

A study on the Development Model of Ctrip

Xian-Fa Shang¹, Myeong-Cheol Choi^{*2}, Zhuo-Cuo Kan³

Abstract--- *Ctrip, China's leading online tourism platform, has developed various forms of tourism products such as airline tickets, hotels, vacations, and business trips. To retain its competitive position, Ctrip must continuously develop a diversified offering to appeal to the ever-changing consumer demands. Companies must regularly update their offerings to participate in the online travel industry as travel experience searches and public comments on user review sites are continually changing. All online travel companies must face the challenge of playing to their advantages in the fierce market competition. Utilizing Ctrip as the research subject, this paper summarizes the enterprise competitiveness of Ctrip by using Porter's five forces model analysis. This paper hopes to help online tourism enterprises in the increasingly fierce market competition, and promote the competitiveness of enterprises at the strategic level.*

Keywords--- *Ctrip, Tourism market, Porter's five forces model, Enterprise competitiveness.*

I. INTRODUCTION

Online travel means relying on the Internet, in order to meet the scheduled travel consumer information query, products, and the evaluation of the service as the core goal, includes including airlines, hotels, scenic spots, car rental companies, the tourism service providers, such as tourism at home and abroad, and search engine, OTA, telecom operators, tourism information, community website platform for online travel industry, etc. Because it mainly relies on the Internet, it forms a huge difference with the traditional tourism industry in the way of store sales.

With the development of social economy and the improvement of residents' living standards, the satisfaction of material life has prompted people to pursue the spiritual level more intensely. Coupled with the relative increase of social competitive pressure, tourism has become an important behavior for people to release pressure and broaden their horizons. China's tourism industry has become increasingly rich, has become an indispensable part of the national economy. According to data released by the ministry of culture and tourism, China's tourism revenue totaled 5.97 trillion yuan in 2018, up 10.5 percent year on year. The total number of tourists reached 5.83 billion, including 5.539 billion domestic tourists and 291 million inbound and outbound tourists [1].

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Kaung-Hwa (2011) stated that with the continuous and vigorous development of a series of online tourism investments, online tourism-related products and services were continually built up, and became a new growth point to promote the development of the tourism economy [2]. Osterwalder (2014) stated that tourism is an indispensable part of enriching and developing people's interests. Especially with the support of the internet, online booking and browsing convenience have brought greater development to tourism and have become a new power to promote local economic growth [3].

Bogdanovych (2015) believed that the combination of online and offline tools is an important channel and method for tourism enterprises to optimize their business models [4]. Combined with the research above, this study selected the leading online company, Ctrip, as the research subject. This study examines a more comprehensive view of Ctrip's development model and explores the analysis of the online travel market in China. Ctrip examines the increasingly competitive online travel market when developing suitable competition strategies, but keeps a focus on the enterprise's core competitiveness, making it a clear industry leader. This increasingly competitive online travel market is also a problem that domestic online tourism enterprises need to address urgently. This study hopes to be able to provide a reference for business models to other enterprises in this industry.

II. Market analysis of China's tourism industry

In August 2019, the National Bureau of Statistics released the 11th issue of the "Report on the Economic and Social Development Achievements of the 70th Anniversary of the Founding of the People's Republic of China" on its official website. According to the report, with the continuous improvement of people's living standards and the sharp increase in market supply, the focus of consumption has shifted from material consumption to service consumption, reflecting people's demand for a higher quality of life. In terms of tourism consumption, people increasingly diversify their tourism methods.

The tourism market environment is continuously improving, and relevant consumer demand is strong. Statistics from the Ministry of Culture and Tourism show that in 2018, China's per capita tourists went on four trips, and the number of domestic tourists exceeded 5.5 billion.

This number of domestic tourists was 11 times that of 1994, with an average annual growth rate of 10.3%. Domestic tourism revenue exceeded 5 trillion yuan, 50 times that of 1994, with an average annual growth rate of 17.7%. In 2017, the added value of tourism and related industries in China was estimated at 3.72 billion yuan, up 12.8% over the previous year. This added value of tourism is 1.9% higher than the current GDP growth rate in the same period, accounting for 4.5% of the GDP, which is about 0.1% higher than the previous year.

