JOURNEYS TO THE WEST

The Rise of the Chinese Traveller

OC&C Strategy Consultants

The classic Ming Dynasty novel "Journey to the West" tells the tale of Xuanzang, a Chinese monk trekking to India to study Buddhist scriptures alongside a colourful collection of magical characters. Nearly 1,400 years after Xuanzang's journey, the world's most populous nation is again on-the-move.

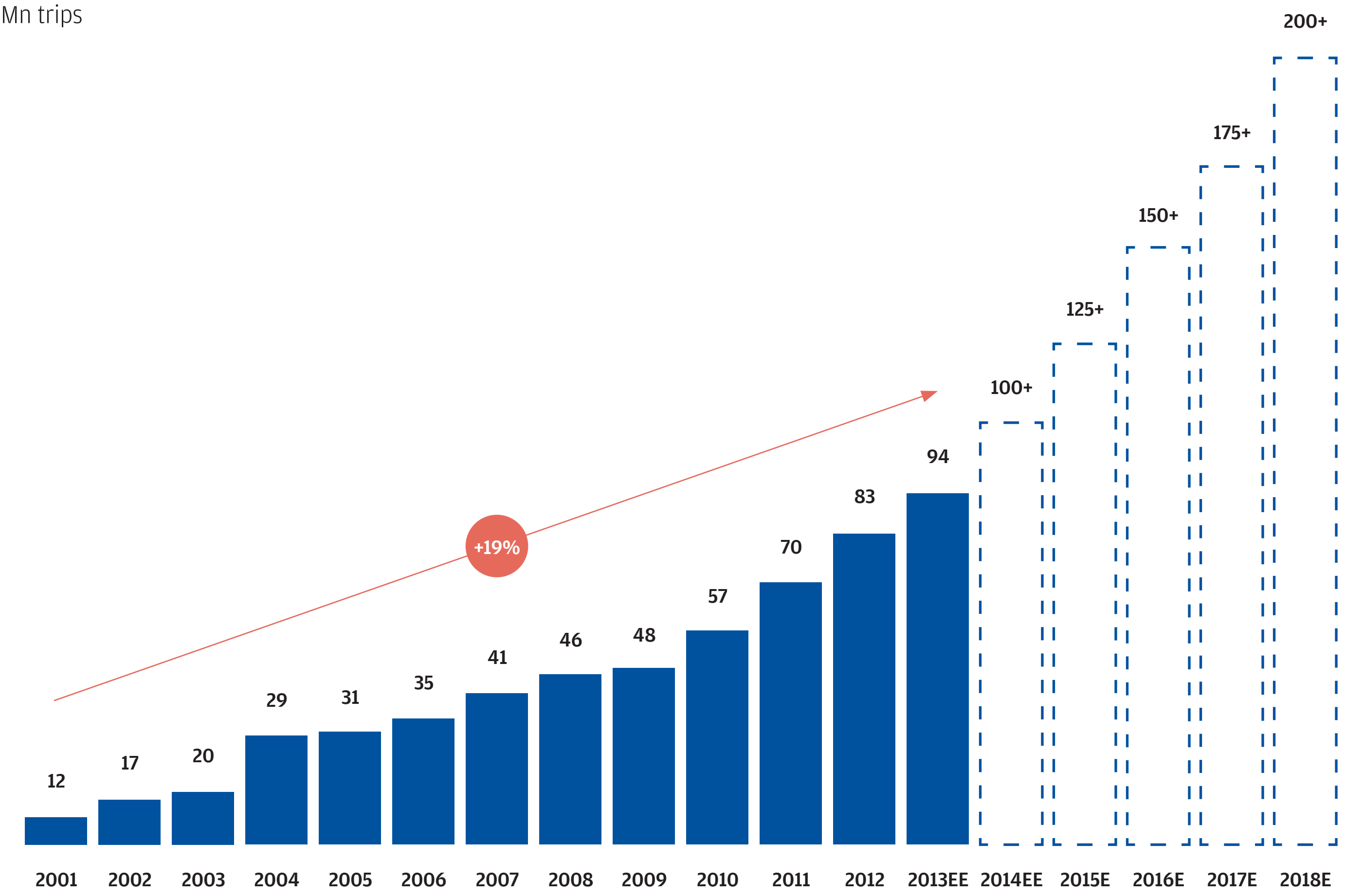
The number of outbound Chinese travellers has been rapidly growing, with trips set to exceed 100 million for the first time in 2014, then double to 200 million over the next five years as China's rising middle class emulates Xuanzang's example in seeking enlightenment and adventure abroad (plus, perhaps, just a bit of shopping).

Growing passenger numbers and high "per pax" spending (in the top five of all nationalities) have rocketed the Chinese to the top of the league tables for total travel retail spending. Consequently, the rise of the outbound Chinese traveller has been one of the most exciting stories in international retail over the last several years. Given the underlying drivers, there is ample reason to believe that this boom has plenty of room to run. In fact, while we have seen the "first wave" of Chinese travellers, the following waves are likely to be even bigger, more confident and more willing to spend than the first.

