

Room for Growth by SME Travel Agencies in China

Facing an increasingly competitive business environment in China, independent travel agents are favouring collaboration between themselves and with multinationals, according to SHTM Associate Professor **Hanqin Zhang Qui**. In a recently published co-authored study, Dr Zhang highlights the short development history of small to medium sized travel agents in the country, pointing to a lack of management experience and market recognition as impediments to growth. Yet a declining market share and reduced profit margins are being combated by effective networking and adaptation to local conditions.

SMEs and the Domestic Travel Market

Small and medium sized enterprises (SMEs) are often seen as innovators, pushing economic growth and generating employment. This perception is certainly true of China, note the researchers, where “economic health and social stability has been seen to hinge in large part on the success of SMEs”. In the travel agency sector, 90% of all businesses are SMEs, with a clear focus on domestic travel. Yet the top 100 domestic travel agents generate 99% of the local travel business, leaving the mass of smaller firms to compete for the remaining 1%. This “calls into question generic assertions attributed to Chinese SMEs”, with their contribution to the travel agency sector neither large, nor entirely clear.

The researchers suggest that the discrepancy between presumptions and sector dynamics could mask “unique features”, especially in relation to how SME travel agents cope with their restricted market environment, and how they interact with other larger firms. Another factor that complicates observations is that Chinese SMEs are divided into three categories: state-owned, collective-owned and private and individually owned. Of the last

two types, private enterprises employ more than eight people, and individual enterprises employ less than eight by the definition used in the study.

Grouping the two non-state forms of ownership together, the researchers point out that private Chinese firms tend to remain small, have centralised decision-making structures and are often family owned and operated. Their ability to brand services is weak and they are not entirely comfortable with the newly competitive market in China. Paradoxically, private SMEs are mindful of appearing “too successful” in fear of attracting excessive levies and fees from local government officials. The result is a sector of firms not always able to grow or market themselves effectively.

A Pioneering Study

Given the imposing restraints on SME travel agents in China, the researchers decided to conduct a pilot study of the industry through in-depth interviews with the managers of seven privately owned agencies, each employing less than 50 people. They reasoned that exploration of the sector now could pave the way for a more comprehensive study later, and with it a crucial cross-country study. These further considerations will obviously be beneficial to the SMEs themselves, with the findings likely to indicate best practices.

In this initial study, owner-managers from Beijing, Guangdong and Jiangxi were interviewed. They oversaw simple organisational structures with some departmentalisation for business travel services, but the family business model dominated. Aware of the extent of SME participation in the sector, they presumed that “their role must be significant”.

Travel Agency Characteristics

Most of the agencies had been operating for less than a year, which is not surprising given the relatively recent change towards a market economy in China. Contrary to common presumptions about Chinese SMEs, some of the agencies were focused on growth and internationalisation, seeking partnerships with larger domestic and international firms that would allow them to expand the scope of their operations to inbound and outbound travel as well. Even those that retained a purely domestic focus acknowledged the importance of cooperation at some level.

The researchers report that there was “a tendency towards social networking and co-operation, which may have business benefits, overcoming SME fragmentation disadvantages”. One of the interviewees spoke of “tourism with no barriers”, in reference to how the smaller agencies shared knowledge and resources in a mutually beneficial way. Some consolidated their efforts in a single tour package, others cooperated to focus on specific parts of the domestic travel market and yet others formed a “purchasing union” to negotiate lower prices with suppliers.

Even with limited experience in the field, the agency managers felt they were building up a loyal customer base with tailor-made products. Yet the researchers detected a telling “silence” in the interviews - none of the owner-managers were prepared to offer their views on regional infrastructure. The reason for this seemed to lie in a feeling, revealed in discussions about legal and political challenges, that there was insufficient support from the government to protect the role of SMEs in local markets as larger companies moved in, and a limited understanding amongst officials of what a service industry actually provided.

Recommendations

Despite their limited experience and lack of substantial innovation in product offerings, these agencies do hold promise, especially when they focus on their local

strengths. The researchers point to the ability to change products rapidly in response to local demand, and suggest that it be developed professionally through more advanced marketing than the word of mouth currently used. This, they write, is something “large firms find difficult to emulate”.

Overall, the researchers note that there are certainly “strengths in smallness” for SME travel agencies in China. Their willingness to network, combined with greater professionalisation, should bring those strengths to the fore.

Points to Note:

- SMEs comprise a vast majority of travel agencies in China, but generate little of the sector’s revenue.
- SME agencies tend not to be innovative, but do network effectively.
- Their strengths lie in knowledge of local markets and adaptability.
- Greater professionalisation is needed to enhance those strengths.

Zhang, Q. H. and Morrison, A. (2007). How can the small to medium sized travel agents stay competitive in China’s travel service sector? *International Journal of Contemporary Hospitality Management*, Vol. 19, No. 4, 275-285.