Leakage and Value Chain in Relation to Cruise Industry

Huimin Sun
Abstract

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The Cruise Lines Association draws an optimistic scenario for cruise, and points out the fastest growing market is in Asia, where Chinese are the main force. Cruise travelling, as a new economic engine, is developing rapidly in China. However, among all the terminals in China mainland, WSCI is the sole profitable port. Serious leakage of cruise industry is considered as the cause. What result in the leakage? In this thesis, a cruise value chain is proposed, covering main stages from planning to shore visiting. By tracking the cash flow in the value chain, potential sources of leakage are come up and verified in the case study of Shanghai, where two typical companies, WSCI and Ctrip, are further analyzed. The investigation reveals some special Chinese characters, such as “Retailer charter selling”, “packaged cruise products” and Chinese passengers’ preferences. All these factors impact on the value chain differently. The results implicate severe leakages in cruise planning, visiting and shopping. The preliminary success of WSCI could be attributed to its earliest participation into cruise, and geographical advantages. For travel agency like Ctrip, the special selling mode entitles them the right to fully design products, so they add extra services such as insurance and shore visiting to enhance profit. Totally, except for port companies and travel intermediaries, limited local communities participate in cruise industry. Hence, more positive policies are essential to motivate local communities.
Abstract

The Cruise Lines Association draws an optimistic scenario for cruise, and points out the fastest growing market is in Asia, where Chinese are the main force. Cruise travelling, as a new economic engine, is developing rapidly in China. However, among all the terminals in China mainland, WSCIT is the sole profitable port. Serious leakage of cruise industry is considered as the cause. What result in the leakage? In this thesis, a cruise value chain is proposed, covering main stages from planning to shore visiting. By tracking the cash flow in the value chain, potential sources of leakage are come up and verified in the case study of Shanghai, where two typical companies, WSICT and Ctrip, are further analyzed. The investigation reveals some special Chinese characters, such as “Retailer charter selling”, “packaged cruise products” and Chinese passengers’ preferences. All these factors impact on the value chain differently. The results implicate severe leakages in cruise planning, visiting and shopping. The preliminary success of WSICT could be attributed to its earliest participation into cruise, and geographical advantages. For travel agency like Ctrip, the special selling mode entitles them the right to fully design products, so they add extra services such as insurance and shore visiting to enhance profit. Totally, except for port companies and travel intermediaries, limited local communities participate in cruise industry. Hence, more positive policies are essential to motivate local communities.
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1. Introductions

1.1 Introductions to the thesis

The Cruise Lines International Association (CLIA) publishes the latest report, revealing a continuously steady growth in global cruise industry, with more than 24 million travellers cruising in 2015, increased by 62% in last decade. The booming market has brought profound economic impact globally. During 2016 there were a total of $126 billion output worldwide (2017 Cruise Industry Outlook, 2016). Some scholars advocate that the prosperous cruise industry is able to generate tremendous economic benefits, such as creating employment chances, deriving business opportunities, and strengthen the linkage with local producers. However, plenty of cases reveal that only minimum part of economic profits is kept within the port cities due to severe leakage (Mitchell & Ashley, 2007). This thesis aims to figure out the value chain of cruise industry, and estimate the leakage impact on it, and through the case study of Shanghai to have a deeper understanding of the influences of leakage.

1.2 Aims and objectives

Numerous academic articles regarding cruise management could be found for the sake of obtaining more and more profits within the cruise company through analyzing customer’s value and optimizing the customer management. As increasingly attentions have been paid to the leakage phenomenon, more researchers are striving for economic benefits for local communities (Brida and Zapada, 2010). In order to unearth the truth of leakage, this thesis implements the research primarily based on cruise value chain. The two central questions are as followed:

Q1: How does Shanghai deal with leakage in the cruise industry?
Q2: What experience and inspiration can other port city learn from the case?

The main objectives are as followed:

a. Explore and analyze the value chain of the cruise industry
b. Analyze the potential causes and process of leakage
c. Understand the value chain and leakage phenomenon in a case study
d. Figure out the local solutions


2. Methodology

2.1 Research methods

The main research method applied in this thesis is based on massive literature analysis. This thesis is aimed to have a general understanding leakage in cruise industry, and track it in the cruise value chain. Through theoretical analysis, some possible leakage causes and impact are proposed, which are further discussed and verified in the case study and expert interview.

2.1.1 Secondary research: Literature review

Massive literatures are reviewed to get a general and comprehensive understanding of cruise industry, leakage and tourism value chain. The information and data applied in this thesis mainly comes from the report of CLIA. The goal of literature review is to make the basic structure of this thesis, proposing the fundamental assumptions, preparing for a further discussion in expert interview.

2.1.2 Expert interview

In the case of Shanghai, some basic information is obtained by calling at the customer service officer of the largest OTA in China, Ctrip. Then a further interview with expert from WSICT is carried out through video chatting on Wechat. During the discussion, some special Chinese phenomenon in Cruise is discovered, which inspire the author to have a broader view of port city. Besides, author has joined a cruise employees’ chatting group, and obtains further information about the impact of cruise on local employment through discussion with a variety of staffs onboard.

2.2 Limitations and bias

Above all, most work of this thesis is based on secondary literature, and only an expert, a normal officer, and some cruise employees are interviewed, leading to less creden...
further decreases the reliability. The author has no choice but turn to the second-hand data provided by Chart Management Consultants as references.

3. Literature review

3.1 The introduction to the cruise industry

The cruise industry goes through outrageously dramatic development in short history. As Douglas & Douglas (2004) introduces, the cruise industry has exceeded all other travelling segments tremendously in performance in the last thirty years. At the very beginning, cruise simply works as the most salient transportation, until it suffered powerful attack from air travel (Gulliksen, 2008: 342). Ted Arison, the founder of Carnival Cruise Line reassessed the market and turned the business goal targeting new customers seeking for affordable on-board vacation travelling (Gulliksen, 2008: 343). In general, cruising offer customers multiple services including accommodation, transportation, on-board recreation, shopping, and on-land visiting (Sun, Jiao and Tian, 2011: 747). Many cruise companies introduce flexible tourism packages with duration varying from several days to several months to satisfy different demands from customers.

