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The Effects of Restrictive Business Practices on Australian Inbound Package Tourism¹

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The Effects of Restrictive Business Practices on Australian Inbound Package Tourism

Abstract

International visitors to Australia on package tours have expressed concern about aspects of their holiday experience. These aspects relate to restrictive business practices on the part of Inbound Tour Operators. The origin markets affected are China and Korea in particular, and, to a lesser extent, Japan and Taiwan. The paper first sets out the nature of the restrictive business practices and then discusses their underlying causes. It then estimates their effects on visitor satisfaction and the impact of this on future package tourism flows to Australia from the identified markets. Finally, some estimates are made of the economic costs of the practices. It is argued that Australia will benefit from the development of quality tours rather than persisting with the price driven tours currently on offer within these markets.

Key words: Package tourism, Australia, Restrictive business practices, Inbound tour operators

Introduction

International visitors to Australia undertaking package tours have raised concerns about various aspects of their holiday experience including alleged restrictive business practices on the part of Inbound Tour Operators (ITOs). The origin markets most affected are China and Korea in particular, and, to a lesser extent, [Japan and Taiwan](#). The Japanese market is often viewed as having reached maturity with the practices thought to have ceased within the package tourism market. There are however signs of renewed involvement in the practice. More generally the practices are prevalent in part because of a perceived need on the part of ITOs to address the shortfall in revenues received from

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Wholesale Travel Agents (WTAs) in origin countries. In response to the concerns being expressed by industry groups in Australia, governments at both State and Federal levels have commissioned studies to investigate the associated issues (Queensland Tourism 1999, CIE 2000). The costs incurred by Australia's tourism sector are considerable and are likely to increase into the future unless the issues are addressed.

Destinations clearly have good reason to be concerned when business practices threatens to produce a mismatch between visitor expectations and reality. From a definitional perspective, business practices may be regarded as being restrictive when they involve misrepresentation of the various tour elements to the customer, at the point of purchase. Package tourists who particularly have been expressing dissatisfaction with various features of their Australian tours have been predominantly from Korea, China, Taiwan and Japan. Their grievances have included: excessive time allocated to shopping; unappealing tour itineraries; lack of provision for visiting or experiencing interesting attractions; an inability to experience "the real" Australia, and an absence of choice over shopping venues and other dimensions of the tour itinerary [\(CIE 2000\)](#). Actual and potential costs of the practices to Australia include: adverse impacts on Australia's destination image and prospects for future visitation; consumer dissatisfaction with tours involving restrictive practices leading to negative word of mouth communication by those affected with adverse impacts on visitation; reduction in repeat visitation as a consequence of dissatisfaction; reduced expenditure within Australia as a result of dissatisfaction with the restrictive practices; the incurring of losses by suppliers as a result of ITO business failures; and taxation revenue foregone as a result of cash-in-hand

dealings (Queensland Tourism 1999, CIE 2000, STCRC 2004). The problems of low tour prices and restrictive business practices are not unique to Australia. In a recent paper on Chinese inbound tourism, Tse (2003) noted similar problems in Hong Kong. The driving forces behind the problems experienced in Hong Kong were identified as low tour prices and the culturally determined need amongst Chinese visitors to undertake shopping activity. Kim and Sohn (2002) identified similar problems in many destinations visited by Koreans. The existence of the practices has been the subject of renewed discussion and it is timely to examine the impact of these practices within Australia, particularly following the release of the government “White Paper” which has proposed that Australia is positioned as a ‘Platinum Destination’ (Australian Government 2004).

The practices are most prevalent in markets where:

- Travellers are inexperienced and have limited access to independent advice about their chosen destination.
- Organised groups and package holiday makers account for a significant share of the market
- Most travellers have little or no experience of the destination, and the overall market is still emerging.

According to the CIE, these features characterize Asian package tours to Australia and provide a nurturing environment for the practices of particular concern (2000).

The aims of this paper are as follows: Firstly, to set out the nature of the restrictive business practices. Secondly, to determine their underlying causes. Thirdly, to estimate their effects on visitor satisfaction and the impact of this on future package tourism flows to Australia from the identified markets. Finally, some indicative estimates are made of the potential economic costs of the practices to Australia.

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Significance of Package Tourism from the Identified Markets

Visitors undertaking guided group holiday tours to Australia accounted for around 14 per cent of all international visitation in 2002 and for over five per cent of visitor expenditures. These substantial shares are indicative of the importance of such visitors for Australia's tourism industry (Hossain and Bohlin 2004). As indicated in Table 1, there were 604,200 visitors on guided group holiday tours travelling to Australia aged 15 years and over in 2001, rising by 3.4 per cent to reach 624,500 in 2002.

