



ESSENTIAL  
CHINA  
TRAVEL  
TRENDS  
2012



## **Essential China Travel Trends**

### **DRAGON EDITION**

A China Travel Trends publication  
produced in collaboration with Dragon Trail, COTRI and PATA

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## From the Publisher

CHINA IS NOW THE LARGEST OUTBOUND TOURIST SOURCE country in Asia, having overtaken Japan. In 2011, 70 million Chinese travelled overseas, spending US\$69 billion, a 22% and 25% increase over last year respectively. In 2009 (when we published the first edition of China Travel Trends book) and 2010, China's travel market grew dramatically despite the recession, and total gross bookings exceeded US\$62 billion. China's total travel market is expected to reach \$73 billion by 2012. The Boston Consulting Group has forecast that China is expected to become the world's second-largest travel and tourism market by 2013. By 2020, there will be a 100 million global travellers from China, according to the United Nations World Tourism Organization. This further confirms a general trend towards more outbound travel among China's growing middle classes. China currently accounts for 6% of revenue of global tourism, and this will increase to 8% in 2013 and 14% in 2020.

Following the success of the first version of the China Travel Trends, published by ChinaTravelTrends.com in the Year of the Tiger, and produced in collaboration with Dragon Trail, COTRI (China Outbound Tourism Research Institute), VariArts, and GreenEarth.travel, we are pleased to present the second version in the Year of the Dragon.

The Dragon Edition is published by ChinaTravelTrends.com, and produced in collaboration with Dragon Trail, COTRI, and PATA (Pacific Asia Travel Association).

This "Essential China Travel Trends Guide – Year of the Dragon Edition" is designed to de-mystify some of the trends and issues international travel companies are facing when they enter the Chinese market and are looking to attract Chinese consumers. To do business successfully in China, or anywhere for that matter, companies need to understand the consumer and the trends – and both are changing very quickly in China.

We thank all our authors, advisors, partners, and sponsors for their valuable contributions. In particular, I would like to thank Ms. Shuk Wa Tsang of V Concepts Asia Pacific for her editorial expertise, Mr. Dominic Naughton of The Naughton Group Hong Kong for his design skills, Mr. Stefan Reindl of China Travel Trends for developing the web presence of this book, and Ms. Kate Chang of PATA China for Chairing the Editorial Advisory Board. Without them this booklet would have never been possible. We hope you find the read intriguing, inspiring, motivating, entertaining, educational and valuable.

For any help related to entering the Chinese market or marketing to Chinese consumers, the producers of the book, Dragon Trail (an award-winning digital marketing company), COTRI (a leading China Outbound research firm) and PATA (an authoritative body when it comes to tourism development in Asia Pacific) are more than pleased to be of assistance.

We invite you to download the e-version of this book too at [www.ChinaTravelTrendsBook.com](http://www.ChinaTravelTrendsBook.com).

*Happy reading.*



### **Jens Thraenhardt**

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# Thoughts from the Global Travel & Tourism Industry

**Preface by Mr Zhu Shanzhong**  
**Vice Chairman ,**  
**China National Tourism Administration (CNTA)**  
**[www.cnta.gov.cn](http://www.cnta.gov.cn)**



Boosted by economic reforms and recent major events such as the 2008 Beijing Olympic Games and the 2010 Shanghai Expo, the increasingly open tourism industry in China has seen rapid growth.

China's tourism has blossomed from a small base to becoming third in the world in inbound tourism and outbound tourism expenditure and the largest domestic tourism market. Foreign exchange earnings from inbound tourism increased 173 folds during 1978 to 2010, at an annual rate of 17.5%. Domestic tourism earnings increased 11.3 folds at an annual growth of 16.4% during 1994 to 2010. In 2011, overnight overseas tourist arrivals reached 57.58 million, up 3.44%. Foreign exchange earnings totalled US\$48.5 billion, up 5.78%. Some 70.25 million outbound trips were made by Chinese travellers, up 22.42%. Domestic trips totalled 2.64 billion, up 13.2%. Total tourism income topped RMB 2.25 trillion, up 20.1%.

Having transformed into a major pillar of the national economy, tourism is playing a more and more important role in driving the economy, stimulating consumption, increasing job opportunities, facilitating the balanced development of urban and rural areas, promoting cultural exchanges, cultivating environment protection awareness and enhancing mutual understanding and friendship between China and the world.

This booklet helps promote understanding of China tourism's latest trends. We sincerely invite you to see for yourself today's China, and look forward to seeing even greater support to China's tourism industry.

"The travel and tourism industry in China (PRC) has become a global phenomenon with double-digit outbound tourist growth. Chinese government entities have led by example showing vision and financial commitment to building tourism infrastructure in uncertain economic times.

Countries that wish to enjoy the job creation opportunities from receiving high spending Chinese tourists need to act accordingly rather than create barriers to entry, via ill-conceived taxation. There is a growing realisation amongst new generation PATA activists that the needs of Chinese visitors can be empathetically addressed for mutual benefit.

I am consequently delighted to support this timely *China Travel Trends* update which insightfully recognises that the Internet and social media are essential tools for travel research and planning."

**Martin J. Craigs, CEO,**  
**Pacific Asia Travel Association (PATA) [www.pata.org](http://www.pata.org)**



"According to UNWTO forecast Tourism Towards 2030, North-East Asia will become by the year 2030 the most visited sub-region in the world and China will be leading this growth. China's support to the development of tourism is reflected in the decision to upgrade its tourism strategy from sectoral to a state-level national strategy. China became a leading example for many countries around the world in this respect. Already the world's fourth most visited destination, and the third most important outbound market, China is expected to become the leading international tourism destination and the fourth largest outbound market in the next decade."

**Taleb Rifai, Secretary-General**  
**United Nations World Tourism Organization (UNWTO) [www.unwto.org](http://www.unwto.org)**



"In May 2010 we celebrated the 20th anniversary of WTTC in Beijing, capital city of a country at the very forefront of change in Travel & Tourism. Despite the continuing challenges stemming from the global financial crisis and economic depression, China has already confirmed its promise, both as an increasingly important tourism destination for domestic and international travellers, but also – and more impressively in recent years – as the world's fastest-growing outbound market. It is hardly surprising that the leading stakeholders in the global Travel & Tourism industry are all ensuring a growing presence in China in order to reap the benefits of this growth. We were honoured to hold our 10th Global Summit in Beijing and we look forward to a continuing close relationship with our friends and colleagues in China."

**David Scowsill, President & CEO,**  
**World Travel & Tourism Council (WTTC) [www.wttc.org](http://www.wttc.org)**



"Aviation's centre of gravity is shifting eastward. Airlines expect to carry 877 million more passengers in 2015 than in 2010. Of these new passengers, 212 million will travel to, from or within China. To put the impact of that into perspective, by 2015 we expect that one out of every seven journeys by air will be related to China. Aviation and tourism are a force for good in our world – generating wealth both material and of the human spirit. China is preparing to reap the benefits of global connectivity by building world class infrastructure. The challenge is for the rest of the world to keep pace with the phenomenal and game changing opportunities that China's growth is making possible."



**Tony Tyler, Director General and CEO**  
International Air Transport Association (IATA) [www.iata.org](http://www.iata.org)

"China is becoming an important destination for inbound tourism as the 4th largest outbound market worldwide. After participating in the symposium on legislation of the tourism law where IHRA contributed actively to the legislation of lodging in China, and through the presence of two major hotel associations working actively to promote our hospitality industry in China, we recognise that China is the destination setting an example to several public sectors worldwide for years to come."



**Dr. Ghassan Aidi, President and CEO,**  
International Hotels and Restaurants Association (IH-RA) [www.ih-ra.com](http://www.ih-ra.com)

"The fast-growing China outbound travel market is changing the way of business for many destination marketing organisations around the world, including how to market to Chinese consumers and how to deliver relevant destination products and services for this market. This guide gives an in depth look at the shift of China travel trends and how DMOs can use these trends while developing and executing strategies for the various segments and different demographics in China."



**Michael D. Gehrisch, President & CEO**  
Destination Marketing Association International (DMAI)  
[www.destinationmarketing.org](http://www.destinationmarketing.org)

"With year-on-year growth and new destinations being explored, the Chinese traveller is now one of the most prolific. Understanding the needs of these travellers is now even more important and the hospitality industry needs to put appropriate training processes in place if they want to capture this important market. As China propels itself to one of the largest global generators of outbound travel and tourism, it is imperative for sales, marketing, and revenue management professionals in the hospitality industry to understand the dynamics of this unique market. Countries around the globe look forward to learning more about the dynamics of the Chinese traveller as they prepare to accommodate them in the future."



**Robert A. Gilbert, President & CEO,**  
Hospitality Sales & Marketing Association International (HSMIAI) [www.hsmiai.org](http://www.hsmiai.org)

"With its growing and vast middle-class, public and private investments in transportation and tourism infrastructure, and increasing use of technology, China is clearly one of the most important markets for any travel organisation. Travel industry marketers cannot 'think' they know China. They must make the effort to truly understand its consumers in order to successfully engage, sell, serve, and support them. This dynamic market offers great potential for the entire global travel industry, from the largest global brands to local establishments. The opportunity is there -- it's up to you to benefit from it."



**Henry H. Harteveldt, Chairman,**  
Association of Travel Marketing Executives (ATME) [www.atme.org](http://www.atme.org)

"Technology is driving a lot of the changes that are currently being witnessed as one of the biggest story of our time. With more than half a million Internet users in China, more than anywhere else in the world, we have to understand the true impacts of technology to the hospitality industry in China, and for foreign companies looking to enter the Chinese market or wanting to attract Chinese consumers. The second edition of the *China Travel Trends* book is an invaluable guide to de-mystify some of these issues."



**Frank Wolfe - President & CEO,**  
Hospitality Finance & Technology Professionals (HFTP) [www.hftp.org](http://www.hftp.org)



"With China growing dramatically as a major tourism destination and generator, this timely book offers great insights into the way that global organisations can engage dynamically and profitably with these markets. Technology will be naturally a critical factor for serving this emerging demand for helping the supply side to organise efficient value chains to deliver the products and services effectively. The International Federation for Information Technologies in Travel and Tourism (IFITT) is bringing together a community of the world's experts on tourism and technology and is keen to engage with the decision and policy makers in supporting the development of Chinese tourism. In this sense we welcome this book and we will actively engage for its wide distribution."



