Domestic growth based on international acquisition – a case study of Fosun tourism group

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Abstract

Purpose – In recent years, with the steady growth of China's economy and world's vacation market, and powered by the growing and significant large demands of Chinese overseas travel, an emergent trend of international development by major Chinese tourism groups has attracted notice by scholars and practitioners and this is obvious especially in the private sector. With this as the background, this paper aims to explore how China's leading tourism companies expand their business internationally through a case study approach.

Keywords Chinese tourism companies, Fosun tourism group, International acquisition

Paper type Case study

Background

In recent years, with the steady growth of China's economy, and powered by the growing and significant large demands of Chinese overseas travel, an emergent trend of international development by major Chinese tourism groups has attracted notice by scholars and practitioners and this is obvious especially in the private sector (Ji, 2015; Dai, 2000).

China has taken the lead in outbound tourism in the world since 2014, both in tourist number and expenditure, with an average annual growth rate of more than 15% for much of the period to 2019. Its inbound tourism has also recovered since 2015 and again continued to grow until 2019. In 2018 (the final number available at the time of writing), the number of inbound foreign tourists has reached 3.05 million, with a growth rate of 4.7% compared with 2018.

With such a background, leading Chinese tourism groups, such as Utour, HNA Tourism Group, Fosun Tourism Group (FTG), Jinjiang International and Ctrip, initiated processes of internationalization for higher market shares, profit and social influence – policies that, attracted attention from mainstream media. However, along with the recent changes in the

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world economy since 2016 and the election of Donald Trump, the Chinese Government imposed a tightened regulation on overseas investment by Chinese companies. Hence, such internationalized developments have gone through many challenges, and in fact, some even failed.

It should be noticed that, despite the many news reports about such internationalization achievement and status quo, little research has been reported by scholars in the academic journals. Because of the value of this topic, it is believed that more in-depth scholarly attention should be paid to the topic to inform company and government policies better. One of the very few important studies regarding this field was done by Yang (2017), who took Utour as a case study and explored the role of local stakeholders during Utour seeking product internationalization. Yang (2017) indicated the critical importance of localized financing, well-rounded local government and public relations, as well as the recruitment of local employees.

This study shows how the FTG has, partially to some degree, reversed the process of using domestic strength as a springboard for international initiatives. Instead, the company has used the technique of using local resources available to it to make purchases and liaisons in the international sphere to develop new brands and products in its domestic Chinese market, while at the same time being able to turn around the business performance of its purchases in the wider global market.

Status quo

By studying the latest ranking of the *Top 20 China's Tourism Groups* announced by China Tourism Academy on December 15, 2019, it is learned that only 9 out of the top 20 have used international development by means such as setting up overseas branches, overseas investments and even merging and acquisition of foreign tourism and hospitality companies. That the numbers, who have achieved some success, is relatively modest is understandable given the complexity of procedures that these tourism groups have encountered during such an internationalization process.

Generally, seeking growth through domestic initiatives means that Chinese companies tend to work within a familiar and stable social–political–economic environment and work with well-developed networks of government, business and public relations. China's tourism groups must face more obstacles and additional complexities pursuing overseas development. These could include frequent political changes, trade protectionism, pressures from local stakeholders such as non-governmental organizations, local communities, employees and customers. Most of the time, such complexities must be tackled within a very different legal system, which in turn adds yet more complexity.

Among its Chinese counterparts, FTG has excelled for its unique growth route and up-to-now success, representing an appropriate case worthy of studying, notwithstanding the company's relatively very short history when comparing it with other leading China's tourism groups.

Brief history

FTG belongs to Fosun International, one of the best-known privately owned conglomerates in China (Harjani, 2013), ranking 416 on the 2018 Forbes Global 2000 list. Although FTG was officially founded in 2016 as an independent company, its predecessor, the commercial business department within Fosun International, was established in 2009 with a focus on tourism and commercial investment. In 2010, FTG started its first milestone investment in Club Med, one of the leading resort brands in the world. This deal is also one of the very first that a Chinese company invested in a western hospitality company (Thomson, 2015). FTG finally realized the complete takeover of the company by becoming the sole shareholder in 2015, spending a total of €916m. This acquisition has cultivated the unique "internationalization gene" of FTG when comparing it with other Chinese tourism groups. In 2014, FTG made another milestone move by introducing the globally third Atlantis Resort to Sanya. The Atlantis resorts are luxury complexes comprising a hotel, shopping street, water park, aquarium and vacation rentals of which the Dubai Atlantis was the forerunner. The other Atlantis hotel resort is in the Bahamas but is based on older properties. FTG worked with the South African chain, Kerzner International Resorts, to develop the resort, spending up to approximately RMB 10bn on the project, marking "Version 3.0" of Sanya's tourism development.

