
10th Strategy Workshop for the Future of Jeju Tourism
(Special Section no.1 Jeju Duty Free Forum)

Ways to Improve Low-Priced Tour Products
for Qualitative Growth of Tourism in Jeju

September 28, 2016

■ **Presentation 1: Mutual Growth Strategies of Local Community and Duty Free Stores by Building a Governance System**

- **Presenter: Hong Seung-Hwa (Tourism Business Professor, Jeju National University)**
- The market size of global duty free stores was KRW 66.8 trillion in 2014 and USD 6.2 billion in 2015. Asia Pacific regions are expected to drive the growth of duty free store markets. By nations, Korea holds the outstanding no.1 position while The U.S., China, and The U.K. follows. Sales strategies of duty free stores include globalization and growth in size, bringing in more luxury brands, and cost-cutting for higher profitability. With the growing buying power, Chinese tourists have become the core customers of duty free stores.
 - As of 2015, the gross revenue of Korean duty free stores was KRW 9.2 trillion which is a 10.7% growth from the previous year. And the share of Korean products' sales in duty free stores have consistently risen from 19.8% in 2012 to 37.0% in 2015. Lotte and Shilla are the two main players in the duty free store sector accounting for around 80% in total. But, the number of licensed small and medium sized duty free stores and their share of sales are also showing an increase.
 - Gross revenues of duty free stores in Jeju, has been surging every year. In Korea, Lotte remains ahead of Shilla, but in Jeju Shilla is a stronger player than Lotte. Duty free stores are generally considered to have low contribution levels to the local community considering its sales revenue.
 - With fiercer competition to attract more Chinese travelers, commission fees are also increasing competitively. As a result the amount of commission fees requested by Chinese tour agencies to duty free stores in Seoul are rising. In this regard, there is a criticism that the largest beneficiaries of the policies for the expansion of duty free stores are Chinese tour agencies. 95% of Chinese travelers in Jeju are brought by tour agencies run by ethnic Koreans with Chinese nationalities and 80% of them are exclusively attracted by a certain tour agency. Businesses of accommodations, tourist

attractions, as well as food and beverage are targeting Chinese group travelers and tend to heavily depend on low-priced group tour programs.

- The focus of tourism policies is shifting from attracting more tourists even at a low price to secure more foreign independent tourists (F.I.T. travelers). We need to find ways to solve the issue of heavy commission fees to attract tourists while maintaining sales of Korean products in duty free stores. If the commission fees for travelers has to inevitably be paid, that should go to the tour agencies in Jeju which attract Chinese F.I.T. travelers. To solve the issues incurred due to the low-priced Chinese group tour programs, Jeju needs to attract more Sanke (散客), Chinese F.I.T Travelers, and build a governance system for duty free stores.

■ Presentation 2: Vitalizing Tourism Industry, Duty Free Stores, and Shopping-focused Tours

○ Presenter: Jo Ah-ra (Searcher, Korean Culture and Tourism Research Institute)

- Chinese tourists tend to visit Korea for shopping. But their spending on shopping has decreased and Chinese outbound tour products to Korea are usually classified as a low-priced tour product. Shopping is a main driver for Chinese tourists to visit Korea. During their visit to Korea, they tend to be quite satisfied with the shopping itself. Shopping is very important for travel in Korea.
- From 2012, sales in duty free stores outpaced that of Myeong-dong which has been Seoul's most popular shopping spot year after year. In particular, Chinese visitors are the main customers. Foreign visitors generate twice the number of sales than that of Koreans at duty free stores.
- Competition in the tourism industry is becoming heated and many Korean outbound tour agencies continue operating as a small business. For inbound tour programs, revenues are generated from onsite spending and commission fees received from attracting tourists. But the problem is that for many of these small inbound tour agencies, the onsite spending does not exist or has even started to result in losses. They have to earn their income from commission fees just to maintain their business. The commission issue is commonplace in tour agencies around the world.
- Due to the cutthroat level of competition of some tour agencies, low-priced tour products were created. Commission fees vary depending on the tour products or tour agencies' types. Regarding the contracts with a tour agency, various elements should be considered including how many tourists the company promises to bring, commission fees on such tourists, and incentives. According to a survey conducted in 2015 on the adequate rate of commission fee, 10-15% was most preferred.

