

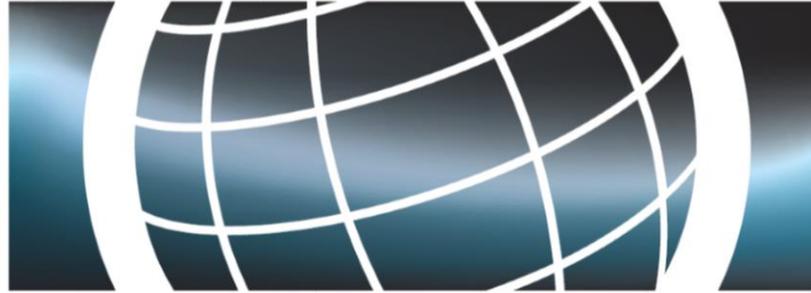


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The Second Wave of Chinese Outbound Tourism Growth, Segmentation, Sophistication

Item Type	event;event
Authors	Arlt, Dr. Wolfgang Georg
Download date	2024-09-03 10:17:26
Link to Item	https://hdl.handle.net/20.500.14394/48668

MARKETING OUTLOOK FORUM: A GLOBAL PERSPECTIVE



Presented by the Travel and Tourism Research Association

The Second Wave of Chinese Outbound Tourism Growth, Segmentation, Sophistication

Presented by: Prof. Dr. Wolfgang Georg Arlt, COTRI China Outbound Tourism Research Institute

For more information, contact Wolfgang at profarltcotri@yahoo.de

October 28-30, 2013 ~ The Drake Hotel ~ Chicago, Illinois, USA



The Second Wave of Chinese Outbound Tourism Growth, Segmentation, Sophistication

COTRI China Outbound Tourism Research Institute

Prof. Dr. Wolfgang Georg Arlt

Marketing Outlook Forum: A Global Perspective
October 29, 2013, Chicago, Illinois



- 中 **Introduction**
- 中 **China's Outbound Tourism Development:
Past-Present-Future**
- 中 **Market segments, product adaptation, marketing
strategies: Increasing and sustaining the growth of
China's outbound tourism to North America**
- 中 **Conclusion**

Introduction

COTRI China Outbound Tourism Research Institute

The world's leading independent research institute for information, training, quality assessment, research and consulting relating to the Chinese outbound tourism market.

Established: 2004

Headquarter: Heide (Germany)

China offices: Beijing, Shanghai, Guangzhou, Chengdu

COTRI Country Partner in: Australia, Belgium, Bhutan, Bosnia-Herzegovina, Cambodia, Croatia, England, Estonia, Finland, France, Ireland, Italy, Kenya, Kosovo, Laos, Latvia, Lithuania, Luxembourg, Macedonia, Mauritius, Mexico, Myanmar, Morocco, Netherlands, New Zealand, Peru, Russia, Scotland, Serbia, Slovenia, Thailand, Tunisia, USA, Vietnam, Wales



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www.china-outbound.com



- 中 Prof. Dr. Wolfgang Georg Arlt FRGS
- 中 First visit to People's Republic of China in 1978
- 中 1991-1999 owner of Inbound Tour Operator
China -> Europe (offices in Beijing and Berlin)
- 中 COTRI founder and director since 2004
- 中 Professor for International Tourism Management
at West Coast University of Applied Sciences (Heide)
- 中 Visiting Professor at universities in China and
United Kingdom
- 中 Fellow Royal Geographical Society (London)
- 中 Research Fellow Japanese Society for the Promotion
of Science (Tokyo)

China's
Tourism
Development
Situation, Analysis and Future
Perspectives 2012

Zhang Guangrui

Latest publications:

Editor English Issue:

Prof. Zhang Guangrui

China's Tourism Development

COTRI eBook

www.forbes.com **COTRI China Tourism Blog**

Editor:

*China Outbound Market
Intelligence*

COTRI Online Quarterly

C. 旅 . M. I.

China Outbound Market Intelligence

www.china-outbound.com

Good news: New Chinese governments campaign against conspicuous consumption excludes outbound leisure tourism

Chairman of the China National Tourism Administration (CNTA), Shao Qiwei:

*“Outbound tourism will boost China’s development in the long-term. The government, and particularly CNTA, will **continue to promote the travelling of Chinese people abroad** as we believe in the mutual benefits of collaboration.”*