In the following year, 2015, FTG made another strategic investment by spending £92m acquiring 5% of the total shares of Thomas Cook, a legendary brand having been linked to the founder of modern travel services. By investing in the above-mentioned two world-renowned brands, Club Med and Thomas Cook, FTG successfully set itself on the course of international development. One year later, in 2016, FTG was officially founded by separating from the tourism group from Fosun International to form an independent company with the vision of bringing greater happiness to global families. In 2018, several key events happened for FTG. Early in that year, two Club Med Joyview resorts, a new sub-brand of Club Med, tailor-made for the Chinese market, were opened, respectively, in Beidaihe, Hebei Province and Anji, Zhejiang Province. In March 2018, FTG announced a whole new corporate brand, FOLIDAY, with the slogan *Every Day is FOLIDAY*.

Not only a brand name, but FOLIDAY is also planned by FGT as a hospitality ecosystem that includes child-centered accommodation and playgrounds at Club Med and Atlantis in conjunction with Miniversity, a joint venture cooperated by Mattel, the world-leading toy manufacturer, and FGT and Fanxiu working with Cirque Du Soleil to develop the performing arts. Other aspects of the ecosystem include tourist attraction development and vacation rental management with Albion, travel service with Thomas Cook and Foryou Travel and customer loyalty management with Foryou Club. Offering indoor ski experiences in all seasons to ski fans, Foryou Ski is another interesting sub-brand filling the gap of traditional seasonal ski products. This "ecosystem" is still expanding with the growth of FGT.

In April 2018, Atlantis Sanya officially opened and has won much acclaim from both the marketplace and tourism industries. This busy year finally ended with FGT becoming a public company listed on the Hong Kong Stock Exchange. This is an unusual achievement given the very short history of FGT since its official foundation in 2016.

FGT started 2019 by opening another Club Med Joyview in Beijing in July. In November, although FTG failed to implement its original plan to acquire a 75% share in Thomas Cooks travel service business and 25% share of its airline business by spending £450m, it still successfully obtained the Thomas Cook trademark and its two hotel brands, thus Casa Cook and Cook's Club along with their internet domain, smart phone apps and social media accounts (Zhao, 2019) by spending £11m. Later, in November 2019, FOLIDAY Town, a new brand integrating all FTG intellectual property, was announced, offering a one-stop solution for destinations. Currently, in early 2020, the first two FOLIDAY Towns are being built in Taicang, Jiangsu Province and Lijiang, Yunnan Province in China and a third is being planned to be built in Sanya (Table 1).

	June 30, 2019 RMB' 000	June 30, 2018 RMB' 000
Business volume	7,629.4	6,893.3
Revenue	9,062,701	6,667,416
Resorts and destination operations	5,997,090	5,396,340
Tourism-related property sales and construction services	1,766,547	18,730
Tourism and leisure services and solutions	1,299,064	1,252,346
Gross profit	3,015,671	1,798,502
Operating profit	1,202,011	14,562
Profit/(loss) before income tax	819,281	(186,084)
Profit/(loss) for the period	502,438	(134,614)
Profit/(loss) attributable to equity holders of the company	490,019	(254,524)
Adjusted EBITDA	1,994,213	425,027
Adjusted net profit/(loss)	539,164	(53,318)

Note: EBITDA = Earnings before interest, taxes, depreciation and amortization

Table 1.
Up-to-date financial performance

According to the FTG's interim results announcement (unaudited) for the first half-year of 2019, its business volume increased by 10.7% from RMB 6,893.3m for the first half-year of 2018 to RMB 7,629.4m for first half-year of 2019, thereby reaching a record high in the past five years. The revenues have increased by 35.9% with a 40.4% growth rate in the gross profit on a year-over-year basis. This result is not surprising when one takes Club Med as an example of FTG's ability to turn around a previously ailing company.

In 2013 and 2014, the recorded net losses of Club Med were €11m and €12m, respectively, and the operating loss in 2015 was more than €12m. After FTG acquired Club Med, it started to introduce Chinese outbound tourists to Club Med resorts around the world, as well as opening new resorts in China. In 2016, Club Med turned profitable by earning the operating profit of €23m, which more than doubled by reaching €58m in 2018. Within less than five years, since its acquisition by Fosun International in 2015, Club Med has newly opened 13 resorts globally, of which 5 are ski resorts, including Beidahu, Grand Massif Samoens Morillon, Tomamu, Arc Panorama and the brand-new Club Med Alpe d'Huez (Bloomberg, 2019). In recent years, realizing the potential of China's quick-growing ski market, FTG has reinforced Club Med's traditional competitive advantage and aims to increase its market share in ski vacation by actions such as signing strategic agreement with French Ski School and National Ski Team of China.

Atlantis Sanya is another good example. As of June 30, 2019, there had been over 1.8 billion user-generated contents themed "Atlantis Sanya" on the mobile application "Tik Tok." The value of its business increased from RMB 204.9m for the first half-year of 2018 to RMB 656.0m for the same period of 2019, whereas the numbers of visitors for May and June of 2019 increased by 36.6% compared with the same period of the previous year. Customer visits to Atlantis Sanya in the first half of 2019 has increased to approximately 2.5 million from 883,000 in the same period of 2018. In addition, the number of customer visits to the water park and aquarium reached 502,000 and 608,000, respectively, in the first half of 2019. From a financial perspective, Atlantis Sanya could claim to be one of the most successful hotel complexes in the world.