**Professor Dimitrios Buhalis, President,  
International Federation of Information Technology in Travel and Tourism (IFITT)**  
[www.ifitt.org](http://www.ifitt.org)

Europe has been experiencing a growth in travel from Chinese visitors, especially during the past couple of years. Due to the complexity in marketing to Chinese consumers, as well as the difference in travel products and services required to deliver a satisfactory and relevant tourism experience for Chinese travellers, European DMOs, as well as travel suppliers, need to tailor their offerings to this emerging and fast growing market. The European Travel Commission is fully embracing this important emerging market and has launched a Chinese version of the visiteurope.com portal and its activities in the Chinese market. Recognising China as an important growth market, there is a huge opportunity for all European destinations to attract Chinese travellers. This guide provides a useful resource for travel suppliers and destinations to get to know the Chinese market.



**Nicholas Hall  
Acting Executive Director, European Travel Commission (ETC)**  
[www.etc-corporate.org](http://www.etc-corporate.org)

China has been the one country that has shown remarkable resilience in the face of the recent global economic problems. The size and scope of the Chinese market has much of the world trying to understand and learn ways to capture a greater share. The pent-up demand for travel and rising incomes make the Chinese outbound market most appealing to every country. In the long term, China will be the world's number one market for inbound and outbound travelers as well as the biggest for international hotel expansion and the most dynamic driver of tourism growth around the world. This booklet provides hoteliers with a greater understanding of emerging and evolving China trends to better leverage this lucrative market.



**Joseph A. McInerney, President & CEO  
American Hotel & Lodging Association (AHLA)**  
[www.ahla.com](http://www.ahla.com)

"The six-nation Greater Mekong Sub-region – encompassing Cambodia, Laos, Myanmar, Thailand and Vietnam, as well as the Chinese provinces of Yunnan and Guangxi – is greatly impacted by the ever-increasing Chinese travel market. As responsible tourism growth is vital for developing tourism destinations in the Mekong region, it is important for tourist boards and travel suppliers in these six countries to understand the travel research, buying, and consumption behaviors of Chinese consumers, both from a tour group as well from an FIT standpoint. The mandate of the MTCO is to support sustainable tourism development by protecting the region's culture, heritage, and its people, and to promote authentic, responsible tourism experiences. This guide is an important tool for our stakeholders to get ready for this emerging trend."



**Mason Florence, Executive Director,  
Mekong Tourism Coordinating Office (MTCO)**  
[www.mekongtourism.org](http://www.mekongtourism.org)

"As we are experiencing the fast growth of the burgeoning China travel market, we are also witnessing a shift from traditional Chinese tour groups to more experiential and authentic travel. The global adventure travel trade is poised to understand the needs of the Chinese traveller on one hand, while on the other hand, new adventure travel products are being created in China itself. This concise book is an important top level guide for ATTA members to get a grasp of this important trend."



**Shannon Stowell, President,  
Adventure Travel Trade Association (ATTA)**  
[www.adventuretravel.biz](http://www.adventuretravel.biz)

"To paraphrase President Clinton – 'it's China Stupid' – and the great opportunity with China is the myriad of destinations and cultures, the hundreds of million of smart inquisitive people and a governance that is committed to green growth and quality Travel & Tourism as a key driver. We look forward to helping turn that opportunity into reality."



**Professor Geoffrey Lipman, President,  
International Council of Tourism Partners (ICTP)**  
[www.tourismpartners.org](http://www.tourismpartners.org)



## Preface

### Jens Thraenhart

President, Dragon Trail

### Kate Chang

Director, PATA Greater China

### Wolfgang Arit

Director, COTRI

# The Changing Chinese Traveller

THE CHINESE MIDDLE CLASS IS ALREADY LARGER THAN THE entire population of the United States. In 15 years, the Chinese middle class will reach 800 million. It has changed, and will continue to change, the dynamics of the world we live in, and have huge impacts on the global travel and tourism industry.

Chinese demand for international travel is still young. But it is expected to grow by 17% annually over the next decade, driven by rising incomes and aspirations. There will be an average of 25 million first-time Chinese travellers every year, or 70,000 every day, for the next 10 years. International travel from China would become a major source of growth for providers in the destination countries.

**An increasing number of second and multiple time Chinese visitors are more likely to travel independently, and not part of a group, meaning that they have a greater choice of timing and destinations. They have the opportunity to explore 'off-the-beaten-track' venues and can look for holidays and activities that suit their personal interests.**

The rise of Chinese Tourism has gotten the attention of a lot of travel, tourism, and hotel companies. The big US hotel chains such as Starwood, Hilton, Marriott, and Inter-Continental have

announced programmes designed for Chinese tourists. These include adding popular Chinese dishes to full-service restaurant menus (including a traditional Chinese breakfast), featuring one or more Chinese television stations in the guestrooms, and introducing guestroom amenities such as slippers, tea kettles, and a selection of Chinese teas. Some hotels have also brought in a concierge who speaks fluent Mandarin.

With all that said, the start of the second wave of China's outbound tourism, will change the Chinese tourists as we know them today. The "New Chinese Tourists", knowledgeable, sophisticated, travel-savvy and predominantly below 45 years of age, are entering the scene. New Chinese tourists look for deeper experiences and closer contact with local host populations during their self-organised trips. Earlier they took photos of themselves in front of the Sydney Opera House or the Eiffel Tower, but are now drawn more to new places and activities. New Chinese tourists offer an increased chance for destinations and tourism service providers off the beaten track to get a piece of the Chinese outbound market.

**Many travel brands are trying to capture the attention of this very valuable new customer segments, but not without challenges and disappointments, due to various reasons.**

**First**, the way many Chinese consumers are finding out about new destinations and travel services, such as hotel or cruise brands, is via the Internet. With over 500 million Internet users in China in December 2011, more than 80% of Chinese travellers research and educate themselves about destinations and brands online.

**Second**, unlike in the West, the people with the highest net worth in China are usually under 45. Because of the Cultural Revolution in the 1960s and '70s, people older than 45 generally aren't well educated, live in government subsidised housing, and have spent the bulk of their careers in state-owned enterprises. The younger generation is better educated and is more likely to work in private firms, including foreign-capital enterprises. In addition, the cities with the fastest growing number of millionaires are in third, fourth, and fifth tier (including Dalian,

	Inexperienced travelers	Experienced mass market travelers	Experienced affluent travelers
Attitudes and aspirations	Travel is for sightseeing – the more the better Travelling around the world is a lifetime dream	Travel is to explore cities outside nearby regions Outbound travel is an indication of status and special occasions	Travel is good for relaxation and stress relief Prefer to return to places that offer relaxing activities and a slower pace of life
Trip activities	Packed schedules of must see sites Historical and museums	Sightseeing and relaxing	Entertainment, shopping, and luxury accommodations rather than overscheduled sightseeing
Trip planning	Travel agencies for packaged tours and booking assistance Word of mouth, TV, and websites	Fewer packaged tours and more independently planned trips Online search and booking	Websites are the main channel for travel planning Premium theme-based tour packages for outbound trips
<b>Share of total travel spending</b>			
2010	56%	23%	21%
2020	33%	26%	41%

Source: Boston Consulting Group, 2011

Chengdu, Xiamen, Kunming, Nanning, etc.), and about 50% of the wealthy were not even classified as wealthy four years ago. Some 70% of them are NOT living in the four biggest cities (Shanghai, Beijing, Guangzhou, and Shenzhen), and 35% are NOT living in first or second tier cities.

**Third**, a structural change is happening in the way Chinese travel. A recent study by the Boston Consulting Group revealed that 95% of Chinese tourists are dissatisfied with the current travel products and services, both domestic and outbound. While group package deals are still chosen among most middle class, especially those not from first-tier cities who have mixed

feelings of travelling abroad – those who are a little fearful due to food and language difficulties – but full of anticipation for the lower-taxed luxury goods they are likely to amass.

Post-80s and 90s young adults are not following a tour guide's flag with matching red caps; there is a rise in independent, self-organised travelling, albeit still in small numbers, interested in experiencing foreign cultures, reflecting on it with their own education and perspectives.

In many ways, China is still “an emerging economy” and marketers are still unsure of how to target its new consumers. Cracking China's consumer market is easier said than done – and there have been some notable stumbles. U.S. home-improvement giant Home Depot shut down five of its 10 stores since entering the market in 2006, while Best Buy, the world's largest consumer electronics retailer, closed all of its branded stores in China in 2011.

### **Understanding the new Chinese Tourist, the changing demographics and consumer behaviour is critical to be successful in China.**

The incomes of Chinese in second-, third-, and fourth-tier cities rising resulting in a change in consumption patterns that “will drive market dynamics in unprecedented and unpredictable ways”.

Chinese consumers are at the forefront of tech and digital trends and are greatly increasing their use of computers and mobile phones to research and purchase. Additionally, Chinese consumers are increasingly being influenced by digital and social media marketing – 90% of respondents to a 2011 Forbes survey of more than 300 China-based senior executives indicate that digital and mobile marketing are a critical part of the mix for reaching Chinese consumers, especially the younger and affluent demographic. 🇨🇳

*Table Sources: BCG Chinese Consumer Travel Survey, July 2010; BCG consumer interviews. Note: We define inexperienced travelers as those with fewer than three years of travel experience who have taken fewer than three trips in the past 12 months. Experienced mass-market and affluent travelers have made more than three trips in the past 12 months. Share of the total value of the domestic and outbound overnight leisure markets.*

## Top 10 China travel trends

# 10 TIPS

1. **Chinese outbound travel continues to grow** in travellers number and trip frequency.
2. **Leisure travel drives Chinese outbound travel demand.** Sightseeing and shopping are key purposes of leisure trips. It is highly seasonal with peak periods in May, October and December.
3. **Chinese outbound travellers are travelling further** for destinations beyond Hong Kong and Macao.
4. **Young professionals with high income** is the major consumer segment driving outbound travel demand in China.
5. **80% of travellers are searching for information** about destination prior to their travel, and the major information channel is online.
6. **Travel agency is still dominating the booking channel**, while online agents are growing quickly, especially for long haul trips.
7. **Average spending per visit shows double-digit increase**, with 35% of budget spent on shopping.
8. **Sharing of travel experience through online platforms is increasingly popular**, especially among young generations.
9. **Chinese consumers are moving towards an experience-based choice** model from a price-based choice model.
10. **The new Chinese tourists are demanding higher quality services**, and moving from traditional tour groups to individual experiences.

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*Netherlands Environmental Assessment Agency*



## Outbound Tourism

**Prof. Dr. Wolfgang Georg Arlt, Director  
China Outbound Tourism Research Institute**

Wolfgang Georg Arlt has been engaged in European-Chinese business and tourism relations for 35 years. He is the founder and director of the China Outbound Tourism Research Institute (COTRI), based in Beijing and Heide, Germany. COTRI co-organises the annual China Outbound Travel & Tourism Market (COTTM), where it presents the New Chinese Tourists Welcoming Award.



# In search of deeper meaningful travel experiences

Chinese travellers are demanding more sophisticated travel experiences, reflecting the growing maturity of a sector that now generates greater receipts than inbound visitor earnings.