Insert Table 1 Here

A high proportion of the visitors from for each of the identified markets arrived in Australia on group tours. The respective percentages for China were 25.4 per cent (2001) and 20.5 per cent (2002) and for Korea were 30.9 per cent (2001) and 29.7 per cent (2002). Japanese and Taiwanese visitors have the highest propensity to engage in guided group tours. In the case of Japanese visitors, around 60 per cent arrived in Australia on guided group holiday tours during 2001 and 2002. The equivalent proportions for Taiwanese visitors were nearly 51 per cent in 2001 and 40 per cent in 2002.

Expenditure by Package Visitors

Package tourism from Korea, China, Taiwan and Japan injected \$650 million into Australia in 2002 if an imputation is included for the international airfare component attributable to Australian-owned carriers. Indicative of the importance of package tourism, this amount comprised just under 30 per cent of all expenditure from these four markets. Of the four markets, Japan was the most substantial source of revenue to Australia contributing 78 per cent of the total revenue. Of this amount Korea contributed 9.6 per cent of package tourism revenues followed by China (7.2 per cent) and Taiwan (5.2 per cent).

Expenditures by packaged and non-packaged visitors from the identified countries are shown in Table 2.

Insert Table 2 Here

Projecting Package Tourism Expenditures from the Identified Markets

Table 3 contains ~~revenues estimates projections that may be injected into of revenues injected into~~ Australia from each of the four package tourism markets for the years 2004, 2008 and 2012.

Insert Table 3 Here

To generate the expenditure projections outlined in Table 3, the expenditure data reported in Table 2 were multiplied by the official Tourism Forecasting Council (TFC) growth forecasts for each market (TFC December 2002). The forecasts extend to the year 2012.

The Tourism Forecasting Council visitor forecasts do not take possible reductions in visitation from the identified arising markets into account because of visitor dissatisfaction. The expenditure estimates in Table 3 only indicate the *potential* expenditure accruing to Australia from the relevant market in each of the selected years. In the absence of other information it is assumed that the future growth in package tourism numbers increase at the same rate as holiday tourism from each of the identified markets, and that visitor expenditure levels increase at the same rate as visitor numbers. These assumptions may of course prove unrealistic if the pattern of tourism flows were to change. On this basis, it is estimated that package tourism expenditure from the identified markets in Australia ~~was~~ worth \$729 million in 2004 rising to a potential \$1,134 million by 2012.

For the purposes of this paper, the estimates noted above are used as a benchmark against which estimates are made of the economic effects of the restrictive practices due to reduced visitation by package tourists. It will be argued that the growth of package tourism will be ~~impeded~~held back if the practices persist with a corresponding reduction in the revenues accruing to Australia.

The Restrictive Business Practices

Types

The CIE Report (CIE 2000) groups the various practices into three broad categories:

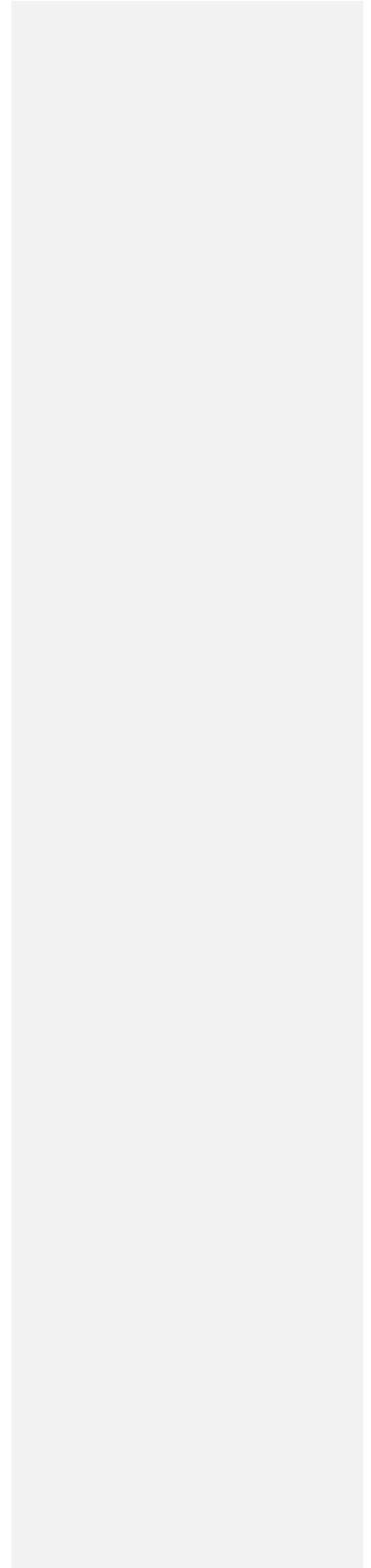
- *Uncompetitive shopping arrangements* such as excessive or secret commissions, below cost packages, exclusive dealings and exertion of influence;
- *False or misleading representations* such as misrepresentation of travel components or quality of accommodation and charging for free services; and
- *Low service quality* such as low quality packages and use of employees with low skill levels.