(Traveldaily Asia, 1/2013)

*“The 2013 Annual Conference of Boao Forum for Asia opened on the morning of April 7th in Boao, Hainan. President Xi Jinping said in his keynote speech at the opening ceremony that China in the next five year .. will invest US\$500 billion in foreign countries, and have probably **over 400 million tourists traveling abroad.**”*

(Xinhua News Agency 4/2013)

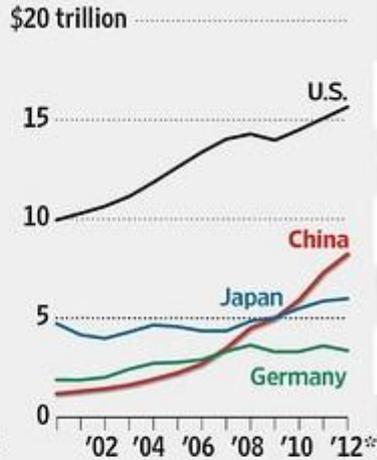
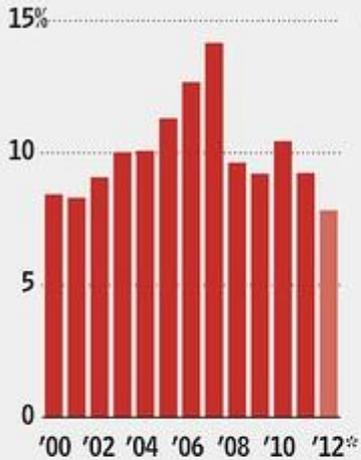
For the first time ever a Chinese communist party leader speaks internationally – and in a positive way – about outbound tourism. Clear signal: Outbound travel is supported by the party and government.

Growth slowing down...

A Decade of Growth

China's growth blisters
As GDP, change from a year earlier

As GDP surges up the global
rankings

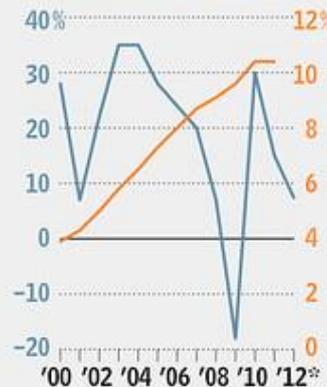


*Forecast Source: IMF

Growth Drivers Run Out of Steam

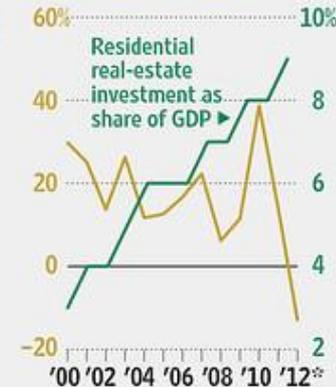
Entry into WTO boosts exports, but post financial crisis growth fades

Exports, change from a year earlier



A decade-long real-estate boom runs its course

Residential floor space started, change from a year earlier



Number of state-owned enterprises fades but the state keeps its grip on key sectors



*Year to date Sources: General Administration of Customs; World Trade Organization; CEIC
The Wall Street Journal

CHINA GDP ANNUAL GROWTH RATE

Percent Change in Gross Domestic Product



SOURCE: WWW.TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

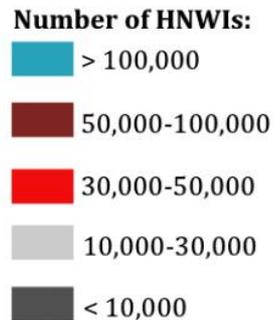
... and China's HNWIs getting nervous...