200 million on the move

Outbound trips by mainland Chinese, 2001-2018E

Mn trips

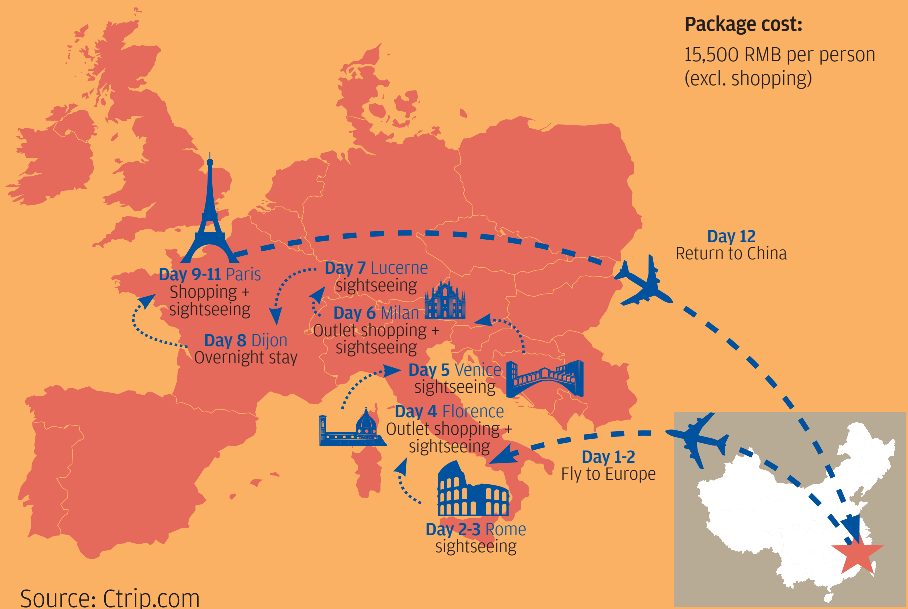


Source: China National Tourism Administration; OC&C analysis

The opportunity presented by Chinese travellers is increasingly recognised by retailers, brands and those in the travel and hospitality industries. Many players in these industries are considering how they can best position themselves to "catch the wave" and capture a share of the opportunity. The impact of this wave of Chinese travellers is widely expected to be even more profound and enduring than the Japanese tourists of the eighties and nineties.

As Chinese travellers' numbers and spending power have grown, they have attracted quite a bit of (not universally positive) attention and a conventional wisdom of sorts has emerged. For some, the phenomenon of the "Chinese traveller" has been simplified into a monolithic caricature of tour groups in colourful hats following flags, rushing through six countries with just enough time to stop at every luxury store on the way. While some businesses have started to cater specifically to Chinese travellers, many have yet to develop an integrated global strategy to capture the opportunity.

Typical tour package



Source: Ctrip.com

In order to understand the implications for our clients, OC&C commissioned a survey of 2,750 recent outbound Chinese travellers. Our survey covered topics such as traveller profiling, trip research and planning, shopping behaviour, and impressions of key travel destinations.

WESTWARD HO!

Destinations within “Greater China” (including Hong Kong, Macau and Taiwan) remain the most accessible to Chinese travellers thanks to a common language and culture as well as the travel documents required. As a result, retail in Hong Kong and Macau especially has become increasingly geared toward Chinese travellers over the last several years.

As Chinese travellers gain experience, they turn their eyes progressively further afield and start exploring beyond Greater China. Many of the Chinese travelling within Asia today will soon be heading overseas. France leads with the highest level of interest among Chinese travellers, while silver and bronze go to the United Kingdom and the United States of America, respectively.

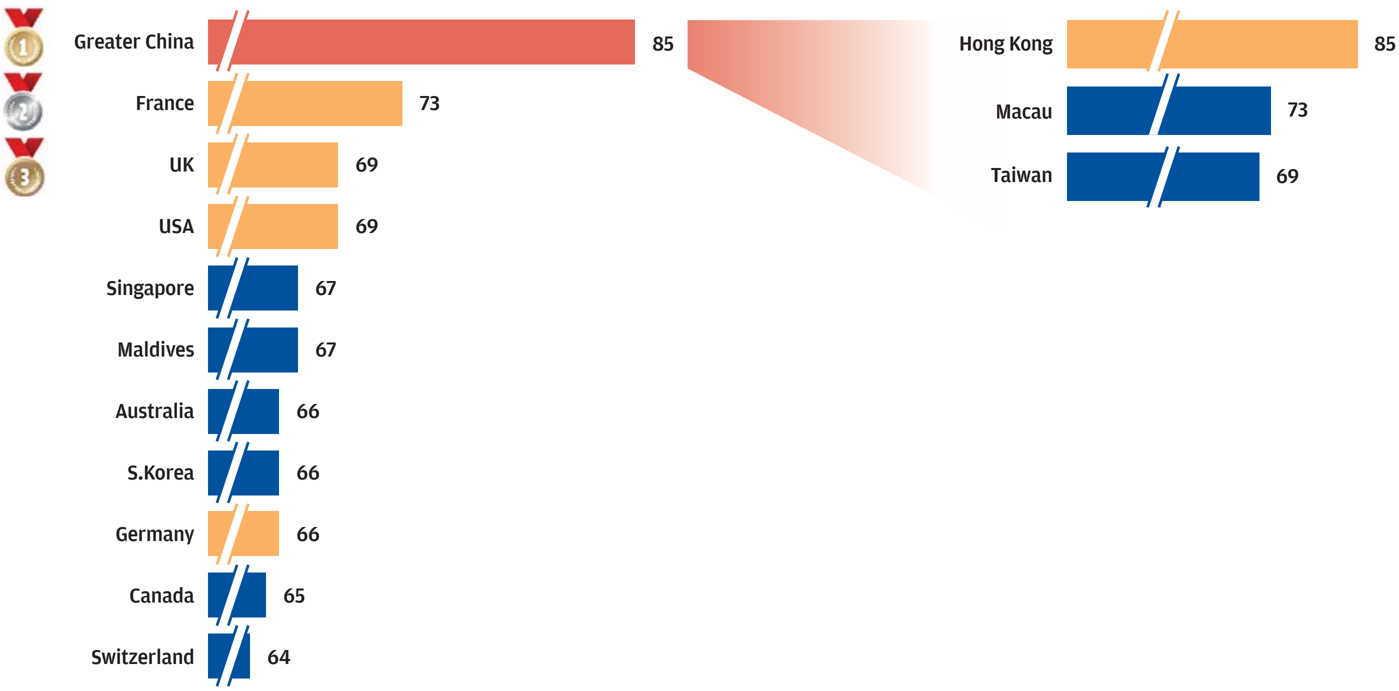
In this report, in addition to exploring the phenomenon as a whole we also offer a deep-dive into Hong Kong and four Western countries where the impact of the Chinese traveller is being felt to varying degrees: France, the United Kingdom, the United States and Germany.

