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# **An Evaluation of Unethical Business Practices in Australia's China Inbound Tourism Market**

Brian King PhD, (Corresponding Author)  
Professor and Head,  
School of Hospitality, Tourism & Marketing,  
Victoria University,  
PO Box 14428 MC,  
Melbourne, Victoria,  
Australia 8001  
Research Fellow, Centre for Hospitality and Tourism Research  
Fax (613) 9688 4931  
Brian.King@vu.edu.au

Larry Dwyer PhD  
Qantas Professor of Travel and Tourism Economics  
School of Economics  
University of New South Wales  
Sydney NSW 2052  
Australia  
Head, Sustainable Destinations Research Program, STCRC  
Tel: +61 2 9385 2636  
Fax: +61 2 9313 6337  
L.dwyer@unsw.edu.au

and

Bruce Prideaux PhD  
Professor of Marketing and Tourism Management  
School of Business  
James Cook University  
PO Box 6811  
Cairns, Queensland  
Australia 4870  
Fax +61 7 40421080  
bruce.prideaux@jcu.edu.au

## **Abstract**

This paper examines the prevalence of unethical practices within the business sector operating in the China to Australia tourism market. The range and nature of the practices is outlined in the context of the structure of outbound operations in China and inbound operations in Australia, taking account of the roles of the respective governments. The prospective impact of the practices on the growth of the market is evaluated. An estimation is provided of the potentially negative impacts of word-of-mouth recommendations on future China to Australia tourism flows.

Keywords: China outbound, unethical practices, Australia inbound

# Introduction<sup>1</sup>

In the recent Australian Government Tourism White Paper it was noted that Australia must maintain a reputation for quality, value and variety if it is to attract repeat visitation (Government of Australia 2004). The capacity of tourism related businesses to meet such expectations depends substantially on the application of sound management practices. In recent years, concerns have been raised about package tour operations within Australia, which it has been argued may be indicative of inconsistent product quality. The areas of concern have included - accommodation, tour activities, shopping time, tour guide services and value for money (Ko, 1999; Haigh, 1993; Prideaux, 1998). Such concerns commonly arise when visitor expectations are inconsistent with the services promised and/or provided by tour operators and travel agents. Dissatisfaction is evident where tour products offered for purchase do not meet expectations, particularly with respect to the quality, price and origin of goods (Bureau of Tourism Research - BTR 2004). Quality issues appear to be primarily associated with excessive shopping, inclusion of hotels of a lower standard than originally advertised, an expectation that guides will receive tips and changes to the advertised itinerary.

The problems appear to fall into three broad categories:

- *uncompetitive shopping arrangements* such as excessive or secret commissions, below cost packages, exclusive dealings and exertion of influence;
- *false or misleading representations* such as misrepresentation of travel components or quality of accommodation and charging for free services; and

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<sup>1</sup> The views put forward in this paper are based on a technical report undertaken by the authors and commissioned jointly by the Australian Council of Tourism Ministers and Sustainable Tourism Co-operative Research Centre (SRCRC 2004). The authors wish to thank the Australian Council of Tourism Ministers for permission to publish some of this material.

- *low service quality* such as low quality packages and use of employees with low skill levels (CIE 2000).

According to the report, by the Centre for International Economics (CIE), inbound tour operators (ITOs) are sometimes able to exercise control over their groups as follows:

- Gaining and retaining control of the consumer's passport and air tickets
- Informing groups incorrectly that the products supplied by a non-preferred trader would be liable to confiscation by Customs
- Exploiting the trust that tour members place in dealing with one of their own ethnicity
- Constructing itineraries that make no provision for free time
- Delivery to and collection from the front door of preferred stores, and
- Indicating that it is unsafe to travel outside the group (CIE 2000)

Such problems are prevalent in a market such as China where package holidaymakers constitute a substantial market share, are inexperienced travellers with minimal knowledge of Australia and have limited access to independent advice about the destination (Pan and Laws 2001, 2003).

A comprehensive list of business practices impacting adversely upon Australia's destination image was prepared by Tourism Queensland and is presented in Table 1 (1999).

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Insert Table 1

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These features characterise China to a greater extent than most other Asian markets and are allegedly damaging the Australian tourism industry and the wider Australian economy (CIE 2000). Commentators have claimed that they lead to diminished visitor

satisfaction, reduced repeat visitation and negative word-of-mouth communication. Actual and potential costs may also include: adverse impacts on Australia's destination image leading to reduced visitation; reduced visitor expenditure and economic contribution of tourism to Australia; losses incurred by suppliers as a result of ITO business failures; and foregone taxation revenue through cash-in-hand dealings.

This paper analyses the effects on the Australian tourism industry of the unethical business practices found in the China inbound market. The aims are to identify the business practices at issue, assessing their significance for Australia and internationally over the medium to longer term and to identify the sources of such practices with a view to developing a prevention strategy. The paper concludes that to resolve the various issues governments need to enact laws prohibiting the specified practices.

## **Package Tourism and the China Inbound Market**

Tourists undertaking guided group holiday tours accounted for about 14 per cent of all international visitors to Australia in 2002 and about five per cent of international visitor expenditures (BTR 2004). In 2001, 604,200 visitors aged 15 years or over travelled to Australia on guided group holiday tours reaching 624,500 in 2002 increase of 3.4 per cent.

The proportion of visitors participating in package tours as a proportion of all visitors in 2001, was as follows: Japan accounted for 61 per cent (370,100) and China 6 per cent (37,600). In 2002 Japan accounted for 66 per cent (410,100) and China 6 per cent (36,800). A relatively high proportion of total China inbound visitors to Australia arrived as part of a group tour. The share was 25.4 per cent in 2001 and 20.5 per cent in 2002. To measure the impact of the practices it is necessary to understand the travel behaviour of various market segments since each may respond differently.

The two major categories in the China outbound travel market are *Official Travel* and *Private Travel*. Official travel is undertaken either for business purposes or to engage in government-related activity and was the dominant mode until 1999. Private travel refers

to fully self-funded travel by those who possess or obtain individual private passports. This category has accelerated more rapidly, and by 2001, accounted for about 57 per cent of the China outbound market. Private travel is likely to keep increasing its market share into the future at the expense of official travel. While high yield and so-called ‘non-ADS travel’ offer good prospects, private travel is currently the engine of growth.