Survey results from Bank of China/Hurun:

44% of all Chinese with more than 10 million RMB (app. 1.65 million US\$) in personal wealth (about one million households) are considering emigration

85% of all Chinese with more than 10 million RMB in personal wealth are sending their child to study at a foreign university or plan to do so

Distribution of China's High Net Worth Individuals



Data Source: Hurun - The Chinese Luxury Consumer White Paper (March 2012)
*Note: Chongqing is in the 30,000-50,000 HNWI category

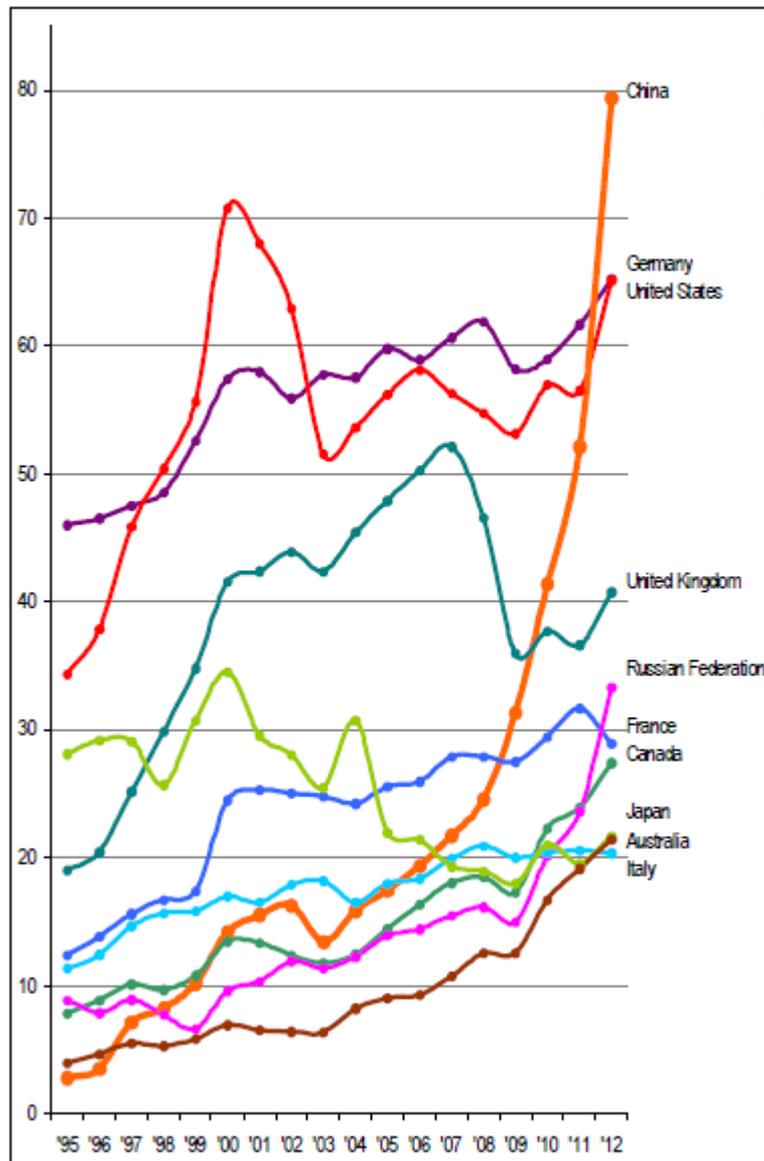
... but more good news: Chinese outbound travel will continue to expand

China's GDP growth: single digit to stay, Wealth creation slowing down

China's outbound tourism growth: double digit continuing

China already most important global source market for many countries





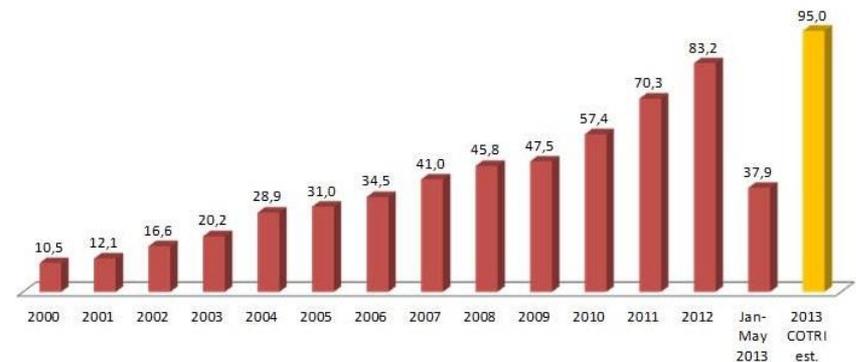
Source: World Tourism Organization (UNWTO) ©

China jumps to first place in the tourism expenditure ranking

- With a total US\$ 102 billion spent in travel abroad, China has become the number one source market in the world in terms of international tourism expenditure, overtaking Germany and the United States of America (both US\$ 84 billion) which are now second and third respectively in the ranking.