RATED MOST FUN AND BEST VALUE FOR MONEY: THAILAND

France rates the highest level of interest to visit outside Greater China

Interest level rating

% of respondents stating very interested, planning a visit or already visited



RATED MOST AMAZING SITES: MALDIVES

HONG KONG

#1 MOST VISITED DESTINATION

Shopping centres are brands in their own right

With nearly three quarters of visitors citing shopping as a main purpose to visit, Hong Kong needs to expand its appeal beyond shopping alone to extend short trip durations and boost low spend per traveller.

Favourite places to shop in Hong Kong

73% on shopping mission

50% of total trip spend is spent on shopping, highest of profiled markets.

Key shopping categories

Short stays (4-5 Days)

4-5 travellers in average group

Less likely to stay in luxury hotels

80% Prefer famous travel destinations

Savings is key reason to shop

FRANCE

#1 MOST DESIRED OVERSEAS DESTINATION

Big department stores are winning the battle

France can proudly claim to be the #1 most desired destination for Chinese travellers, attracted by a combination of tourist sites and luxury shopping.

Favourite places to shop in France

80% / 70% Sightseeing & shopping as key missions

Key shopping categories

64% Plan their own trips

~32% High department store share

Travel with spouse

90% Select famous travel destinations

UNITED KINGDOM

MOST DESIRED OVERSEAS DESTINATION

Famous for airport shopping, retailers are anonymous

Department store brands in the United Kingdom capture a lower share of spend than their peers in other markets and should do more to become "go-to" destinations for Chinese travellers.

Favourite places to shop in the UK

Shop across many categories

Duty free beats department stores

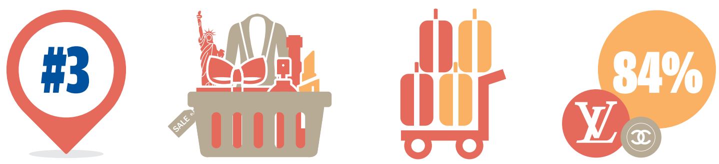
Prefer natural landscape over historical sites

UNITED STATES OF AMERICA

Visa problems causing a missed opportunity

Despite being the third-most desired overseas travel destination, the United States risks missing out on the Chinese traveller opportunity thanks to onerous visa requirements.

Perceptions of USA



Most desired overseas destination

Shop across many categories

Long day stays (8-9 days)

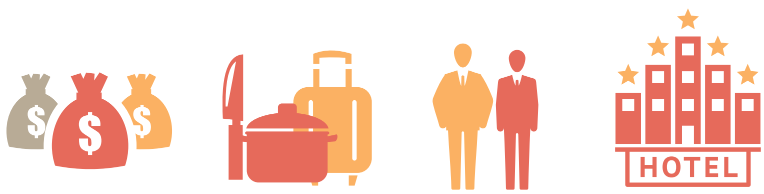
Prefer to shop luxury brands

GERMANY

Functional but not fun

While seen as safe and well-organised by Chinese visitors, Germany fails to offer them a compelling "reason to visit" as evidenced by low marks on both sites and shopping.

Descriptions of shopping overseas



High spend on shopping

Shop for specific categories

More likely to travel with colleagues

Prefer to stay in luxury hotels

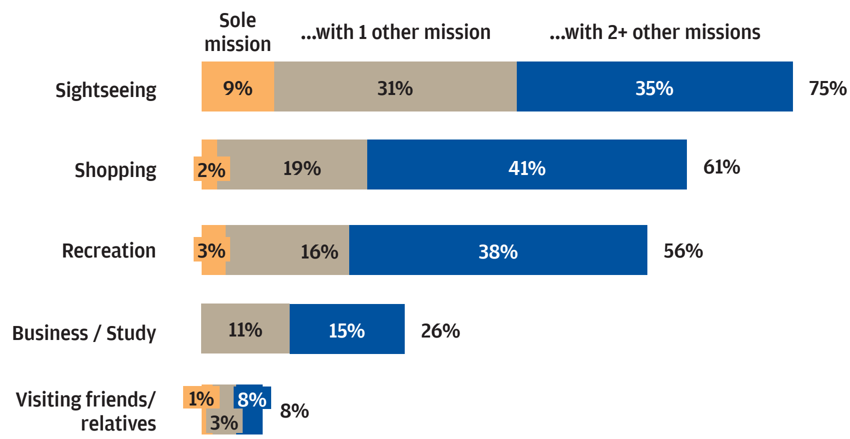
ON A MISSION TO SEE AND SPEND

Three quarters of Chinese travellers reported having multiple "missions" in mind while travelling abroad. While sightseeing and shopping were most commonly cited, these are often in combination with other missions - even most of those travelling for business find time for sightseeing and shopping during their trip! As a result, a destination must have a multidimensional appeal - shopping or sightseeing alone will not be sufficient.