A report published by Tourism Queensland (1999) has listed a number of business practices regarded as impacting negatively on Australia's destination image. These include: restricted and 'forced' shopping; the changing of excessive prices for certain shopping items; ITOs receiving substantial commissions from shops to underwrite tour costs to the extent that the commissions "drive" the tour; downgrading of tour itineraries without consulting tour participants; not meeting tourist's expectations that a tour guide will be supplied in addition to the tour leader and/or failure to provide a qualified tour guide; requests for tips by guides; the provision of a limited range of products in shops that are visited; charging excessively high prices in shops; and overly regimented tours. A key factor in the emergence of such practices is the exercise of *control* over the activities undertaken by package tourists. Certain operators have been able to exert control over tour groups from time to time using methods such as; gaining and retaining control of the consumer's passport and air tickets; misleading groups by telling them that a non-preferred trader is supplying products that are likely to be confiscated by Customs; playing on the element of trust commonly associated with dealing with one of their own ethnicity; constructing itineraries with minimal provision of free time; delivery to and collection from the front door of preferred stores; and indicating that travelling independently of the group is unsafe (Tourism Queensland 1999).

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Causes



A package tour typically includes airfares, accommodation, guides, sightseeing, tour escorts and transfers. In some cases, meals, sightseeing and entrances to attractions in the destination country are also included. It is common practice to offer optional extras priced outside the standard tour, such as supplementary attractions, cultural shows and visits to 'superior' restaurants with a view to minimizing the initial purchase price. An ITO is contacted by a WTA in the source country at the initial stage of the package tour program development process with a view to facilitating the destination-based ground component. According to this model the WTA takes the responsibility for purchasing airline tickets on behalf of customers and contracts a destination-based ITO to operate the advertised itinerary. In principle, the funds paid by the WTA should cover the ground component of the tour as well as allowing an adequate profit for the ITO. This amount is commonly referred to as the tour fee or daily ground rate. Retail travel agent, and WTAs (where these roles are separated) will also expect a profit, typically in the form of a commission.

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Discussions with key tourism industry stakeholders in Australia in both the private and public sectors reveals several that Several factors ~~have~~ underpinned the development of the restrictive practices, thereby placing downward pressure on the daily rates offered by WTAs to ITOs. These factors include the highly competitive market within which ITOs operate, and the short term profit horizons of the suppliers of many individual components of the destination product. The major factor underpinning the rise of the restrictive practices is the market power of WTAs relative to ITOs, with more specific causes relating also to aspects of the particular origin markets identified (Prideaux,

[Dwyer, King and Hobson 2006; King, Dwyer and Prideaux 2006](#))- [Since Australia accounts for In a country with less than one percent of world inbound tourism flows \(World Tourism Organisation 2005\)](#), Australia-based ITOs have relatively weak market power given the internationally competitive environment. In Australia, ITOs active in the Chinese, Korean and Taiwanese markets are under constant pressure from WTAs to accept daily ground rates that are near or below the cost of operating the relevant tours. In these markets, WTAs occupy the dominant position which allows the sector to dictate price and other aspects of the tour to the ITO sector in destination countries. According to Prideaux and Kim (1999) this arrangement is the norm for most destinations that are visited by Korean and Taiwanese package tourists. In the case of the China outbound market, the WTA sector also appears to have kept ITO prices to a minimum in order to maximize profits and exercises considerable market power over the ITOs. The tacit endorsement by the Chinese authorities of the exercise of such market power, as opposed to the less highly regulated environment prevailing at the destination, serves to compound this situation. As price takers, ITOs regularly accept daily rates from tour wholesalers that are below cost and are left with little option but to recoup 'lost' revenues via the practices identified.

The most obvious impact of these business practices occurs in the retail shopping area where there is a prevailing expectation that North Asian tourists will return from their tours with a range of gifts for family, relatives and work acquaintances ([eg. Japanese 'omiyage' and Korean 'sunmul'](#)). In this context shopping occupies an important element of the travel experience. Package tourists spend a greater proportion of their overall

expenditure on shopping items than is the case with other ~~traveller~~[travelers to Australia](#).

There are marked differences between the shares that shopping occupies within total tourist expenditures from particular source markets and those participating and not participating in packaged travel. For visitors from China, Korea and Taiwan on a travel package the share of shopping expenditure as a percentage of total expenditure is 51.1%, 60.1%, and 68.1% respectively. For visitors who are not on a travel package the corresponding percentages are 16.0%, 13.4% and 18.3% (Hossain, Salma and Bolin 2004). The figures indicate that while some general principles may be applied to each of these source markets, there is also evidence of some distinct characteristics.

In some cases, the combined self-interest of the tour operator and retailer may prompt an expansion of the time allocated to shopping within the tour. A reduction in the range of other activities previously promised to tourists may correspondingly increase the revenue which flows from tourist purchases to the various participating businesses. Package tourists may also be 'coerced' into shopping within particular establishments. In instances where they pay higher prices for items purchased in tourist specialist shops than are available elsewhere, any apparent savings from competitively priced tour prices to the particular destinations appear to be forfeited. As a result of the inefficiencies inherent in such a pricing environment, travellers may ultimately pay a higher overall price than would have been the case if the full tour price had been paid initially.

