Hangzhou, Hangzhou International Travel Services provides a local guide, local transportation and other services. Then the Shanghai branch has to pay the Hangzhou branch for the services. The Hangzhou branch must cooperate. After completing the allocated tasks, each branch can organize its
own packaged tours. The bureaus of Tourism Administration in each province is strictly administrative in function. If you want to start a travel agency of the first class, you have to apply to the bureau of Tourism Administration in your province. After that, you must get permission from NTA. But if you want to open a third class travel agency, you only need get permission from the bureau of Tourism Administration in your province.

The bureau of Tourism Administration in provinces also supervises some hotels. Once in a while, a special quality campaign is held by this official organization. They examine the quality of hotel services and tour guides’ services.

DIFFERENCES AND PROBLEMS

In America, tour operators, travel agents and tour suppliers are owned by individual entities. Profitability and economic contracts tie separate units together with little government intervention in the U.S. travel industry. Free competition and entrepreneurship are the capstone of the industry. Therefore, the structure of the industry is all-channel network between the public, tour wholesalers, travel agents, and tour suppliers.

In China, travel agencies and tour supplier are owned by one entity, the Chinese government. The structure of the Chinese travel industry is a closed wheel network. The
government is in the center and directs each segment of the industry, with little interaction between each segment. The advantages and disadvantages of both networks depend on the situations where networks function.

The Chinese tourist industry has several problems as a direct result of its structure.

1) Business becomes subordinate to administration. Travel agencies are business entities while bureaus of Tourism Administration are administrative units. In most cities, however, foreign affair offices and bureaus of Tourism administration still do business. Paradoxically, the unit that has authority does not have responsibility, the unit that takes responsibility does not reap the benefits; authority, responsibility and benefits are not tied together.

2) There is a conflict between the "hot" tourist cities and "cold" tourist cities. Since branches have to wait for assigned tasks from above, and the right to organize a tour group is highly centralized, branches are in a passive position. In some cities, the number of tourists surpass the actual receiving capacity while in other cities, there
is a waste of overcapacity. There is a gap between the planned and the actual coming number of visitors, which make branches pay to hotels for temporary cancellation.

3) There is a lack of coordination between branches, travel agency and other tourist suppliers. A complete tourist product requires effort and cooperation among various suppliers. Bad hotel services can ruin the quality of the product and the name of the travel agency. The difficulty of getting airline tickets always delays the whole schedule. There are many external variables out of the control of travel agencies.

4) There is no incentive for guides or conductors who provide good services. Any kinds of decisions are usually made from the above with little workers' involvement. The criteria for promotion are not well defined. The housing problems and inflation influence workers' attitudes towards work. Paying no attention to tourists' requests is a common phenomena.

The different economic systems between the U.S. and China leads to the different organizational structures in the travel industry of both countries. The U.S. travel industry focuses private ownership, competition and entrepreneurship, while the Chinese travel industry emphasizes central planning and government ownership.
CHAPTER THREE

PACKAGE TOUR

WHAT IS THE PACKAGE TOUR

The first package tours were sold in 1841 by Thomas Cook, the Father of the Travel Industry, in England (Wang, 1985). These tours were different from package tours of today in that transportation was always by railroad and accommodation was excluded. Today, tour operators usually put together different transportation modes, different hotels, travel schedules, different tourist cities into a different tourist product for different prices. A technical definition of a package tour is the combination of components of a vacation (such as accommodation, transportation, entertainment and meals) which are sold to the consumer as a single product at a single price. Consumers may not know the prices of the individual components because they purchase an entire package.

Package tours represent a significant portion of the wholesaler business. For example, in 1982, seven million package tours were sold in the United States (Waters, 1984), and in 1978 more than forty percent of U.S. residents travelling overseas purchased a package tour (Kent). According to the Travel Weekly Harris Study (1984), seventy percent of agents reported an increase while in a 1982 Study, fifty-five percent of travel agents reported an
increase in package sales. The package tour is finding increasing acceptance among agents, pointing to the increasing importance of tour wholesalers.