- When we look into the frequency of shopping at duty free stores in Seoul, the largest number of times a traveler has visited is often 2 or 3 times. As to the reason why they are satisfied with the shopping at duty free stores, most shoppers chose credible and good selection of products as the main reason. The main reason why they become unsatisfied was the crowded venue. As to the question of whether they plan to buy products in advance, most of travelers answered that they plan what to buy prior to their visit to the duty free stores.
- In a global shopping index, Seoul ranked 9th among Asia Pacific regions. And in terms of culture, climate, and spending power, Seoul is ranked low. Taking the case of the shopping policy in Japan as an example, the Japanese government suggested its goal as more vitalized to local commerce with the tax-free policies on sales tax for foreigners. Korea is quite competitive in distribution, but the brand competitiveness is weak.
- To vitalize shopping tourism, the tourism industry and the shopping industry should raise its competitiveness first. To raise the tourism industry's competitiveness, quality of tour products should be controlled, high value-added tour programs should be promoted, tour programs focusing on local communities should be vitalized, and the travel businesses need to be more competitive. To raise the shopping industry's competitiveness, the position of duty free stores need to be re-set as a focal point of local tours, strategies tailored to duty free stores shall be fortified, brands of Korean products need to be more attractive with greater competitiveness, and ways for further developments shall be identified through more research efforts.

■ DISCUSSION

○ Hong Ju-Pyo (Director General of Korea DFS Association)

- There are several problems in the current practices on commission fees paid to tour agencies. First, each duty free store only focuses on attracting more and more tourists without considering its profitability. Second, due to the payment of commission fee, outbound money flow raises concerns.
- Now revised Customs Laws to restrict the commission fee have been suggested. If it comes into effect, there would be a temporary positive impact to the industry. But in the longer term, there can be various side effects from such direct regulation on the commission fees for tour agencies. First, businesses with small revenues may suffer more and may even shut down their businesses. Second, the efforts to make the commission fees a part of a system may drive market players to set and give commission fees in the shadows. Third, unilaterally setting the rate of the fee may deteriorate the industry's competitiveness in terms of its volume. Rather than regulating by laws, encouraging the industry to find solutions through its own efforts would be

better. To attract more Sanke (散客, Chinese F.I.T. travelers) than Youke (遊客, Chinese tourists traveling in large groups), cooperative efforts of private and public groups is required.

○ Go Nak-Cheon (Head of Jeju Silla Duty Free Store)

- Though the most important point is the businesses' efforts to improve the situation on its own, cooperation from the government is also very critical. There are changes in the trend of G.T. (group tour). Currently, F.I.T. travelers are becoming more like a G.T. traveler. Such F.I.T. travelers visit Korea through tour programs which attract participants via SNS platforms which is quite similar to the way G.T.'s operate. As the biggest complaint of F.I.T. travelers was transportation, we provided pick-up shuttle services.
- Jeju Tour products have quite a high value. But I think customers in general cannot feel how valuable these products are. More travelers visit Korea for shopping. But recently, the price gap between Korea and China has been reduced. We're working on solutions to best handle the situation by focusing on commission fees, tourism infrastructure, management for F.I.T. travelers and G.T. travelers. Among them, in particular, tourism infrastructure can only be improved with cooperation from Jeju governments.

○ Kim Joo-Nam (Managing Director of Lotte Duty Free)

- The duty Free industry needs to be considered more a part of the tourism industry, rather than the distribution industry. Commission fees have both a positive and negative impact. If commission fees are banned, tour agencies will be less likely to bring tourists to Korea and that will cause problems in the survival of tour businesses with decreasing sales of Korean products. What we need to do is have a discussion on adequate rates of commission fees. Considering the shifting tourism markets, the businesses should find ways to improve on their own.
- The fundamental solution is the improvement of the basic competitiveness of duty free stores. To that end, to improve the quality of tourism, we need to change our vision. Additionally, when travelers enjoy shopping, related businesses also need to gain synergistic effects. So cross promotional events to attract tourists should be carried out together with other businesses. Finally, we need to find a balance between duty free businesses and Jeju's local community so they can prosper together.