Only residents of Approved Destination Status (ADS) origin regions had approval from the China National Tourism Administration (CNTA) to apply for a passport and visa to undertake ADS travel to Australia – ‘self-funded holiday and VFR travel’. These origin regions included Beijing, Shanghai and Guangdong Province. In 2004, six new provinces with a combined population of 432 million were added to the listing. For residents outside these regions travel to Western countries is highly restricted including to Australia. Travel from non-ADS source regions is generally undertaken as part of a trade delegation or business trip, includes study tours and technical visits and is usually classed as “official travel”.

In ADS receiving countries, leisure is generally reported as the main purpose of visit. In such cases a tourist visa is considered to be sufficient and no official invitation letter is required. In countries, which have not been designated as ADS approved, official travel predominates in the form of business, delegation or group travel. Such groups most commonly emanate from government and state-owned enterprises, though the private sector is increasingly participating in incentive travel. Business travel requires a business visa and an invitation letter from the receiving company. Though largely outside the scope of the present study it is worth noting that for delegation and/or group travel an official or business visa is required with the Government agency or company requesting the special arrangements. The China outbound market is typically young (25-34), well educated (college or University educated) and relatively affluent (earning at least US \$400 - US \$600 per month).

The number of travel agents approved by CNTA to sell outbound tours recently increased from 67 to 528 and the number of agents approved to handle Australian travel in particular has increased from 28 to 172 (TFC 2003). With a strong economy underpinned by growing consumer demand, arrivals from China are expected to experience an average annual growth of 16.5 per cent between 2002 and 2012. Chinese total visitor nights are forecast to increase by an average of 7 per cent per year, rising from 7.9 million in 2002 to 14.8 million in 2012 (TFC 2003).

The estimated revenue injected into the Australian economy from the Chinese market is outlined in Table 2. It is assumed that expenditure levels increase at a rate proportionate to the forecast growth of tourism. The assumed growth rate is based on TFC forecasts of annual average growth for all holiday travel over the period 2002-2012 (TFC 2003).

A limitation of this assumption is that the share accounted for by group and organised travellers may fall as the market develops and independent travellers (FITs) account for an increasing share. However in China's case FIT travel is unlikely to replace package tourism in the immediate future.

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Insert Table 2 about here

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An estimate of potential visitor expenditures accruing to Australia is presented in Table 2. Chinese package tourism expenditure to Australia was estimated at \$68 million in 2004, rising to \$232 million in 2012. The expenditure estimates are based on TFC visitor forecasts and do not account for possible reductions due to dissatisfaction.

## **The Underlying Causes of Unethical Business Practices**

Since the business practices of concern involve organizational behaviours and interrelationships, it is important to understand the relationship between consumers,

retailers, tour or wholesale companies and government regulations. It is acknowledged that the difficulties of what constitutes ethical and unethical behaviour is a highly contested area. For the purposes of the original study which formed the basis of the current paper, the assumption was made by the Australian Government that certain practices are not ethical from the perspective of Australian standards. The authors conducted an extensive literature review and undertook 20 semi-structured interviews in China with a range of English speaking travel industry leaders who had some knowledge and understanding of Australia. The researchers considered the conduct of extensive primary research in the source market to be essential because it was anticipated that considerable differences of view would emerge about the perceived legitimacy of the various practices in the source and receiving markets. The interviews were conducted in the Beijing or Shanghai, business premises of the respective interviewees. The respondents included senior managers in the wholesale travel agent (WTA), airline and government authority sectors. Discussions were also conducted with the Tourism Australia, Qantas and the Australian diplomatic posts. Fifteen interviews were also undertaken with industry representatives in Australia who had some familiarity or experience with the China inbound market. Interviewees included representatives from peak industry bodies, state and federal government, inbound operators and the operators of ground content such as attractions. For all of the interviews conducted in Australia and China, the researchers followed a predetermined pattern of questioning, that aimed to draw out observations and insights about the China to Australia business generally and about the particular operation in question.

To draw out the views of the various respondents, the researchers analysed the transcripts from each of the interviews. The analysis relied on the incidence of keywords and the researchers sought to highlight areas of consensus amongst the respondents. As has been noted in the literature review, a number of reports have already examined the incidence of various business practices in the China to Australia market. The various interviews had the merit of extending the investigation to China-based companies and authorities. To gain a thorough understanding of the complete supply chain, it was considered to be critical to incorporate the Chinese perspective.

From a summary of the interview transcripts, it was found that the key influences on the emergence of unethical business practices include:

- The concentration of power in the hands of the Wholesale Travel Agents (WTAs) due to the consumer expectation of low package prices
- Intense competition between retail agents which force WTAs to minimise prices by lowering daily rates to ITOs
- Profit-taking by WTAs at the expense of ITOs
- Market conditions in origin countries and within Australia
- The short term profit horizons of many product suppliers

The problem of low tour prices and the incidence of unethical practices is not unique to Australia. In a recent paper on Chinese inbound tourism, Tse (2003) noted similar problems in Hong Kong, including the prevalence of low tour prices and the culturally determined need amongst visitors to undertake shopping. Since the practices are most prevalent in the package tour market, it is necessary to provide an overview of this part of the China outbound market.

## **Structural Issues**

A package tour typically includes airfares, accommodation, guides, sightseeing, tour escorts and transfers. In many cases, the package will also include meals, sightseeing and entrance to attractions. Optional extras are frequently offered, such as supplementary attractions, cultural shows and visits to superior restaurants. These are priced outside the standard tour inclusions with a view to minimizing the initial purchase price.

Figure 1 illustrates the structure of the inbound package tour market highlighting the roles of the various participating organisations. It has been based on fairly established models of travel distribution, but was adopted to the practices found in the China inbound market following input from all members of the research team.

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Insert Figure 1 about here

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The model in Figure 1 was based on interviews undertaken by the researchers with respondents in Australia and China and is used to illustrate relationships between firms operating within the inbound market. Business relationships provide a link between ITOs, tourist specialist shops, and tour guides. For the purposes of this paper the term *tourist specialist shop* is used to describe a variety of retail outlets specializing in tourism. These provide services and products tailored specifically to the Chinese market and are known variously as Duty Free Shops, Tax Free Shops and Souvenir Shops.