The main reason for package tours is convenience. The transaction in which each tourist has to go to different places to deal with different tour suppliers is simplified by package tours. Thus, the transaction and information costs are reduced. The study by Sheldon and Mak in 1987 (Journal of Travel Research) of why package tours are preferred got the following results:

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>convenience</td>
<td>26%</td>
</tr>
<tr>
<td>cheaper price</td>
<td>22%</td>
</tr>
<tr>
<td>unfamiliar with destination</td>
<td>13%</td>
</tr>
<tr>
<td>see more, do more</td>
<td>12%</td>
</tr>
<tr>
<td>other reasons</td>
<td>27%</td>
</tr>
</tbody>
</table>

100%

Monopoly power exists in the tour industry in China. All package tours must be purchased through the government agency. Package tours are also the most common way for foreign tourists to visit China (not including foreign experts who teach in Chinese universities or work in Chinese factories). Language, visas, airline tickets, hotel reservations and local transportation are always problems. Convenience is the most frequently cited advantage of package tours to China. But the prices are by no means cheaper because of monopoly and price discrimination policy.
TYPES OF PACKAGE TOURS

There are all kinds of classification of package tours. Table 5 shows the types of tours in terms of profit margins and fixed costs. Pre-packaged group tours with high fixed costs (costs of transportation or accommodations do not vary directly with the number of tour participants) and pre-packaged group tours with low fixed costs (costs vary directly with the number of tour participants) account for sixty-two percent (Touche Ross, 1975).

In the light of airfare categories, tours are broken down into group tour, charter, individual promotional tour (Table 6, Touche Ross, 1975). Inclusive Tour accounts for a large portion in each of three segments because of the economic scale. The Group Inclusive Tour (GIT) fare was introduced in 1967; at that time it was the lowest type of fare (except for charter). After deregulation in 1978, this is less common, and because airfares are constantly fluctuating, many tour operators do not include air fare as part of the Group Inclusive Tour price.

The most common type of package tours in China is an escorted inclusive tour. An escorted tour involves the assistance of an experienced tour director travelling with the group, who handles all basic details -- hotel reservation, transport, sightseeing, luggage, customs, language interpretation. By and large, escorted tours are all inclusive, that is, all the expenses are predetermined.
TABLE FIVE

TYPES OF TOURS ASSEMBLED BY INDEPENDENT TOUR WHOLESALERS

<table>
<thead>
<tr>
<th>Types of Tours Assembled</th>
<th>Custom Group Tours - Low Fixed Costs</th>
<th>Pre-Packaged Group Tours - High Fixed Costs</th>
<th>Independent Tours - Controlled Margins</th>
<th>Custom Group Tours - High Fixed Costs</th>
<th>Independent Tours - Margins Not Controlled</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1%</td>
<td>33%</td>
<td>74%</td>
<td>8%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

SOURCE: "Tour Wholesaler Industry Study", Touche Ross, 1975

CONTROLLED MARGINS - Tours for which the wholesaler predetermines a fixed profit margin which is independent of the number of tour participants.

MARGINS NOT CONTROLLED - Tours for which profit margin is dependent upon the number of tour participants.

HIGH FIXED COST TOURS - Tours for which the cost of the transportation "container" (plane, bus, etc.) and/or the cost of accommodations does not vary directly with the number of tour participants; and for which tour profitability is highly dependent on certain load factors.

LOW FIXED COST TOURS - Tours for which the cost of the transportation "container" and/or the cost of accommodations varies directly with the number of tour participants.

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TABLE SIX

PERCENT OF PASSENGERS TAKING TOURS BY AIR FARE CATEGORY

GROUP TOUR
50%

CHARTER
10%

INDIVIDUAL PROMOTIONAL TOUR
40%

BREAKDOWN OF AIRFARE CATEGORIES

CHARTER

INDIVIDUAL PROMOTIONAL

GROUP TOUR

INCLUSIVE TOUR
- CHARTER 97%

INDIVIDUAL INCLUSIVE TOUR
- DISCOVER AMERICA 4%
- EXCURSION 8%
- DISCOUNT 50 TRAVEL U.S.A. 2%
- OTHER 1%

GROUP INCLUSIVE TOUR
- INCENTIVE 1%
- AFFINITY 3%
- OTHER 15%

NOTES:

GROUP TOUR
- Tour which provides the benefit of a special fare, but requires a minimum number of passengers traveling together in a group.

INDIVIDUAL PROMOTIONAL TOUR
- Tour which provides the benefit of a special fare, but is prepared for each traveler on an individual basis.

CHARTER
- Tour which uses a chartered container to transport passengers.

Source: "Tour Wholesaler Industry Study", Touche Ross, 1975

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except for personal shopping, personal tipping, optional activities. The predetermined cost allows the traveller to budget most of his expenses in advance. This type of package tour is not as popular in the U.S. as in China because no language and little cultural obstacles are involved in the transaction when an American tourist travels in his own country or English spoken countries. Hotel rooms and airline tickets are not always available in China. That is why an experienced tour conduct is necessary to arrange everything.