China Outbound Tourism 2000-2013 in million border-crossings

Sources: COTRI, CNTA, CTA





The Age of China

Chinese tourists often say they feel treated like second class people, even when they spend a lot of money.

Dr. Wolfgang Georg Arlt, China Outbound Tourism Research Institute

This is the fun for them. You toss some coins and Western people dance for you.

Dr. Wolfgang Georg Arlt, China Outbound Tourism Research Institute

Chinese tourism: The good, the bad and the backlash

By Karla Cripps, CNN

April 12, 2013 – Updated 0611 GMT (1411 HKT)



Arlt says too many locals are seeing only the negative side of Chinese tourism. The more visible tourists are those on bus tours or in large groups. But some "have been traveling 10 to 15 years or studied abroad and speak perfect English – they blend in, so we don't even identify them as Chinese. For the tourism industry, these are the interesting customers," he says.

'The interesting customers'

HIDE CAPTION

BRUNO WINDERT/GETTY IMAGES

China's Outbound Tourism Development: Past-Present-Future

Travel has been an important part of the education process in Imperial China, but outbound travel has no tradition

Xu Xiaoke (1587-1641), China's most famous traveller, was no Ibn Battuta or Marco Polo, he was interested in China only

Exceptions: Buddhist monks and Admiral Zheng He (1371-1433), the "Chinese Columbus"



Before the start of *Reform and Opening* policy in 1978, travel and leisure were held in contempt in the P.R. of China

border crossings

❖ **1983 - 1996 VFR and delegations**

1996: 8 mio.

❖ **1997 - 2004 ADS and chaotic growth**

2004: 29 mio.

❖ **2005 - 2010 Gaining experience and scope**

2010: 57 mio.

❖ **2011 - ? The Second Wave of China's
Outbound Tourism:
Segmentation, Sophistication**

2011: 70 mio.

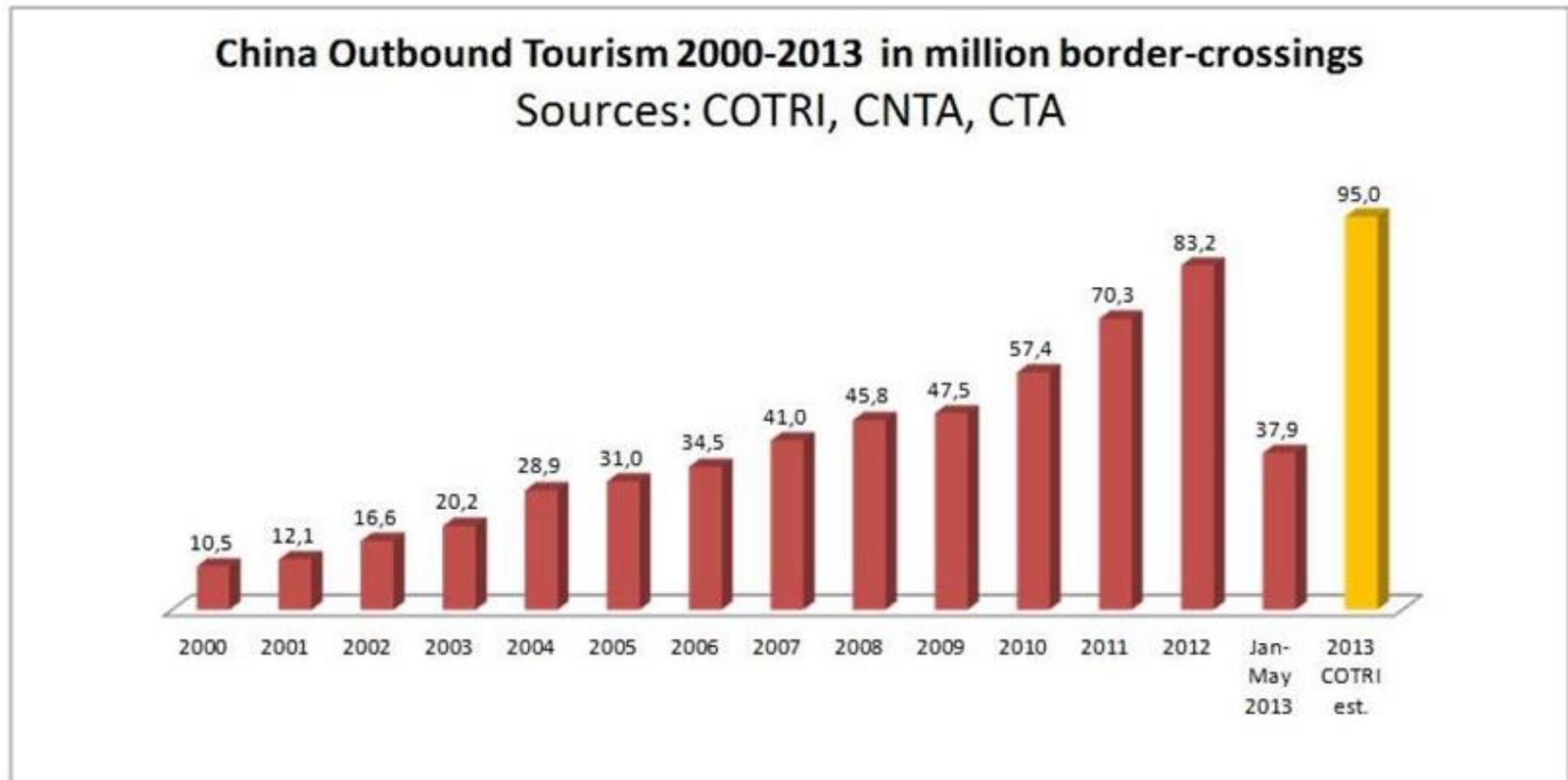
2012: 83 mio.