Most travellers travel with multiple missions in mind

Reported purpose(s) of trip

% of respondents

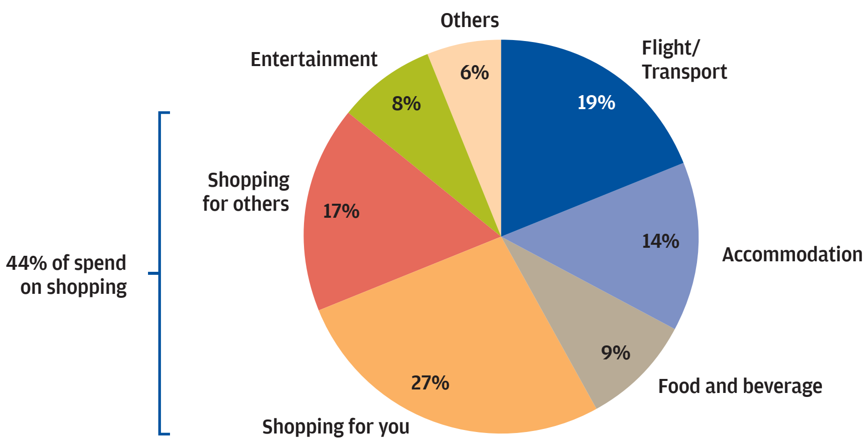


Chinese travellers earn their reputation for being big spenders thanks to the c. 60% who described shopping as their primary purpose of travel and the impressive 40% of travel budget spent on shopping, regardless of mission. Aside from shopping, transportation (including flight costs) and accommodation account for the highest share of spend (with 4-star hotels the most popular choice), followed by food/beverage and entertainment.

Shopping accounts for the largest share of spend

Average split of travel spend

% of total



RATED BEST ORGANISED: SINGAPORE

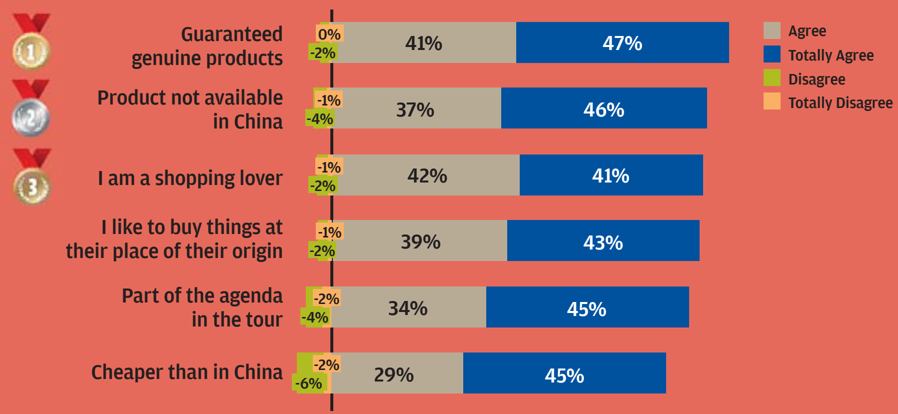
BUYING THE BEST OF THE WEST

Chinese travellers cite many reasons to shop while abroad, and though price is among them, it is hardly the most important. The number one reason for shopping abroad is genuine products, highlighting the justified suspicions of many Chinese shoppers regarding counterfeits available at home. Travel is also seen as an opportunity to purchase products and brands not yet available through official channels in China.

Reasons to shop abroad led by genuine products

Reasons for shopping by agreement – "I shopped during trip because..."

% of respondents



Reported spend on shopping is driven primarily by household income and destination, with shopping budgets averaging 2-3x more for trips to "the West" than for trips within Greater China.

Retailers can therefore expect that as Chinese incomes continue to grow, shopping budgets while abroad can be expected to grow in tandem.

Jason, hairdresser

Jason is an experienced hairdresser at a high-end hair salon in Shanghai. He is from Daqing, Heilongjiang and moved to Shanghai in 2009. After intensive online research, Jason travelled alone in Europe for the whole of August to give himself a break and escape from the stressful life in Shanghai. During the trip, he partied a lot, especially in the Netherlands, Barcelona and Sweden. For his next trip, Jason hopes to continue the adventure to South Africa for its originality. He believes Africa and South America would be nice to visit next because they are off the beaten track and have not yet been spoiled.

During his summer getaway in Europe, Jason stayed in France for four days. He was impressed by the history and architecture in France, but found it difficult to understand the French and did not find them very friendly.

Jason was willing to spend up to 100 euro on one meal if he was attracted by the restaurant environment or the food.

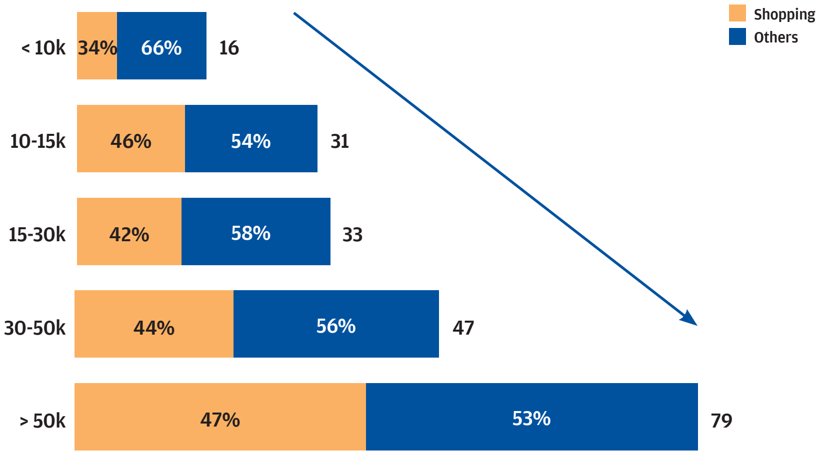
Among other things, he bought soap from a local health and beauty retailer, perfumes and chocolate from duty free shops and two pairs of jeans from DIESEL in France. He encountered some problems when buying clothes since the sizes in Europe were always too large for him – otherwise, he would have purchased more.

