

# The Impact of Digital Transformation on the Performance of China International Travel Service Corporation Limited

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## Abstract

Nowadays, digitalization is closely related to our lives. With the process of digitalization in China, China International Travel Service Corporation Limited (CITS) has undergone a series of digital transformations, not only transforming its business model, but also bringing about a leap in performance. Firstly, this article reviews the digitalization process of CITS, and then analyzes the profitability, cost control ability, and management and operation ability of CITS in the process of digital transformation. It is concluded that through digital transformation, CITS can transform its business model, not only create more business opportunities, but also enhance its profitability, reduce operating costs, and enhance its management and operation capabilities. At the same time, it also provides a reference for digital transformation for other enterprises in the tourism industry.

## Keywords

Digital Transformation; Enterprise Performance; CITS; Tourism Industry.

## 1. Preface

With the development of new computer technology, digitization has become increasingly important in our social life. In various industries, digitization has brought new business models, not only updating the value creation methods of enterprises, but also providing more business opportunities for enterprises. With new changes, it is natural to undergo a new round of reshuffle in the industry and market where the enterprise is located. Leaders and followers can seize the opportunity to expand market share, while slow responding enterprises may be taken away from the market. Therefore, in the face of the opportunities and challenges brought by digitalization, various enterprises need to be vigilant, and through the organic combination of their own competitive advantages and digital technology, they may not be eliminated.

## 2. Digital Transformation and Enterprise Performance

For enterprises facing the pressure of digital transformation, it is crucial to study the impact of digital transformation on their performance. There is a significant positive correlation between digital transformation and internal and external performance of enterprises[1].

On the one hand, the efficiency improvement brought about by digital transformation affects enterprise performance. Continuously updating and iterating digital technology can continuously improve the management and operational efficiency of enterprises, achieve the effect of cost reduction and efficiency increase, and provide better products and services to customers, enhancing the competitiveness and profitability of enterprises[2]. At the same time, digital transformation of enterprises can play a role in reducing costs and increasing efficiency on the channel side, thereby improving and enhancing enterprise performance[3].

On the other hand, the new business models brought about by digital transformation have an impact on enterprise performance. Choosing the corresponding digital transformation path

based on the company's strategic decisions, transforming the enterprise's business model, bringing new opportunities and challenges to the enterprise, can increase the company's profitability and investment return rate[4]. Through digital transformation, enterprises have achieved changes in organizational structure, production mode, and business model, profoundly affecting the enterprise while improving its performance[5]. The degree of digital transformation of enterprises is directly related to their ability to resist risks during the epidemic[6].

### 3. Company Background

China International Travel Service Corporation Limited was listed on the Shanghai Stock Exchange on October 15, 2009, with the stock abbreviation "CITS" and the stock code "601888". The main business of the company is travel agency business and tax exempt business.

With the further intensification of competition in the tourism market, the business of CITS's business has started to decline continuously, with its profit contribution decreasing from 62% in 2009 to 20% in 2018. Moreover, the company's traditional travel agency business has a low gross profit margin, which has led to difficulties in the development of this business. In terms of duty-free business, the company has participated in the stock market of Shanghai Duty Free Shop in 2017, won the bid for the duty-free shop business at Capital Airport, and acquired Shanghai Duty Free Shop (Shanghai) Co., Ltd. In 2018, the company won the bid for the duty-free shop at Shanghai Airport and established a duty-free shop in Shanghai. At the same time, the company has started selecting and constructing duty-free shops in Macau. In addition to the business of Sanya Haitang Bay Duty Free Shopping Center, the company's duty-free industry continues to develop and grow, It has gradually formed a monopoly on the domestic duty-free industry.

Under the strategy of dealing with the sluggish travel agency business and focusing on tax-free business, the company has decided to divest its travel agency business. In 2019, the company transferred all its equity in the travel agency to its parent company, China Tourism Group Co., Ltd. In 2020, the company was renamed as "China International Travel Service Co., Ltd.", the stock abbreviation was changed to "CITS", and the securities code remained unchanged. After the change, the company mainly engages in tax-free business, including tourism retail business, commercial development and other tax-free related businesses.