A number of other strategies are deployed by ITOs to recoup any losses incurred as a result of low tour fees. These strategies include last minute negotiations with hotels to

secure lower room rates. Another reported practice involves the “on-selling” of groups to tourist shops by guides, ITOs or coach companies. In cases where the guide assumes the responsibility for paying part of the daily tour costs, he or she may attempt to recover such costs through commission deals struck with other suppliers such as tourist specialist shops. The opportunity to direct customers to tourist specialist shops or, in some instances to other tour guides may be on-sold. More commonly, the strategy involves negotiating with specific shops and/or requesting the provision of a range of services including guides and coach transfers. One cost reduction practice which has emerged in the Chinese market is to use guide/drivers who combine the roles of guide and driver thereby minimizing salary costs. This practice is uncommon in lower cost Asian destinations but occurs in a number of Australian inbound markets because of the significantly higher wage rates prevailing within Australia which compound the prospective savings (STCRC 2004).

Another reported practice involves the payment by specialist shops of a predetermined price per tourist or poll tax to the ITOs. In such cases, specialty shops effectively acquire exclusive rights over the itinerary. The tourist specialist shop may thereby assume the responsibility for providing a guide in the destination country and for arranging coach transfers. The guide receives a fixed daily amount or, more commonly, a commission from the shop. In these circumstances the guide is acting as a *de facto* salesperson on behalf of the tourist specialist shop, thereby blurring the distinctions which help to define particular roles.

One would expect to find an association between the price and the quality of a tour.

~~However, According to the CIE~~ the inadequate training provided to ITOs and tour guides ~~appears to be~~ an important driver of low standards (CIE 2000). The CIE report notes the use of employees with low skill levels, poor service quality, inadequate knowledge of destinations/attractions, and inadequate professional and business standards. Whilst low service quality may be reflective of a shortage of well-trained staff, low skill levels may be a symptom rather than a cause. An operator may, for example, employ low skilled employees to cut costs or utilise untrained nationals from the country of origin with a view to exercising greater control over the group and increasing shopping and other commissions.

The Effects of Restrictive Practices on Satisfaction Levels

Visitor satisfaction or dissatisfaction arises when there is a discrepancy between expectations and actuality whether perceived or real. Satisfaction is important as a key indicator of a destination's capacity to deliver appealing experiences, and to deliver the promises made through the image that has developed in the mind of the tourist (Zeithaml 1988).

Studies of tourist satisfaction undertaken by Tourism Research Australia (Hossain, Salma and Bolin 2004), by the Australian Tourist Commission (2003) and through a survey of Korean tourists conducted by one of the authors (2003), ~~indicate that the dissatisfaction evident amongst respondents with aspects of package tours do not necessarily equate with dissatisfaction with Australia as a destination. Specifically t~~The studies surveys indicate

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dissatisfaction with aspects of package tours in respect of attributes such as - quality of accommodation; the activities included with the tour time; the time allocated to the shopping service; value for money provided by tour guide; 'forced' shopping and the 'overall tour'. This list suggests that a link exists between visitor dissatisfaction levels and the practices themselves ~~though~~. ~~But, interestingly, the dissatisfaction evident amongst respondents with aspects of package tours does not necessarily equate with dissatisfaction with Australia as a destination-~~ (Hosian, Salma and Boin 2004).

Satisfaction levels appear to be substantially impacted by the way that the tours are constructed and managed. The figures that have been reported indicate that tour operations are a major area of concern, despite Australia being generally regarded as an attractive destination. The various studies have indicated that group tour members are less inclined to return to Australia than individual travellers.

The findings of the above studies suggest that Australia is losing international competitiveness in the package tour market, ~~particularly in the case of respect of key Asian source markets~~ ~~origins~~. Australia is a high cost long-haul destination which is at the "luxury" end of the purchasing spectrum. While there may be an element of "conspicuous consumption" associated with travel to Australia, most travellers are likely to be value conscious. Even if they have prior experience of restrictive practices in short-haul destinations such as Thailand, they may be less tolerant in the case of a shopping product such as Australia (placing Thailand in the "convenience shopping" category). The same may apply in the case of the Korea market albeit in a travel industry environment where consumers have a wide range of long-haul destination options. As

was noted in the ATC report, Chinese visitors tend to be well-educated, experienced, tour consumers even though the market is relatively underdeveloped (ATC 2003). Such visitors are increasingly unlikely to accept the types of packages [that have emerged in recent years](#)~~currently on offer~~.