The package tour in the U.S. continues to diversify and become more sophisticated. Many tour operators are becoming specialized in the type of tour packages they develop and sell. More and more tour operators are catering to special interest groups by developing tours such as adventure tours, gourmet tours, historic tours and archeological tours. They may create any kinds of packages for individual specifications and special demands. For example, some travel operators specialize in incentive trips based on a company's request or in conventions and exhibitions based on special demands. Travel clubs and nonprofit organizations which provide travel services for their members are also becoming increasingly common (Sheldon, 1986).

China is also striving to diversify its package tours. The forms and contents are still limited to traditional types of sightseeing. Whenever there is a new idea, it has
to go through multi-stage government approval and critical publicity.

**DISTRIBUTION**

The distribution of package tours in the U.S. is relatively simple. Tour operators either sell products directly to consumers or through travel retailers. They usually give retailers ten percent commission (1979 International Agreements on Hotels and Travel Agencies). In China, package tours usually sell to foreign tour wholesalers instead of consumers. In both countries, marketing a product is not easy. Producing and distributing a brochure is the main selling aid. Advertisements in the travel magazines are also used for promotional purposes. There is, however, a trend towards marketing directly to the consumer, and bypassing the travel agent, eliminating commission payments. The presentation of information in brochures is subject to regulation. In the U.S., the promotional material used to be approved by the Civil Aeronautics Board (CAB) before it was distributed. Other governmental agencies are making an effort to improve the protection of tourists, and the quality of information on the package tours. The length of time for marketing package tours is almost as long as for tour preparation (Table 7, Touche Ross, 1975). It usually takes eighteen months of preparation and marketing before the actual package tour
TABLE SEVEN

THE TOUR WHOLESALER OPERATING CYCLE*
SINGLE SEASON TOUR PROGRAM

-18 -16 -14 -12 -10 -8 -6 -4 -2 0 2 4
MONTH

TOUR PREPARATION ———— TOUR MARKETING ———— TOUR OPERATION

MARKET RESEARCH

ANALYSIS OF PAST TOUR PROGRAMS
TRANSPORTATION PRICING
DEVELOPMENT COMMITMENTS
OF NEW DESTINATIONS AND SERVICES
TOUR SPECIFICATIONS

TOUR MARKETING

NEGOTIATIONS FOR GROUND SERVICES
ADMINISTRATION

RESERVATION MECHANICS
PRODUCE BROCHURES DISTRIBUTION
RETAIL TRAVEL MEDIA ADVERTISING PROGRAMMING
AGENT ARRANGEMENTS PERSONAL SALES TOUR LIASON ACTIVITIES
OTHER WHOLESALER CONTACTS TOUR RESERVATIONS AND ACCOUNTING
PAYMENTS OF SUPPLIERS

*Typical for large independent full-time wholesaler

Sources: "Tour Wholesaler Industry Study", Touche Ross, 1975

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begins.

When the package tour starts, there are more complicated and detailed procedures. The wholesaler dealing with international tourism should be more sophisticated. For example, a knowledge of visa issuing, immunization, foreign currency exchange, language is required. barrier and international airline schedule.

In a word, the process from creating a package tour to marketing to tour operation to the end of the trip is the travel agency's business.

REGULATIONS BY THE CHINESE GOVERNMENT

Since China is a centrally planned economy and the government owns the travel agencies, there are some regulations on package tours. The Tourist Law regulates that travel agencies should:

a) cooperate and contract with tourist-related organizations regarding national rules, regulations, and government policy concerning Chinese travel agency;

b) plan the itineraries based on overall governmental central plans and tourist market demands;

c) arrange hotels, transportation, entertainment activities meeting the standards of tourists' selected route and specifications;

d) supply interpreters and tour guides;

e) improve services and management, listen to tourists'
recommendations and criticism;

f) operate tourist-related businesses.

DIFFERENCES

The basic business, in China and in America is the same, that is, to provide package tours and services for tourists during their trip. There are some minor differences. The U.S. airline industry is well developed so that it offers various forms of services and discounts, like charter airlines, while China's airline does not offer this service. The airline flights are very limited. Especially in the peak season, it is very difficult to book seats. Monopoly power also exists in the airline industry. The prices are very high, which make the package tour prices high, too. The cancellation and delay of flights are not uncommon, thus, disrupting the whole tour schedule. The night entertainment in the package tour has a lack of variability. As the Chinese newspapers put it that some entertainment is of a capitalistic nature, which the socialist system should not imitate. In-door sports facilities are not available. The styles and forms of package tours do not do justice to the abundant scenery and vibrant cultures. The Great Wall, clay warriors near Xian, and Li River cruises are the universal items in almost each package tour.

