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Executive Summary

To successfully expand a company's operation internationally using suitable strategies requires thorough understanding of its current operation and in-depth analysis on potential overseas market. In order to assist Flight Centre Travel Group (FCTG) to expand into Chinese Business to Business (B2B) market, this report will be prepared with overall three purposes. The first purpose is to conduct a succinct analysis on the opportunities and threats existing in the market. Having a profound understanding of its current competitive advantages and strategies is the second purpose of the report. The final purpose is to analyze recommendations on how to better expand into the chosen market and choose the most suitable one.

1. Introduction

Going international for a company is both an opportunity and a challenge. To better develop its brand portfolio and grab the global tourism business opportunity for FCTG, an expansion into Chinese B2B market is suggested. In this report, opportunities and threats in the market is summarized in the first part. How FCTG has gained its current competitive advantages under the VRIO framework and what strategies it used to operate under Porter's Generic Strategy model will be analyzed. In the end, two recommendations including seeking cooperation opportunity through B2B travel exhibition and building cooperation relationship with major Online Travel Agencies (OTAs) in China are given and weighted using Game Theory. Reasons why attending exhibitions is chosen as the preferred recommendation will followed.

2. Background Information and Market Analysis

2.1. Current Operation

Recently, a news about FCTG, Australian largest travel retail company with more than 30 subsidiary brands targeting different customer groups with operations in more than 80 countries, that it has launched a new brand called "the Travel Junction" to target mainly on the B2B travelling market segment brings the industry's attention (Karryon, 2019). The new brand will help the group connect more closely with the tourism

industry, diversify the company's customer portfolio and engage more with the global business (FCTG, 2019).

2.2. Opportunities and Threats

Political: Australia-China bilateral relationship and the China-Australia Free Trade Agreement (ChAFTA) enhances the growing trade and investment relationship between China and Australia complementary economies (Australian Government, 2019). Moreover, applying digital visa is convenient for potential customers to go to Australia (Australian Government, 2019).

Cultural: China has the largest population in the world, and it reached 1.4 billion in 2019, which is a large market for FCTG. People with higher education levels perceive tourism impacts more positively (Alrwajfah, Almeida-García & Cortés-Macías, 2019). However, the young generations with bachelor degree or above are still limited. Most people know little about FCTG and they are less likely to travel overseas. Additionally, the culture in China is collectivism and Australia is individualism. Chinese people act in the interest of group. Socializing is prioritized than business in China, which is opposite to western culture. Cultural difference may be a threat for FCTG to do business in China.

Bargaining power of suppliers: In addition, there is an opportunity as well from five forces analysis. There are a great number of suppliers for B2B travel agency companies both in Australia and China, such as hotels and cruises. The switching cost is low, it means that companies can switch between suppliers easily. Therefore, there is an opportunity for FCTG because it has various choices for its suppliers.

Bargaining power of buyers: The high bargaining power of buyers is a threat to FCTG. The buyers in China have a low switching cost to change suppliers, while some of them may have ability to backward integration, which means they could assess product or service without FCTG. It is considered as a significant challenge for FCTG.

The following is a summary chart of five forces analysis (1-very low, 5-very high), and

this industry is regarded as quite attractive.

Opportunities ◊	Threats ◊
China-Australia Free Trade Agreement ◊	Education level ◊
China's large population ◊	Cultural difference ◊
Low bargaining power of suppliers ◊	High bargaining power of buyers ◊



3. Current Strategy and Company Capability

3.1. Strategy Analysis Using Porter's Generic Strategy Model

With unique travelling packages and comprehensive domestic tourism information, FCTG is considered to be a unique service and product provider. With more than 30 subsidiary brands under operation targeting different market segments (FCTG, 2019), the target group of FCTG is quite broad. Ouma (2016) refers to Porter's generic strategy model that if a company is offering something high in uniqueness to a broad market segment, a differentiation strategy is adopted. Moreover, FCTG's well established

distribution channel, well recognized brand image also explains FCTG's uniqueness of product offering and the adoption of the differentiation strategy in developing competitive advantages for its long-term business success (Ouma, 2016).

With the launching of new brand "Travel Junction", FCTG concentrates on developing cooperation opportunity through building specific business relationship with outsider travel sellers in the B2B model. This new B2B business model distinguishes FCTG from its competitors and previous brands by targeting a narrower but potentially more profitable market segments which are business entities rather than individual customers. However, though the market segment is narrowed down to B2B under the new brand, the whole customer portfolio is expanded from the group's perspective. Therefore, FCTG can still be considered to gain competitive advantages using a differentiation strategy.