According to the data of different sectors, tourism travel services, tourism catering services, and tourism entertainment services increased, with the growth rates of 15.3%, 15.1%, and 17.2%, respectively. In terms of cultural and entertainment consumption, factors such as the continuous improvement of relevant market construction and the increasing market supply capacity drive the continuous growth of cultural consumption of leisure tourism has become popular [5].

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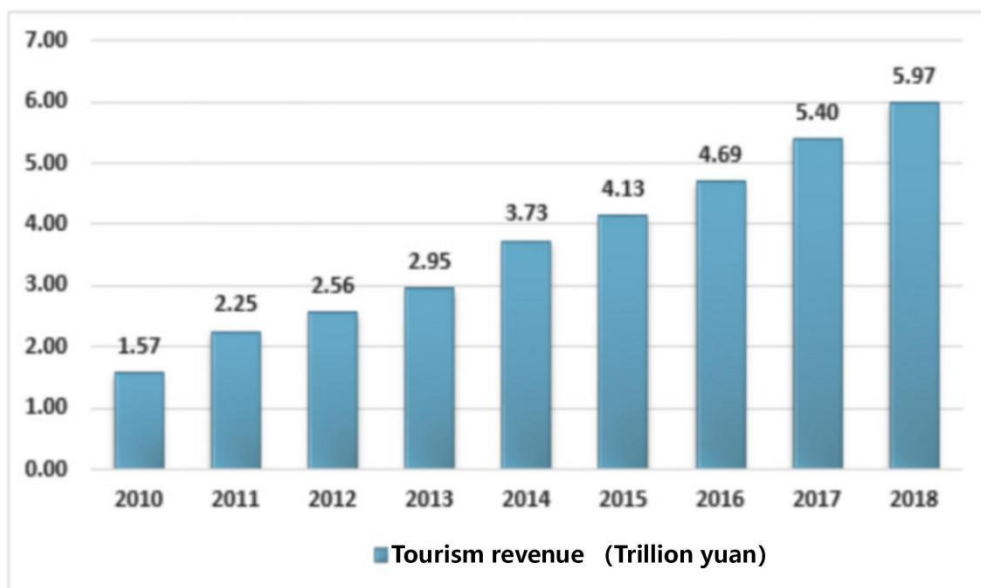