The unique on-board travelling experience, affordable price, flexible travelling schedule and multiple entertainment amenities differentiated cruise with other forms of travelling distinctly. According to the customer investigation by CLIA, an increasing number of travellers tend to choose cruise among all types of travel, about two-thirds of interviewees imprint the cruise vacation on their mind in the last two years (Cruise industry consumer outlook, 2017). The Cruise Market Watch predicts cruise passengers will keep going up by 4.5% annually. And simultaneously, cruise companies have never stopped their stride in constructing gigantic ships with more perfect and comprehensive services to expand the market (Pinnock, 2014), especially, each one is trying to get a piece of pie from Asian market. Figure 1 depicts the steadily increasing of cruise passenger year by year. In 2017, the number of passengers has reached 25.8 million, increased by 45% compared with 2009.
Notably, as Figure 2 shows, Asian market only generated 0.77 million passengers in 2012, while in 2016, the number has risen to 2.27 million, almost increasing by double, connoting the mammoth magnitude of Asian market in near future (Chang, Lee and Park, 2017).

Figure 1: Global Cruise Market. Source: Cruise industry consumer outlook, 2017

Figure 2: Asian Cruise Market Source. Cruise industry consumer outlook, 2017
Undoubtedly, cruise industry contributes to producing large economic demands and new business opportunities, which benefit all the stakeholders more or less. (Lejarraga and Walkenhorst, 2010:417). According to the latest report 2016 of CLIA, cruise industry revenue has achieved 42.79 billion dollars. Nevertheless, the benefits are allocated unequally among port cities, cruise company and travel agencies. As Pinnock (2014) criticizes in his article, though the cruise industry is still booming, whether such development means synchronous prosperity of all regional stakeholders, or brings increasing profits exclusively to cruise company, is still questioned. Actually, according to Kester (2012)’s research, only small part of expenditure reach port cities, and generates few real employments for local communities. Researchers implemented the researches in some typical port cities, such as Seoul, Bali and Shanghai, to explore the economic impact of leakage on cruise tourism. In the case of Coast Rica, the research on passenger behavior reflects a comparatively weaker purchasing power of cruise passengers than average tourists. What’s more, large portion of tourist expenditure is kept on board rather than obtained by host economy (Brida and Zapada, 2010). Analogously, Mitchell and Ashley (2007:71) figure out that 75% of economic profits of cruise flow into the rich resource countries rather than host country through leakage.

In order to analyze the leakage impact, the cruise industry in this thesis is defined as a narrow sense, that is the related industries in the region where the economic activities are driven by the arrival, docking and departure of cruise ships. Consequently, a certain definition of leakage is proposed based on this milieu, and then the leakage is tracked in cruise value chain according to the definition.

3.2 Cruise industry value chain

Tourism value chain is a series of tourists-related economic activities taking place both in tourist-generation and destination, describing the creation of profits and expenditure flow. Through tracing value chain, it is clear to figure out how and where the tourists’ expenditures are distributed (Gollub et al., 2003:23). Figure 3 depicts the common cruise industry value chain working between destination country and home country, including all the activities of passenger during the time from the cruise planning to travel ending (Brathwaite, 1992: 43). And each phase will be explained as follows
Figure 3: Cruise industry value chain. Source: Gollub et al., 2003:23
3.2.1 Cruise planning

In stage cruise planning, passengers make purchase for cruise and book their trip through either travel agents or official website of cruise company, comparatively, travel agents play a much more important role, serving around 90% passengers (Gauri et al., 2009).

3.2.2 Transportation

First of all, some passengers would choose take foreign airlines to destination, especially for those developing countries, which even get foreign financial investment and technical support for infrastructure. Besides, it is inevitable for passengers to take transit, such as taxi, bus and metro in destination, and some of them will rent car for excursion. When they book ticket or lease cars, OTA probably plays an important role.

3.2.3 Accommodation

Passengers reserve the hotel through travel agency or OTA. In order to serve the passengers well, the local communities pouring into more money and energy to construct the buildings and train the staffs to operate the hotel successfully.

3.2.4 Food & Entertainment

The cash will flow to the local restaurants and bars. And restaurants buy the agricultural products from suppliers. Similarly, more entertainment facilities are purchased, and more entertainment programs are designed to attract increasingly passengers.

3.2.5 Shopping

Commonly, passengers would like to buy local souvenirs and crafts. Besides, some tax-free shops are attractive for tourists, and further benefiting the suppliers.

3.2.6 Local visiting

On one hand, passengers need to buy resort’s ticket, transit, etc. And they can also manage it through OTA. Of course, the resorts need maintenance. On the other hand, travel agency
could arrange the tour for passengers.

3.3 Leakage in cruise industry

The definition of leakage is debatable and widely discussed in tourism management, and it is still confusing what it comprises absolutely. Lejarraga and Walkenhorst (2007:31) explain leakage as the part that flows into imports and paying for foreign production. However, besides the direct economic impact, Dwyer and Forsyth (1998) claim that the social and environmental impact play important roles as well, which adds dramatic difficulty to track and calculate the leakage. In order to have a clearer study, the leakage in this thesis is explained as the portion of tourism-generating expenditures, which could have but not reached the port city. To be specific, the leakage impacts on four main aspects, including goods and service, infrastructure, promotional expenditures and employment. As Table 1 shows, leakages are categorized into three types according to the produce mechanism.