2013: 95 mio. e

Demand pushing open the gates

- 中 After 1989 (Tiananmen movement and Fall of Berlin Wall) preventing outbound tourism (politically dangerous and expensive) is no longer feasible**
- 中 ADS Approved Destination System installed after 1997 to control and slow down demand for outbound leisure travel – unsuccessful**
- 中 Since 2004 incremental paradigm change toward “Soft Power” approach**
- 中 Since 2009 government support of outbound tourism – opening to selected foreign tour operators in 2011 unsuccessful**
- 中 2013 new party leadership curbing official travels but first time officially “encouraging” outbound tourism**

More border-crossings in first five months of 2013 than in the whole year of 2006



First half of Year 2013: Further diversification of destinations, strong growth in Asia outside Hong Kong and Macau

中 TOTAL	+17%
中 Hong Kong	+10%*
中 Macau	+10%
中 Taiwan	+12%
中 Thailand	+95%
中 South Korea	+46%
中 Singapore	+8%
中 Malaysia	+25%
中 Vietnam	+23%
中 Japan	-28%
中 Switzerland	+27%
中 Germany	+13%
中 Canada	+21%

Forecast arrivals 2014:

Macau	20 million
Hong Kong*	19 million
Thailand	6 million
South Korea	5 million
Taiwan	3 million
Singapore	3 million
Malaysia	2 million
USA	2 million
Canada	0.4 million

USA 2012: 1,474,000 arrivals +35%
USA 1-4 2013: 497,000 arrivals +24%



Office of Travel and Tourism Industries

Top 10 International Markets: 2012 Visitation and Spending

Top 5 Markets:
Canada, Mexico, UK,
Japan, Germany/Brazil

7



China (+35%)

1.47 Million

China's 35% increase in 2012 visitor volume catapulted the country up two spots, surpassing both South Korea and France to reach 7th place in arrivals. This performance was the best in terms of percentage change among the top 30 origin markets. China accounted for a 1.7% share of 2012 visitor volume.

6



China (+14%)

\$8.8 Billion

In 2008 China wasn't even on the Top 10 radar. Now, however, after stringing three consecutive years of strong double-digit growth (47%, 47%, and 14% in 2010, 2011, 2012, respectively), China firmly commands 6th place after spending a record-breaking \$8.8 billion experiencing the United States in 2012. Travel and tourism exports account for 29% of all U.S. services exports to China.