The Effects of Dissatisfaction on Visitor Flows

Determining and quantifying the precise relationship between current and future dissatisfaction, business practices and visitation is a complex process. Firstly, the process of destination decision-making is complex (Um and Crompton, 1990; Woodside and Lysonski, 1989). Secondly, information search strategies are complex (Fondness and Murray (1998), Swarbrooke and Horner (1999)). Thirdly, sources of information relevant to destination choice are varied. This complexity is compounded by the inability of many tourists to draw a distinction between unsatisfactory experiences which are a result of the type of tour offered and their destination experience overall.

Dissatisfied visitors may respond to the experience in one of two ways, reflective of the link between visitor dissatisfaction and reduced visitation to Australia. [First](#), ~~They~~ they may engage in adverse word of mouth publicity about the destination. [Secondly](#) they may forego any intention to re-visit.

Given the ~~incidence of~~ dissatisfaction caused by the restrictive practices associated with package tourism from these markets, it may be assumed that actual and prospective rates of expenditure growth in the package tour market will be less than those estimated in

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Table 1, [which projected a growth in package tourism equivalent to the growth rate of total inbound tourism to Australia](#). For the reasons cited previously, the question of ‘how much less?’ is very difficult to quantify and will depend upon the extent to which tourism flows are sensitive to dissatisfaction. To expect the levels of dissatisfaction to be so high as to lead to an actual *reduction* in visitation numbers is unrealistic, given the rapid aggregate growth occurring within these markets. Dissatisfaction should more correctly be regarded as reducing the *rate of growth* of package tourism from these markets to Australia given the overall growth in package tourism prevailing in the affected markets. The prospective decline in the growth rate will depend upon several factors including levels of dissatisfaction with package tourism; the degree to which quality considerations continue to take second place to price considerations in package tour choice; the [ongoing](#) pressure on ITOs to recoup revenues by employing restrictive practices; the ability of travellers to distinguish between the negative elements of package tour itineraries and the attractiveness of Australia as a destination; the rate at which the identified markets, particularly China and Korea, ‘mature’ over time [\(as Japan has done\)](#), leading to reduced demand for package tourism; and the extent of competition from product offerings in other tourism destinations [both established and emerging](#). It should be acknowledged that the magnitude and prevalence of these factors ~~does-varies y~~ between the [different](#) source markets under consideration [\(Prideaux, Dwyer, King and Hobson 2006; King, Dwyer and Prideaux 2006\)](#). The extent to which the experience is shared does however merit a consolidated ~~report with a view to~~ ensuring that any observations can be linked to wider strategic concerns about market development.

Reduced Tourism Expenditure Due to the Practices

~~Previously~~ ~~Until recently,~~ no estimates were available into ~~have been provided as to the~~ effects of the restrictive practices on the Australian economy. ~~More recently an~~ ~~One such~~ estimate has ~~since~~ been provided by the CIE (2000). It was reported that the ~~Loss of~~ expenditure due to continued tourist dissatisfaction was ~~probably estimated to be in the~~ order of \$43 million to \$426 million over 10 years (in current dollar terms), depending upon the assumed percentage reduction in package tourism from the Asian markets. ~~These estimates are indicative only since the particular assumptions underpinning the projections were not assessed in terms of their likelihood~~ ~~are not analysed for their realism.~~

~~A more analytical approach is required if stakeholders in Australia, including policy makers, are to be informed as to potential economic losses from the practices. Since the TFC forecasts that formed the basis of the expenditure forecasts in Table 3 do not take explicit account of the restrictive practices they are useful as a benchmark for estimating the economic effects of any reduction in visitor flows. The measurable economic effects of reduced visitation relate to the prospective gap between a) the revenues that Australia tourism would receive from the identified markets without the practices and actual revenues and b) the revenues that it will receive in future, if the practices were to continue. Any approach is open to criticism since there is no model provided that relates dissatisfaction to repeat business. The authors were cCommissioned with the task of to provide~~ ~~ing~~ the Australian tourism industry with estimates of the potential losses from the business practices ~~and ,the authors~~ developed an approach which makes the underlying assumptions transparent and thus subject to scrutiny, debate and possible revision (STRC 2004). ~~Theis major advantage of the approach, which has been adopted enhances its prospective merit for also renders it of use to destination managers globally and, should be kept in mind in the discussion below.~~

An estimation of the economic effects of the restrictive practices requires a comparison of the revenues accruing to Australia with and without the practices. ~~Since the TFC~~

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forecasts that formed the basis of the expenditure projections in Table 3 do not explicitly take explicit account of the restrictive practices they are useful as a benchmark for estimating the economic effects of any reduction in visitor flows. The measurable economic effects of reduced visitation relate to the prospective gap between a) the revenues that Australian tourism would receive from the identified markets without the practices and actual revenues and b) the revenues that it will receive in future, if the practices were to continue. Two possible scenarios are proposed:

- Scenario One. A no change situation.
- Scenario Two. A scenario involving the removal of the business practices with an associated increase in the quality of package tour operating out of the relevant source markets.