<table>
<thead>
<tr>
<th>Type</th>
<th>External/Exported leakage</th>
<th>Internal/Imported leakage</th>
<th>Invisible leakage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition</td>
<td>‘the tourism expenditures originating outside the port city’</td>
<td>‘losses or costs mainly due to import’</td>
<td>‘Loss that cannot be measured calculable’</td>
</tr>
<tr>
<td>Example</td>
<td>-Profit repatriations (such as through infrastructure financed by foreign investors)</td>
<td>-Imported goods &amp; service</td>
<td>-Real losses, opportunity cost</td>
</tr>
<tr>
<td></td>
<td>-External debt amortisation</td>
<td>-Costs paid locally for labour/ capitals from foreign resources</td>
<td>-Depreciation of resources (environmental &amp; cultural)</td>
</tr>
<tr>
<td></td>
<td>-Overseas promotional expenses</td>
<td>-Tax evasion, or not obliged to pay in that area</td>
<td>-Informal currency exchange transaction</td>
</tr>
<tr>
<td></td>
<td>-External booking intermediaries</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1: The three types of leakage. Source: WTO(2001); Smith and Jenner (1992); Perez and Cuello, (2001)

3.4 Why leakages occur in cruise industry
3.4.1 Destination is not the strongest motivation

A survey (Hung and Petrick, 2009) reveals that relaxing and socialization are the strongest motivations for people choosing cruise, while the destination only ranks ninth among fifteen by interviewees. Actually, the result conveys that a large number of passengers are apt to enjoy the tourist bubble with everything prepared, that is hedonics (Jaakson, 2004). Cruise companies cooperate with travel agents to sell various cruise packages, improve the diversities of on-board entertainment, thereby, passengers are willing to stay on board for longer and longer time, which prevents local communities such as hotel, restaurants engaged in the value chain. Correspondingly, cruise passengers have a higher demand for the goods and service, such as the quality of food and entertainment facilities, which probably could not be satisfied by the local.

3.4.2 Price-sensitive passengers

Research points out that more and more price-sensitive passengers are attracted by cruise (Sun, Jiao and Tian, 2011), who are not willing to spend excessive money in port cities. Actually, the millennial generation and Y generation passengers are becoming keen on cruise travelling, and plenty of them, especially students, are sensitive about price.

3.4.3 Preference for powerful brand

Some passengers do have strong motivation for on-land visiting, and most of them would book relevant journey through travel agents during planning. Generally, passengers are apt to seek information from powerful and popular travel agency, accommodation operator and other organizations, since local communities are lack in technical support and market competitiveness. (Chirenje et al, 2013).

3.4.4 Weak power in business relationships

The benefits of port city mainly come from three types of sources, including the
passengers and crew’s expenditure, increasing employment, and support for cruise (Sun, Feng and Gauri, 2014), among which, the cruise ship maintain could create considerable benefits, especially for homeport cities. How much the cruise could impact the port city positively depends on the intensity of linkage between local and other sectors of value chain (Terzioglu and Gokovali, 2016).

Taking the hotel industry as the typical example, relevant study depicts that among the tourism expenditure distribution, the smallest income share go into local agency’s pocket, while international tour operator is dominant (Terzioglu and Gokovali, 2016). As the non-local tour operators introduce various specific cruise travelling package, connoting a relatively the chances for the local are dramatically reduced. On one hand, it is rather a big challenge for local community to engage in business relationships to sell their services and products, some of them choose cooperate with tour operators to broaden their market, but they suffer great losses to their partner inevitably at the same time, since the tour operator is in the predominant position in their bargain. On the other hand, due to the imbalance of information, some local communities do not participate in the main stages of value chain at all, but just keep waiting negatively.

It is noteworthy that, even those local tour companies cooperating with cruise companies are the weak power in business relationship, and some of them are forced to sign unfair business agreement in order to win the bidding against other travel companies.

3.4.5 Economic development

It is widely admitted that the economic development of destination determines the leakage degree. Especially, when foreign services and products account for a large portion in travelling activity, the leakage is led to a higher level (Jonsson, 2015). It is because that the foreign domination of the travelling management and facilities weakens the linkage with domestic economy (Mbaiwa, 2005). The disequilibrium of economic development not only results in diverse pursuits for life quality, but also forces the local get into a dilemma, the contradictions between subjectively excellent service and objectively poor supporting facilities and skills. Local communities have to import a
large portion of products, employ foreign staffs to satisfy the higher demand for quality, quantity and sustainability. For instance, in Fiji, 80% of the food is imported from the outside to satisfy the demand. (Scheyvens and Russell, 2012; Chirenje et al, 2013).

3.4.6 Government policy

Above all, weak financial support and rigid banking rules force the local to seek help from foreign investment. Secondly, Heritz and Cecil (2008) point out that more residents prefer to develop cultural and natural tourism while few of them expect the booming of cruise in their cities. Thereby, besides the lack of appropriate instruction, the lost morale further hinders the local communities to win over more profits from cruise industry. Regarding the homeport city, cruise ship maintenance and on-board material supply could bring considerable income, while the technical barrier prevents them from getting a piece of pie. Government needs to take actions both economically and technically, to direct the industry and assist the supporting relevant enterprises.
Totally, the potential leakage could be explained as Table 2.

<table>
<thead>
<tr>
<th>Value chain stage</th>
<th>Goods/Service</th>
<th>Possible leakage</th>
<th>Causes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Travel planning</strong></td>
<td>Travel agency</td>
<td>External; Internal/Imported</td>
<td>• Weak competitiveness of local travel agency</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Cost for marketing, improving service, and technical supporting</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Passengers tend to book cruise through believable travel agency and seldom seek help from local community</td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td>Car leasing; Public transport</td>
<td>Internal; External</td>
<td>• Non-local company competition</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Foreign investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Foreign supporting infrastructure</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Booking from tour operator</td>
</tr>
<tr>
<td><strong>Accommodation</strong></td>
<td>Hotel</td>
<td>External; Imported/Internal</td>
<td>• Cost for staff, hotel construction, hotel management, imported facilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Strong competitiveness from cruise for price-sensitive passengers</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Seek technical assistance from third-party company (Airbnb, booking)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Ownership types</td>
</tr>
<tr>
<td><strong>Food &amp; Entertainment</strong></td>
<td>Agricultural products, Restaurant</td>
<td>Imported/Internal</td>
<td>• Lack in information/communication between local suppliers and cruise industry</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Weak bargain power</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Poor supporting infrastructure</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• High demand for quality of food and entertainment</td>
</tr>
<tr>
<td><strong>Shopping</strong></td>
<td>Craft, Souvenir</td>
<td>Internal</td>
<td>• Lack in information</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Unappealing city image</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Unfriendly tax policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Lack in local shopping desire compared with tax-free shops</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Weak purchase power for price-sensitive passengers</td>
</tr>
</tbody>
</table>
### Local visiting