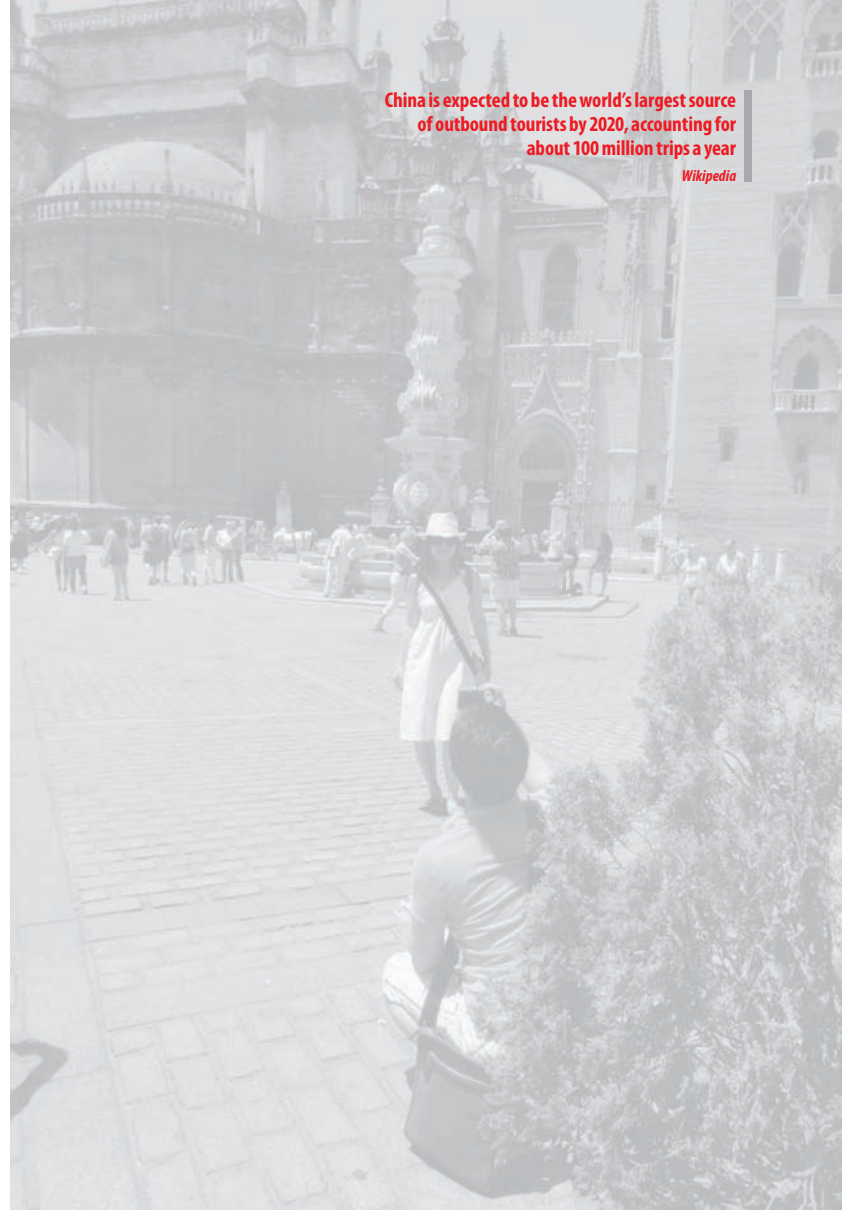
CHINA'S OUTBOUND TOURISM IS entering its second phase, bringing new opportunities and challenges to destinations and tourism service providers worldwide. Chinese travellers are increasingly looking for travel experiences that go beyond simply ticking off major sights and the dubious pleasures of forced shopping. Accompanied by sharply focused marketing, products that go beyond well-trodden travel paths can emerge as "hot" properties to attract affluent visitors from China.

## Have money – will travel

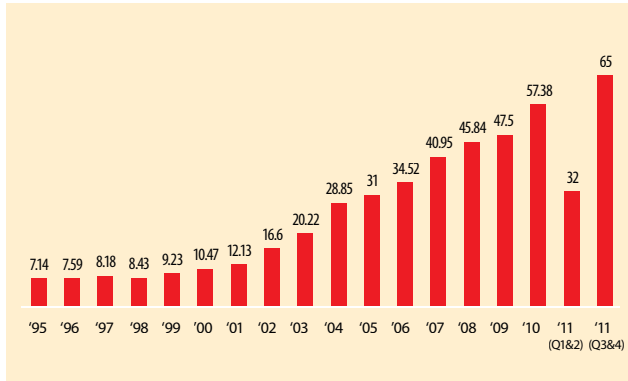
In line with its impressive economic growth, China has developed into the biggest Asian outbound tourism source market. Within a dozen years, the annual number of border crossings has multiplied from less than 10 million in 1999 to almost 70 million in 2011. These days, Chinese tourists can get group visas for almost any part of the world, while many countries have also removed or lowered barriers for individual tourism. In China's emerging consumer society, "international" provides enviable social cachet, an indicator of a person's status and affluence. Have money – will travel.

China is expected to be the world's largest source of outbound tourists by 2020, accounting for about 100 million trips a year

Wikipedia



China outbound tourism 1995-2011 in million border-crossings



Source: COTRI, CNTA, CTA

### Two millennia of staying at home

For centuries, the Chinese have been travelling within their country for pleasure and integration into the spatial dimension of Chinese culture. They criss-crossed the country as officials, traders, poets, pilgrims, nature seekers or refugees.

Outbound travel, however, is not part of that tradition. There is neither a Marco Polo nor an Ibn Battuta in the collective memory of Chinese culture, no treasure hunters and no missionaries going to faraway places. In the 20th century, turmoil and wars in the first half and a policy of isolation and frugality for much of the second half prevented the development of outbound

travel for reasons other than emigration. Even after the launch of the “Opening and Reform” policy in 1978, less than 1% of the population annually had a chance to fulfill their wish to see the outside world.

### China's travel boom decade

In stark contrast, the new millennium has seen rampant growth in outbound travel, with 70 million border crossings projected for 2011. Some 70% of all outbound trips from mainland China only happened within the last six years. Even 2009's worldwide economic crisis, which halted global tourism growth, failed to stop China's outbound expansion. China's outbound market rose 4% in 2009 before bouncing back to 20%

growth rates for travel volume and spending in 2010 and 2011. The Chinese outbound travel sector now spends US\$10 billion more annually than the country earns from inbound tourism.

China is already the biggest domestic tourism market in the world by number of trips, and COTRI research projects that the country's outbound market will capture 10% of the global international tourism market within the decade. This growth will propel China to top position as global tourism's biggest source market before 2020.

### China's new emerging tourists

Chinese tourists have turned into a major target group for destination marketing organisations and tourism companies around the world. But a new challenge awaits destinations and travel suppliers who have only just learned from experience that Chinese group tourists have their own distinct expectations, needs and behaviour and that success in this market requires careful product adaptation, new forms of marketing and differentiated means of fulfillment. Here's the challenge: the 'New Chinese Tourists', an emerging

group that is knowledgeable, sophisticated, travel-savvy, and below 45 years of age.

New Chinese tourists look for deeper experiences and closer contact with host populations. There is less need to shop for others, as their friends and colleagues are also travelling. With photos of global landmarks such as Sydney Harbour and the Eiffel Tower snapped years ago, they are ready for new places, experiences and activities.

Chinese travellers, especially those going beyond neighbouring countries and regions, are not spending time and money just for relaxation. Travel provides opportunities to acquire greater social prestige and knowledge. These factors are as important motivators for travel as business, overseas studies and visiting friends and family members abroad. The New Chinese Tourists are driven by the same motivation but they are taking it to the next level. Even if their command of English is perfect, they are happy to see Chinese culture being respected when overseas destinations make the effort to provide information in Chinese characters. 中

Prof. Dr. Wolfgang Georg Arlt, Director,  
China Outbound Tourism Research Institute

## Chinese outbound travel to exceed 80 million trips in 2012

China has had yet another year of massive growth in terms of outbound tourism, confirming the predictions made by COTRI at the beginning of 2011. The China Tourism Academy (CTA) put the final figures as approximately 70 million trips overseas in 2011, an increase of more than 20% by 13 million from the 57.4 million trips in 2010.

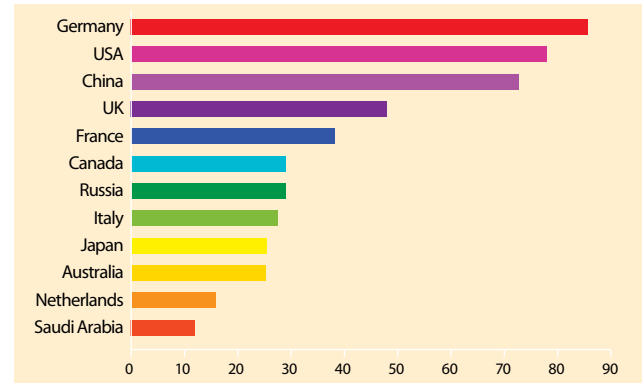
CHINA RANKS IN THIRD PLACE AS a global outbound tourism source market. Germany and the USA hold on to the two top positions, yet the gap between the three countries is decreasing and predictions that the future of international tourism lies with China still stand strong.

### China hot on the heels of the largest tourism source markets

Taleb Rifai, Secretary-General of the UNWTO United Nations World Tourism Organisation, recently claimed “we can expect to see China become the number one country in

terms of both receiving and sending tourists in the next five to seven years”. A study by Commerzbank in Germany arrives at a similar conclusion; according to Jutta Kayser-Tilos, an economist at Commerzbank, “against the backdrop of continued strong growth of the Chinese economy, it is expected that the title of “Travel World Champion will soon go to China”. For many destinations, including non-neighbouring countries like Australia or the Maldives, China is already the most important inbound tourism source market today.

Estimated international travel expenditure in billion US dollars



Source: [www.china-outbound.com](http://www.china-outbound.com)

**Chinese spending more than ever**  
CTA have reported that the tourism spending of Chinese consumers is now over US\$69 billion, a massive increase on the US\$55 billion spent by Chinese tourists in 2010. Figures from Commerzbank show that China holds a steady third position in terms of spending.

Without any major setbacks to dissuade Chinese spending, the affluent middle and upper classes are “showing off to the world their increased purchasing power in the major tourism destinations”.

### Luxury tourism develops

China’s upper class is constantly growing, and soon there will be more millionaires in China than any other country. Luxury travel has made vast leaps, according to the

Chinese Millionaires Wealth Report 2011 published by Hurun. (see article on page 39)

It has been reported that in the past year there has been a 91% increase in Chinese traveller spending on shopping in destinations, likely due to the huge increase in numbers of travellers and the luxury market becoming more developed.