The structure of inbound tour operations varies on the basis of ownership, degree of vertical integration, nationality of markets serviced, and cultural aspects. To develop a tour program based on the sale of package tours, an ITO is contacted by a WTA in the source country. The WTA assumes responsibility for purchasing airline tickets on behalf of customers and contracts an ITO to operate the advertised itinerary. These services include accommodation, guide services, transport, meals, attractions and options such as entry into attractions. ITOs add a commission of up to 40 percent to the costs incurred in arranging the various components of the itinerary. Figure 1 illustrates the disbursement of funds to pay for the various elements. The tour fee or daily ground rate would be expected to cover the ground component of the tour, and generate a margin for the ITO. The retail travel agent, and/or wholesale travel agent, also expect a profit, generally in the form of a commission.

As illustrated in Figure 1, tourists have two travel budgets with the first covering the cost of travel including hotels, attractions, meals, transport and attractions. The second budget covers destination expenses such as shopping, entertainment, recreation and gambling.

As is common in many Asian cultures, the shopping budget of the Chinese visitor is focused on obligatory gifts with personal purchases accounting for a smaller share. There is minimal intersection between the two travel budgets except where tour guides take tourists to specific shops (or other businesses) and receive a small commission. In the case of payments by shops or other businesses, tour guides and drivers are the major beneficiaries. In this standard model of package tour operations there is generally no kick-back or payment beyond the guide. This model is common place in many destinations including Australia (Yu and Weiler 2001).

Since the conduct of the original fieldwork and the completion of the original research report, the Australian Government has instigated the ADS Code of Business Standards and Ethics (in 2005) with a view to tightening up the practices amongst ITOs. This code applies to any operator involved in handling Chinese ADS business and replaces the looser system which prevailed previously. It aims to introduce a stronger application of quality control for products offered to China inbound tourists, in an attempt to nurture the longer term sustainability of the sector. Whilst the recently introduced system falls short of a full licensing system, it constitutes a distinct tightening of regulation and attempts to address the unethical practices. Operator authorization by DIMIA is a requirement and is by no means automatic. All existing operators were required to re-apply for permission to participate in the ADS market in mid 2005.

A range of ownership arrangements are prevalent within the ITO sector including ownership by foreigners, by Australians and in joint Australian/foreign arrangements. ITOs are predominantly by Small to Medium sized Enterprises (SMEs), generally employ Australian residents, pay Australian taxes, and consume Australian-made products. Australian ITOs handling the Chinese market generally operate their itineraries for firms based in China and are paid a daily rate though they function overwhelmingly as price takers. These business are mainly owned by Australian residents, though generally of Chinese ethnicity (including from Taiwan and Hong Kong). The ethnicity is perhaps unsurprising given the significance in Chinese culture of personal relationships as a

central component of establishing and maintaining business relationships (Pan and Laws 2003). These factors often give ITOs of Chinese ethnicity a head start over other ITOs. The Australian government encourages the business sector to take advantage of the linguistic and associated networking available within a multicultural society. A willingness to do so can in no way be thought of as unethical and may even enhance the quality of Australia's tourism product offerings.

## **Inbound Operations**

Tourism businesses operating within China are highly regulated. This affects the relationship between consumers, businesses and the various Government authorities. The regulations are likely to impact upon consumer expectations and satisfaction, either implicitly or explicitly. Under ADS arrangements, the Governments of the origin and destination countries determine the list of agencies authorised to send tour groups overseas and set the number and names of agencies in destination countries. In the case of Australia, only selected companies have access to rapid visa processing for ADS travellers. Australia initially enjoyed a competitive advantage over other long haul destinations, being the first western country to receive ADS approval for holiday travel. The progressive expansion of the number of ADS countries is however reducing the value of the prize as a competitive advantage. Furthermore, the mix of ADS and non-ADS travel is likely to change over time, thereby impacting upon travel, including retail shopping practices and expenditures. A reducing share of ADS traffic might be symptomatic of a maturation of the market as consumers opt for alternative styles of travel arrangement, or else of accelerating global competition for ADS travellers who have an ever increasing proliferation of destination options available to them.

As China inbound and outbound travel has grown, the major state controlled travel companies. - China Travel Service (CTS), China International Travel Service (CITS), China Youth Travel Service (CYTS) and China Comfort Travel Service (CCTS) – have been transformed. They have been progressively disentangled from government control

and now consist of loosely connected networks with only tenuous relationships between the various branches located in different provinces. Despite being well known because of their previously near-monopolistic control over particular types of travel, these “companies” do not have strong “brand identity” across China. Their decentralised structures appear to have discouraged any single branch or division from assuming responsibility for any brand development. Having evolved from their earlier roles (eg focussing on inbound, domestic or outbound travel or on particular markets such as overseas Chinese, the disabled or youth), the four companies have been able to dominate the China outbound market. Outbound tourism has emerged as their most profitable activity, often cross-subsidising other aspects of the business. They constitute a formidable collection of largely autonomous entities that have not yet formed a clearly defined retail and/or wholesale sector (McVey and King 2003).

It is unclear whether the various unethical business practices identified in the China inbound market are unique to Australia. To provide a sense of perspective it is appropriate to examine the experience of other tourism-receiving countries. In the case of short-haul South East Asian destinations, concern has been expressed about the increasing prevalence of so-called ‘Zero Dollar Tourism’ from China. In this region Chinese arrivals have been increasing rapidly, but expenditures have been stagnant or declining (McVey and King 2003). Chinese WTAs have formed exclusive deals with inbound tour operators, hotels, restaurants, retail outlets and entertainment facilities, many of them owned by overseas Chinese with mainland connections. These relationships have provided a disincentive towards spending by tourists in locally owned enterprises. In the face of growing consumer awareness the Chinese Government has collaborated with the Association of South East Asian Nations (ASEAN) to resolve this issue. The Chinese Government encourages travellers to report any complaints about the quality of their tours, in defence of the consumer interest. This provides Government with an opportunity to continue its monitoring role with companies that otherwise enjoy increasing independence. Consumer protection is particularly strong in Shanghai where outbound travellers and travel agencies are required to sign a detailed document which specifies the various elements of the tour that have been purchased.