3.2. Capability Analysis Using VRIO

Financial resources

FCTG is the largest player in the travel agency and tour arrangement services industry in Australia, it has 16.3% market share (IBIS World, 2019). In addition, its market capitalization is 4.36 billion (ASX, 2019), and generated total revenue of 3,110,509,000 in 2019 (IBIS World, 2019).

Value: According to these data, FCTG has strong financial resources to support its operations, which is valuable.

Rare: Strong financial resources are not common, they are only owned by a few companies. FCTG is a leader in its industry, whose strong financial resources are rare.

Imitability: If competitors want strong financial resources which is much the same or greater than FCTG, long time is needed to develop.

Organisational support: The financial resources are well organised by the company to invest in opportunities and combat threats.

Therefore, financial resources can provide a sustained competitive advantage for FCTG.

Distribution network

Value: FCTG uses a variety of platforms as part of the distribution network to arrange trips and provide services for its customers. FCTG reached more and more customers with its distribution network which ensures greater revenue for it, so the distribution network is valuable.

Rare: Competitors in the tourism industry would require large amount of investment and time to establish a better distribution network than FCTG, so the distribution network is rare.

Inimitable: Bigger travel agencies like FCTG that have large networks and partnership with accommodation providers and transportation companies (IBIS World, 2019), which ensures long-term contracts. Competitors need to invest significant amount and long time to build up a large distribution network, so it is inimitable.

Organisational support: FCTG can make good use of its distribution network to serve increasing numbers of customers and it continues to enlarge its distribution network, so the distribution network is well organised.

Thus, distribution network can provide a competitive advantage for FCTG.

Database

Value: A large database can create countless value for FCTG to identify customers' needs, and make revenues and increase market share for the company to successfully anticipate customers' demands and desires, so it is valuable.

Rare: Through packaging and arranging accommodation, transport, conference planning and leisure services for its customers, FCTG collect increasing amounts of data to build its database, which is a rare resource.

Inimitable: With a long history of expanding business in many countries, the database of FCTG is difficult to be imitated by its competitors.

Organisational support: However, FCTG has not used its database well and its database is not helpful to realize its potential when it enters a new market, so it is not organised to capture the value of database.

Consequently, the database of FCTG is an unused competitive advantage.

Employees

Value: A significant portion of the employees are highly trained, which leads to professional service providing. Due to nice compensation and work environment, the employees are committed to the company. These can translate into great value for the customers FCTG.

Rare: The highly trained and loyal employees can be a rare resource for FCTG which best fits its business content.

Imitability: Other firms can copy how FCTG trains its employees to improve their skills and hire employees from FCTG by offering better compensation and work environment.

Thus, employees can provide a temporary competitive advantage for FCTG.

Cost structure

Value: Costs can be reduced when the capacity increases (Bel & Sebő, 2019). As a large travel company with more than 30 subsidiary brands, FCTG has low transaction costs in terms of the price of its products. With 37 years of history, FCTG's experience can bring valuable insights to its customers.

Rare: The cost structure of FCTG is not a rare resource because other companies with a short history and a strategy of cost leadership can also reduce the cost to compete with it.

Therefore, cost structure is a competitive parity.

	V	R	I	O	
Financial resource	√	√	√	√	Sustained competitive advantage
Distribution network	√	√	√	√	Sustained competitive advantage
Database	√	√	√		Unused competitive advantage
Employees	√	√			Temporary competitive advantage
Cost structure	√				Competitive parity

4. Recommendation

4.1. Game Theory Explanation

The desirability of recommendation will be weighted using the Game theory which is the mathematical tools to model multi-person decision. Thus, it can be used to predict players' behaviours and sometimes could provide suggestions to achieve their goal (Zamir, Maschler & Solan, 2013). Player, which could be an individual or an organisation, is interacting with another player and making own decisions to maximise its utility (Muhamad & Mohd Noor, 2014). When payoff can not be measured using numerical values, so the rank of desirability of outcome is usually measured.

4.2. Recommendation 1

FCTG is suggested to attend B2B travel exhibitions such as COTTOM, ITB China, ILTM China, China International Travel Mart in China to build a relationship with other attendees (Dragon Trail Incentives, 2019). Travel exhibitions provide an important opportunity to build a relationship with potential partners (Lee, Fu, & Tsai, 2018). Applying Game Theory, FCTG and another travel company can be regarded as two players with an action whether or not attend the exhibition.