### 4. The Digital Transformation Process of CITS

The digital transformation that the company has been continuously promoting in recent years has become a booster for its performance growth. Since the epidemic, the company's performance has not been greatly affected, and online retail business has maintained growth. The company entered the online retail field by building an e-commerce business platform, and then established internal connectivity through enterprise business platforms, information platforms, and financial contribution platforms. Finally, the company built an industrial ecosystem through business intelligence systems. These measures effectively ensured the company's digital transformation, broke away from traditional offline business models, and reduced the impact of the epidemic and improved company performance through online business models.

#### 4.1. Single Point Breakthrough Stage

This stage mainly aims to build the digital infrastructure of the enterprise through the construction of a single business in business activities, and then promote the integration and reconstruction of enterprise related businesses through the application of data resources[7]. At this stage (2009-2014), CITS established an e-commerce business platform, transformed its

business model, and established an online business model on the basis of traditional offline travel agencies, creating an integrated online and offline business model. Through the single breakthrough of conducting online business, enterprises underwent digital transformation. By establishing online business, we have changed the business model of enterprises and updated their value creation methods; Integrating company resources through online platforms improves resource utilization and provides more business opportunities for the company.

#### **4.2. Multi Business Integration and Connection Stage**

At this stage, the enterprise creates multiple information platforms, but each platform is not connected and is a "data island". By expanding the single point breakthrough business - online business model, the enterprise integrates data with other internal information platforms, achieving interconnectivity and coupling value between the "islands"[7]. At this stage (2010-2015), the company expanded its online business model and created an enterprise business platform. With the increase of business model and volume, it created a financial shared service center. However, these three systems were not connected to each other. To break the problem of "data silos", the company established an information platform to organically integrate data from various systems, forming an organic whole. With the integration and integration of various businesses and processes, the company's processes have been optimized, the efficiency of internal management and operation has been improved, and the company's management system has been further improved. This reflects various business processes more comprehensively and intuitively, and provides better support for the company's decision-making, thereby enhancing enterprise value.

#### **4.3. Ecological Interconnection Stage**

At this stage, enterprises are not only committed to creating digital transformation of their own business, but also need to empower the industry ecosystem through their own digital capabilities within the industry[7]. At this stage (from 2016 to present), the company utilizes the improvement of computer technology, integrates the latest big data, artificial intelligence, cloud computing and other technologies, and creates a business intelligence system. On the one hand, it further improves the efficiency of the company's management and operation, and on the other hand, it empowers the industrial ecosystem and raises its own digital barriers.

In terms of duty-free business, platform construction will be carried out for stores, procurement, logistics, warehousing, etc. to support better business development; Optimize the large member platform, unify the construction of member platforms, connect various member systems, empower member platforms with business intelligence, strengthen internal and external data collection and analysis capabilities, use the latest computer technology, integrate relevant resources, and leverage synergies to provide better products and services.

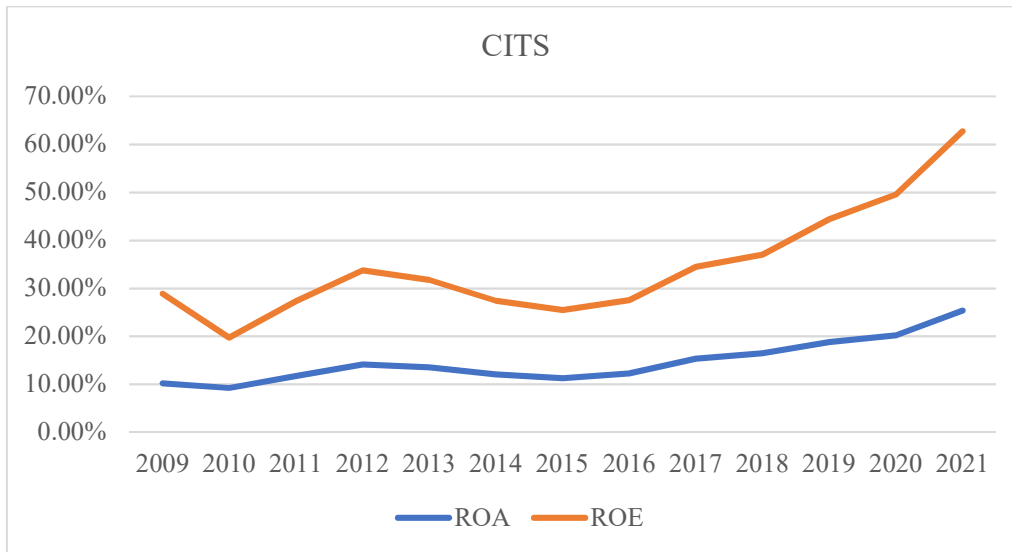
While continuously improving its digital capabilities through digital transformation, CITS not only replicates and expands its digital capabilities internally, but also outputs digital capabilities externally to create an ecosystem with CITS characteristics. It continuously improves its management and operation capabilities, optimizes various internal processes of the company, and enables the enterprise to enter a new stage of digital transformation.