In Figure 1 it is assumed that the WTA remits the full cost of the ground content of the tour to the ITO. This ideal model is not however representative of prevailing inbound tourism from China because the WTA is not remitting the full cost of the ground content to the Australian ITOs. In practice the WTA is operating as a price maker and pressurising the ITO sector into operating as a price taker. This situation reflects the highly competitive China outbound market, concentrated in the hands of a few larger WTAs (Guo 2002). In fact, the extent of concentration is rather similar within the respective China outbound and Australia inbound sectors. Australia's top four ITOs handle approximately 59% of China's ADS inbound business, whereas the top four Chinese operators handle 44% of the ADS China to Australia outbound market. For WTAs, Australia is of course only one of many possible destinations. In this context individual Australian ITOs exercise relatively limited market power. ITOs have resorted to a number of strategies in a bid to recover the shortfall between the ground fee paid by the WTA and the costs incurred in operating tours. Figure 2 illustrates the realities of the prevailing China inbound market structure. It also acknowledges the considerable control exercised by the Department of Immigration and Multicultural Affairs (DIMIA) over the accreditation of travel agents seeking ADS approval.

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Insert Figure 2 about here

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The ADS system provides some likelihood of continuity for the prevailing industry structure, though the power of the ITOs could be progressively eroded relative to the specialist tourist shops. Key industry stakeholders in China informed the researchers that the potency of ADS would progressively weaken as additional destinations are granted equivalent status and the legitimacy of the scheme is scrutinized by the World Trade Organization (WTO).

There is a substantial concentration amongst Chinese WTAs operating Australian tours. Companies 1-10 are responsible for about 76% of the market and companies 11-20 for a further 24%. As was previously mentioned, the top four handle 44% of the ADS Australia-bound market. In the case of Australia inbound travel, companies 1-10 control 93% of the market and companies 11-20 only 7% (Government of Australia 2002). As has been stated previously the four leading Australian inbound agents collectively handle about 59% of the Chinese ADS market and based on figures produced by the Tourism and Visitors Section at DIMIA for 2001. Although there is evidence of market concentration at both ends of the supply chain, the concentration is characteristic of emerging markets and is not excessive by international standards. The disparity between the levels of concentration in China and Australia is low to moderate rather than extreme. From a destination perspective, distribution fears are often focussed on the dangers of excessive control by outbound operators based in the generating country. In the case of China outbound, there is little direct vertical integration of the type that was prevalent in the Japan inbound market during the 1980s and early 1990s. To date no organisation akin to Japan's highly integrated JTB and Kintetsu (which have a strong presence at the destination end) has emerged in China. This suggests that there not be a model universally applicable to Asia outbound travel.

The emerging travel distribution system in China differs from the models prevailing in many Western markets. Industry informants indicated that CNTA has endorsed so-called "Win Win" networks involving highly defined relationships between suppliers and symptomatic of a desire by government to shape industry behaviour. This approach has parallels with the Western distinction between the retailing and wholesaling functions, though the authorities do not currently acknowledge such distinctions as being appropriate to the Chinese environment. Future mergers, acquisitions and concentration of ownership are likely in China, though the vast scale and fragmentation of the market is likely to prolong the process. There will be opportunities for participation by Western companies with knowledge and/or experience of outbound tourism. However the regulatory environment of China outbound and Australia inbound means that this relationship is likely to retain its distinctiveness.

As is characteristic of major outbound markets, the leading Chinese WTAs will continue to exercise considerable influence over consumer destination selections. If the number of available outbound destinations proliferates, there could be further downward pressure on the prices charged for China to Australia tours. Given the inexperience of Chinese companies in long-haul travel, this scenario of price-driven competition is not improbable. If the numbers of WTAs in China were to increase, this trend could weaken the power of the WTAs relative to Australia-based ITOs. WTA behaviour may however depend on a willingness to adopt a longer-term more strategic approach as opposed to the pursuit of short-term profit ability. Such an approach may arise because of competitive pressures amongst WTAs, government regulations about market access for either operators or consumers or alternatively interventions by destination-based agencies (eg an exclusive emphasis on higher yield segments). This prospective liberalisation could be an opportunity for Australian destination marketing authorities and for Tourism Australia to maintain Australia's reputation as a high quality destination and give some tangibility to the Australian Government's "Platinum Plus" destination concept with its emphasis on the pursuit of higher yield business.

The tourism relationship between China and Australia is complex. Australia's travel sector is more highly developed, consistent with the relatively more advanced state of the business sector generally. Practices prevalent within China's travel sector are influenced by cultural and government factors, as well as by consumer inexperience with long-haul travel. The prospects for rapid liberalisation will depend on government attitudes at both ends of the supply chain. Despite the addition of further provinces to the ADS approved list, DIMIA is unlikely to permit a rapid expansion of the number of Chinese agencies authorised to operate ADS tours to Australia. If the number of outbound operators were to proliferate, tour prices to Australia would drop as Chinese companies emphasised price in order to attract consumers. Such liberalisation would challenge Australia's destination marketing organisation, Tourism Australia as it attempts to maintain the reputation of the destination for quality. A somewhat contradictory trend is the continuing growth of Non-

ADS related business. This sector could increasingly form a basis for an emphasis on higher quality tours with price discounting and low margins being less extreme. The absence of the more formalised regulations governing ADS business does however make the non ADS segment more complex to manage.

## **Wholesale Travel Agents**

Services provided by ITOs constitute a major component of both the cost of operating package tours and the retail price. With a view to maximizing profit WTAs dictate price and related aspects of the tour and place constant downward pressure on ITO prices. Key industry respondents indicated that WTAs pressurize the ITOs into accepting daily ground rates that are near or below operating costs. In their enthusiasm to capture additional business, many ITOs appear willing to accept a low daily ground rate and then recover any initial losses through business practices such as commissions from tourists. In these circumstances, the two visitor budgets begin to intersect. WTAs have the option of passing on these savings to customers in the form of lower package tour prices or retaining them in the form of supplementary profits. The researchers were unable to answer this question because of the sensitivity of the information and an understandable reluctance on the part of respondents to provide evidence.

Another reason prompting ITOs to accept below cost daily rates is the hope of securing subsequent contracts for higher yield business such as incentive tours or government related non-ADS travel. The erosion of ITO margins is particularly prevalent at the budget end of the market. Tourist groups from Government or state-owned enterprises are less price sensitive than self-funded travelers. The absence of any large Australian-owned ITOs has enhanced the capacity of the WTA sector to dominate price. Industry sources have also indicated substantial non-compliance by ITOs with the requirements of the Australian Tourism Export Council (ATEC) and DIMIA. Such non-compliance involves persons organizing tours and acting as ‘subcontractors’ to an ADS - approved ITO. The power of WTAs will be further enhanced relative to ITOs if the latter continue

to submit low tender bids to WTAs and try to recoup 'lost' revenues via the practices identified. Since China is a developing country with a population in excess of one billion there are few direct precedents from the developed world for the likely evolution of China's outbound tourism. However a disproportionate share of the power is clearly exercised at the origin end of the chain.