### Evidence that New Chinese Tourists are emerging

The New Chinese Travellers opts to travel independently away from traditional group tours. According to a report by Global Blue, the majority of wealthy Chinese people choose to make their own bookings, and travel as free and individual tourists.



There has been a vast increase compared to the number of people who have claimed to do so in previous years, proving that this segment of the market is developing rapidly.


#### Expected 80+ million border crossings in 2012

Fifteen years ago, when the UNWTO forecast that by 2020 there will be over 100 million Chinese people travelling abroad it appeared to be wishful thinking, as the number was still below 10 million at that time. However, this 100 million mark will only be two more years away if growth continues at 20%.

This high growth is likely to be maintained, as Chinese citizens are benefitting from advances in transportation and communication, and policies set by the government in China and overseas continually becoming more open. The expanding tourist

base will be demanding particular standards in order to meet their unique needs, challenging the assumption that “western” tourist behaviour is the norm in international tourism.

The Chinese economy will face serious challenges in the months ahead, with a return to double-digit GDP growth rates unlikely for the foreseeable future. Nevertheless, status-enhancing overseas trips will continue to be an important aspect of the affluent Chinese consumers’ expenditure. Looking to 2012, CTA expects an increase in Chinese outbound tourism of 12%.

COTRI predicts that “unless there are major natural disasters or a new contagious disease scare, in 2012 COTRI expects the number of border crossings from mainland China to surpass 80 million and the average spending per trip to surpass US\$1,000”. 

Source: [www.china-outbound.com](http://www.china-outbound.com)





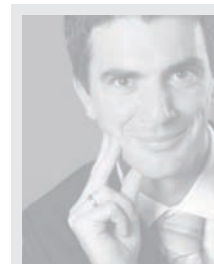
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By 2020, China's consumer consumption nation-wide will amount to 22 percent of the total global consumption, behind only the U.S. (35 percent).

*BCG Consulting's November 2010 Report: "Big Prizes in Small Places: China's Rapidly Multiplying Pockets of Growth"*



## A Decade of Travel Trends

**Dennis Pyka, Director**  
**World Travel Monitor® IPK International**

Dennis Pyka has over 15 years of experience in the travel industry. He has been working as a Data Manager for IPK International since the year 2000, responsible for IPK's World Travel Monitor®, an ongoing tourism study in 60 countries worldwide. He is in charge of all aspects of World Travel Monitor® data analyses and statistical projections.

## Chinese outbound travel more than doubled in the last ten years – *outbound monitor*

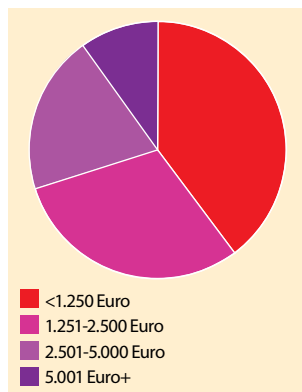
Authoritative international travel survey shows China has become the 12th biggest travel market worldwide, with a doubling in the number of international trips in a decade.

WORLD TRAVEL MONITOR® (WTM®), inaugurated since 1988 by IPK International to track international overnight travel of 60 major outbound markets worldwide, added Chinese outbound travel to the survey in 2000.

Every January and February, 30,000 computer assisted personal interviews are carried out with randomly selected Chinese aged 15 years and older. The results for China (excluding overnight travel to Hong Kong and Macao) are collected in the global WTM® database.

The key findings of the Chinese Outbound Travel Monitor® 2010 showed that China's outbound

Chinese outbound spending\* per trip by groups 2010



Source: World Travel Monitor® 2000 and 2010, IPK International Munich 2011. \*Travel spending includes transportation, accommodation, meals and other incidental costs

Destination areas of Chinese outbound travel 2010

Destination Area	Year 2010	Year 2000	Change 2000/2010
Asia / Pacific	67%	62%	+5% share
Europe	24%	25%	-1% share
The Americas	8%	10%	-2% share
Africa	1%	3%	-2% share

Source: World Travel Monitor® 2000 and 2010, IPK International Munich 2011

market has come a long way within a decade.

In 2010, the mainland Chinese made 15.7 million international trips, up from 7.4 million such trips in 2000, making mainland China the 12th biggest outbound travel market worldwide in terms of "real" outbound trips (lasting one night or longer).

The number of trips grew at an average of 8% per annum over the 10-year period, but the number of international overnight stay grew relatively slower at only 2% p.a. due to much shorter stays abroad.

Outbound holiday trips showed the strongest growth for the decade, at 156%, whilst business travel was up 63%.

Other outbound trips like visiting friends and relatives (VFR) declined

by 12%, showing that the Chinese outbound market has become much more holiday-oriented than it was in 2000.

Asia Pacific gained share as a travel destination, while all other continents lost shares. The top holiday destinations in 2010 were Korea (1.3 million holiday trips), Thailand (1.2 million), Japan (1.2 million), Singapore (1.1 million) and Malaysia (0.8 million). Top long haul holiday destinations were the USA (0.6 million), Russia (0.6 million), France (0.4 million), Germany (0.4 million) and Italy (0.4 million).

The most preferred outbound holiday types in 2010 were tour holidays (66% of all outbound holidays) followed by sun and beach holidays (22%) and city breaks (7%).



Table 2: Top six destinations of international travellers\* 2010

Rank	Destination	Inbound Trips (millions)	World Share (%)
1	USA	56.3	10%
2	Spain	46.4	9%
3	Germany	42.7	8%
4	France	39.0	7%
5	Italy	35.4	6%
6	China (mainland)	31.7	6%

Source: World Travel Monitor\* 2010, IPK International Munich 2011 - \*Global outbound travel lasting one night or longer, excluding travel between mainland China, Hong Kong and Macao

The top five activities / motives on tour holidays were city sightseeing, visiting objects of interest, enjoying meals and drinks, shopping, enjoying the landscape and the atmosphere.

The top five activities / motives on sun & beach holidays were enjoying meals and drinks, discovering the nature, shopping, relaxing as well as swimming and sunbathing.


Top business travel destinations were Korea (0.3 million), Japan (0.3 million), USA (0.3 million), Russia, Vietnam and Germany (with 0.2 million trips each).

China's position in the global market is much stronger when it comes to travel spending. With an average spending of 2,302 euro per outbound trip in 2010, the Chinese continue to be among the top five

spending nations worldwide.

Information and booking behavior showed the most dynamic change, with the increase in the share of internet usage leaping from 9% in 2000 to 75% in 2010.

However, travel agencies remain the dominating point of sales with a 63% share in all outbound bookings, followed by internet bookings (28%) and other direct bookings with the accommodation or a carrier in 2010.

Importantly, female travellers outnumbered male by 2010. Male outbound travellers constituted 54% in 2000, but female travellers made up the majority (55%) in 2010. Chinese female outbound holidays were the best performing segment of Chinese outbound travel over the past 11 years. 

For more information please also see: [www.ipkinternational.com](http://www.ipkinternational.com)

## China's Leading Digital Ad Network



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www.hdtMEDIA.com

China will be the world's leading travel destination around 2016-2018, according to the United Nations World Tourism Organization.

*UNWTO World Tourism Rankings 2010*



## Luxury Travel

**Rupert Hoogewerf, Founder, Hurun Report**

Rupert Hoogewerf co-founded the China Rich List (formerly known as the Hurun Rich List) in 1999, with the results of the first four years published in Forbes magazine. Since then, the list of the country's wealthiest citizens has become an eagerly awaited annual event. A qualified chartered accountant, Hoogewerf spent seven years at Arthur Andersen. He graduated from Durham University in 1993 with a degree in Chinese and Japanese.

# China's affluent set taking more holiday trips

With their net worth swelling, China's affluent set is demanding more when travelling. A survey of China's wealthiest shows them increasingly likely to splash out on flying business class, shopping and staying with well-known hotel brands.

THANKS TO RISING PROPERTY prices and a fast-growing GDP, the ranks of millionaires in China have been swelling. Boasting a million millionaires, China is now home to the largest number of self-made millionaires and billionaires in the world (a millionaire is any individual with personal wealth of RMB 10 million or more).

The rise of private wealth coupled with the appreciation of the yuan and easing of visa applications are fuelling demand for luxury travel. Indeed travel has been identified as the preferred entertainment among the affluent set.

In order to gauge the travel habits and decision-making of China's luxury consumers, Hurun Report conducted a survey of millionaires and billionaires in 2011. One-on-one interviews were undertaken with 401 millionaires, each with assets of at least RMB 10 million, between April and November. Among them 45 people have assets of at least RMB 100 million.

In addition, Hurun interviewed 62 individuals with more than RMB 10 million in total assets from April to May, 60% of those interviewed were male. Findings from the

## Preferred international luxury destinations

Rank	Destination	2011(%)	2010(%)	2009(%)
1	France	13	11.1	9.5
2	U.S.	12.7	15.9	14.8
3	Australia	11.6	9.8	11.7
4	Japan	9.6	8.9	4.5
5	Maldives	8.9	5.4	6.4
6	Singapore	7.5	7.8	6.2
7	Italy	5.8	7.3	5.7
8	Switzerland	5.7	NA	NA
9	Dubai	5.3	5.9	6.4
10	Hawaii	4.9	6.7	9

Source: Hurun Research May 2011

survey were published in the China Luxury Travel White Paper.

### More time for holiday-making

The survey shows that on average the affluent set travels abroad three times a year, with 20% of them going abroad more than five times a year. Millionaires take an average of 15 days holiday annually; one-third take 10-20 days and one-third take more than 20 days. In 2010, 90% of millionaires travelled abroad for 2.3 times on average, staying eight days on average (two-third took less than a week). While the duration of overseas stays was unchanged over the past three years, the number of overseas trips rose 10% in two years.

Billionaires have longer vacations. Almost half of them take more than 20 days holiday a year. They travel overseas more often, with one-third going abroad more than five times a year

### Richer travellers are younger and more likely to be female

The Chinese luxury travellers are generally 15 years younger than their European and American counterparts. However, millionaires under age 30 travel the least whereas older millionaires more often travel for business.

Females make up a larger proportion of wealthy Chinese and they take more vacations than their male counterparts.



#### Preferred domestic luxury destinations

Rank	Destination	2011 (%)	2010 (%)	2009 (%)
1	Sanya	24.1	18.4	18.2
2	Hong Kong	18.1	14.5	10.2
3	Yunnan	9.7	13.8	19.4
4	Qingdao	6.7	3.9	5.8
5	Shanghai	6.5	6.8	3.8
6	Tibet	6.2	6	7.2
7	Macao	5.8	3.8	4.7
8	Dalian	5.6	5	4
9	Beijing	4.2	6.7	3.8
10	Hangzhou	3.7	5.1	6.9

Source: Hurun Research May 2011

#### More spend on shopping than business class travel

The Chinese luxury travellers mainly travel for sightseeing and shopping. In 2010, Chinese millionaire travellers spent RMB 190,000 in travel costs and on average RMB160,000 on shopping. The preferred luxury products were clothes, jewellery, watches, cosmetics and fabrics.