### **5. The Impact of Digital Transformation on Enterprise Performance**

The impact of digital transformation on enterprises is ultimately reflected in their business performance. By analyzing the changes in enterprise performance before and after digital transformation, we can determine the specific impact of digital transformation on enterprise performance. By analyzing the profitability, cost control ability, and management and operation ability of CITS in the process of digital transformation, the impact of digital transformation on CITS 's performance is summarized.

## 5.1. Analysis of Enterprise Profitability

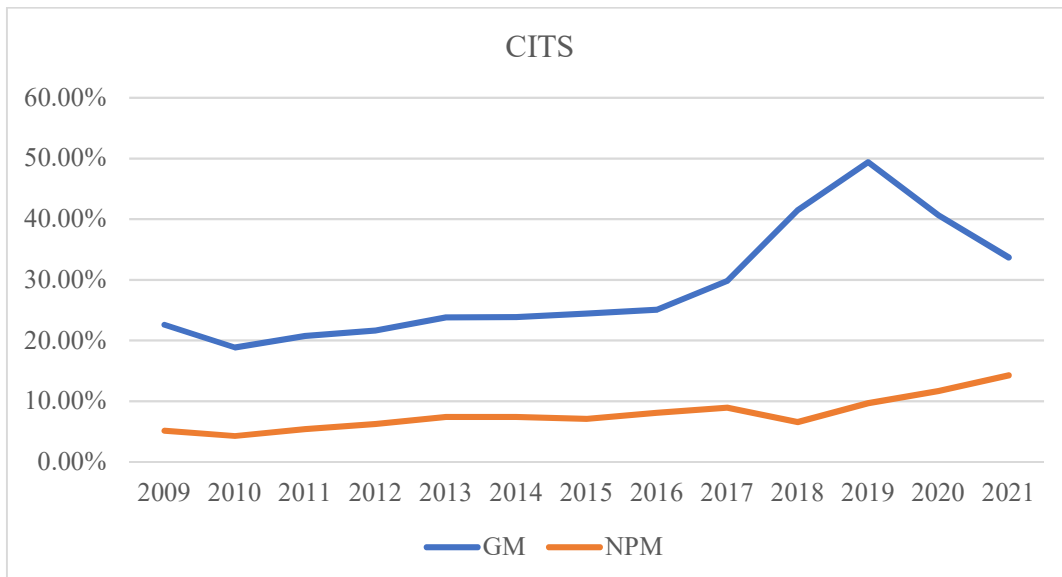
### 5.1.1. Return on Assets and Return on Equity



**Figure 1.** Return on Assets and Return on Equity of CITS

As shown in Figure 1, from its listing in 2009 until 2021, the return on assets and return on equity of CITS have shown an upward trend, with the return on assets increasing from 18.67% to 37.33% and the return on equity increasing from 8.44% to 32.59%.