Figure 1. Statistics on total tourism revenue in China from 2010 to 2018

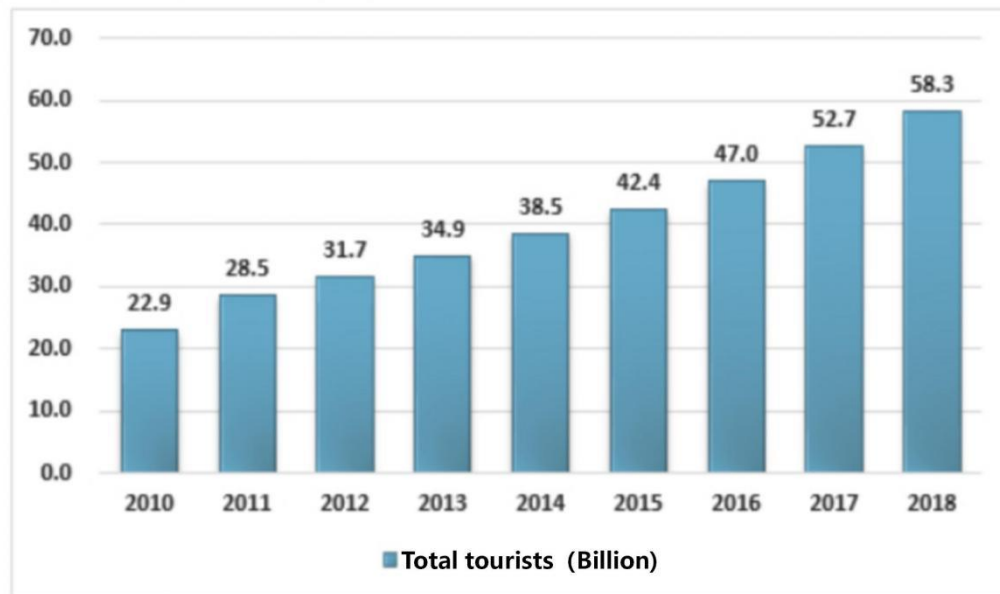


Figure 2. Statistics on the total number of Chinese tourists from 2010 to 2018

Source: Chinese ministry of culture and tourism

III. The development history of the online tourism industry

1. Embryonic stage

Online travel services emerged in the 1990s and early 2000s, when the distribution of membership cards and

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telemarketing gradually became new channels for the sale of travel products, replacing the sales in physical stores. In this environment, the establishment of Ctrip and Elong in 1999 marked the emergence of online tourism. The core business model at this stage was to provide travel consultation on the website and provide air ticket booking and hotel booking services for customers through partnership with suppliers. In June 2000, Ctrip's started its call center, and its call center model became the leader of China's online tourism market. At this stage, the penetration rate and utilization rate of the internet were still low. Ctrip has remained the model of China's online tourism industry since the start of the industry.

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2. Development stage

In 2000, China's number of tourism websites reached more than 3,000, which was the first time tourism websites increased in popularity and marked the entry of China's tourism industry into the "Internet age." This structure of online tourism service was formed in 2003, and Ctrip's online presence represents this structure [6]. From the beginning of the 21st century to 2007, with the popularization and development of information technology and the internet, mobile phones and other mobile devices have been widely used. At the same time, people's living standards improved, forming the "tourism craze." The combination of the tourism boom and the e-commerce boom led to the emergence of a new business model—online travel services—as internet automation helped companies improve efficiency and reduce costs [7]. The Public listing of Ctrip marked a new era for the online tourism industry. Competitors in the same industry, such as Ctrip, have also accelerated their investments in offline products, which has started a fierce industrial competition.

3. Maturity stage

In 2007, the online travel service industry entered a mature stage. With the rise of mobile devices, the online travel market began to break through the traditional shackles and join in the competition of mobile booking to create innovative and diverse developments. The formation of China's online tourism service format is marked by the Public listing of Ctrip. Ctrip is one of the most successful online tourism enterprises in China.

It has maintained its competitive advantage in the first two stages of the industry and has made remarkable achievements since its establishment. With the continuous development of numerous competitors, the online travel industry has gradually entered the stage of "Contention of a Hundred Schools of Thought." In this stage, the business model gradually diversifies. It has become increasingly difficult for popular business models to meet the changing market environment and personalized business models should be born. In the future, the market is likely to become a competition of various business models, and the whole tourism industry will rise to a new level [8].

4. Rapid development stage

In 2015, At this stage, the online tourism market has achieved rapid development, and the entry of a large amount of capital has accelerated the competition and integration of the market. Ctrip, Tuniu, Tongcheng, and other manufacturers are all committed to integrating the resources of offline businesses.

By acquiring traditional travel agencies and establishing offline service centers, companies can enhance their control over offline resources. Alibaba, Baidu, Hna, and other sources of capital constantly support the online tourism industry.

These companies may offer self-run tourism businesses or invest in online tourism businesses. As such, vertical enterprises are proliferating. Moreover, Tujia acquired Ant Short Rent and integrated Ctrip and Qunar's homestay business in 2016 to continuously enhance its influence in non-standard accommodations [9].

IV. The development process of Ctrip

Ctrip was founded in 1999 and is headquartered in Shanghai, China, with more than 30,000 employees. Currently, the company has locations in Beijing, Guangzhou, Shenzhen, Chengdu, Hangzhou, Nanjing, Xiamen, Chongqing, Wuhan, Qingdao, Sanya, Nantong has 95 branches and established branches in Singapore, Seoul, Hong Kong, and 22 other overseas cities.