<table>
<thead>
<tr>
<th>Visiting experience</th>
<th>Invisible External</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Poor marketing and advertising</td>
</tr>
<tr>
<td></td>
<td>• Poor infrastructure</td>
</tr>
<tr>
<td></td>
<td>• Powerful non-local tour-operator package</td>
</tr>
<tr>
<td></td>
<td>• Cost for maintain environment</td>
</tr>
<tr>
<td></td>
<td>• Booking through non-local tour operator</td>
</tr>
</tbody>
</table>

Table 2: Cruise leakage based on the value chain source: Hung and Petrick(2009);Cecil(2008);Jaakson(2004)

### 3.5 Approach to measure leakage

**Input-Output Analysis**

Hitherto, most of predominant approaches to economic impact estimation of tourism are based on the I-O analysis (Fletch, 1994; Lee & Shuster, 2001). I-O analysis model sorts the economic activities into industrial sectors in a region. And all the inter-industry transactions are described by the means of a technical coefficients matrix. This model is strictly abided by the equation, that the output of each industrial sector necessarily equals to the sum of intermediate demands, as well as the final demand caused by household consumption, government spending, investments and exports (Briassoulis, 1991). This model is widely applied to estimate the economic impact of a certain factor to the region thorough calculating the change of direct output. However, this model has several fatal defects due to the practically unrealistic assumption. For instance, I-O model demands all the economic sectors with homogeneous output, and ignores the interactions between the studied region and the rest of the world (Dwyer, Forsyth and Spurr, 2004). What’s more, it is a challenging work to collect data applied to the I-O table. Hence, this method is not adopted in this thesis.

**Analysis Based on Cruise Value Chain (CVC)**

In consideration of the case scope and limited data, it is more practicable to manipulate narrow analysis based on the value chain. In general, each phase of CVC is analyzed mainly based on the relevant communities and cash flow. And specific information is obtained from literature and three respondents, two of them are invited to answer semi-structure questions through Wechat and phone call. While the third person is met in a cruise discussion group, he shared his experience about how to get a job on cruise ship. All the interviews are organized in Chinese. More details are attached in appendix.
<table>
<thead>
<tr>
<th>Respondent</th>
<th>Background</th>
<th>Relevant question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contact Person1</td>
<td>Engineer</td>
<td>WSICT</td>
</tr>
<tr>
<td>Contact Person2</td>
<td>Customer officer</td>
<td>Ctrip</td>
</tr>
<tr>
<td>Contact Person3</td>
<td>Cruise staff</td>
<td>Onboard working</td>
</tr>
</tbody>
</table>

Table 3: Profile of respondents

3.6 Identified problems

Above all, the ambiguous definition implies the blurred range of leakage, and results in the complexity of calculation. For instance, incidental contaminations are hard to be quantified and estimated. Moreover, tourism is not taken as a traditional economic sector in common sense, because of its crossover among multiple industries. Considering the multiplier effect, when collecting the economic data, it is necessary to get a further classification and pick those engaging the cruise industry both directly and indirectly, which is an arduous task to complete since a lot of companies close their annual report to the public. In addition, although an increasingly number of scholars and researchers have paid their attention to the cruise industry, a lot of them concentrate on assisting the cruise company to obtain the largest economic profits rather than contribute to the local communities. Indeed, the substantial issue of cruise leakage is how to strengthen the linkage between the port cities, travel agents, and cruise company.

4 Case study

4.1 Shanghai

4.1.1 China cruise market

Cruise industry entered China market since around 2000 and burgeons in short times, especially since 2010 when cruise industry was strongly supported by government (Liu.L, 2016). Figure 4 and figure 5 depict the overall development of cruise in whole China mainland from the aspects of amount of cruise voyage and cruise passengers respectively. In 2015, China received 629 cruise ships, among which, 529 are received as homeport cruise. Although both the voyage and the amount of passengers increases year by year, the growth rate is fluctuant, particularly dropped rapidly around 2015.
Figure 4: Annual cruise lines departure and pass through China mainland. Sources from China Cruise Industry Development Report 2016

Figure 5: Cruise passengers in China mainland. Sources from China Cruise Industry Development Report 2016

4.1.2 WSICT

Located at the center of the east coast of China, and sitting at the mouth of the Yangzi River,
Shanghai is not only able to radiate the whole Yangzi River basin, but also within 48 hours of cruise distance to Japan, Korea, Singapore, Hongkong, Taiwan and other south-east Asian countries and regions (Liu. L, 2016). The terrific geography propels Shanghai to become the shipping center of China mainland undoubtedly. Wusongkong International Cruise Terminal (WSICT), the earliest port to treat cruise ship in China mainland, is still under expanding to improve the capacity, and has transferred from a porter of call to homeport (Feng and Zhong, 2015). The standard reception services, comprehensive facilities have attracted increasingly cruise companies, including the renowned Royal Caribbean, Costa, Princess Cruises, Carnival and so on, to arrange ships here, as seen from Figure 6.

Figure 6: The number of cruise ships in WSICT Sources from http://wskict.com/htmls/about.php

Based on the survey of official website of WSICT, the hottest cruise lines are marked in Figure 7.
CP1 states that at present, Japan is the sole destination of cruise departs from WSICT. It is noteworthy that South Korea lines used to be hottest lines as well few years ago, but all voyages were cancelled due to political reason, that South Korea equipped THAAD system which can monitor China mainland. WSICT also provides cruise products departing from other countries, which demands passengers to take plane to the certain country firstly before the real cruise travel.