The distribution channel is very narrow. There are marketing offices in a few big cities, such as Hong Kong,
Tokyo, San Francisco, New York, and London. These offices only contact travel agencies and never directly deal with customers. Sometimes, a package tour will go through two or three travel agencies. The whole price of the package tour goes up due to commissions paid to different middlemen.

The Chinese marketing strategy does not catch up with the tourist demands. There are many people who want to visit China, but do not know how to get information. In the U.S., the estimated costs for brochures are between two and five percent of the total tour price, and a conversion rate of one booking to eight to ten brochures is accepted as the industry norm (Sheldon, 1986). The marketing expenditure is only a small portion of the planned budgets.

The American wholesalers usually hire local people to be temporary tour guides and pay on a hourly basis. China's International Travel Service has a large, talented professional tour guide group. They are full-time workers paid on monthly salaries. Most of them have received bachelor degrees and can speak foreign language fluently. They are not only interpreters and guides, but also managers of the trip. They provide a guarantee of a satisfactory trip for tourists. But, some of them are less motivated because the good services and the bad services they perform make no difference in their salaries. Tips in form of money are officially not allowed in China. However, small gifts are acceptable.
CHAPTER FOUR

REVENUE

As mentioned in Chapter One, the independent tour wholesaler's business is characterized by relative ease of entry; high velocity of cash flow; low return on sales; and potential high return on equity invested. Because of the initial low investment, high return on equity invested is possible. Compared to the potential sales and opportunity for profit generated, the pre-tax profits average approximately three percent of sales.

As shown in Table 8 (Touche Ross, 1975), the segments of the U.S. tour wholesaler industry, including tours packaged by independent tour wholesalers, airlines, and travel agents, generated an estimated US $4.0 billion in travel sales (including ground services and airfares) from an estimated 5.2 million tour passengers. Other segments of the industry, such as steamships or other travel service companies performing wholesaler functions, are not included.

Of the total $4.0 billion, independent tour wholesalers account for $2.1 billion in revenue, which is fifty-two percent. Of the total 5.2 million passengers served, tour operators account for 2.7 million, which is again fifty-two percent. Table 9 illustrates that the $2.1 billion in revenue consists of $1.1 billion in transportation services,
TABLE EIGHT

SIZE OF THE TOUR WHOLESALER MARKET

<table>
<thead>
<tr>
<th>TOUR PRODUCER</th>
<th>PASSENGERS SERVED</th>
<th>REVENUE* DOLLARS</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDEPENDENT TOUR WHOLESALERS</td>
<td>NUMBER</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>2.7 Million</td>
<td>52</td>
</tr>
<tr>
<td>AIRLINES</td>
<td>1.1 Million</td>
<td>21</td>
</tr>
<tr>
<td>RETAIL TRAVEL AGENTS</td>
<td>1.4 Million</td>
<td>27</td>
</tr>
<tr>
<td>TOTAL</td>
<td>5.2 Million</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: "Tour wholesaler Industry Study", Touche Ross, 1975

* Includes both ground services and air fares
### TABLE NINE

**ESTIMATED TOTAL REVENUE GENERATED BY INDEPENDENT TOUR WHOLESALERS**

<table>
<thead>
<tr>
<th>TRANSPORTATION</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled Airlines</td>
<td>$900 Million</td>
</tr>
<tr>
<td>Non-Scheduled Airlines</td>
<td>$100 Million</td>
</tr>
<tr>
<td>Motor Coach</td>
<td>$74 Million</td>
</tr>
<tr>
<td>Rail</td>
<td>$18 Million</td>
</tr>
<tr>
<td>Steamship</td>
<td>$28 Million</td>
</tr>
<tr>
<td></td>
<td>$1.1 Billion</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GROUND SERVICES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotels &amp; Meals</td>
<td>$470 Million</td>
</tr>
<tr>
<td>Sightseeing</td>
<td>$100 Million</td>
</tr>
<tr>
<td>Car Rentals</td>
<td>$55 Million</td>
</tr>
<tr>
<td>Travel Agent Commissions</td>
<td>$120 Million</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$55 Million</td>
</tr>
<tr>
<td></td>
<td>$800 Million</td>
</tr>
</tbody>
</table>

(Continued)
<table>
<thead>
<tr>
<th>TOTAL</th>
<th>$1.9 Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>*GROSS PROFIT BEF. INDIR. EXPENSES</td>
<td>$200 Million</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$2.1 Billion</td>
</tr>
</tbody>
</table>

Source: "Tour Wholesaler Industry Study", Touche Ross, 1975

* Based on 2.7 million passengers
* Gross profit before indirect expenses is approximately 10% of estimated total revenue generated, and 16% of the revenue received by independent tour wholesalers. Revenue received represents total revenue generated less scheduled airline revenue generated.
$800 million in ground services and $200 million in gross profit (before indirect expenses). The balance of $1.9 billion is revenue generated from airlines and retail travel agents performing tour wholesaler functions.