Scenario One: No Change

In this scenario, it is assumed that price determined tours continue to be offered indefinitely. The 'no change' situation assumes that the ITOs continue to submit low bids to the WTAs to win business, and that the ITOs ~~continue~~~~perpetrate~~ the present practices that are used to enhance revenues. The authors ~~have~~ developed the ~~ss~~ scenarios that underpin a small, medium and large effect of the practices on future package tourism flows to Australia with associated expenditures. ~~The scenarios were developed from a review of the literature on tourism trends in the Asia Pacific region (see for example, Singh 1997, PATA 1999, Cetron. 2001, Dwyer 2004).~~

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• *Small Effect:* Dissatisfaction with the practices has a small adverse effect on present and future visitation from package tourists from these countries. A ‘small’ effect is taken to arise when the expenditure associated with package tourism to Australia, compared to TFC forecasts for holiday visitors to Australia from each identified market, is 5 per cent less in each of the years 2004-2012 due to reduced visitation.

• *Medium Effect:* Dissatisfaction with the practices has a somewhat greater adverse effect on present and future visitation from package tourists from these countries. A ‘medium’ effect is taken to arise when the expenditure associated with package tourism to Australia is, for each identified market, 5 per cent less than TFC forecasts in each of the years 2004-2008, and 10 per cent less than TFC forecasts in each of the years 2012 due to reduced visitation associated with the unethical business practices.

• *Large Effect:* Dissatisfaction with the practices has a substantial adverse effect on present and future visitation from package tourists from these countries. A ‘large’ effect is taken to arise when the expenditure associated with package tourism to Australia is, for each identified market, 10 per cent less than TFC forecasts in each of the years 2004-2008, and 15 per cent less in 2008-2012 due to reduced visitation associated with the unethical business practices.

The scenarios were developed from a review of the literature on tourism trends in the Asia Pacific region (see for example, Singh 1997, PATA 1999, Cetron. 2001, Dwyer

2004; World Tourism Organisation 2005). Underpinning these alternatives is a range of factors, which do not lend themselves to accurate quantification. These include: satisfaction levels and their impacts on future visitation, price sensitivity of package tourism, supplier planning horizons, word of mouth publicity and its effects, reasons underlying repeat visitation levels, and competition from other destinations.

The Key assumptions that underpin each effect are set out in Table 4.

Insert Table 4 here

~~For the purposes of this paper, space limitations have confined discussion to the factors underpinning the medium or most likely effect. The key assumptions underpinning the medium effect are as follows:~~

- ~~• Continued short term dissatisfaction with the restrictive practices and an increase in dissatisfaction levels as markets 'mature' particularly after 2008.~~
- ~~• The affected markets, in particular China and Korea, becoming less price sensitive with greater consumer emphasis on tours of quality over time.~~
- ~~• Some dilution of the incidence of controlling behaviour associated with the practices as WTAs lose some market power relative to ITOs, but persistent behaviour by ITOs in seeking to increase revenues through the practices.~~
- ~~• Travellers from some parts of China and Korea become more experienced in travel with easy access to independent advice on the destination while those from other parts remain less experienced.~~
- ~~• Greater absolute numbers of returning package tourists implying a greater penetration of adverse word of mouth communication.~~
- ~~• Competitor destinations to Australia developing more attractive packages (in terms of quality and value for money), particularly over the period 2008-2012.~~

The cost to Australia of the practices can be estimated using the TFC forecasts as a benchmark and by applying expenditure estimates from TRA (TRA 2004). According to

the medium effect, package tourism expenditure in Australia falls by 5 per cent per annum until 2008, and by 10 per cent thereafter.

Insert Table [45](#) here

It is estimated that the practices are already affecting visitation to Australia at a cost of \$36.5 million in 2004, rising to \$45.6 million in 2008 and \$113.5 million in 2012. Over the period 2004 to 2008 inclusive, the cost to Australia is estimated to be \$207.5 million, and the estimated cost is \$351.8 million over the period 2008 and 2012. For the extended period 2004-2012 the cost to Australia of the practices may amount to \$559.3 million (2002 dollars).

Scenario Two: Restrictive Practices Cease

In Scenario Two, it is assumed that tour operators adopt a quality approach and the need for the restrictive practices in tour itineraries is removed. Scenario Two can arise as a consequence of a variety of factors including: the introduction of legislation prohibiting certain practices, a transformation of consumer attitudes as markets mature, a shifting of power relations among tourism suppliers, and adoption of sustainable practices among Australian ITOs, rather than the focus on short term gains. In practice it is unlikely that all of the contributing factors would cease at the same time, but considered in aggregate the assumptions provide a useful indicative picture. In this scenario, both supply-related and demand-related factors [underpin the cessation of](#) the restrictive practices. The price paid by WTAs to ITOs rises, the package tour price within the origin country rises

and the quality of package tours is improved. In this scenario, it is assumed there is a change in demand within the origin countries and that tour itineraries shift from a low price focus to an emphasis on quality. Visitors are assumed to be increasingly value-sensitive. In such circumstances quality rather than price becomes the key selling point, with a stronger emphasis on interactive experiences in Australian package tourism. Tour operators are adopting a quality approach to tour itinerary development and management thereby eliminating of the requirement for tour regimentation. Scenario Two assumes:

- Retail prices for tours that offer enhanced quality increase flow through to an increase in the daily rate paid to ITOs.
- There will be a reduction, or even a removal, of the need for ITOs to rely on commissions to underwrite tour costs. As a consequence, improved tour programs will be offered featuring ‘interactive experiences’.
- Higher levels of satisfaction lead to a sustainable long-term growth of package tourism to Australia.
- Price becomes less important than value for money and consequently demand becomes less price elastic.
- There is an ongoing increase in the maturity of the identified markets.