The main business of WSICT is port leasing and baggage check. Hitherto, WSICT is the exclusive profitable port among all the cruise port companies in China mainland, predominantly because it is the first one engaged in cruise industry. At the leisure area and shopping center, there are only a Starbuck, a supermarket and a free-shop in the WSICT. CP1 explains that WSICT mainly targets at Chinese passengers and less attention is paid to foreign passengers, and those Chinese passengers show less interest in amusement in WSICT, so there are limited entertainment facilities.
4.1.3 “Retailer Charter Selling”

Before drilling down to the bedrock of cruise leakage in China, the typical Chinese “Charter selling” mode should be introduced, that is “Retailer Charter Selling”. What is “Retailer Charter Selling”? Literally speaking, local cruise agents sign exclusive sales agreements with cruise companies so as to attain the comprehensive control of all walks of selling, including price, selling channel, selling plan (Sun, Ye and Xu, 2016). The business process and relationship between cruise company, travel intermediary (The travel agents who buy a certain voyage), secondary travel agency could be depicted as Figure8.
Specifically, Retailer Charter selling mainly works as following:

1. Cruise companies predict the market, design cruise lines, and decide prices.
2. Cruise companies introduce cruise products to travel intermediary.
3. Travel intermediary evaluates the products and bidding for the favored ones, once succeeding, they will sign agreement with cruise companies, and pay the first part of the deal.
4. Travel intermediary makes marketing plan. They can sell the ticket to customer through
their own office directly, or cooperate with other travel agencies.

5. When the departure time is coming close, travel intermediary has to try their best to sell as more cabin as possible, the most common measure is abating the price dramatically, and probably leads to virulent price competition. Eventually, if the amount of passengers still could not achieve the minimum level of cruise company, besides the rest of the bill, travel intermediary have to pay a large penalty to cruise company as the compensation of the shortage of passenger.

Ctrip, as the biggest OTA in China mainland, is also the most powerful travel intermediary. But according to CP2, this kind of selling mode is less adopted, but gradually turn to “Cut Class”, which means several travel agents share one voyage. Besides the ticket profit, Ctrip also offers insurance service and on-land traveling service, which boost the profit dramatically, because the insurance is always an acquiescent product while most of passengers are not aware of this extra payment. Of course, that is one of the reasons why many Chinese consumes complain Ctrip so often.
4.2 Leakage analysis based on CVC

<table>
<thead>
<tr>
<th>Value chain stage</th>
<th>Goods/Service</th>
<th>Leakage</th>
<th>Causes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cruise planning</td>
<td>Travel agency, Travel intermediary Insurance</td>
<td>Internal/Imported</td>
<td>• Cost for marketing&lt;br&gt; • Retailer charter selling mode</td>
</tr>
<tr>
<td>Transportation</td>
<td>Public transport, Taxi, Bus, airplane</td>
<td>External</td>
<td>• Foreign airline company</td>
</tr>
<tr>
<td>Accommodation</td>
<td>Local-owned hotel chain, Foreign-owned hotel chain</td>
<td>Internal/Imported</td>
<td>• Foreign investment&lt;br&gt; • Imported products</td>
</tr>
<tr>
<td>Food &amp;Entertainment</td>
<td>Cruise ship supply, on-board entertainment</td>
<td>Imported/Internal</td>
<td>• Weak competiveness of local products in price&lt;br&gt; • Poor government support for local supplement company</td>
</tr>
<tr>
<td>Shopping</td>
<td>Souvenirs, Tax-free shop</td>
<td>External/Exported</td>
<td>• Crazy pursuit for on-land shopping in Japan and Korea&lt;br&gt; • Crazy for tax-free shopping on board</td>
</tr>
<tr>
<td>Local visiting</td>
<td>Visiting experience</td>
<td>External</td>
<td>• Poor infrastructure&lt;br&gt; • Far away from city center&lt;br&gt; • Tedious immigration procedures&lt;br&gt; • Preference for Japan</td>
</tr>
</tbody>
</table>

Table 4: Leakages of cruise industry in case of Shanghai
4.2.1 Cruise planning

According to the interview with CP2, basically, there are more than 90% of cruise customers adopt the group-travel form to participate the cruise trip. Actually, because of visa issue, both China and destination country support group travel form. Usually, each cruise trip would be equipped with several guiders who are leading about 50 passengers in the whole trip, from boarding to on-land sightseeing.

Different from the general sales mode of international cruise, the Chinese styled retailer charter selling is a double-edge sword. On one hand, this kind of selling mode transfers market risk from cruise company to local travel intermediary, because the agreement is usually signed around one year before official departure. Unpredictable cruise market determines travel intermediary to shoulder the suffering due to market stagnant. For instance, those companies who bought South Korean lines have to seek solution to rescue the profit as much as possible, like changing the destination to Japan which leading to the shortage and congestion of Japan ports. Worse still, it is a common rule that the agreement between travel intermediary and cruise company is considerably inequitable. As CP2 says, travel intermediary have to take 80% of the duty. For instance, when the amount of passengers couldn’t achieve the minimum boarding passengers, a fine is imposed on travel intermediary to cruise company. Consequently, sales pressure compels those travel middlemen to invest more money in marketing, seeking help from other small travel agencies. Sometimes, the bleak selling would result in a wide diminution in price so as to attract more passengers. In other words, the cruise company could gain the profit rest easy, while the local travel agencies are facing the imported profit leakage.

On the other hand, due to the special and tedious policy, all the cruise companies have to cooperate with local travel agencies though they probably have set offices in Shanghai. Retailer charter selling entitles travel intermediary to maneuver the selling strategy independently, no matter pricing, marketing, or arrangement of cabins. In this way, it facilitates the cruise industry to burgeon in China since 2010, and most travel intermediary do benefit from it at that time. Besides, some big travel agents also provide insurance, on-land
traveling, and visa services to earn extra profits.

CP1 said that WSICT is expanding the port all by Chinese construction companies, which bring the employment more or less, but more jobs are created in supporting department, such as security and cleaning. Additionally, Jiangnan Shipyard, established in 1865, is the most powerful ship construction company, and abuts WSICT. It covers the business of maintain of cruise ships in WSICT.