About ninety-five percent of tour wholesaler revenue ($1.9 billion out of $2.1 billion) passes to other travel industry segments. Tour wholesalers act as important financial conduits to transportation and ground services suppliers.

THE BREAKDOWN OF COSTS

The study by Touche Ross (1975) indicates that only 14% of tour revenue is available to the independent tour wholesalers for indirect expenses and profit. The direct costs represent the major portion of a tour wholesaler's operating costs.

- Direct cost 86%
- Indirect cost 14%

Each type of cost can be further broken down into an appropriate accounting classification as illustrated in Table 10 (Touche Ross, 1975):

Direct costs

Direct costs are all direct payments to suppliers of tour services and retail travel agent commissions. Hotels and meals account for 52% of the direct costs. Travel agent commissions and sightseeing represent 13% and 12% each. The
TABLE TEN

ACCOUNTING CLASSIFICATION OF INDEPENDENT TOUR WHOLESALER COSTS

<table>
<thead>
<tr>
<th>Breakdown of Direct Costs*</th>
<th>Breakdown of Indirect Costs**</th>
</tr>
</thead>
<tbody>
<tr>
<td>HOTELS &amp; MEALS 52%</td>
<td>RENT 5%</td>
</tr>
<tr>
<td>MOTOR COACH 8%</td>
<td>TELEPHONE &amp; TELEGRAPH 11%</td>
</tr>
<tr>
<td>RAIL 2%</td>
<td>MISC. 16%</td>
</tr>
<tr>
<td>CAR RENTALS 6%</td>
<td>NET** ADVERTISING &amp; PROMOTION 19%</td>
</tr>
<tr>
<td>SIGHTSEEING 12%</td>
<td>SALARIES &amp; WAGES 48%</td>
</tr>
<tr>
<td>TRAVEL AGENT COMMISSIONS 13%</td>
<td></td>
</tr>
<tr>
<td>AIR CHAFTER 4%</td>
<td></td>
</tr>
</tbody>
</table>

*Direct Costs — All direct payments to suppliers of tour services and retail travel agent commissions. Direct costs include payments to airline charter operators, hotels, motor coach companies, restaurants, car rental companies, steamship companies, retail travel agent commissions and any other supplier providing direct services to the consumer.

**Indirect Costs — All operating costs which do not involve direct payments to tour service suppliers or retail travel agents. Indirect costs include rent, net advertising and promotion, salaries and wages, telephone and telegraph expenses, and other non-tour supplier related costs.

***Net of reimbursements for tour brochures.

Source: "Tour Wholesaler Industry Study", Touche Ross, 1975
other small portions go to motor coach (8%), car rentals (6%), air charter (4%), steamship (3%) and rail (2%).

**Indirect Costs**

Indirect costs are other operating costs which do not involve direct payments to suppliers. Among indirect costs, tour operators' salaries and wages account for the major portion (48%). Advertising and promotion also represent 19%. The other portions are telephone and telegraphy (11%), miscellaneous (16), and rent (6%)

Direct costs associated with payments to tour suppliers are normally fixed in advance of marketing the tour. Consequently, the major portion of operating costs is out of tour wholesalers' control. While some wholesalers do cancel tours, this action decreases the reputation of the tour wholesalers with retail travel agents and suppliers and risks the future business. For these reasons, the tour wholesalers choose to operate an individual tour at some loss to keep their reputation, thereby making his overall cost of operation a little higher.

The indirect costs are controllable. The following list shows the allocation of indirect costs by major functional classification:

- Reservations, record keeping and accounting 25%
- Tour preparation 22%
- Net literature production and printing (net of reimbursements) 15%
- Promotion 12%

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- Public relations 2%
- Miscellaneous 12%

The indirect costs over the number of passengers in a package tour decrease as the number of passengers increases. Therefore, large tour operators can benefit from economics of scale.

INCOME SOURCES IN THE U.S.

There are various types of income sources:

Commissions from scheduled airlines, hotels, tourist spots:

Commissions are certain percentages paid to tour wholesalers for their purchase by tour suppliers. Normally, commissions for room reservations in hotels are around ten percent of the price; commissions paid by airlines are around eight to ten percent; commissions paid by tourist resorts for tickets sales are one percent.