### 5.1.2. Gross Margin and Net Profit Margin on Sales



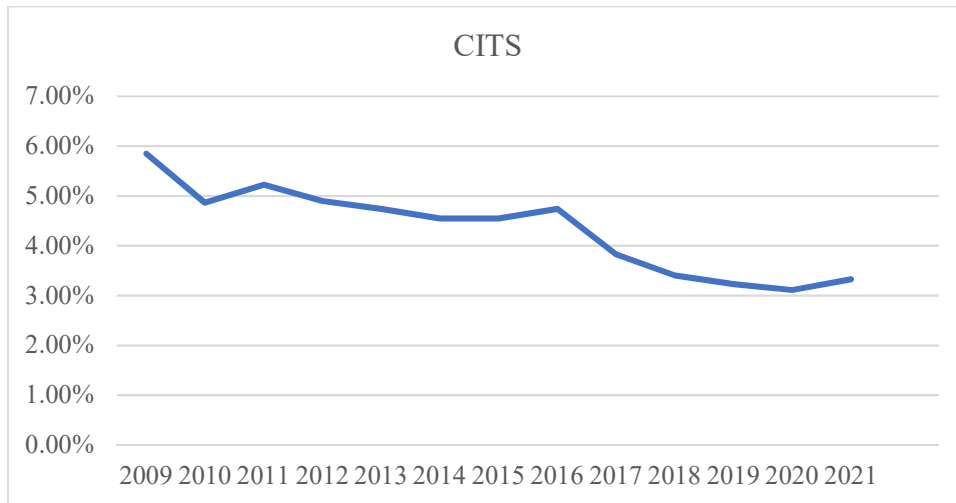
**Figure 2.** Gross Margin and Net Profit Margin of CITS

As shown in Figure 2, from its listing in 2009 until 2021, CITS 's gross margin and net profit margin showed an overall upward trend, with gross margin increasing from 22.61% to 33.68% and net profit margin increasing from 5.16% to 14.26%.

It can be seen that through a series of digital transformations, CITS has continuously improved its ROA, ROE, GM and NPM, as well as its profitability. This indicates that the company has achieved the goal of improving corporate performance through digital transformation.

## 5.2. Cost Control Capability Analysis

### 5.2.1. Management Expense Ratio



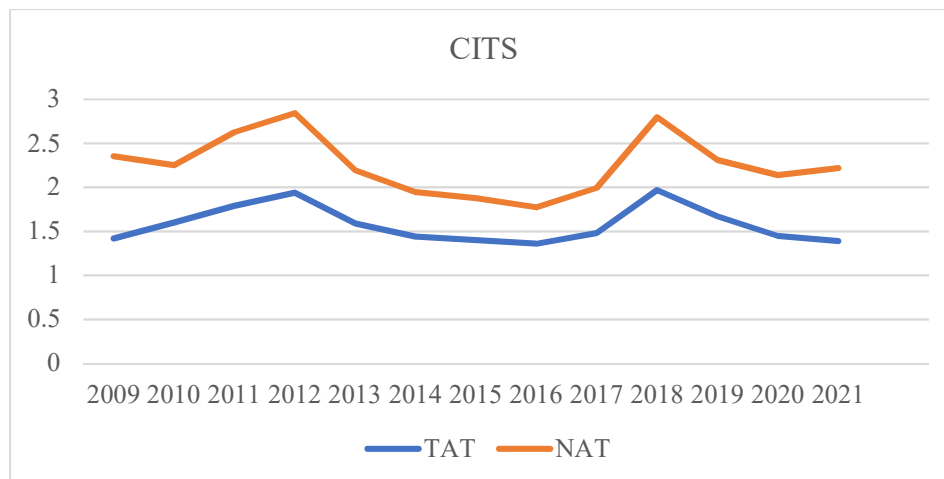
**Figure 3.** CITS 's Management Expense Ratio

As shown in Figure 3, since its listing in 2009 until 2021, the overall management expense ratio of CITS has shown a downward trend, with the management expense ratio decreasing from 5.85% to 3.32%.

It can be seen that through a series of digital transformations, CITS has continuously reduced its management expense ratio and improved its cost control ability, indicating that the company has achieved the goal of improving its cost control ability through digital transformation.