4.2.2 Transportation

WSICT is located far away from city center, connoting the importance of the constructions of public transportation infrastructures, including bus, express, and subway facilities. Local companies implement all these projects. The possible leakage could be the foreign owned airplanes, which is necessary. The following Figure 9 reflects the transportation situation from WSICT. There are two important airports in Shanghai, that is SHA and PVG, and the two main railway stations are nearby the airports. It takes 2.5h and 1.8h by public transit to these two airports respectively, without regard to the common traffic congestion. Besides, most popular resorts are located near the Bund, which takes at least 1.8h from WSICT. Generally, if passengers plan to visit the Bund, they will at least spend 3.6h on the way.
<table>
<thead>
<tr>
<th>Start</th>
<th>Destination</th>
<th>Distance/KM</th>
<th>Least cost time/h</th>
</tr>
</thead>
<tbody>
<tr>
<td>WSICT</td>
<td>PVG</td>
<td>39.9</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td>SHA</td>
<td>27.4</td>
<td>1.8</td>
</tr>
<tr>
<td></td>
<td>The Bund</td>
<td>19.2</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Table 5: Transportation to main sight spots and airport

But on the other side, the location of WSICT equips it the capabilities to treat more and larger cruise ships. Considering the current market, where most of the passengers are Chinese traveling to Japan, the local traveling needs is not strong. So the advantage wins over the disadvantage.

4.2.3 Accommodation

From the perspective of foreign passengers, it is less convenient to find accommodation than Chinese citizen, because Chinese government stipulates that only qualified hotels could
receive foreign guests. Hence, although there are a lot of mature local chain hotels, which are popular among Chinese traveller, foreign passengers have less choices, but to choose certain qualified hotels, such as foreign chain hotel, which leads to internal leakage.

4.2.4 Food & Entertainment:

Although there are a lot of ship supply companies in China, most of them are small and medium sized, mainly providing low-end products, such as national flags, while most goods on cruise are imported. CP1 explains it from two aspects. On one side, the cruise company relies on the brand products to maintain high-standard service. On the other side, local products do not have tariff rebates, so there is no advantage for local products in price. Chinese government has no preferential tariff policy to support and assist supply companies, which further impedes their sizes. Hence, global purchasing is still the primary source of cruise materials, and limited local communities take part in the cruise, which leads to imported leakage.

Moreover, CP2 mentions that the Chinese passengers are mainly consist of the older and children, who have two typical characters. One is disinterest in local entertainment. They just want to board in the ship as soon as possible. Another one is strong motivation for destination traveling and on-board entertainment (Zhang, huang and Wu, 2017). Hence, there are fairly weak linkage between local communities and cruise.

4.2.5 Shopping

Regarding the on-land shopping, the business area in WSICT is a bit bleak, although Shanghai has a lot of special souvenirs, gourmet food, Chinese costumes and so on, but lacks publicity for foreign tourists, let along appeals to Chinese passengers. As for Chinese tourists, more and more lose the interest to buy the local souvenirs. Yiwu, the largest small commodity market in the world, impresses numerous Chinese people that most souvenirs are made in Yiwu and they can buy in a cheaper price on the omnipotent on-line mall, Taobao, rather than particularly in Shanghai.
Additionally, Japanese products have fatal attractions for Chinese, especially the make-up products and electric appliances, because comparatively, Chinese products are less intriguing in make up market, no matter in quality or advertising. CP2 introduces some popular cruise products, and most of them are packaged with onshore shopping tour to local medicine store, and make-up shops. The tax-free shop on board is also a lure when comparing the price with shops in Shanghai, especially for luxuries. On the feedbacks and comments from Ctrip’s cruise passengers, a large portion of them bought luxuries, such as Gucci bags. Hence, passengers on the cruise sailing to Japan usually will cut spending in Shanghai in order to spear more money in Japan and on board tax-free shops. Consequently, external leakage is fairly severe.

4.2.6 Local visiting

At present, outbound Chinese travellers are the vast majority of the cruise customers, and they show disinterest in Shanghai, so the important point here is the destination traveling. Considering that Chinese are crazily pursuing for Japanese products, such as make-ups, food and health products, the travel agencies usually arrange local visiting and shopping. Especially, 90% of Chinese cruise tourists join the travel in the form of group with a certain guide, who will encourage them to spend more. In these cases, Chinese passengers would rather spend more in Japan not Shanghai, which results in external leakage for Shanghai but great profits for Japan at the same time. What’s more, Japan typifies a renowned tourism country, spreading cultural influences with noted Japanese anime, classic Japanese movies, and Japanese food, which reinforce the impetus of passengers to experience Japanese culture. Actually, destination is still the most important motivation for Chinese cruise passengers, rather the cruise experience. CP2 tells that one reason why Chinese younger account for small portion in cruise market is they prefer to go the destination by plane directly, which is much quicker than cruise.

5. Analysis of research findings

5.1 Trend analysis of cruise in China
Above all, as what figure 10 shows, when comparing the growth rate of cruise voyage and passengers, China market is encountering a glut for the first time since around late 2016, although this number is still bigger than global growth rate. Considering that usually travel intermediary buys the cruise voyage ahead of a quite long time before departure, it highly demands not only scientific and reasonable prediction of cruise market before bidding but also positive communication with cruise company after bidding. Or it will lead to underselling definitely and cause enormous losses. Besides, hitherto, Chinese passengers focus more on destination rather than on-board experience, this kind of conversion of concepts still need a long time to achieve. Overall, cruise market in China is underheating, and stepping into a new phase, when all stakeholders need to rethink and revaluate the future. Although this kind of faltering would abate economic profits in short run, a more rational and healthier cruise industry is coming under fire.