Surprisingly, more millionaires flew economy class on their first trips. The percentage of those who will move to the front end of the airplane increases for subsequent trips. In 2010, almost 60% flew business class.

#### Millionaires are likely to book holidays themselves online

The survey also shows that almost 60% make travel reservations themselves; 26% by secretaries and 23% by family members.

They prefer making hotel and flight reservations via professional websites and agents, hotel membership services and the official websites of airlines.

More than 40% prefer not to travel on public holidays.

Some 80% chose not to travel with a tour group. The average number of people travelling together was four and more than half travelled with family.



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## Hotel choices and travel details - Important Factors

Preferred travel time	%
Non-public holiday	36
Summer vacation	23
Golden week	17
Spring Festival	14
Labour Day	9
Reservation by	%
Self	57
Secretary	26
Family members	23
Friend	14
Local business partner	11
Local employee	9
Others	6
Hotel booking	%
Professional travel website	27
Travel service	27
Hotel membership service	18
Local friend	16
Hotel official website	11
Decide on site	2
Flight booking	%
Professional travel website	33
Travel service	27
Airline official website	18
Air ticket office	9
Agent	6
Others	6

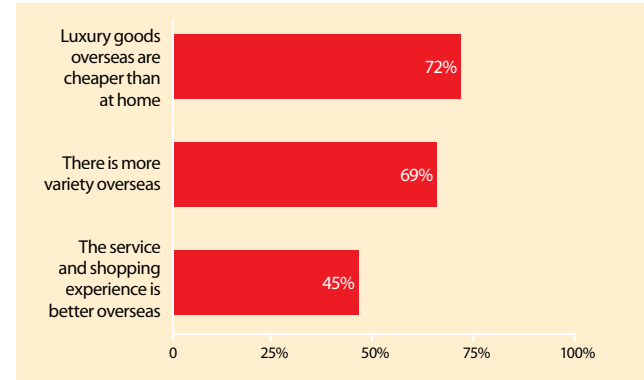
Rank	Factor	%
1	Brand	64
2	Service	58
3	Facilities	56
4	Location	50
5	Star	44
6	Transportation	33
7	View	31
8	Price	25
9	Food	22
Preferred hotel types	%	
Luxury hotel brand	55	
Boutique hotel	33	
Serviced apartment	13	

Best Luxury Hotel Brand	Rank
Shangri-La	1
Hilton	2
Park Hyatt	3
The Ritz-Carlton	4
Peninsula	5
Grand Hyatt	6
Sheraton	7
Kempinski	8
Marriott	9
Hyatt Regency	10
InterContinental	11
Sofitel	12

Sources: Hurun White Paper on Chinese Luxury Market Special Survey 2017

Sources: Hurun White Paper on Chinese Luxury Market Special Survey 2011, 2011 Hurun Best of the Best Survey

## Why Chinese travel abroad to purchase luxury goods



Source: World Luxury Association 2012

## Destination choices linked to education

US, Australia, Japan and Thailand are the most popular destinations for the first overseas trips, and Thailand, Singapore, Japan and Europe are popular choices for second trips. The duration of second trips was less than a week, shorter than the one-week average of first trips.

France and Japan are increasingly popular but Hawaii is losing ground. Sanya, Hong Kong and Yunnan are the most popular domestic destinations but individuals with more than RMB 50 million in assets prefer Macau.

Having undertaken higher education overseas, the travel preferences of the second generation wealthy class are markedly different from their parents. As education drives luxury travel, the US is the preferred destination for travel, followed by the UK and Canada. More than half choose English-speaking countries. The richer they are, the younger they are sent abroad.

More than half prefer high-end chain hotels and one-third prefer boutique hotels for their overseas trips. Brand is the deciding factor in accommodation choice, followed by service, facilities and location.

#### CHINA'S GDP 2010-2011:

GDP (purchasing power parity): US\$9.872 trillion (2010 est.)

GDP global rank: #3 (behind the European Union and the U.S.)

GDP, real growth rate: 10.3% (2010 est.)

GDP, per capita: US\$7,400 (2010 est.)



## Travel Consolidation

### Lin Xu, CEO, VariArts Travel Group

Lin Xu was trained as a China scholar at Stanford University after completing a business degree at Peking University. She worked as an executive in the United States, France and China before starting VariArts Travel Group. After founding a successful and unique destination management company, VariArts Travel DMC, she continued with a vision to create the first high-end travel consolidator in China, China Luxury Travel Network (CLTN.net) to consolidate China's premium travel resources and distribution channels.

## Expanding China's luxury travel hinges on travel consolidators

China's capability in delivering luxury travel experiences lies in scaling up, but the domestic travel trade lacks the wherewithal to exploit the segment's potential. Travel consolidators will help this segment take flight.

WITH 16% ANNUAL GROWTH forecast for domestic travel and a 10% annual expansion for inbound travel, China's domestic travel industry will be worth RMB 3.9 trillion by 2020. Numbers such as these have led many research organizations to predict that China will soon eclipse Japan as the second-largest travel and tourism market in the world.

Relatively untapped, the luxury travel segment in China has become the industry's fastest-growing sector. By opening its doors to international players, China has underscored the

immense lucrative potential that exists at the luxury end of the market and its intention to develop the sector.

### China is undersold to international luxury travelers

International high-end consumers have become more value-sensitive following the global economic downturn. They are willing to pay a premium only if product and service quality are guaranteed. They also demand unique and exclusive experiences such as those offering experiential and educational themes.

This demand for guaranteed, quality service coupled with the industry's quest to diversify and differentiate themselves from the competition has spurred the emergence of new, specialist vendors. Among them are vendors offering private shopping services, helicopter/private jet services, special interest services delivering educational travel, mountain climbing training, cooking and culinary experiences and volunteering experiences combining travel with opportunities for worthy causes. They not only provide value-for-money products but are also geared to cater to a wider demographic with regards to age, special interests, etc.

International high-end

More specialist suppliers are emerging in China capable of providing unique luxury holiday experiences for international travellers, but this segment is still undersold, especially compared to other Asian destinations.

consumers are becoming aware of China's expanding capacity for luxury travel, but there is a lack of agents in their countries that are well acquainted with China and its tour products to service them. As a result, China remains undersold despite its diversified portfolio and infrastructure for travelers, especially when compared to India and Thailand, which boast advantages in experience and language capabilities in dealing with international clientele.

The knowledge gap behind China being undersold is being rectified: The Internet and social media is transforming the travel decision-making process – most noticeably resulting in shorter booking lead times, more

**China's domestic travelers are also maturing, creating enormous potential for the luxury end of the luxury market, but agents targeting this niche lack the resources to fully exploit the potential.**

transparent pricing, greater consumer awareness of value-added and novel products, etc. As a result, agents in respective source markets are increasingly likely to buy directly from local suppliers rather than through global tour operators.

**Rise in domestic demand highlights supply shortfall**

At the same time, China's domestic tourists are maturing and increasingly turning to unique experiences and authentic accommodation, as evidenced by the change in the ratio between international and domestic guests for boutique hotels – from 9:1 to 6:4, even up to 4:6 in some cases.

They are moving on from whirlwind tours with packed

itineraries to in-depth, single destination programs with specific themes, such as education or family travel, enjoyed with a small group of family and friends. Online research and bookings are becoming increasingly popular, especially among the younger age groups (25 to 45 years old). Word-of-mouth, increasingly shared via online peer platforms (e.g. [www.daodao.cn](http://www.daodao.cn)), continues to play an important part in the decision-making and purchase process. Demand from second- and third-tier cities is rapidly catching up with that of larger cities, but that demand is not being met on the supply side.

At the top end, increased income and a stronger yuan are fuelling spending on high-end and luxury products. The culture of gift giving is driving these consumers to spend a substantial amount of their travel budget on shopping, and many are willing to pay top dollar for more exclusive items when traveling abroad.

But even as demand for luxury holiday products such as tours based on specialized themes, unique programs, off-the-beaten-track attractions, and new destinations grow, supply has been slow in adequately catering to this premium segment.

## COMMUNICATIONS INTO CHINA

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**There is a role for travel consolidators to pool together a diversified range of products in the marketplace, thus offering greater price advantages to help this segment thrive.**

While many boutique luxury travel agencies have emerged, they lack the wherewithal to create an adequate range of unique travel products and services and are unable to offer price advantages or market themselves due to a lack of market knowledge and budget.

**Opportunity knocks for overseas professionals and travel consolidators**

Such shortcomings underscore the need for human resource development, while providing opportunities for overseas professionals to take part in this rapidly developing market.

There is certainly a role for travel consolidators – to provide a well-developed marketplace with its own set of standards to connect

buyers and suppliers, and capitalize on online technology to enhance the presence of new local suppliers, support hotels' online distribution, trip planning, online customization of tour packages and peer opinion exchange.

Travel consolidators can ensure that a diversified and creative range of packaged products is available for agents to market to their clients while ensuring high service and product standards are maintained across all regional travel destinations. The consolidated business volume will also accord the trade, and thus consumers, a greater pricing advantage than possible through individual buying power.

If travel consolidators can effectively rise to the challenge and successfully meet the needs of the evolving industry, China's luxury travel will likely realize its potential and, in so doing, redefine the travel industry worldwide through the critical mass of its outbound, domestic and inbound travel volumes. 

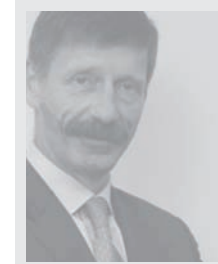
**China's GDP growth for 2012 is forecasted to be 9.5%**  
*Goldman Sachs*





**China will overtake the USA to become  
the largest world economy in 2017**

*Euromonitor International*



## Tour Operation

**Marcel Schneider, CEO, TUI China**

Marcel Schneider spent several years working in banking before gradually moving into the travel industry. He has held various senior management positions in Switzerland and was also general manager of Diethelm Travel Thailand (1999-2004) before his appointment as TUI China CEO in 2005.



## Foreign competition will lift China's outbound travel quality

The opening of China's outbound travel sector to foreign-capitalised tour companies will lead to greater competition that will ultimately benefit Chinese travellers and pave the way for the gradual opening of the market to more international players. Meanwhile, the inbound sector continues to flourish with much room for all players to explore.

PROJECTED BY THE UNWTO TO produce 100 million outbound travellers by 2020, China's potential as an outbound travel source market generates incredible excitement. Until recently, however, only wholly Chinese-owned companies were eligible for an outbound business license.