Jason's favourite choice for travel shopping is duty free shops in airports because of their wide range of offer, lower prices compared to the mainland and the guaranteed authenticity of the products: "luxury clothes and bags are all available in Hong Kong and I know they have my size there."

Total shopping spend mainly driven by income

Spend on trip by respondent's monthly household income

K RMB, % of spend



RATED MOST BEAUTIFUL: NEW ZEALAND

Chinese travellers see their trip as an opportunity to get great deals on genuine, high quality products not just for themselves but for friends and family as well. More than 80% of Chinese travellers in our sample made purchases on behalf of others, accounting for nearly 40% of their shopping. These purchases are planned in advance at the request of others. For personal shopping, decisions are more likely to be made during the trip but a high share of travellers report doing advance research on availability and prices before departure.

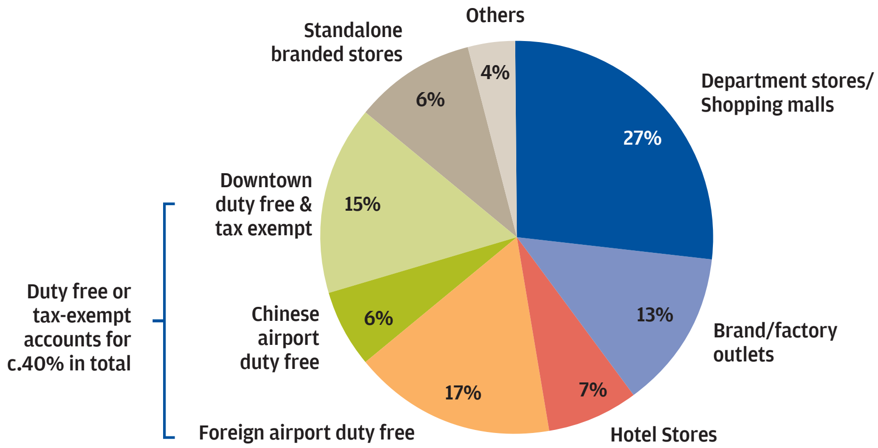
Chinese travellers love to get a good deal, boosting the appeal of duty free channels and tax free shopping which collectively account for c. 40% of shopping budgets. Although China allows duty free shopping on arrival, poor service and a limited range make duty free abroad more attractive. Even after clearing passport control, Chinese travellers still seek out ways to save at downtown duty free shops (where available) and by reclaiming VAT. Nearly half of recent Chinese visitors to the UK, for example, reported claiming back VAT upon departure.

Choice matters too, with multi-brand department stores and malls accounting for another 25-30% of shopping spend, thanks to their ability to offer a wide selection of brands, guaranteed to be genuine, in one place.

