Case Comparison and Innovation Path Analysis of Small and Medium-sized Travel Agencies’ Business Models

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Abstract

According to the business status quo of small and medium-sized travel agencies, this paper has built analysis models of their business model. Based on the comparative analysis of several tourism enterprises, this paper analyzes from four aspects, including cooperation network of suppliers, adjustment of travel agency business systems, value form and realization of travel agency, and market segmentation and customer relations. Then it provides suggestions such as internalization of cooperation network, normalization of business systems, customization of tourism products, diversification of yield structure, and professionalization of customer market on the innovation of business models for small and medium-sized travel agencies.

Keywords: Small and Medium-sized Travel Agencies, Business Models, Innovation.

1. INTRODUCTION

According to the division methods of business service enterprises in the State Council’s “Standard of Small and Medium-sized Enterprises”, small and medium-sized travel agencies can be further divided into medium-sized, small and micro ones. The standard or basis for division is: employees, operation revenue, total assets and other indicators. Specifically, enterprises with less than 300 employees or total assets of less than RMB 1,200,000,000 are small, medium-sized and micro enterprises, among which enterprises with 100-300 employees and total assets of over RMB 80,000,000 are medium-sized ones; enterprises with 10-100 employees and total assets of over RMB 1,000,000 are small ones; and enterprises with less than 10 employees and total assets of less than RMB 1,000,000 are micro ones. In recent years, small and medium-sized travel agencies have been undergoing a shift from scale expansion to transformation and upgrading. In this process, how to transform and how to upgrade has become the focus of business circles and academic circles. Druck, a great master of management, once said, “Nowadays, the competition among enterprises is not the competition between products but the competition between business models”. On the whole discussion from the perspective of business model can more comprehensively examine the entire operation process of travel agencies, which has attracted more and more attention from scholars.

2. RESEARCH OVERVIEW

2.1 Status analysis of travel agencies

Travel agencies’ fractional system in China has experienced three stages of evolution. The “Administrative Regulations on Travel Agencies” released in 1985 adopted the trichotomy which divided travel agencies into category 1, 2 and 3. Travel agencies of category 1 and 2 conduct business of outbound and inbound tourism and travel agencies of category 3 are mainly engaged in domestic travel business. The difference between Travel agencies of category 1 and category 2 is that the former has right of external liaison while the latter can only do the agency of category 1’s inbound travel business. “Administrative Regulations on Travel Agencies” released in 1996 used dichotomy to divide travel agencies into international travel agencies and domestic travel agencies. International travel agencies could operate inbound and domestic tourism, and some international travel agencies have franchises for outbound tourism while domestic travel agencies can only operate domestic tourism. Until 2009, the “Administrative Regulations on Travel Agencies” canceled the standard for the division of international and domestic travel agencies, and stipulated that the newly established travel agencies could operate inbound and domestic tourism, and they had to have a business license for two years before applying for outbound travel business (Pang and Wang, 2016). Under the restrictions of the horizontal division of labor of China’s travel agencies, the operation of travel agencies is mainly based on the geographical market scope of sales. Therefore, every travel agency tries to cover all the travel agency’s processes despite it is small. It is very common that each...
business department is responsible for lots of processes. However, departmental tasks are complicated and employees work overload, so work efficiency is low.

In terms of the division system in the world travel agency industry, influenced by the environmental factors such as the national tourism industry policies, the industrial division systems of travel agencies around the world roughly have the following types: One is the vertical division system, a natural division system meeting the needs of the market, which is commonly used in European and American countries and is gradually formed in the process of providing services to tourists. One is divided according to different markets or business areas where travel agencies are located under the intervention of the government administrative forces, represented by South Korea and Taiwan. And the relationship between such travel agencies is horizontal and parallel. The third one is a mixed division system represented by Japan. The government departments set differentiated access standards and quality guarantee deposit threshold for operators in different business lines to guide travel agencies to choose their business scopes according to their strengths (He and Xiao, 2012). China is now in a state of mixed division of labor, that is, it is in the transitional stage from the horizontal division of labor to the vertical division of labor and the coexisting of horizontal division of labor. The status quo of its business model is shown in Figure 1.

![Figure 1. Status Quo of Business Models of China’s Travel Agencies](image)

The above figure also reveals the status quo of business models of China’s travel agencies, mainly involving the following four direct stakeholders such as supplier, middlemen, marketing platforms and users, as well as four key links such as (cooperation network) between travel agencies and suppliers, travel agencies’ own business levels (internal value chain system, and key resource capabilities), value form (products or services, channels of distribution, and customer relations) and users of travel agencies (target markets) (Table 1).