Competitive advantage analysis

It is suggested that the success of FGT is based upon precise product positioning (notably the family market), investment in well-recognizable brands, resource (and specifically human resource) management and the growth of the domestic Chinese industry that itself is premised on strong growth in the Chinese economy. Each will now be taken in turn.

Precise product positioning

According to the Agoda "Family Travel Trends 2018" survey, globally more than 34% of travelers have taken more than five family vacations in 2018 and seven out of ten global families have taken at least two family vacations a year, with Asian travelers taking twice as many family trips as their Western peers (five trips a year versus two). And according to *The Report on the Demand of China's Family Tourism Market* jointly issued by China Tourism Academy and GZL Travel Service in 2017, the proportion of family tourism in China's overall tourism market reached about 50% to 60% and the satisfaction ratings reached more than 75 points out of 100. The findings of this report indicate that family tourism has become an important part of China's tourism consumption market. With a focus on global family vacation needs, FTG carefully studied the growing trends and set its mission on offering a family-focused leisure tourism experience to global customers. It therefore and precisely positioned all its products to cater for such needs in practice, believing this steady growing market could guarantee its long-term sustainable development.

Strong strategic investment in world-renowned brands

Unlike other Chinese tourism groups, FTG, in fact, started from a small investment team of less than ten staff members and it laid a solid and profound foundation for future development by acquiring Club Med after several years of effort to achieve this. The reason it could succeed in its acquisitions was the sustained economic downturn of European countries after the financial crisis of 2008, resulting in a relatively low market valuation of Club Med as it accumulated losses. Those losses inhibited Club Med from investment and, hence, it was unable to successfully access the growing Chinese family-oriented market. Several years later, a similar story was repeated with FTG investing in Thomas Cook and the further acquiring of its brand and affiliated hotel brands shortly after this world's first travel agency with a history of 178 years went bankrupt. These two acquisitions enabled FTG to stand out among traditional China's tourism groups, most of which started their journey of international development after years of long domestic development, such as China Tourism Group, HNA Tourism Group, Jinjiang International and so on. In other words, FTG was born internationally, leading to its unique development course afterwards.

By further introducing the world's third Atlantis Resort into China, and the successive winning of market success, FTG has accumulated a collection of world-renowned brands, based on which other brands have been developed to enrich the FTG's brand, thus FOLIDAY. Leveraging growth momentum both in China and overseas could be the best explanation of FTG's practice.

In short, the company was able to leverage on past Fosun development in China to permit investment in resource limited international groups to bring well-regarded international brands into a strongly growing Chinese domestic market, thereby creating an international synergy.

International human resources guaranteeing operation performance

For globalized companies, it is necessary and crucial to maintain a diversified team, in terms of nationalities, races, religions, education backgrounds and so on. Such a human resource diversification is especially important for FTG operating a collection of international brands. At the front-line level, Club Med, which is famous for its gentil organisateur (GO) system, is a very good example with its employees coming from more than 40 countries. By offering GO rotation opportunities within Club Med resorts all over the world, it successfully attracted a quite diversified team offering excellent services to global customers (Ryan, 2009). At the senior management level, FTG has also carefully designed encouraging incentive system including stock ownership plan to recruit and retain an elite international team possessing excellent industrial experiences to match its vision of "bringing greater happiness to global families."

Growth in domestic Chinese tourism

By bringing international brands and building on them complementary Chinese brands under a Chinese ownership, FTG has been able to take advantage of what can be said to be spectacular growth in the Chinese domestic tourism industry. Supported by Chinese economic policies that have used tourism to end poverty in previously marginalized rural areas, those policies have not only created series of small family-owned tourism enterprises but also encouraged Chinese urban-based companies to expand their ventures to encourage a greater managerial professionalism through all sectors of the tourism industry. Consequently, in 2006 the number of domestic tourism trips were almost 1.4 billion and in 2019 were approximately 5.8 billion (Ministry of Culture and Tourism, 2019), the latter representing expenditure of approximately US$720bn. Given that most travelers are between 25 and 45 years and with a significant emphasis on family travel, FTG have benefited from a strong market-seeking value added brands and quality products of service and safety. This could be a very good explanation of why FTG has focused on family vacation products since it started.

Conclusion

International development is never an easy topic for most companies, especially Chinese tourism companies. Few have much experience in an international market and there are limited successful stories for those who have already expanded their business overseas, because of the complicity to be encountered both overseas and domestically. However, the consistent booming development of the Chinese tourism industry and the relative downturn in the world economy has offered China's tourism group historic opportunities to go abroad and acquire tourism assets with high values at relatively low price. This is also a test for the internationalization capability of China's tourism groups, although only a few have yet succeeded and maintained sustainable growth. Compared with their western counterparts normally owning greater brand influences, more solid customer loyalty in local markets and more familiarity with local legal and human resources systems, it is still a long way to go to win more market shares for Chinese tourism groups.

Comparing with most internationalized China's tourism groups with endogenous feature, FTG established a good example by being born internationally through capturing rare opportunities because of its strong ability of strategic investment and international horizon supported by a strong group of team members from diversified backgrounds. For sure, more classic cases may be found and worth studying in the future because of the changing nature of the tourism industry.

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