Profits of organizing a package tour:

Since the direct costs are predetermined, profits come from indirect costs or markups on ground arrangements. Tour operators sell a package tour at a single price, and consumers do not necessarily know the price of individual components. It is important to set up a reasonable price at which consumers will buy the product; meanwhile tour wholesalers need to cover the overhead and get the profit. Market values are a little higher on exclusive or unique package tours.
Markups from certain types of charters:

Charters, such as inclusive tour charters (ITC's), study group charters, and special event charters are based on the load factor achieved by the tour wholesaler on each charter flight. No markups are permitted on scheduled airline fares.

Services fees:

Normally, tour operators provide services on a non-fee basis. Advisory services, information, booking tickets are free to customers. Sometimes, long-distance calls are included in the package tour's indirect costs or charged directly to customers. The services, such as foreign currencies transactions, luggage handling, and visa handling, are usually not free.

Incomes from issuing credit cards:

Some large tour wholesalers also issue credit cards. If hotels, restaurants, shopping centers accept credit cards, they should pay a certain percentage to tour wholesalers which issue the cards for their services. The American Express is one of the largest and earliest tour wholesalers to develop and issue traveler's checks. The money acquired from selling traveler's check is called "float" which can be used and loaned out at interest before the checks are cashed. The American Express states that, while it makes little money on travel, it makes considerable money with the use of its float.
Discounts:

Discounts from suppliers appear when there is a large volume purchase. The volume is critical for the tour operator to gain good discount from suppliers and be price competitive. As volume begets lower prices, lower prices beget more volume and the spiral continues. Once a firm can generate large volume through advertising, operating efficiency, or specialized knowledge of a destination, economics of scale take place. These economics of scale are found in both direct and indirect costs (Table 11, Touche Ross, 1975). Direct costs will decrease for volume discounts from tour suppliers; indirect costs are also decreasing as discussed above.

INCOME SOURCES IN CHINA

In China, since travel agencies, hotels, and airlines are owned by the government, credits and debits between travel agencies and tour suppliers are not clear. There is no statistical data available. The only form of tours is the package tour. A fixed price includes:

- Prices of hotel rooms;
- Prices of three meals a day, beverages;
- Expenses on the local buses;
- Tickets to tourists spots;
- Expenses on the predetermined programs and entertainment;
### TABLE ELEVEN

**ECONOMICS OF SCALE OF TOUR OPERATORS**

<table>
<thead>
<tr>
<th>Firms</th>
<th>Market share</th>
<th>Average cost of operation per passenger (indirect costs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operators with 1 - 5,000 passengers annually</td>
<td>3%</td>
<td>$64.30</td>
</tr>
<tr>
<td>Operators with 5,000 - 50,000 passengers annually</td>
<td>29%</td>
<td>$53.50</td>
</tr>
<tr>
<td>Operators with more than 50,000 passengers annually</td>
<td>68%</td>
<td>$33.90</td>
</tr>
</tbody>
</table>

*Sources: "Tour Wholesaler Industry Study". Touche Ross. 1975*
- Interpreting and guiding fees (including the whole trip conduct and local guides);
- Travel agencies' management fees;
- Services fees;
- Other fees, such as transportation fees commuting between cities, over-mileage fees for local transportation, the differential price between the deluxe hotels and standard guest hotels, special fees for other activities that are not predetermined in the package tour.

There is an official term for this, that is, comprehensive services fees. Though it is not customary to pay commissions to foreign travel wholesalers, they usually include their profits in the selling price to the public.

A large portion of the revenue Chinese travel agencies receive passes to airlines and hotels. No official statistical data support exact figures. Chinese International Travel Agency branches in each city usually have their own buses for local transportation. The expenditures on Chinese art works are also substantial. No commissions, discounts, markups are allowed between the tour suppliers and travel agency branches.

Differences

The form of generating revenue for Chinese travel
agencies is very limited. There are no commissions and
discounts from suppliers since both suppliers and travel
agencies are government operated. They are not private
entities, but belong to different government units. The
accounting system is totally different from the U.S.
accounting system.
CHAPTER FIVE

RECOMMENDATIONS

After a comparison between the U.S. tour wholesalers and China's International Travel Services in terms of structure, package tours and revenue, some recommendations based on personal experience and understanding are made for China.

STRUCTURE

The authority of the Chinese travel industry is highly concentrated at the central government level instead of the provincial level. All major decisions come from the National Tourism Administration. Chinese law regulates that only the government can own the first and second type of travel agencies which accommodate foreign tourists and tourists from Taiwan, Macao and Hong Kong. The structure of a large-scale organization inherently requires the development of bureaucratic patterns of behavior (Williamson, 1975). This bureaucracy leads to inefficiency and prevents Chinese tourism from leaping ahead. The way to fight against bureaucracy is institutional reform, together with economic reform. Delegation of authority to the provincial level or even to each branch would improve efficiency in decision-making and reduce bureaucracy to a certain extent. It is not easy to reduce bureaucracy in
China because bureaucracy is the result of two thousand years of feudalism involving central administration.