That changed in May 2011 when the China National Tourism Administration (CNTA) announced a pilot project permitting three foreign-capitalised tour operators

– TUI China, American-Express and JTB – to enter this potentially lucrative market.

The decision is a strategic one aimed at raising the industry standard of China's outbound travel market. Although China's outbound potential is widely recognised, we have to remind ourselves that the market is still not fully developed. I believe CNTA is heading in the right direction by strategically introducing new destinations and regulations

step-by-step. The ever-increasing outbound numbers provide ample evidence the strategy is working.

Still, the new foreign entrants will have to contend with numerous challenges when competing against well-established local tour operators for a slice of the pie.

Foreign players will have to go up against local operators that have had an unhindered head start in the outbound sector for decades and have thus accumulated a depth of experience, good reputation, high brand recognition and strong and efficient distribution networks.

Furthermore, in China's highly competitive outbound sector, competition almost always boils down to price – the lower the better. This is unfortunate as travel has a lot to do with emotions and feelings. Hence quality, service delivery and product innovation should be as important determinants as price in the travel buying process.

Increased competition is key to developing a market's environment as it ultimately delivers greater quality and value for the consumers.

In my view, it is opportune for China to gradually open its outbound market to more international players after it has given Chinese consumers a taste of an entirely different approach

**The fundamentals of the outbound and inbound sectors provide the industry the opportunity to explore greater flexibility, creativity and higher service standards.**

to service delivery, training and product innovation and a philosophy that ensures overall quality offered by the three foreign companies participating in the pilot project.

As with every business category, it is ultimately the consumer's right to choose whether to travel with a small or large, a Chinese or a foreign-owned company as long as these companies cater to their needs in a sustainable manner.

In time, with increased competition, only those companies that understand and deliver on consumers' requirements will remain standing. In this sense we will eventually see the market becoming more self-regulating, with a focus that goes beyond extremely low pricing.

The opening up of China's outbound travel to three foreign-capitalised tour operators in a pilot project will give consumers a different level of quality travel experience, underscoring the advantages of opening the market to more international players.

For now, the three new foreign entrants can expect a challenging road ahead. They will have to create outbound business divisions from scratch, carve out their own unique approach based on their inherent advantages to develop tailor-made quality products that meet the mainland consumers' demands. Only then can they expect to gain an equal footing with their local counterparts in terms of brand awareness.

#### Staying ahead in the inbound game

While the outbound sector continues to fuel much of the excitement, China's inbound travel market nevertheless offers excellent business opportunities with the promise of strong and

sustained long-term growth.

The growing maturity of the inbound market coupled with a diversification of products on offer will in my opinion – ensure sustained growth of the industry. Five trends in particular underpin this observation:

1. Group business will still feature prominently from Western source markets.
2. Diversification of access such as international direct flights to second- and third-tier mainland cities will add capacity to receive greater numbers of overseas arrivals.
3. Demand for tailor-made travel products, activities and special interest programs will increase.
4. High-speed rail links and luxury carriages on niche routes will make train travel more popular.
5. Previously lesser-known destinations for overseas travellers such as Zhejiang, Sichuan, Yunnan, Guizhou, Shandong, Hainan Island and the Silk Road will increase in popularity thanks to deeper and holistic understanding of China's tourism attractions.

While traditionally popular sites such as Beijing, Shanghai, Xi'an and

Between 2010 and 2020, the number of households in China with an annual disposable income above US\$10,000 (in nominal terms) will almost quadruple – from 57.1 million households in 2010 to 222 million by 2020

*Euromonitor International*



The inbound sector is maturing, with visitors demanding more immersive and interactive experiences. It also highlights the need for developing sophisticated personalised services in order to attract return customers.

the Yangtze River cruise will remain top-selling programs, newer destinations such as Luoyang, Chengde, Suzhou, Hangzhou, Pingyao, and Huangshan will become popular add-ons as the market evolves and matures. Hangzhou's West Lake, for example, is likely to attract greater foreign attention since becoming a UNESCO World Heritage site in August 2011.

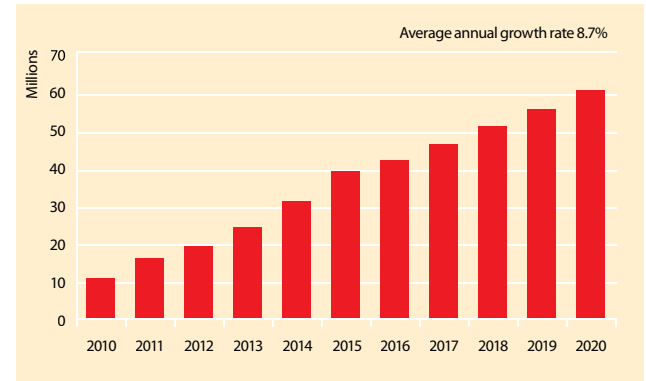
Another opportunity lies in offering a greater cultural immersion. While China's historical and cultural appeal is undeniably attractive to foreign tourists most tours, however, tend to deliver only a skin-deep experience. As such, I see increased demand for cultural immersion activities such as city neighbourhood walking

tours (e.g. Hutong tours in Beijing), local cuisine cooking classes, calligraphy lessons, trips to the local wet markets etc.

I have also noticed increased demand for soft adventure holidays such as biking, hiking, trekking, rafting etc. Blessed with diverse landscapes – from deserts to jungles and from grass plains to ice-capped mountains – China is an ideal destination for adventure travel.

These factors bode well for the industry since the government has deemed tourism “strategic” to the country's economic growth. China's Vice Premier, Wang Qishan, was reported in Xinhua as saying that the industry needs further reform and innovation if it is to achieve its full potential.

TUI China vision of China foreign inbound arrivals 2011 – 2020



Not including arrivals from Hong Kong, Macau SARs and Taiwan

He stated “local authorities should work together to make tourism a strategic pillar industry”, adding that training should be enhanced to lift professional skills and ethics, as well as response to emergencies. It is indeed essential for China to develop sophisticated personalised services and products to attract return customers, which is severely lacking currently.

Statistics indicate there is much potential for China's inbound travel development – CNTA official statistics shows China received 26 million foreign arrivals (excluding Hong Kong, Macao and Chinese Taipei) in 2010. Based on our research and analysis, including direct analysis of the 50,000 Western tourists we bring

to China every year, we believe the inbound potential is far more significant – it can reach 60 million visitors by 2020, representing a compound annual growth rate of 8.7%.

In addition to the traditional source markets of Europe, North America, and the Far East, the emerging economies of South Asia, South East Asia and South America will add further impetus to China's inbound growth.

I am excited about the opportunities that China's outbound and inbound travel sectors present. The fundamentals are aligned and there is much room for greater flexibility, creativity and higher service standards for the industry to explore. 🚀

# 10 TIPS

As China progresses into its 12th Five-year Plan, with expectations rising across the board in areas such as education, healthcare, science, technology and the environment, foreign multinational travel and tourism companies will be better positioned to manage related risks and opportunities bearing in mind the following 10 tips:

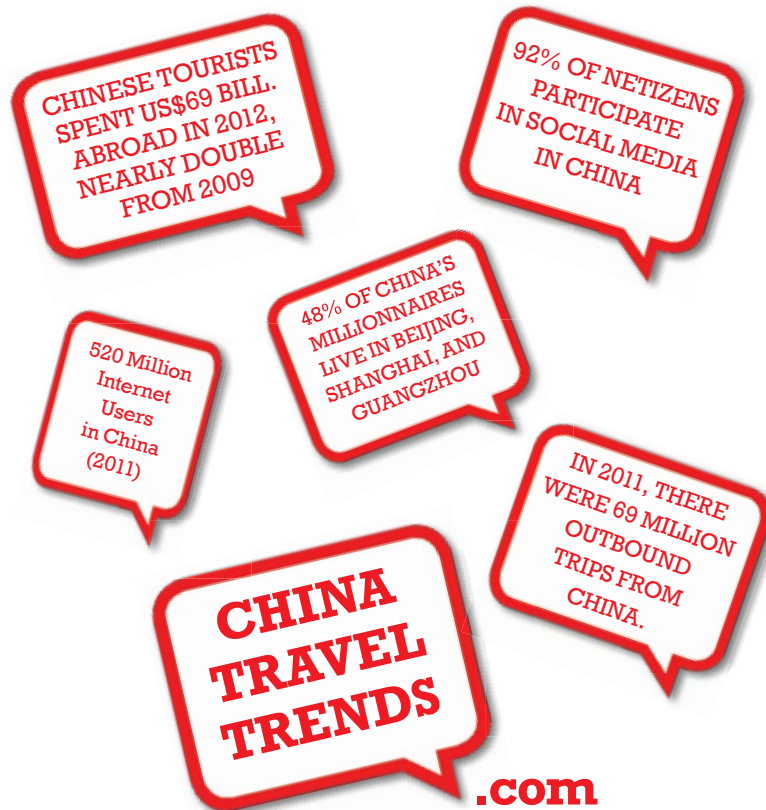
## How to position international travel companies in China

1. **Avoid being seen as applying 'double-standard' to China**, for example, not adhering to the same high standards on service, environmental or safety in China as you would in other markets.
2. **Tell your corporate story on how you are supporting China's development**. Make it real – with examples that demonstrate an understanding of China's development goals and development stage. A China-focused sustainability report is an excellent platform to tell such a story holistically. Engage stakeholders when telling your story.
3. **Build or strengthen partnerships with credible local stakeholders** that contribute to Chinese development needs and goals. Corporate responsibility programmes are an excellent platform for this – as long as they are sustainable, relevant to your company, make a real impact and are communicated in a measured way.
4. **Educate your company leadership and key departments** on the evolving China context (or get educated if you are the leader), through research and analysis, reporting, training or other programmes. A dedicated seminar with presentations from external and internal stakeholders and experts can be great way to focus the top minds of the company on this fast evolving country.