## 5.3. Analysis of Management and Operational Capabilities

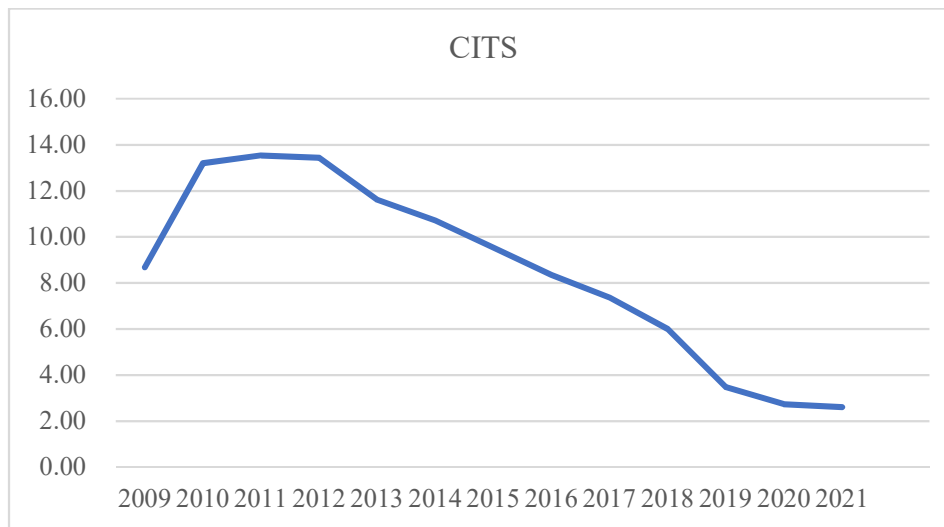
### 5.3.1. Total Asset Turnover and Net Asset Turnover



**Figure 4.** Total Asset Turnover and Net Asset Turnover of CITS

As shown in Figure 4, since its listing in 2009 until 2021, the total asset turnover and net asset turnover of CITS have shown an increase and decrease in different periods. The total asset turnover has been hovering between 1.3 and 2.0, while the net asset turnover has been hovering between 1.7 and 2.9 earlier. After the implementation of the industrial ecosystem strategy in 2016, the turnover of total assets and the turnover of net assets have increased significantly. However, since 2019, the turnover of total assets and the turnover of net assets have declined due to the impact of the Sino US trade war, the COVID-19 epidemic and other factors.

### 5.3.2. Inventory Turnover



**Figure 5.** CITS 's Inventory Turnover

As shown in Figure 5, since its listing in 2009 until 2021, the inventory turnover of CITS has shown an overall downward trend, from 8.69 times in 2009 to the highest point of 13.54 times in 2011, dropping to 2.61 times in 2021.

A decrease in inventory turnover leads to an increase in average inventory, while an increase in inventory leads to an increase in the amount of funds occupied, resulting in a decrease in the utilization rate of enterprise funds. The decrease in inventory turnover is closely related to the transformation of its business model. The company's main businesses are travel agency business and duty-free business, with relatively low inventory in the travel agency business. The inventory is mainly duty-free business. With the continuous expansion of the company's duty-free business, especially after the divestment of the travel agency business in 2019, the company's inventory continues to grow due to the absolute volume of duty-free business, This has led to a continuous decline in the company's inventory turnover.

From the above analysis, it can be seen that through digital transformation, CITS has significantly improved its ROA, ROE, GM and NPM, and the company's profitability has been improved; By reducing enterprise MER, the ability of enterprise cost control is improved; By improving the TAT and NAT of enterprises, their management and operational capabilities are improved. Through the improvement of these three abilities, we aim to promote the comprehensive performance improvement of CITS 's exemption system in the context of digital transformation.

The more important factor is that CITS has transformed its business model through digital transformation, achieving business innovation, transitioning from single business to multi business connectivity, and finally establishing an industrial ecosystem. This not only improves the management and operation efficiency of enterprises, optimizes business processes, and brings better experiences to consumers, but also brings new business models and creates more business opportunities for enterprises.

## 6. Summary

By analyzing the profitability, cost control ability, and management and operation ability of CITS in the process of digital transformation, it can be seen that by transforming its business model through digital transformation, enterprises can not only create more business opportunities, but also enhance their profitability, reduce operating costs, and enhance their

management and operation ability. At the same time, it also provides a reference for digital transformation for other enterprises in the industry.

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