In the U.S., each tour operator has full authority to decide how his business is run and how to improve profits. In China, travel agencies are under direct government control. However, there should be a clear distinction between duties performed by administrative units and those performed by business units. The Bureaus of Tourism Administration in each province should be dedicated to administrative duties, such as establishing rules and regulations to foster the overall provincial tourism development, planning the regional tourist resources, and coordinating tourist-related areas. The headquarters of Tourism Administration should be responsible for promoting the overall travel industry in China and coordinating the development of tourism between regions.

China's International Travel Service branches in each city are business entities. Thus, each branch should have its own right to make business decisions with no interference from the Bureau of Tourism Administration. Each branch should have responsibility, authority and autonomy, as well as have access to benefits. The relationship between CITS and its branches should be in the form of economic contracts, which have been one of the main areas of recent economic reforms in China. Therefore, a more detailed tourist law is needed.
In the beginning stage, the government monopoly over this industry is understandable. But we have already noticed that lack of competition in the travel industry does not motivate branches and people. There is only one official travel agency. If you want to visit China, you must go through this agency. Like it or not, this is the most common and convenient way to travel to and in China. Some in management are so satisfied with the number of tourists received that they have no intention of improving the services. But they have neglected the fact that since China has closed its door for so long, people are very curious about it. Eventually, visitors' expectations of good services will outweigh their curiosity. Besides, the numbers are really not adequate to take full advantage of the wealth of Chinese natural resources and rich cultures. The percentage of annual increase is deceiving since the base is so small. The point is: China should also allow semi-official or private travel agencies to compete with the official travel agency.

China needs entrepreneurial spirit to stimulate the slow-paced economy and stagnant businesses. Joint ventures are quite popular in the hotel industry in China. They have brought western management techniques, trained professional staff, and improved the quality of services. The possibility of joint ventures in the travel agency industry is feasible. The goal is the same: promote travel to China.
The quality of services can be improved. The variety of tours can be increased. The prices can be more competitive because China is competing with other East Asian countries.

**PACKAGE TOURS**

China should strive to create unique package tours, such as acupuncture, Kungfu, silk road, Chinese traditional painting, and Chinese gourmet trips because unique package tours not only differentiate the Chinese tourist product from other countries', but also can have a higher market value. The combination of sightseeing and special interest will enrich the content of the trip and increase the number of tourists with special interests.

The U.S. tour wholesalers are good at advertising their tour products by extensive spending on information distribution to a great number of possible consumers. On the contrary, China spends little money in marketing. Therefore, establishing long-term marketing strategy is urgent: identifying the target market, exploring potential market, and expanding marketing expenditures. China should judge its progress by comparing its tourist market with those of other Asian countries.

To make package tours more competitive with other Asian countries', CITS should reduce the prices of package tours by reducing unnecessary multi-stage distribution channels. It needs to set up more offices in big cities and set up a
wide distribution channel. With the development of marketing skills, it should be able to organize a tour by directly dealing with consumers instead of local travel agencies.

Since tour guides are the capstone of package tours in China, the quality of their services is very important. How to keep them motivated has been a much-talked-about issue in the tourist industry. Workers' involvement in decision making can give workers a sense of responsibility. The material rewards are important because the living standards are still low in China. The housing problems and inflation have been major concerns among the public recently. These concerns will definitely influence workers' attitudes towards their work. Since tips are not permitted (they are said to be a capitalistic byproduct that should not be adopted at all), other kinds of incentives should be developed to reward good service. The bonus system, family trips to resorts or other practical forms of rewarding may be effective. Top management in the industry should be business-oriented.

**REVENUE**

Even though travel agencies and tour suppliers are all government-owned, a clear accounting system is necessary to record transactions between them and keep track of costs and profits so that each knows whether or not they are
successful. Further actions can be taken.

Credit cards came to China in 1981. In the first half of 1984, transactions in China totaled $25 million (Wall Street Journal, January 8, 1985). American credit cards are accepted by deluxe hotels, special friendship stores, and most major businesses. Few local stores in small tourist cities would accept any kind of American checks or credit cards. In 1985, China discovered a lot of consumer fraud flows from credit cards and closed credit card outlets at many hotels, stores and restaurant. Later on, check cashing was restricted to one transaction every 21 days, with limits on the amount of money withdrawn. The Chinese monetary system is very complicated to foreigners. CITS should cooperate with China's People Bank to issue a special credit card to facilitate tourists' shopping and stimulate sales — thus increasing revenue. Of course, a computerized system is a prerequisite.