Situation today:

Global No. 1, but only the upper class travelling abroad

- 中 In 2012, 83.2 million border-crossings and 102 billion US\$ spending elevate China to the position as the biggest global outbound tourism source market.
- 中 30 million Chinese travels in 2012 went beyond Hong Kong and Macau, almost double the number of all Japanese outbound trips.
- 中 Not for all: App. 5% of all Mainland Chinese (app. 65 mio.) can afford to travel beyond Greater China (Hong Kong, Macau, Taiwan).
3% of all Chinese (app. 40 mio.) hold a private passport.
Average spending of all Chinese citizens for outbound travel: 75 US\$/year
- 中 Number of Chinese US\$ millionaires households: 1.3 million, 3‰ of the 400 million households in China.
- 中 83 million border crossings are not done by 83 million different persons!

Increasing segmentation

- 中 Chinese tourists are not only growing in numbers, the market is increasingly segmenting:
- 中 Still majority of Second tier and Third tier cities citizens first-time traveller in package groups
- 中 Increasing number of experienced repeat travellers: “New Chinese Tourists”, luxury travellers, “Generation 2” youngsters all moving away from “cheap photo-op & shopping list” sightseeing to experience seeking, moving away from package tour to self-organised or private group travel
- 中 Travellers outside package tours are no longer hostage of tour operators and tour guides: Opportunities for smaller and budget service providers and second tier destinations to attract individual travellers

Prestige and Respect

- 中 Chinese outbound traveller see themselves as – and are told by their government they are in the new Tourism Law (came into effect Oct. 1, 2013) – representatives of their country, going to potentially hostile alien surroundings.
- 中 Showing to the world and to themselves that they have personally made it but also that CHINA as a nation has made it (back) to the top is a major part of the fun of traveling and spending overseas.
- 中 Most Chinese see themselves as victims of western oppression since the Opium Wars and suspect to be treated as second-class customers out of racism and envy by the non-Chinese. Their demand is not to be treated as well as everybody else, but BETTER than anybody else.

Prestige and Respect

- 中 Chinese outbound traveller are looking for signs of respect. Even English speaking visitors will be happy to see Chinese language information materials, even Muesli-munching Urbanites will be happy to see *chuk* (Congee) on the breakfast buffet.
- 中 Emphasising historical and current connections between the destination and China or recent visits of Chinese celebrities, a Chinese flag in front of the hotel, all helps to show respect
- 中 Visibly caring for the Chinese visitors, by Quality Labels, by engagement in Chinese Social Media, by teaching staff a few words of Chinese and not to annoy sophisticated Chinese by telling them that they fear the number “4” helps too.

Travelling abroad means for Chinese
outbound travellers first of all:

Investment

in:

- Personal prestige
within the group
- Self-esteem
- Social capital
- Learning

But also in:

- Business opportunities
- Investment in real estate and companies



*China second only to Canada
as international investor in USA*



Return on Investment

If international travel is *investment*, the services and products offered should be organised in a way to guarantee the Chinese visitor a good *Return on Investment* (ROI):

- 中 Value for money and for time**
- 中 Guaranteed quality as seen from a Chinese point of view**
- 中 No more time spent on an activity as needed for prestige gain**
- 中 Supporting the bragging value of a place/an activity/a product: famous, typical, oldest/highest/awarded, celebrities choice, unusual (but not unknown), authentic (but not against expectation) hard to get, VIP only, as seen in TV and movies**
- 中 Connecting fun und investment**
- 中 Giving face to China and all Chinese**
- 中 Safe and without risk**

Chinese Outbound Travel 2017 (barring Wild Card events)

1. Chinese transcontinental travellers are not travelling just for fun, but for confirmation of their abilities. Therefore even with a slowing Chinese economy, in 2017 at least 170 million outbound border crossings will take place, double the number of 2012.

In the WTCF meeting in Beijing in September 2013 the tourism scholar Wei Xiaoran discussed a world coping with a billion Chinese outbound travellers – are we prepared?

