

China

A CWT White Paper

China: Fast Evolving Travel Market

Since its entry into the World Trade Organization (WTO) China has experienced phenomenal change and growth. Western companies have raced to get a foothold in one of the fastest growing economies in the world. As a result, business in China—both by multi-national companies and by Chinese firms trading with other countries—has boomed; and the travel industry has been fast to evolve and adapt to meet the growing demand for corporate travel management.

■ Integrating China into the global economy

China has experienced more than seven percent growth in its gross domestic product for the past 15 years; an impressive economic engine that has driven growth not only throughout the Asia Pacific region, but also globally. With a population of 1.3 billion people, China is attractive both as a labor and as a consumer market. Although the economic benefits have largely been realized in the largest cities—Beijing, Shanghai, and Guangzhou; secondary cities—such as Chengdu and Chongqing—are also beginning to see economic improvements.

The impact of China's admission into the WTO in December 2001 cannot be overstated: WTO accession moved China from a limited opening of markets to a much broader trade stance, with specific timelines set for many industries to have open trade with China and a huge increase in foreign investment. 2008 is the Olympic year for China, and billions of dollars have been attracted to this market.

■ Regulated travel environment

China's travel infrastructure is based on a strictly regulated environment dominated by two entities: the China National Tourism Administration (CNTA) and the Civil Aviation Administration of China (CAAC). While the CNTA authorized travel agencies to sell inbound and outbound tour packages; the CAAC allowed "air services agencies" to issue domestic and international tickets. Up until 2002, a CNTA tour license was the only joint venture license available for foreign investors; and pure CNTA agencies are still not allowed to sell air tickets for business travel except through a CAAC-licensed air services agency.

CAAC still tightly controls all aspects of the airline market in China; although they are expected to move towards deregulation soon by giving carriers more freedom in domestic route rights. Before 2003, air ticket pricing was fairly deregulated and resulted in a price war. Therefore, CAAC stepped in with regulation to stabilize the market.

Additionally, China has only one CAAC-authorized system for selling airline tickets—a local GDS-type system called TravelSky. All airline tickets bought in China must be processed by TravelSky. Technical limitations of this system have caused challenges for multi-national companies who require features such as profiling, scripting, and integration with mid-office and back-office systems. At present, there is no timeline for opening the airline distribution market up to foreign GDSs. Given low TravelSky fees—a consequence of low average ticket prices, the financial model for Western GDSs in China would likely be different than that in other global regions.

TravelSky has developed a new-featured reservation platform called BlueSky. BlueSky is actually an enhanced TravelSky booking system. Specially designed for corporate travel market need, BlueSky can support the function of traveler profiling, travel policy management, data collection, data integration to third party i.e. Aqua etc for safety tracking. Importantly, the productivity of a booking agent can be improved by one third by using BlueSky vs. TravelSky. CWT China has been working closely with TravelSky to deploy and test the new features and we plan to implement BlueSky by end of 2008 or in early 2009.

Market Characteristics

■ BSP China shortens billing cycle to 3 days

From November 2008, BSP China has shortened the BSP billing cycle from seven to three days. The seven days billing cycle had been in place since 2001. Before that, the billing cycle was changed to 15 days from the original cycle of 30 days in 1996.

All airline tickets bought in China must be processed by TravelSky

■ Airlines

The airline market is dominated by five groups of Chinese carriers: Air China Group, China Eastern Group, China Southern Group, Hainan Airlines and Shanghai airlines, operating from hubs in Beijing, Shanghai, Guangzhou, and Haikou respectively. China has played a pivotal role in liberalization of airline markets in Asia, leading the way with its “open skies” agreement with Thailand; and opening its markets up to increased capacity by foreign flag carriers, such as Lufthansa, Air France, Cathay Pacific, and Continental Airlines.

■ Airlines in China going fast on reducing agent commission

For domestic travel, CAAC officially announced in June 2008 that from 01 October 2008, there will be no standard commission offered to agencies. The agent commission was previously 3% at point of sales for domestic tickets.

For international travel, airlines have been further reducing the agent commissions in 2008. Examples are on China-North America routes, UA and NW have reduced their agency commissions from 5% to 3% in 2008. The previous reduction had been from 9% to 7% and to 5% in the past three to four years. On China-European routes, all the airlines have reduced agency commission from 9% to current 5% over the last three years.

■ Electronic ticket (domestic and international) became mandatory

Electronic ticketing in China has grown rapidly in the last two to three years.

Just less than two years after all domestic tickets became paperless in October 2006, e-tickets have become mandatory on all international routes in China since May 2008. IATA China is no longer releasing any paper tickets to travel agencies.

■ Online Booking Tool (OBT) Solutions

Online Booking Tools in China continue to face challenges. TravelSky currently does not allow access to some restricted inventory fares using OBTs, thus existing tools have only limited ability to meet corporate travelers’ needs. Additional limitations in applying policy parameters, using waiting lists for often unavailable seats, and the high-touch expectation of travelers in this market have hampered the growth of online booking tools.

However, CWT China has developed a best-in-market online booking tool based on the IBE (Internet Booking Engine) offered by TravelSky. CWT’s OBT has solved many technical challenges, offering domestic air reservations and hotel reservations, helping clients improve efficiency, cost reduction, policy compliance as well as streamline processes. Please visit www.cwt-online.com.cn.

■ Payment systems

Chinese Government guidelines forbid foreign banks from issuing credit cards in local currency; and merchant fees for foreign-currency cards average 4%—a significant hit to many multi-national companies’ travel budgets. Local currency cards offer more reasonable merchant fees of around 0.6%; however, companies must still overcome a cultural preference for cash transactions, which can cause local personnel to resist using credit cards for travel payments.

Today, invoice payment is still the primary choice for many companies however the trend is changing fast, as payment solutions are now available within the China market. Card Payment for travel services is best practice for a Managed Travel Programs in other parts of the world, so it is now true for China as well. Corporations are now switching to one of the local card solutions for payment of travel services within China and moving away from the traditional invoicing method.

Effective Strategies

■ National consolidation

Successful travel management in China should include the following critical success factors:

- A clear understanding of the company’s travel patterns and market-specific travel—and traveler needs in China.
- Partnerships that offer local market expertise and global program experience, as well as long-term relationships with suppliers and regulatory bodies.
- Sophisticated program management that includes strategic sourcing assistance, global data reporting, and comprehensive assessments of the program.

CWT has found that a combined approach of a centralized, national call center with local support when required offers many corporate clients the best balance between local expertise and global program management.

A national call center can help ensure consistency in policy compliance and preferred supplier usage, as well as data capture. While the full rollout of e-ticketing has made local deliveries of travel documents less important than before, this model has been proven the best model to service clients with multi locations throughout China.

About CWT China

■ Joint venture with China Air Services

CWT China is a joint venture between Carlson Wagonlit Travel and China Air Services, China’s first and largest IATA ticketing agency, specializing in business travel. CWT China services several premier global and multi-national companies, in addition to some local companies through an ownership model that allows maximum value for corporate clients. To learn more about CWT China, please contact Mike Bezer at mbezer@carlsonwagonlit.com.