## **ITO Practices**

Since ITOs are often unable to charge realistic prices, the quality of the tour package suffers and revenue is increased through shopping commissions and forcing guides to collect tips from tour members in lieu of wages. Shopping is an important element of the Chinese tourist experience. Tourists are routinely expected to bring home gifts for family, relatives and work acquaintances. Though not unique to China these practices influence the evolving business relationships. Relative to independent travelers, package tourists spend a bigger share of their overall expenditure on shopping items where the unethical practices are concentrated. For Chinese package tourists the share of shopping as a proportion of total expenditure is about 51%, whereas the corresponding percentage for independent travellers is 16% (BTR 2004).

Specialist shops are the only retail opportunities available to many package tourists and command premium prices for articles that may be cheaper elsewhere, particularly in the case of highly exclusive and culturally specific products. Whilst problematic, such practices are not a unique example of monopolistic pricing in Australia's tourism industry. Shops in airport shopping precincts or at attractions have a reputation for charging substantially higher prices than those prevalent in downtown locations. In the case of tourist specialist shops, overcharging is a result of partial monopoly. Where tourists pay higher prices for items purchased in tourist specialist shops, they appear to forfeit any apparent savings from competitively priced tour prices in the country of origin. The inefficiencies inherent in this pricing model may lead travelers to pay a higher overall price than would apply if the tour price had been paid in full at the time of

purchase. Some Chinese ADS visitors may be aware of these practices, since they are common features of Chinese domestic travel.

Chinese package tour groups to Australia are often taken to souvenir shops and to shops which specialise in health products, woollen goods, classic duty-free goods such as alcohol, perfume and tobacco. Where 'over-shopping' is controlled by ITOs it may impact negatively on the visitor experience. In such cases the interests of the ITO and the retailer may coalesce to increase the shopping component and reduce the other tour activities originally promised. Pan and Laws have suggested that benchmarks will need to be established for service standards offered to Chinese visitors if Australia is to retain its competitive advantage (2003).

## **Commissions**

The levying of commissions is a well-established and widely accepted practice across the tourism industry, including amongst China-specialist ITOs. Commissions constitute a standard and established method of payment within the travel distribution system, across both the international and domestic sectors. They are commonly used as an incentive for tour operators and guides in the Australian domestic day tour market. The day tour client is typically taken to a shop, factory or other establishment and while captive is offered a 'tour' of the premises plus refreshments. Visitors are also informed that they are entitled to purchase goods at discounted prices. In some instances these establishments are single outlets located at a distance from the major retail precinct making it difficult for tourists to compare prices. More competitive prices are evident where shops are located close to other establishments offering similar products, and in these cases guides are offered only a small flat fee. Where a shop is more remote, prices tend to be higher and the guide and/or tour company will receive a commission related to the volume of sales. Commissions have also been used to offset losses incurred by tour operators in China's domestic package tour industry. Li reported that China's domestic tour operators demand commissions before including various activities in their itineraries (2003). In such cases,

tour guides receive no salary from tour operators, and are compensated by receiving commissions from tourist specialty shops.

Commission payments are widely accepted in tourism internationally, but may compound the problems associated with the business practices eroding the quality of the Australian package tour experience. In such cases, commissions received by individual ITOs are used to pay for the shortfall between the amount paid by the WTA to the ITO, and the actual daily costs associated with the provision of transport, accommodation and meals. Once the shortfall has been met, any remaining funds may be classified as profit. As many ITOs are Australian residents or citizens, only a small proportion of any profits are likely to be remitted overseas to the country of origin of the ITO, after some profit has been 'ploughed back' or re-invested within Australia. In the case of the China inbound market, commissions apply primarily in the case of tourist specialist shops. The researchers were informed of some exceptional cases where ITOs received additional commissions from hotels, bus companies, attractions and restaurants but these appear to be small-scale and atypical. With the prospect of securing repeat business, most ITOs negotiate directly with hotels, coach companies, attractions and restaurants in pursuit of the lowest possible price. Theme park operators reported offering considerable discounts in order to maximize revenue through volume, while incurring little additional expenses in servicing group tours. Some respondents stated that price discounting is emerging in the Chinese market and that the absence of discounting might be viewed as a 'problem' if prices were perceived to be excessive (CIE 2000:8).

Many tourists are clearly aware that they are paying part of the tour price in the form of commissions and this knowledge may play a part in their decision-making. Commissions may be compensating for discounted ground content that would otherwise have been charged at a higher rate. If we pursue this logic, on the one hand it is improbable that visitation would automatically increase following elimination of the business practices particularly if WTAs were to pay additional amounts to ITOs and these were recovered from tourists at the time of initial purchase. If on the other hand tour package prices were

to remain unchanged at the origin market point-of-sale once the business practices were eliminated, perhaps as a result of legislation (prices to WTA and ITO are assumed to be unchanged), ITOs could even incur revenue losses as a result of the elimination of the commissions. This could affect business viability and lead to failures.

## **Strategies for the Recovery of Losses**

ITOs have a number of options to recoup losses prospectively incurred as a result of low tour fees. These include negotiating lower room rates with hotels and on-selling the right to direct customers to tourist specialist shops or to tour guides. The most common strategy however involves negotiating with specific shops to gain a commission and/or asking tourist specialist shops to provide a range of services including guides and coach transfers. Another cost cutting practice in the Chinese market involves using guide drivers who combine the roles of guide and driver. This practice is uncommon in lower cost Asian destinations, but occurs within a number of Australia inbound markets because of the high prevailing cost of labour. Most tourist flows internationally involve visitors originating in developed countries, but China is a notable exception. Discrepancies between the respective levels of development within the generating and receiving countries may influence consumer perceptions of price/value.