<table>
<thead>
<tr>
<th>Table 1 Key Links and Main Elements of Business Models of Small and Medium-sized Travel Agencies</th>
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<tr>
<td><strong>Links</strong></td>
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<td>Elements</td>
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Source: from Chesbrough et al. (2002), Osterwalder et al. (2005), and Morris et al. (2005)

In the above table, maintaining a good cooperation network, as an initial source of travel agency value, with
suppliers can ensure sustainable value supply. A travel agency’s own business level is an important guarantee to determine its increment of value. Standardized business processes, the key resources, and excellent costs control ability provide important support for the travel agency to gain competitive advantages (Yang and Zhen, 2010). However, the ultimate increment of value depends on travel agencies’ distinctive products and services, unique channels of distribution, customer relations, and diversified earning ways. And the key to the ultimate survival and development of travel agencies lies in whether they have a steady market source of customers.

2.2 Comparative analysis of existing business models

With the rapid growth of Internet users, especially mobile Internet users, and the change of travel preference, the online travel reservation business has got rapid development so that many small and medium-sized offline travel agencies have also entered the online travel market (Xia, 2010). According to the above table, the current travel agencies can be roughly divided into the following categories according to the relevant indicators of business models (Table 2):

Table 2 Main categories and typical enterprises of existing business models of small and medium-sized travel agencies

<table>
<thead>
<tr>
<th>Links</th>
<th>Travel agencies and suppliers</th>
<th>Own business systems</th>
<th>Value form and realization</th>
<th>Markets or users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elements</td>
<td>FANGCANG, Hotel King, Yuhang Holiday</td>
<td>Kanghui Travel, CGZL, Tourist Distributing Center and Bestone</td>
<td>Online search platform modes: Qunar, Taobao travel, Jingdong Mall; Agent modes: Ctrip, Tongcheng, Tuniu, and Bazaoyu etc.; SNS+UGC modes: Mafengwo, QYER.COM, and Sina weibo travel; Public communication circle mode: Travel-version WeChat</td>
<td>Mass market</td>
</tr>
<tr>
<td>Earning ways</td>
<td></td>
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<td>Earn the difference or commission through low buy high sell; CPC, CPS, CPM, P4P and CPT</td>
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2.2.1 Suppliers

Suppliers of tourism industry are mainly divided into several categories, including suppliers of hotels, scenic spots, vehicles, and ticketing. The traditional small and medium-sized travel agencies usually arrange outreach workers to check and negotiate and establish cooperative relationship while the increasing transportation and accommodation fees and other costs cause the high cost and low efficiency of purchase tourism resources (Shi, 2012). However, element suppliers are the “food and clothing parents” of travel agencies so that establishing a more stable and diversified cooperation network with suppliers has always been the pursuit for online and offline travel agencies. At present, the domestic market is mainly dominated by the suppliers of hotels. FANGCANG focuses on the hotel online distribution technology services, providing travel agencies, hotel wholesalers and distributors with “end-to-end” hotel supply chain technology and online distribution services from the product management to the customers’ development.

2.2.2 Integration of travel agencies’ own business systems

With the development of tourism industry, the problems and affairs that small and medium-sized travel agencies are facing have become diversified and complicated. In the process of operation, travel agencies are involved in route changes, tourist maintenance and information management of employees in travel agencies. Therefore, the requirements for the travel agency business systems and management systems are more systematic. At present, small and medium-sized travel agencies adjust business and management systems mainly from the aspect of standardization, that is, they try to strip the travel agency common business processes and carry out standardization and normalization transformation to form travel agency ERP management system. On this basis, they gradually
improve the management systems through trial operation and output management mode through chain management (Bai, 2015). Kanghui Travel, CGZL, and Bestone are representative enterprises in tourism industry. Large-scale advantages can be obtained in common links of travel business, such as tourists receiving, operating, and purchase.

2.2.3 Value form and realization

Small and medium-sized travel agencies are relatively decentralized in the geographical space and the most fundamental contradiction in the handling of customer relations lies in the information asymmetry. Tourists lack enough understanding of corporate products, corporate reputation and other information, so customer credit crisis is main difficulty for the survival of small and medium-sized travel agencies. However, route products based on Internet information platform and enterprise information integration platform provide information support for potential tourists (Cavalcante, 2014). This kind of cooperation or joining in the same industry has emerged rapidly in recent years, which not only provides a shared platform for cross-regional cooperation of tourism enterprises, but also provides opportunities for the non-tourism industries to engage in cross-border tourism industry. Many Internet technology companies have entered distribution agent platform of travel agencies, which also exacerbates the competition in the tourism industry.