Ctrip has successfully integrated the high-tech, online tourism industry with the traditional tourism industry, providing more than 300 million members with a full range of travel services, hotel reservations, air ticket reservations, tourism vacations, business travel management, and tourism information. Ctrip is regarded as the model of the seamless combination of online and traditional tourism. With stable business development and excellent profitability, it was successfully listed on the NASDAQ stock exchange in the United States in December 2003, which set a record of the highest opening day gain in the past three years. In 2010, Ctrip made a strategic investment in Taiwanese e-travel and Hong Kong's tourism industry, realizing the importance of the connection between Taiwan, Hong Kong, and China. In 2014, Ctrip's investment will extend into North America. In 2015, Ctrip made a strategic investment in elong and completed a stock exchange deal with Baidu to control Qunar. In the same year, Ctrip was named China's largest tourism group for the first time and ranked among the top 10 internet enterprises in China.

As of March 31, 2018, Ctrip's leading shareholding executives included Fan Min (holding about 1.9%), Liang Jianzhang (holding about 1.8%), and Sun Jie (holding about 1.0%). All board members collectively own 5.2% of Ctrip. Baidu, the largest shareholder, holds about 19.3% of Ctrip, Baillie Gifford & Co. owns about 10.1%, and Priceline Entities (an affiliate of Booking Holdings group) owns about 8.5%. In Ctrip's 20th annual report last year, Baidu held about 20.1% of Ctrip, and Priceline Entities held 8.9%, as shown in the following Table.

On October 26, 2015, Ctrip reached an equity exchange agreement with Qunar, marking the completion of the merger of the two companies. After the merger, Ctrip held 45% of the total voting rights of Qunar, making it the largest institutional shareholder of Qunar. Baidu has about a quarter of Ctrip's voting rights.

After the acquisition, Ctrip, Qunar, and Baidu became more intricately linked and became a community of interests. In January 2016, Ctrip made a strategic investment in MakeMyTrip, the largest tourism enterprise in India, and established its Southeast Asia regional headquarters in Singapore.

In October of the same year, Ctrip increased its investment in North America. In November, Ctrip invested in Skyscanner, a British airfare search platform, to expand its presence in the overseas airfare market to achieve globalization.

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	Ordinary Shares Beneficially Owned (1)	
	Number	% ⁽²⁾
Directors and Senior Management:		
Mm Fan ⁽³⁾	1306.879	1.9%
James Jianzhans Liang ⁽⁴⁾	1.254.511	1.8%
JaneJieSun ⁽⁵⁾	720,624	1.0%
Neil Nanpens Shen ⁽⁶⁾	*	*
Other directors and executive officers as a group, each of whom individually owns less than 0.1%	*	*
All directors and officers as a group ⁽⁷⁾	3.664.798	5.2%
Principal Shareholders:		
Baidu Entities ⁽⁸⁾	13,144,917.5	19.3%
Baillie Gifford & Co (Scottish Partnership) ⁽⁹⁾	6,899,488	10.1%
Pricehne Entities ⁽¹⁰⁾	5,800,440.25	8.5%
T.ROWE PRICE ASSOCIATES,INC. ⁽¹¹⁾	4,072,148	6.0%

Table 1. Ctrip's main shareholding structure (as of March 31, 2018)

Source: Sohu net: https://www.sohu.com/a/232643678_118838

V. Five forces model analysis of Ctrip

Porter's five forces model identifies five primary sources of competition, which are the bargaining power of suppliers, bargaining power of buyers, the threat of potential entrants, threat of substitutes, and competition between companies in the same industry.

1. Analysis of potential threats from new entrants

The development of foreign tourism shows that successful tourism service providers are comprehensive tourism suppliers. To provide travel service without offline support is impossible. Ctrip worked with many hotels and airlines and acquired travel agencies to form economies of scale. The economies of scale not only provided members with more high-quality travel choices but also ensured the standardization of services. It also ensured the quality of services, reducing operating costs, and improving Ctrip's competitiveness in the industry.