Tax exempt and duty free channels are key

Split of shopping channel

% of spend

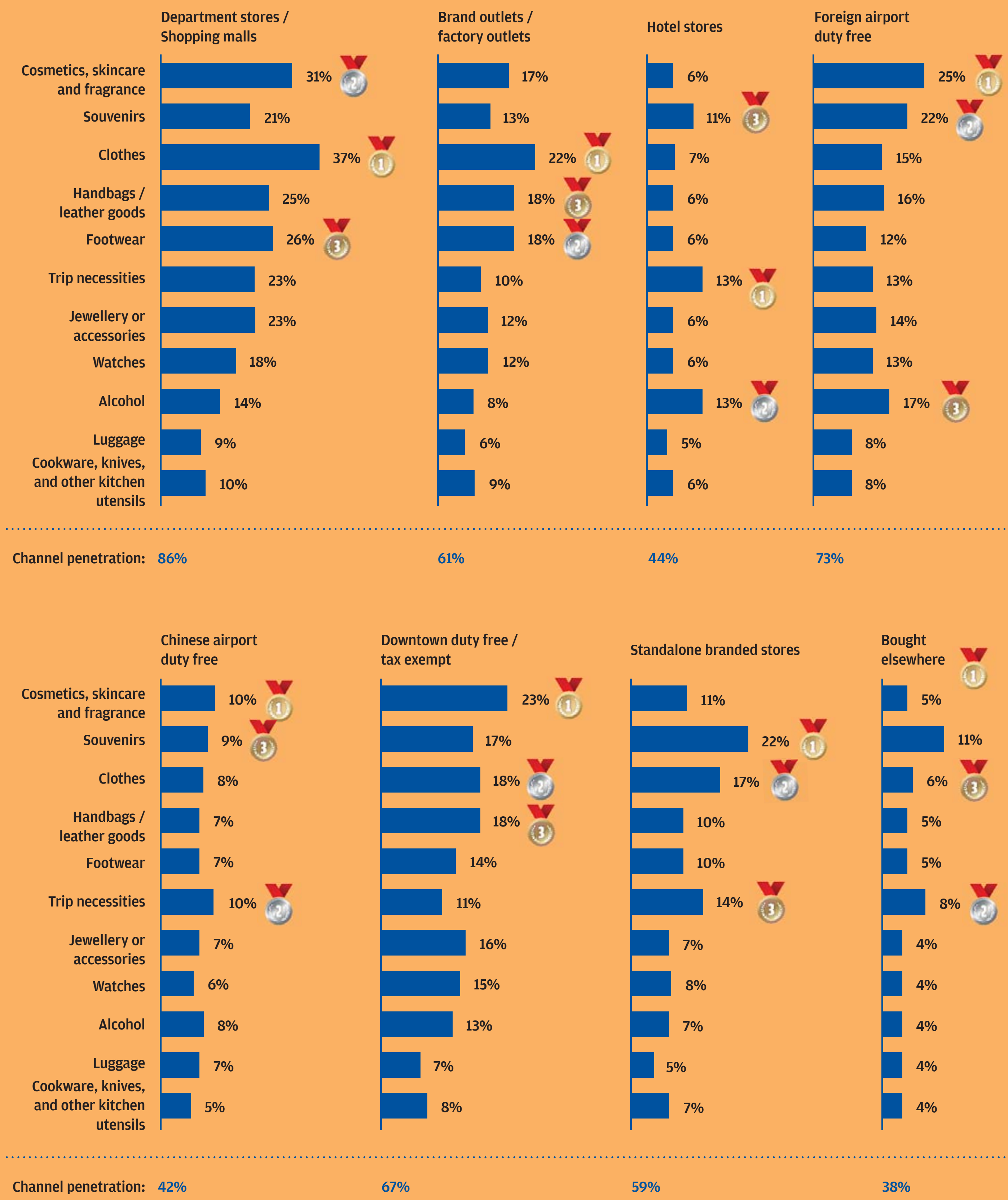


There are certain "must purchase" categories for Chinese travellers, including cosmetics, souvenirs, clothes and leather goods, with more than 85% of respondents reporting a purchase in those categories. However, Chinese travellers are more likely to purchase particular categories in different channels - for example clothing in department stores and cosmetics in airport duty free. Other categories are more market specific, with purchases of cookware being significantly more common in Germany (knives in particular have an excellent reputation). Wine and spirits suppliers should pay special attention to airport duty free, the leading channel for that category. In choosing where to shop, travellers most often reported looking for famous stores and locations carrying a wide selection of brands not available in China.

Chinese travellers focus on specific categories in each channel

Penetration of categories purchased for all countries, by channel

% of respondents



DON'T MISS OUT

OC&C has identified four insights that all businesses should bear in mind while preparing for Chinese travellers:

1. There is no such thing as a "Chinese traveller"

There are 1.3 billion Chinese living in an area nearly as large as Europe and speaking a collection of languages nearly as diverse. Just as there is no such thing as "Chinese food," but rather a diverse collection of regional cuisines varying from the bold Middle Eastern flavours of Xinjiang to delicate Cantonese, nor can "Chinese travellers" be reduced to a single archetype. To do so is to risk missing the kinds of insights that create a genuine business advantage.

Some general commonalities among Chinese travellers can be observed; for example, they are likely to be in their 30s and married with kids, most likely live in a "Tier 1" city like Shanghai or Beijing, and have a household income between 15k and 30k RMB per month. However, when it comes to their shopping behaviour and attitudes to travel, OC&C has identified four different segments of Chinese travellers:

Travel tasters

Travellers in this group have the least amount of travel experience and spend the least while abroad. Due to the lack of experience, they tend to seek help during planning and stick to a well-trodden path to famous destinations. "Travel tasters" are more likely to be from lower tier cities in China and have lower average household income. They are price sensitive as a result, reluctant to stay in expensive hotels and tend to seek out discount shopping. As might be expected, penetration of luxury categories such as expensive handbags, watches and jewellery is the lowest amongst this group. As a result, despite its high profile, this segment presents a relatively small commercial opportunity.

White collars

Stretching their wings to overseas destinations such as the United States and Europe are "white collar" professionals from Tier 1 cities in China. These shoppers are practically-minded, stretching their budget by travelling in groups, seldom staying in luxury hotels and seeking out discounts. However, they have more to spend than "travel tasters" and are more likely to purchase a big-ticket item if they find a good deal. We estimate that this group represents the biggest share of outbound trips taken, though not (due to moderate spend per traveller) commercial potential.

Savvy shoppers

Savvy shoppers are "on a mission," spending large amounts on shopping with a big share purchased on behalf of others. These travellers have extremely high penetration of purchases across categories (especially luxury), and know where to find bargains. Semi-professional parallel importers feeding China's thriving secondary market would also fall into this segment.

New elite

Driven by their higher household incomes, the "new elite" present an exciting opportunity for high-end retail and hospitality businesses. These travellers have the most travel experience (especially outside of Greater China) and spend the most on shopping. They look for quality travel experiences, nearly 40% staying in 5-star hotels. With the highest level of English, these travellers are also the most confident and open to other cultures. Driven by high frequency of travel and "per pax" spend, we estimate that this segment actually presents the largest commercial opportunity.

2. Prepare your business for the next wave, not the last wave

While the "conventional wisdom" surrounding Chinese travellers focuses on hat-wearing tour groups following flags, our research suggests that the "flags and hats" tour will lose share as Chinese become more seasoned travellers. "It's no longer as simple as it was before," notes the Head of Asia Pacific for one leading airline, "there are risks involved, but we need to be more sophisticated now in how we approach Chinese travellers and start shifting our focus to those who are less price-sensitive, especially at times of peak demand."