5.2 SWOT analysis of Shanghai
5.3 Comparison with international cruise market

<table>
<thead>
<tr>
<th></th>
<th>International market</th>
<th>Chinese market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marketing Channel</strong></td>
<td>Agencies</td>
<td>Charter mode</td>
</tr>
<tr>
<td><strong>Products</strong></td>
<td>Free combined</td>
<td>Package</td>
</tr>
<tr>
<td><strong>Competitors</strong></td>
<td>Cruise companies</td>
<td>Travel agents/Travel intermediary</td>
</tr>
<tr>
<td><strong>Price</strong></td>
<td>Free combined</td>
<td>Package price (Including destination travel)</td>
</tr>
<tr>
<td><strong>Revenue broker</strong></td>
<td>Sales commissions</td>
<td>Sales profits, insurance, shore traveling</td>
</tr>
</tbody>
</table>

Table 6: Comparison of cruise market

Figure 11: SWOT analysis of Shanghai
5.4 Value chain analysis

Cruise planning:

a. Retailer charter selling is a double edge sword, which brings both profits and high risks simultaneously. A more flexible mode needs to be explored. Furthermore, proficient local cruise organization should be established to boost business power for local communities to cruise companies, and also offer relevant cruise training programs, so more and more local staffs could engage in cruise.

b. A complete supporting system, from ship construction to maintain, could win more benefit from cruise industry. As a home port city, Shanghai should endeavor to support local enterprise to take part in all phases of the value chain.

c. Developing various routes to different countries and regions, or theme cruise trips, is a powerful weapon to attract customers. More attention should be paid to Chinese passengers’ culture, custom and requirement, and it is conducive improve the cruise service.

Transportation:
Strong capabilities of infrastructure could largely decrease the imported leakage.

Accommodation:
Simplification and release of the hotel qualification to receive foreigners could strengthen the competitiveness of local communities.

Food & Entertainment:

a. Positive tariff policy should be proposed to support supplies companies. Comparatively speaking, European countries such as Copenhagen are easier to participate in the provision and supplement of ship supplies, because of trade assistance. While Chinese companies are hindered to involve in the supplement market due to the unfriendly tax policy. The local products are at a competitive disadvantage because of the tax, which prevent the local communities to take part in the cruise industry.

b. More entertainment facilities could improve the terminal’s service dramatically. On one hand, passengers could kill waiting time and be further impressed by this city, on the
other hand, more local communities could participate in industry chain to obtain considerable profits.

Shopping:
A strong cultural impression could attract more passengers to buy crafts and souvenirs. Specially, the Chinese cruise customers are still in an initial phase, when the destination is the greatest meaning of the travel rather the cruise itself on their mind. At present, Japan is the top tourism country for Chinese passengers, and people have a crazy fever for Japanese products, such as make-ups, electronics, healthcare products and so on. Hence, most of the cruise passengers would plan more money to go shopping in Japan rather than Shanghai.

Local visiting:
The linkage between local visiting and cruise could be analyzed from the following two aspects.

a. Destination development is an important prerequisite for visiting. As same as Copenhagen, Shanghai also has a long history, splendid cultural landscapes and advanced business area. However, for the sake of receive super cruise ship, WSICT is built more than 20km from the city center, at least 80 minutes by bus and metro, dramatically cut down the actually effective visiting time of tourists.

b. A charming city image is the driving source of tourism. For instance, Japan has succeeded to impress the Chinese tourists with shopping heaven of high quality products. Ctrip also benefits a lot from the packaged destination traveling.

5.5 Findings
Generally, limited local communities participate in cruise industry. Cash of Chinese passengers mainly flow to cruise companies, on-board shopping and Japanese shopping and visiting. Obviously, in all stages of cruise value chain, food and entertainment, shopping and travelling are facing the severest of leakage. Except for geographical factors, Shanghai government plays a crucial role in most stages, including cruise planning, accommodation, food and entertainment, and local visiting, involving import and export tariff policy, entry-exit administration management method, regulations of the accommodation for foreign
tourists and so on. Furthermore, the political factors have great impact on cruise lines. For instance, the once popular South Korean lines significantly reduced or even disappeared, because of the THAAD. To some extent, the Chinese cruise market is not totally free, but controlled by government.

6. Conclusions

Though lack in more statistical evidence, the two main questions of this thesis are basically resolved.

Q1: How does Shanghai deal with leakage in the cruise industry?

Due to the trade barriers, local travel companies are acting as the bridge between the cruise companies and customers. This kind of selling mode could promise the certain participation of local companies, but as well as the transmission of market risk. WSICT defined itself as an advanced international cruise homeport. As known to all, in order to receive more cruise ships, WSICT is still under expansion, which is completely implemented by local construction companies. Besides dock dues, the homeport could obtain considerable profits from cruise supporting, such as ship maintenance. Moreover, the authoritative ship construction company, Jiangnan Shipyard provides another reason for cruise companies to choose WSICT. Actually, Shanghai is cooperating with Italian company, and devoted to build its own cruise ship, so as to broaden the cruise industry chain that it participates. Additionally, more and more colleges in China set cruise courses in order to cultivate more talents working for cruise in future. As CP3 describes, most Chinese staffs are working as cleaners and guards on cruise ship, seldom could be promoted to manager.

Q2: What experience and inspiration can other port city learn from the case?

Above all, it cannot be denied that the key solution to decrease the leakage is to develop economy so as domestic communities could deeply take part in each phase of the value chain of cruise industry. It is an overall and long-term goal.

Besides, for promoting local tourism, infrastructure development is an important prerequisite, a charming city impression is the driving source, and the convenience of related political procedure greatly impact on the tourists’ initiative.
Moreover, a professional cruise organization is necessary to help the local communities to avoid the information failures with cruise market. The specialized cruise management organization is ought to not only intensify the local business power among the business relationship, but also build a more scientific, efficient management structure to direct local communities taking part in the cruise.

Furthermore, a profitable port city needs the powerful political support from government. Some related constructive policies are of tremendous benefits to both local communities and foreign visitors, such as simplifying entry procedure, and import & export duty exemption, and so on.

All in all, the four main objectives are generally achieved. A cruise value chain is proposed, and further verified in following case study. And potential solutions are learned from the cases.

7. Further research

The research in this thesis depicts a basic picture of the narrow cruise industry in China, and is devoid of data support. Also, more questions are raised to be answered.

Firstly, as referred in thesis, the Chinese market is stepping into slowdown. The reasons could be related to the monotonous cruise routes, single market segment and so on. What measures should be taken to revitalize the market? One suggestion could be explore coastal tour, such as along Shanghai, Ningbo, Jinmen, Taipei, Hongkong, and Sanya. In this way, domestic cities, as the destination of cruise, more local communities could take part in the industry. But more researches should be manipulated for further analysis.