2.2.4 Market segmentation and maintenance of customer relations

On the one hand, the upstream links of small and medium-sized travel agencies are less involved for their limited strength. In particular, market survey and analysis have always been its shortcomings, which makes it impossible to conduct research and development of personalized tourism products based on market segments, thus most small and medium-sized travel agencies have adopted following product strategy and competition is extremely fierce (Chesbrough, 2010). On the other hand, the decentralized status of small and medium-sized travel agencies in the geospatial space is their advantage to obtain “the last kilometer” of the market, and is a competitive advantage that other large travel agencies or online travel agencies can’t span. However, it seems that the small and medium-sized travel agencies haven’t effectively used and played this advantage.

3. INNOVATION PATH ANALYSIS

3.1 Cooperation network—internalization

Internalization refers to the process of establishing a market within an enterprise so that the internal markets will replace the external market, which can fundamentally solve the transaction cost problems caused by the incomplete market, such as no guarantee for the normal exchange of supply and demand. It is also known as the theory of market internalization, a popular theory of explaining outward foreign direct investment of enterprises. When establishing cooperative relationship with suppliers, small and medium-sized travel agencies can bring suppliers into the internal management by the way of acquisition or investment, which can not only consolidate the relationship with suppliers, but also effectively guarantee the stable supply of tickets and other service products in slack season and busy season for small and medium-sized travel agencies. In this way, cost expenditure of travel agencies can be reduced and the price of tourism products gets stable (Morris et al., 2005).

Jiangsu Kanghui International Travel Service Co., Ltd (hereinafter referred to as “Kanghui”) is a travel company focusing on inbound, outbound and domestic travel business and ticketing, and conference services for a long time. In recent years, Kanghui has relied on its advantages to conduct transformation and upgrading, further specifying the development strategy of “New Kanghui • Grand Tour” and implementing a three-dimensional competitive layout of resources integration of the whole industry chain. Therefore, Kanghui Technology, Kanghui Scenic Spot, Kanghui Camping and Kanghui Award Company have been established. In addition, the strategic capital cooperation between Kanghui and Shouqi Car Rental, Shouqi Taxi-hailing and Shoulv Hotels Group has been set up, seamlessly integrating travel agencies with ground transportation, accommodation and other links, and boosting the upstream and downstream industry chain. This has greatly enhanced the control of tourism resources quality, providing the public with a more high-quality travel experience.

3.2 Business systems—normalization

In recent years, with many tourism websites for hotel, air ticket and travel route reservation completed and operated, asymmetry of tourism information has been greatly improved and travel transaction costs have also
become lower and lower. Therefore, travel agencies have suffered great challenges in obtaining excessive commissions through the information monopoly of tourism products. Large, small and medium-sized travel agencies are basically in the same competitive starting point in the e-commerce environment. Thus, in order to become “from small to large, large to strong”, small and medium-sized travel agencies must change the mode of business operation, optimize and reorganize business processes, and fundamentally improve their own core competitiveness.

Small and medium-sized travel agencies are featured in “small but complete” so that they can optimize and reorganize business processes in many aspects. First, they can build a low-cost, efficient, competitive and win-win supply chain system which can use the Extranet to provide powerful information technology tools to eliminate information barriers between suppliers for small and medium-sized travel agencies. The second is to create a flat organizational structure to shorten the decision-making length and effectively prevent information distortion, which also helps to improve management layer’s ability of rapid response to market changes. Third, the business process shall be systematized. A business process ecosystem shall be set up through the Internet, Extranet and Intranet to share business information of external connection, operating, reception and finance departments in a timely manner and to meet the market demand and environmental changes. Driven by standardized information, the rapid flow of information such as people, money and goods among business processes make the low-cost and efficient system become possible.

3.3 Tourism products—customization

Compared with large travel agencies with the collectivization development strategy, small and medium-sized travel agencies boast more competitive advantages in the realization of professionalization, customization and chain operations. The misplaced space for development with large travel agencies has been recognized by more and more travel agencies. Some small and medium-sized travel agencies have begun to try to achieve network operations nationwide and intensively display information of enterprise and products in the network e-commerce platform which becomes a fast window for travel agencies to face tourists. Some small and medium-sized travel agencies adopt the franchise model for survival. Some use their own advantages to provide more professionalized and personalized travel services and to research and develop weekend “one-day tour” market that large travel agencies have no time to consider.

As a personalized production model with more flexible features, customized tourism, as an important branch of tourism innovation, has been heatedly discussed by the scholars and business circles. Customized tourism makes tourists deeply involved in the design and development of tourism products through one-to-one exchange of information with tourists. This oriented tourism service is more conducive to improving service quality and establishing a solid customer relationship. There are three main modes of production in the customized tourism market: one is customization by people with rich experience in tourism. They will customize travel products based on customer preferences; one is customization by machine which helps customers improve production efficiency of products relying on background big data and search engines; one is the customization by customers themselves who make products by completely depending on their own knowledge and experience.