Half of all outbound travels will go beyond Greater China

Chinese Outbound Travel 2017 (barring Wild Card events)

2. Package group travel will be seen even more as a less prestigious travel form mainly for unsophisticated newcomers. At least half of the travels will be either self-organised or by customised flexible offers for small groups of friends, family or colleagues

Tour operators and tour guides will stop dominating the high-end of the market

Chinese Outbound Travel 2017 (barring Wild Card events)

3. Chinese travellers are insisting more and more on China-specific offers according to their special expectations and interests. They will not over time become “normal”, i.e. like the Western tourists who used to dominate international travel in the past. Commitment has to be shown by properly trained staff, Quality labels and positive User Generated Content on Chinese Social Media

*Adaptation and commitment will decide who is **hot** and who is not.*

Market segments, product adaptation, marketing strategies: Increasing and sustaining the growth of China's outbound tourism to North America

Market segments

- 中 VFR – Visiting Friends and Relatives
ABC and recent immigrants
- 中 Business/MICE traveller
Trading and investment
- 中 Shopping travellers
It's cheaper in California
- 中 Gambling visitors
Las Vegas is only No. 3 but far away from Beijing
- 中 Sightseer and experience seekers
I've been there vs. I did that
- 中 Students
Prestigious but dangerous

Product adaptation

Chinese customer needs and wants are very different from those of American, European or Japanese visitors – and will stay that way

- First step to success: Accept that fact
- Second step: Understand them deeply – learn
- Third step: Differentiate between customer groups and between real and symbolic needs and wants

Customer needs and wants - some examples:

- 中 Chinese customers are „money rich“ but „time poor“
- 中 Chinese customer need to be connected to their company and country at all times
- 中 Chinese customers look for prestige and self esteem
- 中 Chinese customers see themselves in all situations as Chinese first and person second while in a foreign country

Product adaptation – helping to spread out

- VFR and Package groups concentrate on four states only: California, Nevada, Florida, NYC
- Chinese self-organised traveller start to explore the rest of the country but need products adapted to their levels of knowledge, interest, experience, connection to local Chinese history and customs
- Offering prestige and respect – even English-speaking Chinese visitors insist on Chinese brochures and apps
- Cruises are a growing trend for affluent Chinese, but they want international atmosphere and Chinese comfort at the same time

Marketing strategy

- Social Media - the key to affluent Chinese customers
- Free WiFi
- Social Media Instruments like DT Tripshow
- Quality assurance with Quality Label like CTW
- Brand ambassadors online and offline
- Let Chinese UGC tell your story
- Either draught or deluge – are you prepared for **a lot** of Chinese arriving at your doorstep?



Selling the USA is hard because it is so easy

- 中 All Chinese know the USA - Think Slovenia, Uruguay
- 中 Let's go to look to learn about the only country still standing between China and renewed world domination
– Year 1500: Half of global GDP produced in China
- 中 Trap 1 for USA: I know all about Chinese, even my neighbour is Chinese – ABCs are not Mainlanders
- 中 Trap 2 for USA: President Obama: We need to welcome more Chinese tourists. US consulates: But we will not give them a visa – Its getting better but slowly

Five insights about the Second Wave of Chinese Outbound Travel

1. Chinese outbound travellers will continue to gain importance in terms of number of visitors, bednights and amount spent per person per trip
→ *ignoring or dismissing them is not an option*
2. Distinguishing between the segments of the Chinese market is essential
→ *averages won't help you to satisfy the different customer groups*
3. Chinese are not just travelling for relaxation and fun to other countries and regions. In different forms, gaining prestige, self-esteem and knowledge are main motivators for package group members, self-organised travellers and MICE customers alike
→ *learning to adapt your offers and stories to cater to the fulfillment of motivations will attract Chinese tourists also to "smaller" destinations*
4. Chinese are first-generation affluent, "money-rich" but "time-poor"
→ *help them choosing, offer them more value for money, not discounts*
5. Chinese will be Chinese, with growing experience and language skills they insist more, not less, to see signs of appreciation of the Chinese culture
→ *signalise your extra attunement and commitment to Chinese visitors*



The future's so bright, we have to wear shades

In the market dominated by outbound tour operator, price has been the only criterion, with a low end mass market engaged in a race to the bottom, and a high end market which mistook “expensive” and “big brand” for “luxurious”.

As self-organised travellers increasingly shape the Chinese outbound market, quality criteria start to count. Destinations and attractions beyond the trodden path can attract Chinese guests with their documented engagement to understand Chinese customer, with their CSR and green activities, with their offers to experience local culture beyond Disneyland.

Chinese outbound market: You ain't seen nothin' yet.

Thank you for your attention

**Looking forward to your
comments and questions!**



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