5. **Create a China advisory board**. Bring together Chinese experts with in-depth knowledge and experience to help your company navigate and understand China.
6. **Make sure you have the right people with the right resources**, knowledge base and tools to manage issues and a crisis. Many international companies have learned the hard way that there is no substitute for preparation and experience in managing a crisis. Nowhere is this truer than China – where the handling of the crisis can so often become a crisis in itself. Knowing how the media work and influence each other in a crisis in China is just one example of essential crisis communications knowledge.
7. **Map your key Chinese stakeholders around the core issues** – and proactively develop relationships with them. It's too late to call many of them if the crisis has already hit. In China's relatively opaque operating environment it often takes time to work out who to call in the first place.
8. **Develop an integrated communications and public affairs plan** specifically for China – that is based on substantive research and analysis (as opposed to guess work and outdated assumptions). An integrated plan addresses your core stakeholders through various channels and programmes – with clearly defined goals that align with and support long-term business strategy.
9. **Redouble your focus on compliance and corporate ethics**. Corruption and ethical issues are damaging for reputation and business prospects, especially when the government and media are zeroing on these issues. Apart from corruption, other focus areas include pricing fraud, labour rights violations, environmental pollution.
10. **Go digital**. China has the most internet users in the world and is one of the most engaged countries on social networks. Chinese companies are quickly catching up to Western companies in using social media. According to Digital Influence Index, 85% of Chinese consumers view the internet as the most influential channel, and 95% of Chinese consumers trust a company more that is engaged and active on *weibo* (micro-blogging). Digital strategies need to be woven into your communication capabilities and be part of your institutional radar system.

Source: China Travel Trends, 2012

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Chinese young professionals – representing  
6% of Internet users in China – have an  
astounding 99% internet penetration

*Boston Consulting Group*



## Internet & Social Media

**Jens Thraenhart, President & Co-founder, Dragon Trail**

Jens Thraenhart is co-founder and President of travel technology and digital marketing firm Dragon Trail, helping travel brands develop a China presence leveraging social media, digital marketing and internet technologies, as well as publisher and editorial director of China Travel Trends. Educated at Cornell University with a Masters of Management in Hospitality, Mr. Thraenhart was recognised as one of the travel industry's top 100 rising stars by Travel Agent Magazine in 2003, and was listed as one of HSMIA's 25 Most Extraordinary Sales and Marketing Minds in Hospitality and Travel in 2004 and 2005. As a global e-tourism expert, he has led marketing and Internet strategy teams with the Canadian Tourism Commission and Fairmont Hotels & Resorts, and has consulted for many global companies. He has served on various boards, including HSMIA and IFITT, and is currently the Chair for PATA China.

# China's youth market challenge marketers to new way of thinking

The increasingly sophisticated youth in China sees travel as a way of self expression. Marketers should note their online habits, their generational difference and their individuality when reaching out to them.

CHINA'S AFFLUENT CONSUMERS are typically 20 years younger than those in Western countries. Among them, the youth market – specifically people born in the 70s, 80s, and 90s – is the prime segment.

As the Internet becomes the most important channel to connect with affluent consumers all over China, traditional media and events are no longer the best way to reach these consumers. Brands need to adapt their marketing strategies and the way they interact with customers when it comes to Chinese youth.

## Younger Chinese see travel as self expression

The way Chinese consumers choose to travel is undergoing a structural change – Chinese tourists are increasingly pursuing personalised tour experiences, shifting away from the traditional concept of a tour group.

A recent study by the Boston Consulting Group revealed that 95% of Chinese tourists are unsatisfied with the current travel products and services available both domestic and outbound. Package tours with busy schedules covering

multiple destinations are being replaced by multi-directional developments such as in-depth and theme tours.

Younger Chinese people in particular are sophisticated, with a growing appetite for interesting Western brands, famous historic locations and art galleries. They seek respect and global integration, they want to be a part of it all and they work hard – many at international firms as well as in entrepreneurial domestic companies. For them, travel is an important part of self expression. How they spend their valuable time is a way of demonstrating who they are.

## Online real-time interaction becoming a way of life

The Internet is the medium through which many Chinese consumers are finding out about new destinations and travel services. With over 485 million internet users in China (more than the entire population of Europe), more than 80% of Chinese travellers research and educate themselves about destinations and brands online. According to the Digital Influence Index, social media is the most influential medium in modern China, ahead of travel agents, newspapers, magazines, or TV.

## Bear in mind also the following pointers when reaching out to China's youth consumers:

1. Don't try too hard to be trendy just because you are communicating with young people. Never underestimate the subtle nuances in people's desire to be different. Forget about picking up trends but focus on creating arenas for young people to express themselves.
2. Make use of the instinctive competitiveness of those born post-1980s. They tend to compare themselves with their peers. Consumer competitions such as online campaigns and contests will encourage them to actively engage, especially if the results are visible and comparable to peers.
3. The younger the target audience, the less influenced they will be by "celebrity endorsers". Instead, they will turn to the opinion leaders amongst their peers. This creates some challenges for marketers, since the new leaders of opinion may be harder to identify than the traditional celebrities. On the other hand, it creates opportunities in terms of credibility, closeness to the brand and creativity. It is possible to target the new opinion leaders by studying their communication patterns online. The key is to identify them and to build long-term relationships with them.

As it turns out, Chinese youth are not so very different from young people all over the world after all.

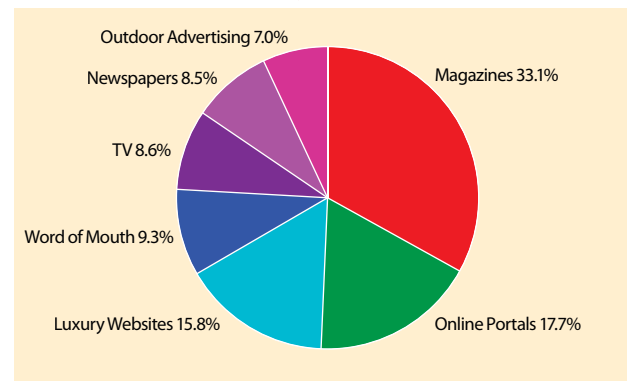


## Characteristics of Chinese young adults

	China's eldest child: 1970s	China's middle child: 1980s	China's youngest child: 1990s
Key focus in life	Responsibility Happiness	Fun	Excitement
Core values	Family	Friends	Self
Internet value	Time Saver	Social arena	Extension of self
Outlook on trends	Follow trends	Choose trends	Create trends
Online content	Collecting information	Sharing information	Creating information
Communications strategy	Nothing overwhelming	Accessible and trendy	High level of interaction
Engagement strategy	Information	Peer involvement	Self expression
Friends	Make friends with those that have power and influence	Make friends with those that share the same interest	Make friends with those that have tattoos
Money	Have savings	Have debt	Have daddies
Financial pressure	Demands from children, spouse and parents	Ignoring pressure and live in the now	Pampered by parents and grand parents
Discussion topics	Topics that relate to everyday life: • Seasonal fashion • Property prices	Topics that make one get ahead: • Career • Trends	Exciting topics to be shared: • Sensations • Gossip

Source: The Bergstrom Group, 2010

## How Chinese consumers discover luxury brands



Source: Survey by Fortune China, 2011

Real time is a way of life for the Chinese. They need to get news and respond as things are happening. Even though they spend no more time on email than their counterparts in the US, tools that are anything less than real time seem outdated to them. Young Chinese consumers want answers. They want to feel in the loop. They want to feel valued. For brands, helping customers feel “in the know” is important, especially for the younger generations.

## Understanding young Chinese consumer groups

The term “youth” is too broad. Due to China's accelerated changes over the past 30 years, people born in the 1970s, 1980s and 1990s have grown up in vastly different stages

of development in the society. Although they grew up in the same country, their world views and views of themselves are very different.

Communications strategies often fail to consider the enormous differences between the consumer “generations” born in each of the last three decades. When brands contemplate who their ideal versus actual consumer is, they have to be specific about which subset of “youth” they are targeting.

Clear strategies for targeting urban versus rural or male versus female consumers is no longer enough. Every campaign must carefully consider the gulf of differences between the different age groups (see table). 🇨🇳

# 8 TIPS

Many travel brands trying to capture the attention of the increasingly affluent customers in China are meeting challenges and disappointments due to various reasons. Through our experience in leveraging the complex and active Chinese internet and social media landscape for travel organisations to reach and connect with Chinese consumers, we have identified eight essential rules for engaging this lucrative segment.

## Top 8 tips for marketing to affluent Chinese consumers

- 1. Spot the China travel trends.** As the China travel market is growing both domestically and outbound, it's worthy to note that offline travel agents are still the dominant distribution channel, though online channels are growing. Bear in mind too that Chinese consumers are moving towards an experience-based choice model from a price-based one. They are demanding higher quality services and are seeking more personalised travel experiences.
- 2. Understand the Chinese consumer.** Be seen as offering Chinese-ready services – from providing hot-water cookers for instant noodles and slippers in the hotel room, to offering Chinese dishes such as congee at breakfast, Chinese language menus in restaurants, Chinese-speaking staff and Chinese audio guides for destinations and museums. Keep tabs with affluent Chinese consumers' demographics (see article on Luxury Travel on page 39). Remember that affluent Chinese consumers are not all the same, and should be segmented accordingly.

- 3. Leverage the Internet as a medium.** Internet usage in China is very active and fast growing – the country boasts the world's highest number of internet users, at 500 million by October 2011, representing a penetration of just over 35%, [CNNIC]. Forrester Research predicts that in 2014, 75% of the 1.3 billion mobile devices owners will access the Internet via their mobile devices, compared to the current level of 30% of the 950 million mobile users. [CNNIC]

The Internet in China is also different and complex, and local expertise and relationships should be leveraged when marketing online or dealing with local regulations. For example, use Baidu for search marketing, Ctrip and Elong for online travel agent distribution, Laoshou for group buying.

The role of the Internet is even more crucial for reaching high net worth individuals based in second, third, and fourth tier cities, where companies may not have a physical presence.

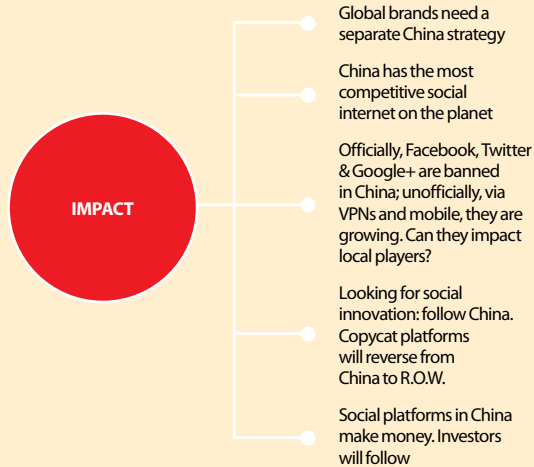
- 4. Develop a multi-channel plan.** Offline and online channels converge in China. As such various media need to be used in tandem with a consistent message to create the right channel.

Digital and social media are the most influential media in China, even more so than in Europe, Australia, or North America – in 2010, 85% of Chinese people believe that the Internet will be more influential in the next two years, compared to 22% in the US. [e-Marketer]

Bear in mind too that PR works differently in China than anywhere else in the world – for one it is not free. PR in China leverages the power of celebrities and key opinion leaders. It uses a mix of social media, traditional media and events.