It is commonplace within the travel industry to negotiate the lowest possible price for hotel rooms, entrance to attractions, transport and restaurants. Hotels and other businesses have freedom to accept or reject requests for lower rates and, where they do participate in discounting, may use yield management techniques such as marginal pricing which is widespread in the airline sector. Such practices may be construed as unethical in cases when the provision of lower standard hotels or other tour components is inconsistent with the advertised tour package. Downgrades are most likely to occur where itineraries are imprecisely specified or described. In certain generating regions consumers are protected from such practices by local law. In Shanghai for example, the traveler and the tour

operator each sign a contract committing them to the various conditions laid out in the tour description. Another reported practice involves the “on-selling” by ITOs of tourist groups to specialty shops, guides or to coach companies. Where the rights to groups are on-sold to guides, the latter then assume responsibility for paying part of the daily tour costs and will attempt to recover those costs through commission deals struck with other suppliers such as tourist specialist shops. This practice has been widely reported in the China inbound market in Thailand. To date there has been no evidence of guides operating in this manner in Australia, though this situation could change.

Another practice which has been reported in Australia involves specialist shops paying a predetermined price (poll tax), which gives shops exclusive rights over the itinerary. The tourist specialist shop assumes responsibility for providing the guide and the coach transfers at the destination and pays a fixed daily amount or commission to the guide. The guide thereby assumes the role of de facto salesperson on behalf of the tourist specialist shop. To ensure that package tour members confine their shopping activity to the guide-enhanced specialist shops, hotel accommodation may be provided at some distance from the major tourist shopping precincts. By locating tourist specialist shops some distance from major tourist precincts, ITOs and tourist services shops are able to gain mutual leverage from the cultural obligation on travellers to purchase gifts. Using these methods, tourist specialist shops secure a guaranteed customer base and ITOs receive high commission payments, thus offsetting losses incurred from unsustainably low daily tour fees. Some tourist specialist shops used by ITOs are however located in the downtown areas of Sydney and the Gold Coast and are open to the public. In these cases, shoppers may be offered discounts of up to 30 percent or more when they enter the shop, giving them a substantial discount off the marked price which is not made available to members of group tours. Selective discounting is prevalent amongst many groups within the wider community but is ethically questionable when used in this way.

## **The Role of Tour Guides**

The tour guide is an integral component of the package tour, though the structure and extent of guide services provided by ITOs varies considerably (Xu and Weiler 2003). Generally the tour leader/manager travels with the tour group from China to Australia and represents the WTA. The relevant ITO provides a local guide who is responsible for making day-to-day tour arrangements including transport, accommodation and other aspects of the itinerary. In the model illustrated in Figure 2, guides are employed in Australia by an ITO and are paid a salary. In the Chinese inbound market, many local guides operate semi-independently and rely on a mix of wages and commissions and on tips from tour group members. A local guide employed by a tourist specialist shops operates more as a salesperson rather than as a leader and information provider as has traditionally been the case.

According to the CIE, inadequate ITO and tour guide training exacerbates the low standards prevailing in the industry. These are characterised by inadequately skilled employees, lack of knowledge about destinations/attractions, and low business and professional standards. Whilst poor service quality may reflect a wider shortage of appropriately trained staff, it may be a symptom of underlying problems rather than a cause. With a view to minimising cost an operator may employ low skilled employees or untrained Chinese nationals to gain greater control of the group in order to increase shopping or other commissions. A final possible driver of low standards may be that consumers will only accept prices which are incompatible with the input costs involved with employing highly skilled guides (CIE 2000). A number of difficulties arise when the guide is required to represent the interests of a third party rather than the members of the tour group. Advice provided to tour members may be viewed as “unethical” if it encourages tourists to purchase goods solely in order to enable the guide to obtain a higher commission.

In some countries guides are required to hold a permit to operate, though this is not the case in Australia. Australian earnings range from standard wages (eg a set of conditions

set out in an Enterprise Bargaining Agreement), to payment on a per customer basis, or as a commission paid by shops, restaurants and attractions for sales generated by the guide. Queensland has introduced a tour guides award, although its impact has yet to become evident. Where commissions are applied, payment may be made directly by the tourist specialist shop to the guide or via the guide's employer. Local guides employed in the Chinese inbound market often receive cash payments from ITOs, by tourist specialist shops, or both. This type of cash-in-hand dealing diminishes the taxation revenues accruing to government from tourism.

Yu, Weiler and Ham (2001) have suggested that the major focus of the guide should be on satisfying the expectations of tour party members. A successful tour guide may generate positive word-of-mouth communication and repeat purchase and these are characteristics of an effective inbound market. The prevailing structure of the China inbound market may not be consistent with such performance measures, largely because of distortions arising when the guide is employed by the tourist specialist shop rather than the ITO. These include a reduction in exposure to and understanding of Australian culture on the part of tourist because of itinerary constraints, a lack of opportunities to talk to Australians and a diminished endorsement of the destination.

### **False or misleading representation**

'Dishonest' practices associated with the inbound package tourism market have included misrepresentation of the quality of the accommodation provided or charging a fee to access free attractions. Such dishonest practices are intended to increase profits for the inbound operator and exploit the unwary consumer (March 2004). They are most prevalent where consumers are ill-informed and where profitability is least reliant on repeat business. Tourism products may be classed as 'experience goods' and are vulnerable to such behaviours because consumers are generally unable to examine the product prior to purchase. This is consistent with the view that the short-term incentive for an operator to over-represent the quality of the tour comes at the expense of repeat business and long-term viability (Sheldon 1986). In cases where operators have invested

heavily in advertising — a form of non-salvageable capital — they have greater incentive to deliver a product of the anticipated quality. In the long run one might expect consumers to be attracted to such operators.

A contrary view is presented here. Given the emphasis on short-term gains pursued by many operators at the cost of long-term sustainability, consumer protection legislation will be needed to address the problem of dishonest practices. Such legislation has already been developed in China and in Queensland and is under development in Japan. The optimistic view assumes that operators intend to remain in business for the longer term, but the experience in Australia and elsewhere suggests that many operators are pre-occupied with the prospect of short term gains. The BTR study of tour package dissatisfaction found evidence of regimentation, forced shopping, poor value for money, and provision of accommodation of a standard below consumer expectations (BTR April 2004). These findings highlight the tendency of ITOs to focus on cost cutting and on recouping revenues rather than offering an appealing (expected) product. This state of affairs which characterises the China to Australia package tour market is most likely where firms have short-term profit horizons, and lack any commitment to longer term industry growth.