Since the companies attending B2B travel exhibitions are highly qualified and seeking business partners, if FCTG attends the exhibition, there is an opportunity to build relationships with them, which is considered the most desirable outcome (Outcome 1). When the company attends the exhibition but FCTG does not (Outcome 2), the company may find other business partners in the exhibition while FCTG loses the opportunity to negotiate with it. When FCTG attends the exhibition but the company does not (Outcome 3), FCTG can find other partners in the exhibition; the company loses the opportunity to negotiate with FCTG. When both companies not attending the exhibition, they both lose the opportunity to meet other qualified partners and build a relationship with them (Outcome 4), which is considered the least desirable outcome. Given the desirability of four possible outcomes, both companies attending the exhibition (Outcome 1) is the most desirable outcome.

			FCTG	
			Attend	Not attend
Company exhibition	in	Attend	Outcome 1 (Most desirable)	Outcome 2 (Median desirable)
		Not attend	Outcome 3 (Median desirable)	Outcome 4 (Least desirable)

4.3. Recommendation 2

The second recommendation is to collaborate with Chinese OTAs. Because OTAs have many loyal customers and networks with hotels, restaurants, tourist attractions, transportation, etc. Cooperating with OTAs is a less risky way to enter Chinese B2B market. To apply Game Theory, FCTG and OTA can be considered as two players who will decide to cooperate with each other. By establishing online sale and offline service cooperation, both travel operators and OTAs can utilize their resource advantages simultaneously (Long & Shi, 2017).

If FCTG decides to collaborate with OTA and OTA wants to cooperate too, both of them can gain benefits from cooperation, which is the most desirable outcome (Outcome 1). If FCTG decides to cooperate with OTA, but OTA chooses not to cooperate with FCTG, which is medium desirable outcome (Outcome 2), because OTA

can still choose to build a cooperative relationship with other off-line travel agencies. If OTA wants to collaborate but FCTG refuses it, this is also a medium outcome (Outcome 3), then OTA will lose the opportunity to work with the biggest Australian travel agency. Lastly, if both FCTG and OTA decide not to cooperate with each other, this outcome is the least desirable one (Outcome 4). Regarded to four possible outcome, FCTG and OTA can achieve win-win consequence if they decide to cooperate.

		FCTG	
		Corporate	Not corporate
OTA	Corporate	Outcome 1 (Most desirable)	Outcome 2 (Median desirable)
	Not corporate	Outcome 3 (Median desirable)	Outcome 4 (Least desirable)

4.4. Reasons Supporting Recommendation 1

After making comparison using Game Theory, attending B2B travel exhibition is selected as the best option to expand FCTG's operation in the Chinese B2B market. Firstly, the attendance in the exhibition will enable the company to have a bidirectional communication opportunity with all the attendees in the exhibition (Lee, Fu, & Tsai, 2018). Unlike just building cooperation relationship directly with major OTAs in China which is more a monodirectional opportunity seeking and more passive business approach, the exhibition provides FCTG with a broader audience and pushes the relationship buildup more initiatively.

Secondly, the attendance in the exhibition can be seen as a platform for self-marketing and reputation buildup (Dragon Trail Incentives, 2019). Most of the exhibition centers or exhibition hosts have well developed website, before exhibition promotion assistance and post exhibition follow up service which indicates that the value of attending the exhibition does not just exist during the exhibition, both before and after the exhibition can also be regarded as promotion opportunities.

Finally, building business relationships through B2B travel exhibition can be perceived as a cost-saving way. The exhibition hosts themselves usually have a well-developed

customer portfolio and thorough understanding of the domestic tourism market (Dragon Trail Incentives, 2019). Developing and obtaining these valuable information is money and time consuming by the company itself but can be resolved through service purchase with the exhibition hosts.

5. Conclusion

Based on FCTG's current operations and opportunities and threats in Chinese B2B market, FCTG is adopting differentiation strategy and its financial resources and distribution network are its sustained competitive advantages. Based on the analysis and comparison of two recommendations, attending B2B travel exhibitions is the best option to enter Chinese B2B market. Although the face-to-face nature of an exhibition is effective to build relationship, the negotiation may be tough and other attendees are competing with FCTG to establish relationships with excellent companies. Given a variety of B2B travel exhibitions in China, FCTG is supposed to select suitable exhibitions by considering the exhibitions' attributes and suitable B2B partners.

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