3.4 Yield structure—diversification

The most major profit model for most small and medium-sized travel agencies is to earn the difference or commission through low buy high sell through which travel agencies sign price agreements with hotels, scenic spots, and restaurants and then sell at the price lower than the market price to earn difference. In the process of bargaining with a shopping mall, the difference is generally returned to the travel agencies by fee of number of vehicles and people or a fixed discount of total shopping price. In the process of mutually sending customer source with their peers, they make profits mainly through commission or rebate. In summary, the threshold of entering into the small and medium-sized travel agencies market with large number but small scale is low as a whole. With the competition becoming more intense, the overall profit margin is at a low level. This small workshop-based revenue model also limits the development of small and medium-sized travel agencies for limited resources, low-end products, and narrow sales network.

Usually, the statistical caliber includes two aspects in the calculation of tourism income: first, commercial income, including sales revenue of tourism goods and catering revenue; the other is service or labor income, including income of operating expense, accommodation, transportation, post and telecommunications, entertainment and so on. Small and medium-sized travel agencies should locate their main scope on service income. In the face of picky customers, they must provide additional services in order to enhance their brand competitiveness. They shall
continue to expand new tourism service projects and work toward refinement, gradually developing industrial tourism, eco-tourism, agricultural tourism and special tourism. Besides, they will cultivate a sense of intellectual property protection and broaden channels for revenue.

3.5 Customer market—professionalization

For a long time, the subsection of the consumer market by travel agencies have mainly focused on level, internal and external source, and source country categories. Under this background, the travel agencies are divided into simple horizontal and vertical division systems, such as group agencies, reception agencies, domestic agencies and international agencies through administrative licensing. In recent years, with the change of tourism consumer market, travel agencies have made great efforts in upstream chain extension, information management and horizontal integration. However, small and medium-sized travel agencies still stick to the past practices. Their simple and extensive business model to extend outside has not been fundamentally changed so that they can’t quickly adapt to changes in the needs of tourists and lack market segmentation and positioning research.

Travel agencies are the leading enterprises in tourism industry, as well as one of the three pillars of tourism development. The status quo of their low-level homogenization competition is extremely inconsistent with their important industrial status. Small and medium-sized travel agencies at the crossroads of business transformation must turn to be professionalized, refined and specialized, and must change the current low-level, homogeneous and inefficient competition situation. Market segmentation and target market positioning are the prerequisite for professionalization which can cultivate subdivided customer source market while doing well in the traditional mass tourism market to seize the professional market share. In addition, it is also conducive to travel agencies to change the situation of unprofessional work, as well as to build market competition barriers through professional and unique high-quality tourism products.

4. CONCLUSIONS AND DISCUSSION

The main contradiction faced by small and medium-sized travel agencies lies in that they still stick to the traditional business model in the face of rapid changes in consumption habits in the tourist market. This contradiction is reflected in the supply of tourism products, namely the contradiction between standard tourism products and non-standard (customized) tourism products. On the one hand, travel agencies are more inclined to the supply of standard tourism products. They generally provide low-standard and low-cost conventional tourism products to the mass market based on cost reduction and at the expense of magnifying commonality and sacrificing individuality. Besides, they compensate cost allowance, increase revenue and profits by increasing service items and shopping links, but lack market segmentation and demand segmentation. On the other hand, they lack enthusiasm and motivation mechanism in researching and developing personalized and customized tourism products. The customized tourism products are characterized by precise target market segmentation and interest and preference segmentation, which can precisely meet the individual needs of suppliers and cross-industry resource partners. Customer experience-oriented product design and customized tourism products not only pay attention to cost and price, but pay more attention to customers’ time and experience costs, which brings into the production process to provide full consultant-style services.

Table 3 Innovation path analysis of business models of small and medium-sized agencies

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<tr>
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<td>Innovation path</td>
<td>Internalization of cooperation network</td>
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<td>Customization of tourism products</td>
<td>Professionalization of customer market</td>
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<td>Diversification of yield structure</td>
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The paper takes the above main contradiction as the principal line. Through the analysis of the elements and key links of business models, this paper provides the path basis for the innovation of business models of small and medium-sized travel agencies, as well as put forwards directional suggestions such as internalization of cooperation network, normalization of business systems, customization of tourism products, diversification of yield structure, and professionalization of customer market (Table 3). According to the operation status of small and medium-sized travel agencies, it takes some time to transit from the “small but complete” model directly to
the “professional” business model. However, travel agencies must make clear that the direction is to transit from existing extensive operation to professional operation and to gradually form professional advantages so as to conduct characteristic operation. Therefore, the follow-up discussion for organizational structure adjustment, construction of professional personnel, control of cost structure, and cultural construction of travel agencies will also be an important part of the study.

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