Table 65 presents estimates that are indicative of the additional revenue opportunities to Australia over the longer term in the event that ITOs adopt a strategy of offering quality tours to visitors from the identified markets. The estimates are of involve expenditure injections into Australia due to the growth of the quality tourism package market. Given

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the large potential pool of 'value driven' package tourists from the identified origins, it seems justifiable to assume a 10 per cent increase in demand for package tourism. This assumption may be conservative.

Insert Table 56 here

The estimates in Table 56 assume an increase of 10 per cent in demand for purchases of quality determined travel packages. Over and above the reversal in losses associated with the prevailing practices, the additional revenues accruing to Australia could be \$69.260 million in 2004, \$82.344 million in 2008 and \$102.110 million in 2012. Based on these assumptions, the additional revenues to Australia over the coming decade as a result of the growth in package tour numbers from the identified markets could exceed \$750 million (2002 dollars)

Taking account of the factors underpinning the analysis, it is concluded that the strategy of tour quality enhancement will over the longer term produce a substantially greater expenditure injection into Australia than the present strategy of price-determined tours.

Conclusions

This paper has highlighted a range of restrictive business practices affecting package tourism to Australia. It has been shown that these practices occur as a result of the

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relatively weak market power of Australian based ITOs relative to WTAs in the generating markets. To make up extra revenues to compensate for low daily rates on package tours, ITOs engage in various practices that have the effect of reducing the levels of satisfaction experienced by visitors on package tours. The major issues that are of particular concern to Australia have their roots in the nature of tourism demand and tourism supply in the origin countries. In practice this limits the capacity of the Australian industry and authorities to transform the market structure. As price takers, ITOs accept daily rates from tour wholesalers that are below cost and try to recoup 'lost' revenues via the identified practices.

To estimate the cost of the practices to Australia the authors have considered the extent of dissatisfaction amongst package tourists. The likely impact on tourism revenues to Australia from these markets has been projected if the practices were to continue. [It was acknowledged that the approach is open to criticism in that substantial ~~ome heroic~~ assumptions are made, but it does have the great advantage that all of the underlying assumptions are transparent and their realism and relevance can be discussed.](#)

Two scenarios were developed. Scenario One assumes that satisfaction levels associated with Australian tour packages will gradually be eroded, reflective of the practices being continued. The estimated reduction in tourist expenditures within Australia in 2004 due to perceived erosion in the quality of travel packages from the identified markets is \$36.5 million. Using the same assumptions, the revenue losses in 2008 and 2012 are \$45.6 million and \$113.5 million respectively.

In Scenario Two, a strategy of developing higher quality and value driven tours is assumed with satisfaction levels associated with Australian tour packages being higher and impacting favourably upon future visitation. The annual increase in tourist expenditure will be \$69.260 million in 2004 attributable to the generation of additional package tourism from the identified markets over and above the losses avoided by addressing the business practices,. Depending upon assumptions about the future demand for quality travel packages to Australia, the corresponding figures will be \$82.344 million by 2008 and \$102.110 million by 2012.

The estimates of the losses to Australia from the business practices, are, if anything, conservative since they omit the costs of business failures and the losses to the Australian Taxation Office through undeclared incomes. Such costs should decline as quality tours are progressively replaced by price driven tours. Over time, the existing practices will reduce expenditure injections into Australia, while the development of quality travel packages will increase expenditure injections from the identified package tour markets. The development of quality package tourism is consistent with the avowed strategic direction of the Australian government to develop the image of Australia as a 'Platinum Brand' destination. Other destinations are facing similar problems in respect of their package tourism industries to those being experienced in Australia. The approach adopted can provide a framework for estimating the potential economic losses for destinations worldwide.