○ Kim Tae-Seuk (Member of Jeju Special Self-Governing Provincial Council)

- Commission fees paid to the tour agencies is one of the drivers of low-priced tour products. But that's not the only reason. We also need to consider issues in tourism

policies. Tour products should be varied and low-priced tour products should be one of them. And the market moves under the logic of economics. So, such a mechanism is hard to be improved naturally, by the logic of ethics. In this regard, legal and systemic tools are required to help guide the improvements. Commission fees are a necessary evil. Regulation has to be enforced when the commission fees rise above a certain limit.

- We also need to consider the gross volume of duty free stores depending on the size of the market. Shilla and Lotte Duty Free Stores, which have vested interests in Jeju, need to give back in some way for having benefitted in the region. Though their sales revenue continue to rise, employment issues such as hiring too many temporary workers instead of regular employees, or low salaries have not been solved yet. These businesses need to show their efforts to address these issues.

○ Kim Nam-Jin (Vice Director General, Jeju Tourism Organization)

- In the tour industry, package tour products are a kind of “flower”. But in Jeju, package tour products are now minus-income products, rather than low-priced products. The government in Taiwan recently decided to crack down on the Zero Dollar Package Tour products. To realize quality tourism, benefits from tour products should also be shared with local residents. I think the commission fees paid to tour agencies has already reached its limit, I would like to suggest capping the amount with an applicable law. It should be specified by the Tourism Promotion Act. And we need to consider the Fair Trade Act which regulates unfair business practices by abusing a market-dominating position. KATA once set the limit of such commissions to USD 50 per day. I think it’s an adequate rate. The revised Customs Act enforcing the cap on the commission fee is now being suggested to the National Assembly and is in the final review stages.
- Commission fees are applied not only to duty free stores, but also to all tour-related businesses. So, someone pointed out that the fee should be regulated not by the Customs Act, but by the Tourism Promotion Act. I agree with this opinion. Currently Jeju’s good tour agencies are suffering from the practices of the minus tour fee. We will do our best to set any restorative measures to improve the situation.

○ Moon Seong-Hwan (Head of Duty Free Business Office, Jeju Tourism Organization)

- Duty Free Stores think the businesses may improve the situation through their own efforts while others think that legislative measures are necessary. I agree with the later one. Market players in the industry commonly think that commission fees are having too much of a negative impact. And most low-priced products’ qualities have deteriorated so that now it’s at the level of “low-quality” tour products.

- If commission fees become regulated by laws, there can be negative impacts such as falling revenues of tour agencies, tourists' visiting, and Korean products' sales. However, not cutting commission fees at once, if the fee is reduced incrementally, such issues would be able to be addressed. While making improvements to businesses, policy measures also need to be taken. By enforcing a regulatory level on the skyrocketing commission fees in the actual businesses, transparency of the market should be fortified. The Duty Free Store Operation Council will serve as a leading group to solve problems incurred due to commission fees.

○ Master: Moon Seong-Jong (Tourism Business Professor, Halla University)

- Though businesses self-efforts to solve issues are important, legislative efforts also should be made in parallel. The role of duty free stores in the creation of employment is critical. To drive more vitalized shopping at duty free stores, convergence tourism needs to be more active. Jeju residents have high expectations for duty free stores. I would like to recommend that they find ways that are mutually beneficial for the region and duty free stores.

- Jeju Tourism Organization is proactively suggesting various policy solutions to provide measures to solve pending issues in this regional society.
- We would like to come up with more reasonable and forward-looking alternative solutions that can be made based on the results of this workshop in order to contribute to the increased quality of life for Jeju residents and to the region's development.



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