Ctrip has a professional business model, advanced management and systems, pragmatic and humble corporate culture, advanced background technology, information integration to establish the core resource advantage, and highly loyal customers. In this respect, Ctrip is less threatened by new entrants. However, in order to prevent further threats from new entrants and ensure Ctrip's current position as the first in the industry, Ctrip still needs to build differentiated tourism products, fine service standards, make use of brand advantages, and strengthen its core competitiveness through its economies of scale. Therefore, new entrants must be halted.

2. Threat analysis of substitutes

The existence of substitutes limits the potential return of a product because the substitute industry sets a ceiling on the price the industry can charge for the product. Although independent tour consumers have strong

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consumption strength, if the price of independent tours continues to rise and exceeds the psychological expectations of consumers, consumers may forgo this kind of tour and choose to follow a tour group. Ctrip completed the accumulation of original capital with enough funds and, domestically, has a large user group, unmatched by the competition. For this reason, the current Ctrip replacement threat is not strong.

3. Buyer's bargaining power analysis

Ctrip's target customers are self-service consumers, mainly individual travelers. Although the number of individual customers is large, the impact of the individual, overall, is small, so the bargaining power is weak. At the same time, due to the different economic strength of self-service consumers, Ctrip also classifies services according to different consumption levels from which consumers may choose. As a result, Ctrip faces lower bargaining needs. This kept Ctrip at the initial level of profitability and achieved high customer satisfaction. In terms of the buyer's bargaining power, Ctrip is in a superior industry environment.

4. Analysis of the bargaining power of suppliers

Although Ctrip has made three major acquisitions since its inception, it has also restructured some traditional travel service companies. However, Ctrip does not own most of the hotels or hostels it offers through its services. Therefore, hotels and hostels of various tourist destinations are still the main suppliers of Ctrip. Due to the

accommodations necessary for the building, decoration, and daily operation of hotels and hostels, hotels and hostels require a large amount of capital investment. Therefore, frequently, the current domestic hotel has not formed a chain operation model. CITS and other mid-range hotels have a chain operation model, but in terms of service, this has no obvious advantages. To sum up, Ctrip faces the limited bargaining power of suppliers.

5. Competition analysis of existing enterprises

Many competitors have the following four characteristics. First, there are many imitators, but they are hard to surpass. Second, some competitors are backed by large, state-controlled tourism groups, which have strong financial protection. Third, competitors may establish certain brand awareness and customer base, but there is still a gap in service and background professionalism. Fourth, competitors may win a small share of the market through short-term actions such as price wars. Currently, the ability of Ctrip's competitors is constantly improved. In this regard, Ctrip's industry environment is not optimistic, and Ctrip must be wary of this.

VI. Conclusion

Based on the above analysis of Ctrip, the core competitiveness of Ctrip can be classified into three aspects:

(1) Service scale and resource scale are one of the core advantages of Ctrip. Ctrip has the largest tourism service contact center in the world. The contact center can serve 12,000 people and employs more than 10,000. Ctrip has established long-term and stable Relations of cooperation relations with 800,000 hotels in more than 200 countries and regions around the world.

Its air ticket reservation service has covered most domestic and international routes. The large-scale operation cannot only provide members with more high-quality travel options but also ensure the standardization and quality of services and reduce operating costs.

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(2) Ctrip has always regarded technological innovation as the source of vitality of enterprises. Ctrip has established a complete set of modern service systems, including a new platform for overseas hotel reservations, an international air ticket reservation platform, a customer management system, a room management system, a call queuing system, an order processing system, and a service quality monitoring system. Relying on these advanced services and management systems, Ctrip will provide more convenient and efficient services.

(3) Advanced management and control systems are the core advantage of Ctrip. Ctrip divides the service process into several links, controls different links with detailed indicators, and establishes a set of evaluation

systems. At the same time, Ctrip also successfully applied the six-sigma system, the quality management method of the manufacturing industry, to the travel industry. Currently, Ctrip's various service indicators have been close to the leading international level, and the service quality and customer satisfaction have also significantly improved.

Ctrip constantly challenges itself through forward-thinking and continuous innovation to ensure its continued development. By introducing new products, services, and technologies, Ctrip can better meet the needs of diversified customers in the ever-changing internet era.

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