Preference for group travel is already a polarising topic, with a similar share of travellers "totally agreeing" and "totally disagreeing" that they prefer it. The vast majority of travellers in our survey reported doing trip planning on their own or jointly with those in their group and those who planned their own trip spent on average ca. 25% more than those on an organised tour group. Recent regulatory changes prohibit Chinese travel agencies from requiring minimum spend on shopping during trips, which should further diminish the importance of the "flags and hats" tour groups to overseas retail.

Our research suggests that Chinese travellers, as they gain experience, are becoming much more confident and independent with how they travel, shop and book accommodation. As a result, the next wave of Chinese travellers is likely to conform less and less to the prevailing stereotypes surrounding Chinese travellers. For example, although large majorities agreed they like to "select famous travel destinations" and "prefer natural landscapes over historic sites" (after all, China has a rich history of its own), only a minority said they preferred to eat Chinese food while travelling. Appealing to these more independent travellers will demand a different, more direct marketing model than what worked in the past for group tours.

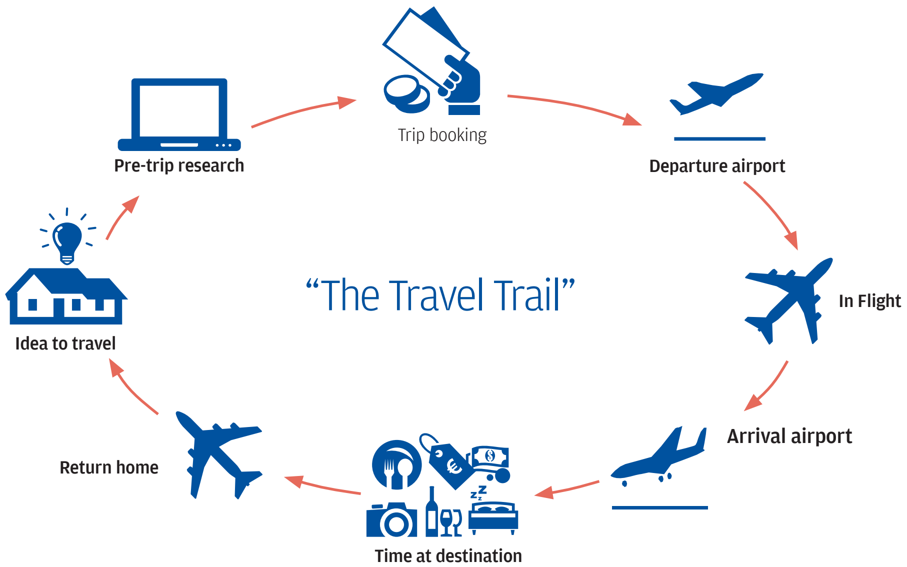
3. Think globally, act locally

Even once the need for a "Chinese traveller strategy" is recognised, for many multinational companies with multiple business units or matrix organisations it can be a challenge to determine who exactly should be in charge of it. Each local business unit pursuing initiatives independently will obviously not leverage global insights or synergies. Equally, however, it cannot be assumed that the China business unit (if any) will have all the answers. Outbound travellers likely account for a small subset of a China business unit's customers and there is no guarantee their behaviour or preferences will be the same while travelling. A senior manager at one leading duty free retailer points out "shoppers behave differently when travelling than they do at home, and this is particularly true for airport retail where dwell time and travel stress play a role." In order to understand the opportunity for your business, targeted research and insights are required, not warmed-over domestic insights.

Our view is to let the China business unit think about growth within China, which is a big enough task on its own. There are many opportunities for cross-business unit insights and cooperation but they must be coordinated globally in order to be truly effective. The right level at which to organise to capture the Chinese traveller opportunity will of course depend on the resources and constraints of specific organisation, but OC&C generally recommends that any strategic initiative on Chinese travellers be led at least at the regional level and given sufficient resources and organisational influence to make an impact.

4. Start engaging early!

A Chinese traveller's journey starts long before they reach the airport. The "travel trail" begins at home when research into a potential trip begins and continues through booking on a domestic travel website (like Ctrip, eLong or Qunar), the trip to the airport, the airport, airline in-flight, the time spent at destination itself, and all the same steps (in reverse) back to home. At each step along this journey, there are potential consumer touchpoints and opportunities to promote your brands whether in retail, hospitality or (like leading wine & spirits player Pernod Ricard) consumer goods. "We have to engage better with Chinese travellers at every stage of the travel trail, not just in the stores," notes Con Constandis, now Managing Director of Pernod Ricard Asia Travel Retail (and previously Managing Director of Pernod Ricard China), "to do so requires that we leverage insights in a coordinated way across business units, and then commit to bringing actions to life."