Package tourists do appear able to distinguish between Australia as a destination and the package tour undertaken (BTR 2004). Only a small proportion of respondents in the BTR consumer based study indicated that they would recommend against Australia as a place to visit, despite expressing relatively high dissatisfaction with certain quality aspects of their tour. Unsatisfactory tour quality is nevertheless a significant threat to Australia's reputation since the Chinese are accustomed to assuming that Governments will take responsibility for the behaviour of their citizens. The prevalence of dubious business practices may prompt a view amongst package tourists that the destination as a whole is failing to deliver a rounded and satisfactory visitor experience.

## **Concluding Remarks**

From the extensive discussions undertaken by the researchers both within Australia and China, it is evident that Australia is experiencing a range of growth pains in dealing with the China market. Whilst less severe than what has occurred in the China domestic and some short haul destinations, the prevalence of the practices in Australia could seriously undermine the ambition of the Australian Government to portray the destination as premium, high-yield and “platinum plus”. The introduction of legislation in Queensland and (in 2005) the Code of Conduct by the Australian Government indicates a seriousness of intent to eliminate the problems at the destination end. It is important that the effectiveness of the recently introduced Code of Conduct on the incidence of the business practices is assessed and it is recommended that appropriate research is undertaken. At the international level, it would also be useful to undertake more comparative work, for example assessing the prevalence of the various practices in European countries where the China inbound market is growing rapidly in the aftermath of receiving ADS approval.

The various issues raised in this paper about the wider significance of China outbound travel merit further investigation. The strategy of “managed travel” with its reliance on ADS distinguishes China from other source markets, but the extent to which this unique approach is sustainable is still unclear, given its proliferation to a diverse range of destinations and evidence of disapproval by the World Trade Organization. As a medium to long-haul, developed destination pursuing business from a rapidly growing developing country with a population of over 1 billion, Australia has more work to do before it can be claimed with any confidence that a secure strategy is in place. Measures undertaken at the destination end may ultimately be ineffective in altering decision-making in the source country. Just as China is pursuing a strategy of “managed tourism”, Australian authorities may need to deepen their understanding of the market dynamics within China with a view to exercising genuine control over the activities of the inbound tourism market.

From a policy perspective, this paper has examined a range of outcomes pursued by state and national government in a particular country (Australia) in response to the rapid growth of China outbound travel. These responses may be of interest to policymakers in other countries which are only now opening up to the Chinese market. The monitoring of the various policies will also be of increasing interest, since their effectiveness remains to be demonstrated. From a theoretical perspective the paper has taken some preliminary steps to document the extent to which the China market conforms to established models of travel distribution, including those applying to emerging Asian markets. Gaining a thorough understanding of commonalities and differences will be critical as researchers continue with their attempts to model the nature of travel distribution channels.

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**Table 1: Business Practices affecting destination image**

<p>Business Practices</p> <ul style="list-style-type: none"> <li>• Restricted shopping opportunities,</li> <li>• Ground tour operators receiving substantial commissions from shops to underwrite tour costs,</li> <li>• Downgrading of tour itineraries</li> <li>• Not meeting tourist’s expectations that a tour guide will be supplied in addition to the tour leader.</li> <li>• Failure to provide a qualified tour guide</li> <li>• Requests for tips by guides</li> <li>• Limited range of products in shops that are visited</li> <li>• Charging excessively high prices in shops</li> </ul>
<p>Potential Effects upon Trip</p> <ul style="list-style-type: none"> <li>• Excessive time spent shopping</li> <li>• Dissatisfaction with the tour itinerary</li> <li>• Missing desired places of interest</li> <li>• Not able to exercise discretion over some elements of their itinerary such as where to shop</li> </ul>
<p>Potential Outcomes</p> <ul style="list-style-type: none"> <li>• Negative publicity and reviews in various consumer media</li> <li>• Lower levels of positive recommendation to friends and family</li> <li>• Negative influence on Australia’s image as a destination</li> <li>• Business failure of ITOs and other businesses</li> <li>• Criminal offences and breaches of laws</li> </ul>
<p>Possible Longer Term Impacts</p> <ul style="list-style-type: none"> <li>• Lower levels of repeat visitation</li> <li>• Increased likelihood that potential visitors choose a destination other than Australia</li> <li>• Market failure and the prospect of overseas monopolies</li> <li>• Loss of revenue to Australian taxpayers from cash-in-hand dealings</li> <li>• Increased cost of enforcement of government controls</li> </ul>