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Table 1 International visitors on guided group holiday tours from Japan, Korea, China and Taiwan, 2001–2002

	Visitors on guided group holiday tours			All group tour visitors	Total international visitors
	Number	Share of all visitors on group tours	Share of all international visitors		
	'000	Per cent		'000	'000
2001					
Japan	370.1	87.6	59.1	422.7	625.8
Korea	49.4	88.1	30.9	56.1	160.1
China	37.6	69.6	25.4	54.1	148.2
Taiwan	50.9	94.0	50.5	54.2	100.8
Other countries	96.1	60.5	2.8	158.8	3 440.5
Total	604.2	81.0	13.5	745.8	4 475.4
2002					
Japan	410.1	85.8	61.4	477.8	667.8
Korea	51.3	92.7	29.7	55.3	172.4
China	36.8	63.8	20.5	57.6	179.6
Taiwan	35.6	97.4	40.0	36.6	89.1
Other countries	90.7	59.0	2.7	153.8	3 353.8
Total	624.5	80.0	14.0	781.0	4 462.8

^a Includes visitors on guided group holiday tours, sporting group tours, special interest group tours other than sporting tours and business or convention group tours.

^b Total visitors include group tour and non-group tour visitors.

Source: BTR International Visitor Survey, 2001 and 2002. BTR (March 2004) Hossain, Salma and Bolin (2004)

Table 2 Expenditure in Australia by Origin (year ended Q3 2002)(\$ millions)

Origin	Travel Package	%	No Package	%	Total
China	46.804	7.2	520.975	34.3	567.779
Korea	62.617	9.6	465.840	30.6	528.457
Taiwan	33.668	5.2	170.518	11.1	204.186
Japan	506.252	78.0	363.718	22.0	869.970

Total	649.341	100.0	1521.051	100.0	2170.392
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Source: Prepared by authors from data provided by TRA (2004)

Table 3 Expenditure Estimates of Package Tourism from Identified Markets in Australia

Origin	2002	2004	%	2008	%	2012	%
China	46.804	67.814	9.3	135.054	10.2	232.021	20.5
Korea	62.617	78.973	10.8	115.078	13.3	162.153	14.3
Taiwan	33.668	36.678	5.0	41.995	4.8	43.843	3.8
Japan	506.252	545.588	74.9	620.108	71.7	696.451	61.4
Total	649.341	729.053	100%	866.708	100%	1134.468	100%

Source: authors estimates

Table 4. Key assumptions of small, medium and large scenarios of reduced package tourism expenditure in Australia, identified markets

<u>Scenario</u>	<u>Key Assumptions</u>
<u>Small Effect</u>	<ul style="list-style-type: none"> • Levels of dissatisfaction remain much the same as at present • a substantial proportion of tourists from the affected markets remain price sensitive, placing ongoing pressure on WTA to offer low priced packages at the point of sale • travellers are able to distinguish between the negative elements of an itinerary and the attractiveness of Australia as a destination

	<ul style="list-style-type: none"> the identified markets, particularly China and Korea, remain 'immature', with group travel maintaining a high proportion of the total. quality considerations continue to take second place to price considerations in package tour choice.
Medium Effect	<ul style="list-style-type: none"> continued short-term dissatisfaction with the restrictive practices and an increase in dissatisfaction levels as markets 'mature' particularly after 2008. the affected markets, in particular China and Korea, becoming less price sensitive with greater consumer emphasis on tours of quality over time. some dilution of the incidence of controlling behaviour associated with the practices as WTAs lose some market power relative to ITOs persistent behaviour by ITOs in seeking to increase revenues through the practices. travellers from some parts of China and Korea become more experienced in travel with easy access to independent advice on the destination while those from other parts remain less experienced. greater absolute numbers of returning package tourists implying a greater penetration of adverse word-of-mouth communication. competitor destinations to Australia within the Asia-Pacific region developing more attractive packages (in terms of quality and value for money), particularly over the period 2008-2012.
Large Effect	<ul style="list-style-type: none"> dissatisfaction with the unethical practices grows as these markets 'mature'. the affected markets, in particular China and Korea, become less price sensitive, with additional emphasis placed by consumers on the quality of tours increased tendency for tourists from the affected markets to travel independently due to increasing market maturity the practices are not self correcting and continue as they are, possibly becoming more widespread over several years; ITO's and importantly, WTA's, continue to emphasise short term gains and continue to maintain the current structure of tour programs based on shopping leading to increasing levels of dissatisfaction WTA maintain or increase their market power relative to ITO greater absolute numbers of returning dissatisfied package tourists implying a greater penetration of adverse WOM competitor destinations to Australia develop substantially more attractive packages (in terms of quality and value for money).

Table 45 Cost of the Restrictive Practices in Reduced Visitation (\$ million)

Origin	2004	2008	2012
China	3.391	6.750	23.202
Korea	3.949	5.754	16.215
Taiwan	1.834	2.100	4.384
Japan	27.279	31.005	69.645
Total	36.453	45.609	113.468

Source: Authors estimates

Table 56 Additional Annual Injection of Expenditure into Australia resulting from quality travel package development, 2004- 2012 (\$ millions)

Origin	10% additional visitation from package tourism		
	2004	2008	2012
China	6.423	12.825	20.880
Korea	7.502	10.932	14.590
Taiwan	3.488	3.889	3.950
Japan	51.831	58.895	62.680
Total	69.260	82.344	102.110

Source: Author Estimates (2002 dollars).