Commissions may not be necessary now because flights are usually overbooked and hotels are in great demand in the peak season. However, with the improvement of airlines and hotels, undercapacity will no longer be the problem. In this case, the commission system may be effective to increase the hotel occupancy rate and flight loading rate; meanwhile the travel agency has an extra source of revenue.

Another way to improve the revenue is by examining the volume, marketability and profitability of past tours. If
the tour package is not marketable, or is losing money, it should be phased out or improved so that it becomes profitable.

To improve efficiency, better communication among branches, and cooperation with other tour suppliers can also contribute to profits. Since the Chinese economy is centrally planned, systematic planning is the key. The quality of service is essential in establishing goodwill among consumers. Efforts should be made to improve it.
CONCLUSIONS

SUMMARY

This paper has discussed the classification of travel agencies and their significance to the travel industry in both the U.S. and China. An independent wholesaler is defined as a business entity primarily engaged, either directly or indirectly, in the planning, preparation, marketing, making of reservations and operation of a vacation tour. This consists of the consolidation of some form of transportation with other individual ground services, assembled for a departure date to a specific destination at a predetermined price. The tour operators' main functions are to reduce information and transaction costs for consumers and reduce promotion expenditures for suppliers.

The U.S. and China have different economic systems, and this is reflected in the structure of the travel industry. The U.S. tour wholesalers are private enterprises with little government intervention. The deregulation of the airline industry which promotes free price competition has effects on the tour wholesaler industry. China's International Travel Agency is the only tour wholesaler dealing with foreigners' travel to China. It is part of a government department and a centrally planned economy. The lack of coordination between travel agencies and various tour suppliers is also a problem in China.
Package tours are the major business operation for the tour wholesalers and the common way for foreigners to travel to China. How to market package tours, be creative in their organizations, and improve their quality should be prioritized by Chinese top management in the travel industry.

The study also analyzes the segmentation of costs and revenue of the tour wholesaler industry. The U.S. tour operator's accounting system is totally different from that of China. Improvements to the profitability of the Chinese travel industry could be made by government viewing the travel industry as a business rather than an administrative organization, increasing the efficiency of the operation, and developing an effective accounting system for the travel industry.

THE FUTURE OF CHINA'S TRAVEL INDUSTRY

The future of China's travel industry seems bright with the nation-wide economic reforms and determination of the Chinese government to develop tourism. The accumulative experience and increased revenue will enable China's International Travel Services to leap ahead.

The shift from international tourism to domestic tourism or to organizing Chinese people to travel abroad is possible, although it may take many years.

History has already shown that tourism has contributed to
the large amount of foreign currencies and helped the local economy. Tourism would very likely become one of the largest industries in China and one of the main destination countries in the world.

The tour operators should integrate into tour-related areas, such as hotels, and airlines, to reduce costs and be price competitive. Other travel-related businesses should also integrate into the tour operator business.

The relationship between CITS and its branches should be business-oriented, with each branch being an individual tour operator. Business contracts should be the only form of business between branches and tour suppliers. There should be more detailed regulations and rules regarding tour operation and management.

The Chinese tour market will eventually be mature, and competition between China and other Asian countries will be high. A tour package of special interest will increase its size.

Marketing research on consumer trends will be necessary to maintain the success. Market segmentation, customization, specialization and services will become increasingly important in the travel agency industry.

China has made tremendous progress in the development of tourism; however, problems still exist due to a lack of experience and careful planning. The Chinese government is
determined to take actions to solve these problems and thereby create a world class tourist industry.
APPENDICES

Table 12
ENTRY AND EXITS INTO
THE U.S. TOUR OPERATION INDUSTRY

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of firms entering the market</td>
<td>415</td>
<td>594</td>
</tr>
<tr>
<td>Number of firms exiting the market</td>
<td>316</td>
<td>279</td>
</tr>
<tr>
<td>Number (and percentage) of firms that were stable</td>
<td>272 (46.3%)</td>
<td>408 (59%)</td>
</tr>
</tbody>
</table>


Table 13
SIZE OF US TOUR OPERATOR INDUSTRY

<table>
<thead>
<tr>
<th>Firms</th>
<th>1978</th>
<th>1982</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of firms</td>
<td>588</td>
<td>687</td>
<td>1,001</td>
</tr>
<tr>
<td>Percentage of firms from 1978 still in operation</td>
<td>100%</td>
<td>46%</td>
<td>34%</td>
</tr>
</tbody>
</table>

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