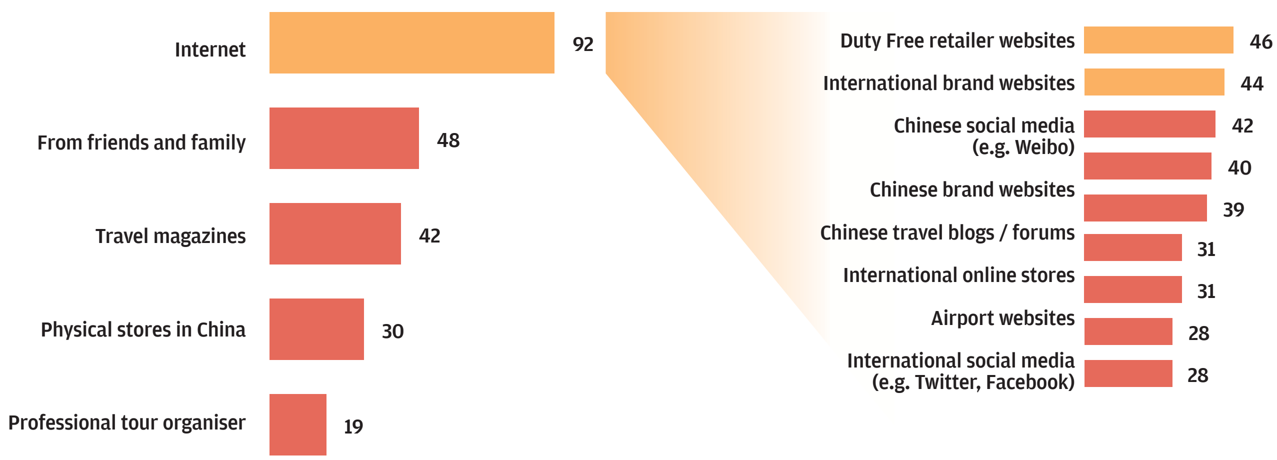


In particular, Chinese travellers tend to do extensive pre-trip research and planning. Our research shows that ~70% of respondents did research before the trip to get inspiration and compare prices on what they planned to buy, most often online.

Internet is the best-rated source of information by far

Best source of information

% of respondents

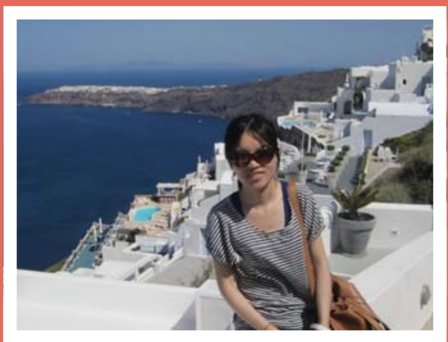


Furthermore, Chinese travellers spend nearly as much buying for or on behalf of others as they do for themselves. As mentioned, c. 80% of respondents said they bought what friends or family asked them to, with an average of ~40% of shopping budget purchased on behalf of others. Retailers should remember that it is hard to buy "on impulse" for someone else, so your communication needs to extend beyond the store and reach the consumer as well as the purchaser before the trip begins.

This implies that even if you don't have an active business presence in China yet, you still need a China-focussed communications strategy. For example, the luxury department store Harrods has a Weibo account and updates on a daily basis. To be truly effective in targeting Chinese travellers, you must view the trip in a holistic way and engage with them before they depart - if you're only thinking about travellers "while they're in airport retail" or "while they're here in Paris," you are already too late.

JUST THE BEGINNING

Wei, student



Wei was born in Yongzhou, Hunan, and raised in Zhuhai, Guangdong. She is currently a senior year student at Nanjing University, majoring in English.

Wei has travelled extensively within Greater China, including multiple trips to Macau and Hong Kong while she lived nearby. She also enjoyed the half year in Taiwan as an exchange student: “Taiwan is different, the people there are lovely. It’s a place that you would love to visit again and again”.

During a one year internship in Germany, Wei travelled to France, Italy, Spain, Greece, the Netherlands, Switzerland and Turkey. Among all the destinations, the Netherlands was her favourite because “it made me a more open-minded person.”

Wei bought a lot of presents for family and friends during her trips, including local style scarves, a Zwilling knife set, Clarks shoes and Louis Vuitton handbags, all of which were much cheaper than that at home.

For her next stop, Wei would like to travel to Thailand since she has never been to Southeast Asia and the recent Chinese movie “Lost in Thailand” (泰囧) has triggered her interest. Lots of her friends have visited Thailand and highly recommend it.

Having all the trip expenses covered by her parents in the past, Wei thinks that after starting her first full time job in 2014, she would be able to spend more on shopping during future travels.

The scale of the opportunity presented by Chinese travellers has generated both excitement and trepidation among those in consumer goods, retail and travel/hospitality sectors. A large majority of our respondents claimed that they spent more money on shopping during the last trip than previously, indicating an even brighter opportunity ahead. In order to realise it, however, businesses will require an insights-driven understanding of Chinese travellers, a globally integrated strategy and the determination to see that strategy translated into tangible action.

Offices

www.occstrategy.com

Belo Horizonte
T +55 31 3481 0092

Boston
T +1 617 896 9900

Düsseldorf
T +49 211 86 07 0

Hamburg
T +49 40 40 17 56 0

Hong Kong
T +852 2201 1700

Istanbul
T +90 212 285 4020

London
T +44 207 010 8000

Mumbai
T +91 22 6619 1166

New Delhi
T +91 11 4051 6666

Paris
T +33 1 58 56 18 00

Rotterdam
T +31 10 217 5555

Sao Paulo
T +55 11 3053 0434

Shanghai
T +86 21 6115 0310

Warsaw
T +48 22 826 24 57

For further information, please contact

Tim Cook, Partner
tim.cook@occstrategy.com

Hunter Williams, Associate Partner
hunter.williams@occstrategy.com

Richard McKenzie, Partner
richard.mckenzie@occstrategy.com

Jacques Penhirin, Partner
jacques.penhirin@occstrategy.com

Wai-Chan Chan, Partner
wai-chan.chan@occstrategy.com

Susanna Wong, Partner
susanna.wong@occstrategy.com

Ignatius Tong, Partner
ignatius.tong@occstrategy.com

OC&C Strategy Consultants

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