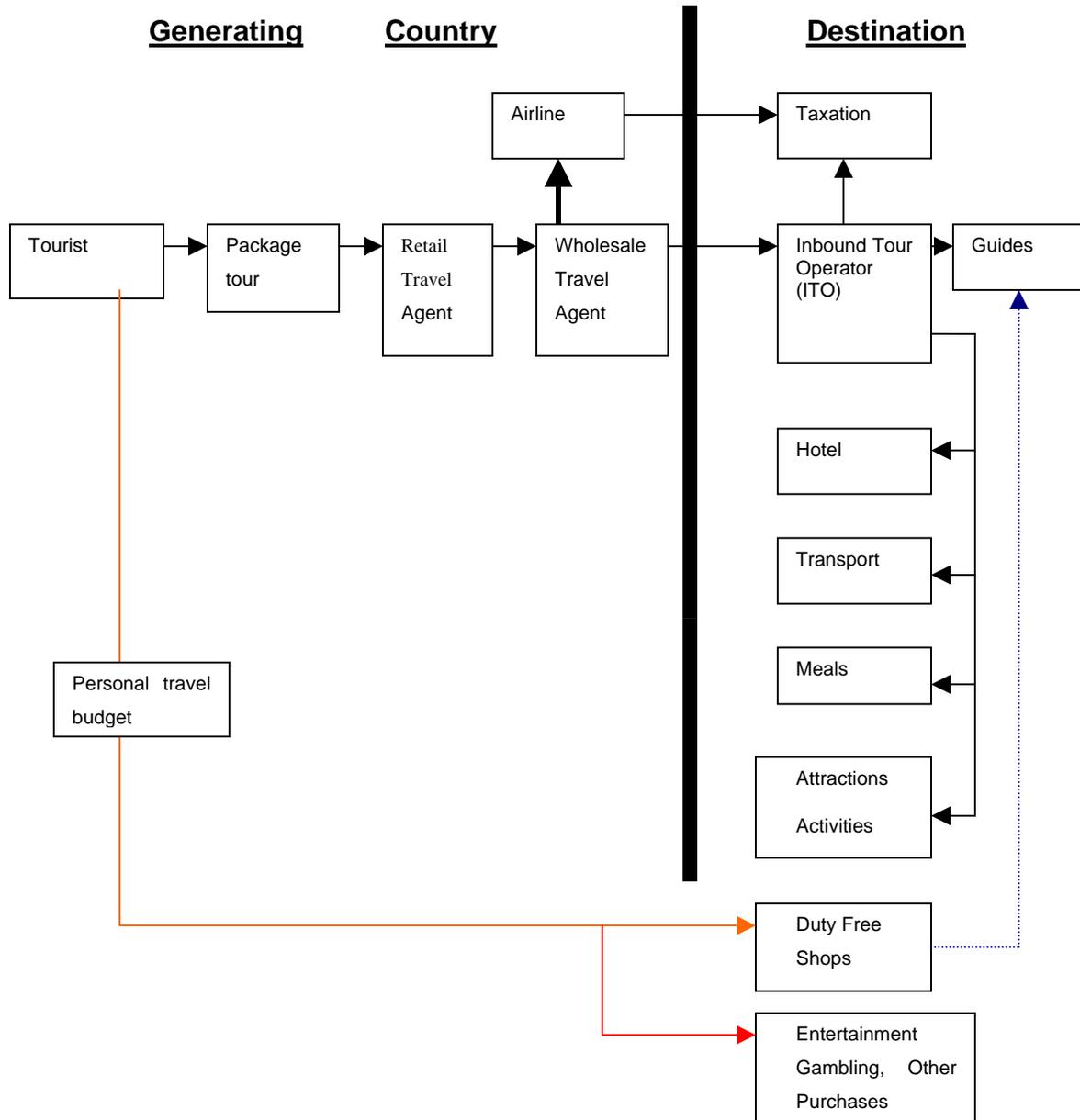
Source: the Authors

**Table 2. Estimates of Expenditure in Australia associated with Package Tourism from China**

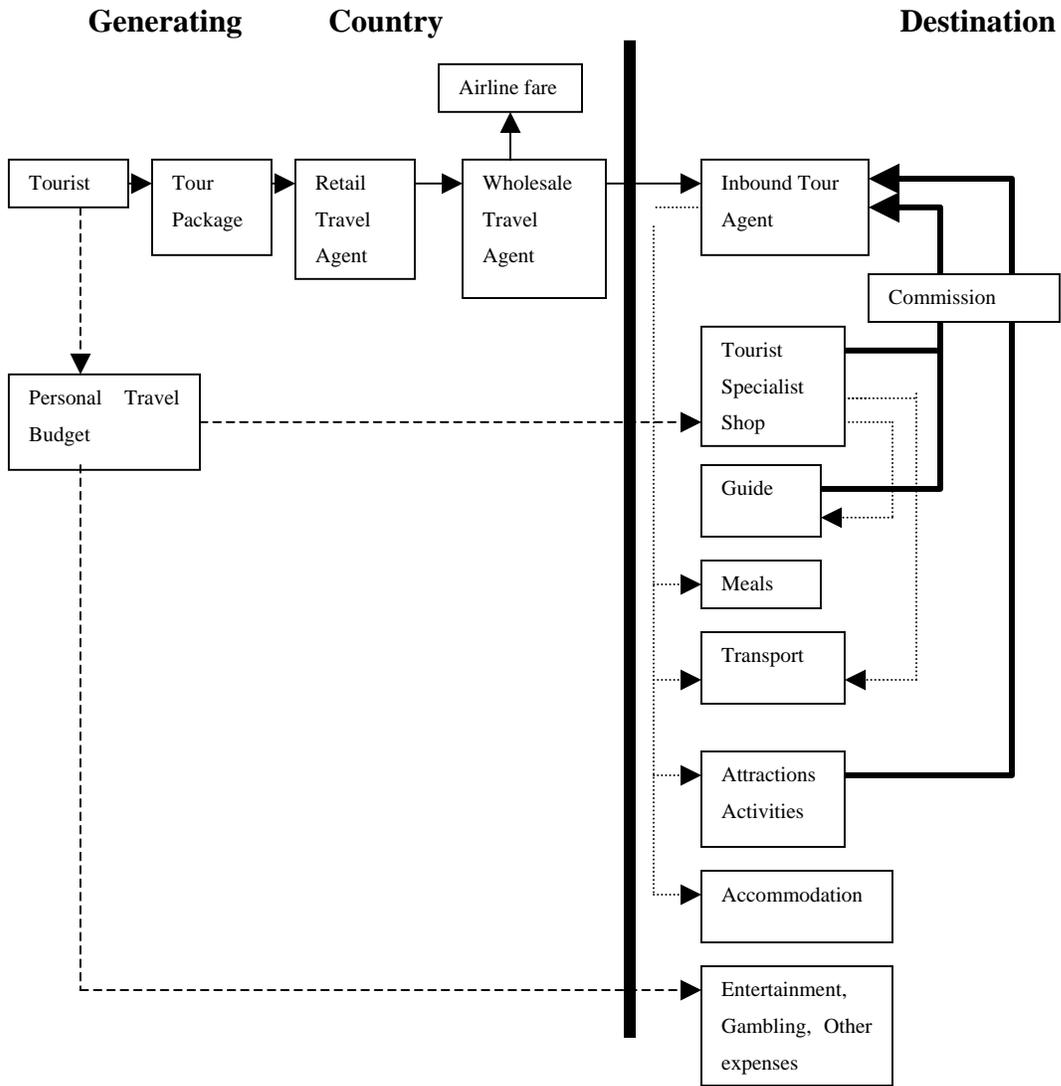
Origin	2002	2004	%	2008	%	2012	%
China	46.804	67.814	9.3	135.054	10.2	232.021	20.5

Source: Table prepared by the researchers. Expenditure data is multiplied by TFC estimated annual average growth rate of holiday tourism of each market (TFC December 2002)

**Figure 1 The Structure of the Package Tour Cycle in Generating and Destination Countries**



**Figure 2 Operation of the Chinese Inbound Industry in Australia**



Source: author research