Secondly, the awareness of Chinese passengers is still in initial stage, but gradually changes as time goes by. But few attentions of both cruise companies and local travel agents are paid to the behaviors of passengers. How they feel? What they need? Based on bountiful feedback from passengers, SPSS could be utilized to analyze the key factors, so as to improve the service accurately.
Last but not least, because that some Chinese companies embark on constructing their own cruise ship, how would it affect the market in future, especially the relationship between travel intermediaries and cruise companies? Besides the charter mode, what else method could travel intermediaries take to adapt to the capricious market?
8. Reference


Tourism Tribune 27(2), pp101-112.


Appendix

Author only picks and translates the main part of the interview.

Interview CP1

Time: 2017.01.27
Method: Telephone & Wechat interview
Interviewee: Mr. Liu, staff from Engineering Department of WSICT

Q: What are the main businesses of WSICT?
A: We mainly do the cruise ship docking, and the luggage transportation.

Q: What about maintain?
A: I know that some homeports will also in charge of maintain of cruise ships, but we don’t do it, because Jiangnan Shipyard, the most historical and professional ship factory in China, is near. All the cruise companies cooperate with Jiangnan Shipyard to maintain their ships.

Q: How is the profit situation of WSICT?
A: Although there are some new cruise homeports operating these years, WSICT is the only one that gains profits, while others continue to suffer losses.

Q: Why?
A: WSICT is the earliest cruise port in China, and we have the most experienced staffs and management support, so we have established good relationships with cruise companies. Especially in these years, some cruise companies found it harder and harder to gain profit in Chinese market, so they adjusted their market strategy. Not augmenting the number of cruise voyages constantly to expand their market share radically, they lowered the pace of exploring. So, it is paramount for the ports to establish and maintain the cooperation with cruise companies. And we made it.

Q: What are the main destination ports of cruise departing from WSICT?
A: Japan. We used to have the routes to Korea too, but it was cancelled due to the political reason, as you know, the ban on South Korea since 2016. Regarding the Southeast Asia, it is
not viable to plan the routes, because it takes more time than Japan, which is not within the general vacation of Chinese, which is 2-3 days.

Q: Where do the main cruise passengers come from?
Most of the cruise passengers boarding here are Chinese, especially the older, who both have time and money. Seldom Chinese younger will choose cruise, instead, they prefer airplane. In essence, destination, rather than the on-boarding experience, is the main motivation for Chinese passengers. They don’t want to waste time on transportation but arrive at Japan as quickly as possible. So I think it still needs more time for Chinese to alter their perception.

Q: What about the foreign passengers arriving at WSICT?
A: Yes, we do receive foreign passengers, but it is not a big part.

Q: Does WSICT have any plan to attract more foreign passengers?
A: Actually it is none of our business, we could not arrange the cruise voyage. It depends on the market. But we do have complete migration processes to receive the foreign passengers.

Q: I’ve seen that there are few shops in the leisure area of WSICT, why don’t WSICT appeal more commercial tenants?
A: Actually we used to have some shops, but the lease is due. So there are only some restaurants and coffee shops now. And I think the key problem is those shops couldn’t gain profits from cruise passengers. Chinese passengers are eager to shopping in destination or the free-tax shops on the cruise.

Q: Was the whole WSICT port constructed by local companies, or did WSICT employ any foreign companies to complete it?
A: Yes, the whole port was built by local companies, and we are still expanding it to receive larger ships.

Q: WSICT is located far from city center, does it hinder the enthusiasm of cruise passengers?
A: Just like I have said before, we mainly treat the domestic passengers. They don’t have any problem to the city center if they want. Anyway, the traffic congestion is quite common for
them. But we are constructing new metro to facilitate.

**Q: Is there any support from government?**
A: Of course. The government of Baoshan District participated in the establishment of WSICT. Besides the financial support, the official blueprint manipulates to develop Baoshan District as an industrial region.

**Interview CP2**
Time: 2017.01.28
Method: Telephone interview
Interviewee: Anonymous staff from Customer-service Department of Ctrip

**Q: What is the main market segment?**
A: Mostly are the older, and some families with kids during summer vacation.

**Q: What are the main businesses of Ctrip regarding cruise?**
A: We provide packaged ticket, including the cruise fee, on-land visiting, and insurance. All the passengers are divided into several groups. And each group is equipped with a guider taking charge of the whole tourism. But, we don’t engage in service on board. Cruise company is responsible for the on-board service.

**Q: I mean no offence but I have heard and read complains about the hidden fees constantly from customers. For instance, your insurance service is always charged automatically. I mean, it is a default option. Numerous consumers paid for it when they don’t realize it. Do you have any measurement to deal with it?**
A: Customers can alter the option before you pay.

**Q: In your opinion, what does the cruise passengers most care? The facilities on board? The enthusiasm? Or the on-land visiting and shopping?**
A: According to my experiences in dealing with so many customers, I would say they care more about shopping and local visiting. Actually, some complain about the long voyage on the sea. They like shopping on tax-free shops, both on-board and in Japan. You know, Chinese people have strong fervor for the Japanese products, especially the make-ups, and
electronics. Additionally, due to the high tariff, it is much cheaper to buy some luxuries in the tax-free shops. I believe the Chinese passengers would not miss the shopping chance.

Q: Could you describe the selling situation of cruise ticket briefly?
A: Sorry.

Q: What is the main selling mode?
A: We both have chartered mode and cutting class. At present, the latter is the main. Then we would distribute to cooperative travel agents to sell the tickets.

Q: Could you describe that how Ctrip cooperate with cruise company? How to buy the cruise voyage?
A: Usually, We will make a market analysis for the next year and then bid for our dreamt voyage from the cruise company. Then we sign the contract and pay part of the fee, like deposit. Few days before the sailing, we pay the rest. If eventually the number of passengers is less than the minimum requirement, there is another compensation to cruise company.

Q: Do you think it is unfair for domestic company?
A: I don’t know. You can judge it. But on the other side, our national policy prohibits the cruise companies from selling tickets directly. Hence, it provides opportunities for Ctrip.