- 5. Develop a relevant Chinese website.** Chinese consumers usually check company websites before clicking onto online forums and social media sites. When planning your company website, it's important to consider hosting it in China to avoid potential censorship, achieve faster download speed and improved search engine placement on Baidu, which has over 80% market share in China. Tailor-make website content in Simplified Chinese rather than merely using a translated version based on English and not completely relevant to the Chinese consumers, as irrelevant content will only serve to turn off site visitors.

## Global internet landscape of the future: China Vs Rest of the world



Source: Global Web Index 2012

Avoid linking to non-Chinese content or adding blocked social media links (i.e. Facebook, Youtube, Twitter), as this will also diminish the online experience for the Chinese consumers and will be perceived as a lack of respect to the Chinese consumers.

- 6. Be connected in social media.** China's online community is the world's most active participants of social media, with 92% of online users engaging in social media in some form. There are twice as many "active creators" (people that write blogs, upload photos and videos, etc.) in China than in the West.

While the West is debating the advantage of brands having a presence in social media, the Chinese are embracing it with no qualms. A Fleishman-Hillard study shows that, unlike in the West, a brand named in a micro-blogging platform will not dent consumers' confidence in the brand. On the contrary, the Chinese are more forthcoming to brands tapping conversations on micro-blogging platforms. This is worth noting for brands given that 62% of Chinese Internet users share negative opinions online, versus 41% worldwide.

When in China, forget Facebook, Twitter, Youtube or other international social networks, for the Great Firewall of China has blocked them. The Chinese digital media landscape is dominated by local players, so it's critical to set up and constantly optimise brand profiles on Chinese social media sites.

- 7. Tell a good story.** In order to engage people online, lead your content with a good story rather than promotional offers, sprinkled with interesting topics for Chinese consumers, such as shopping, celebrities, and culture (e.g. historical communist locations in Germany – Karl Marx)

Integrate influencers such as celebrities and key opinion leaders (KOL) for specific topics into brand campaigns. KOLs in most cases have large followings and thus the ability to influence trends and purchase decisions.

Developed content (i.e. video clips) should be shared online (i.e. brand website and social media), as well as offline (i.e. big screen in Sanlitun Village in Beijing, screen on the back of the seat in taxi cabs).

Make it easy for consumers to engage with brands online by enabling uploading of photos and videos, blogs and micro-blog posts for experience sharing. Integrate Chinese social media into Chinese-language brand websites. Encourage your customers to share their experience of your products on your Chinese social media profile, perhaps by offering incentives.

- 8. Build relationships via campaigns.** Develop web campaign platforms with integrated incentive schemes. Make it viral through social media to reduce advertising cost and increase participation.

Focus primarily on capturing permission-based consumer data and increasing fans/followers on social media and micro-blogging sites. This will contribute to developing a holistic and long-term China marketing strategy, as opposed to short-term ROI sales driven campaigns. The captured data can be used for future digital, social media, and email marketing campaigns.

Local presence, as well as travel and technology expertise are important factors when executing complex digital marketing campaigns. A solid technology partner is vital especially when running campaigns, to ensure data quality and protect the database from online hackers.

For the complete report, please visit: <http://slidesha.re/HRHT3y>

Source: China Travel Trends

100%  
TRAVEL

100%  
DIGITAL

100%  
CHINA

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**By 2015, China's Internet population is expected to reach more than 650 million..... however, that still would only represent less than 50% of China's total population**

*Boston Consulting Group*

Jens Thraenhart, President & Co-founder  
Dragon Trail

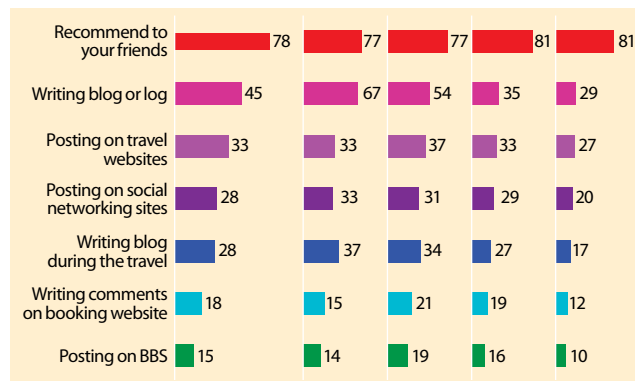
## Connecting with Chinese consumers online

GIVEN THE SIZE OF CHINA AND its population, a digital presence is far more important and potentially effective than a physical presence, which also has the benefit of reaching a far greater audience in all over China, and even Chinese people outside of China, while the traditional entry strategy focused primarily on the three main first tier cities of Beijing, Shanghai, and Guangzhou. This is of particular importance as, based on research by China Market Research Group, the fastest growing millionaires in China are in second, third, and fourth tier cities, like Dalian, Harbin, and Chengdu. While this strategy is not only more cost effective and yields a higher ROI, it leverages the power of the Internet and social media in China to have consumers

take control of where they want to go and what they want to experience, instead of what travel agents and tour operators are accustomed to sell. Having a good Chinese language website is a must but not all that is required in this respect.

Chinese tourists will look online for information about destinations, hotels, and transportation. Many also now book their travel online, usually through one of the large travel websites such as Ctrip or eLong, but they also look for hotel websites for further information on rooms, services provided, and photos. However, currently many international hotel chains either offer no information in Chinese or the information is severely reduced, mixed with English content and

## The experience sharing after trip (%)



Source: Nielsen Outbound Travel Monitor 2011

links to English language websites, or just not relevant for the Chinese consumer.

However, more than official websites, Chinese travellers are more likely to get their information through social media of one kind or another. Online video-sharing sites offer videos of tourist destinations, blogs and microblogs recount good and bad travel experiences, traveller review websites, like Daodao.com (Chinese version of TripAdvisor), are very popular and influential in decision making processes before booking hotels or choosing holiday destinations. According to the Digital Influence Index, social media is the most influential medium in modern China, more than travel agents, newspapers, magazines, or TV.

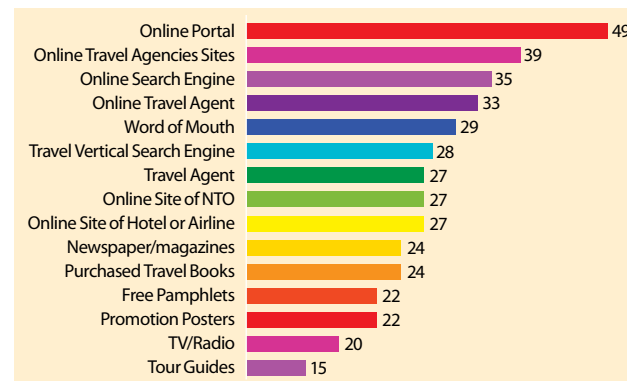
95% of Chinese Internet users believe that a company that is engaged on micro-blogging is more trustworthy. Word of mouth has always been important for Chinese outbound tourists.

However, whereas in the past this meant seeking recommendations from friends and relatives, this is now extended to whole networks of known and unknown people online. Social media is quick, influential, popular and 'cool'. Used appropriately, its marketing potential is enormous.

## Chinese digital overview

As we know, Internet has been growing very fast in China, and more and more Chinese are using Internet in their daily life and work. By end of 2011, according to the

## Information channel (%)



Source: Nielsen Outbound Travel Monitor 2011

latest data by CNNIC, number of Internet users in China has reached over 500 million, which is over one-third (36%) of total China population. This makes China the top country with the highest number of Internet users in the world, higher than the United States. The top 5 websites in China are: Baidu, QQ, Taobao, Sina and Youku, with the reach of 88.9%, 67.6%, 50.1%, 46.4% and 38.0% respectively.

Popular sites such as Facebook, YouTube, and Twitter have fallen victim to the Great Firewall of China, and are in fact blocked in China. There, local Internet companies rule the digital space. According to the Nielsen Outbound Travel Report 2011, Chinese consumers use the

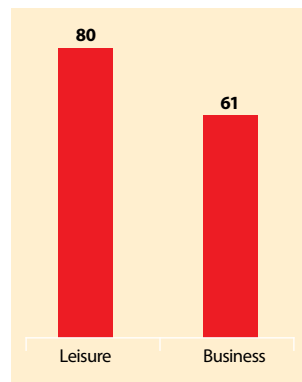
Internet as a research tool, more than any other medium, and e-commerce, while still small, is growing rapidly for travel purchases. Currently travel websites attract 42 million average monthly unique visitors and roughly 14% of Chinese Internet users visited a travel category site in the first quarter of 2011.

## Chinese website

Regardless of a company's market entry strategy to Chinese consumers, it must back its Chinese marketing with a solid website. Poor website performance lapses cost companies in terms of both real revenue and brand reputation. And worse, Chinese consumers associate poor Chinese websites with a lack of respect and bad



## Experience in information search (%)



Source: Nielsen Outbound Travel Monitor 2011

offline experiences. Just as with Western consumers, Chinese consumers quickly abandon poorly performing websites and seek out sites that consistently deliver the best end-user experience.

In the travel industry, it is very important to have a web presence that can stand up to competition both in terms of aesthetic (how professional is your site) and visibility (how easy it is for your customers to find your website, especially in the search engines), as well as access (how fast does the website load). Therefore, a relevant Chinese website and website hosting in China is critical in order to ensure organic local search engine optimisation, and optimal accessibility. A solid technology partner is vital, especially when

running campaigns, to ensure data quality and protect the database from hackers. Local representation, especially with intimate knowledge and relationships in the travel and Internet space in China are critical in order to ensure successful strategy execution.

Considering a .CN domain name has various advantages. Dot CN, China's Internet address, is a recognised and respected brand that allows businesses and organisations to build *guanxi* (*Guanxi* is the idea of the network of relationships among various people that do business) between themselves and their Chinese prospects. More than 60% of all Chinese Web sites are in the .CN domain [CNNIC, 2010], making it a widely recognised Internet brand. More importantly, it reassures Chinese customers that the business recognises the importance of speaking from a localised cultural perspective, especially if it a foreign company.

While it is true that most sites hosted elsewhere are accessible in China, it makes sense to have your Chinese portion of your website hosted in China. Not only will you have the benefit of faster connection speed, but you will be more protected against potential IP blocking (if it happens that your host has been serving subversive

sites and becomes blocked in China) or even natural disasters (the Chinese Taipei earthquake essentially cut access to overseas sites from China for days or even weeks in some cases). Finally, China-hosted websites are better indexed by local search engines, such as Baidu.

Many companies have attempted to reach Chinese consumers from data centres in Hong Kong, Singapore, and other Asian nations. These efforts have proven ineffective. Content originating from outside of China must first pass through a filtering process, which can result in partial delivery of web pages or full-page delivery at reduced speed. In both cases, delivering content from abroad reduces the quality of the end-user experience.

When it comes to culturally relevant web design, a couple important cultural attributes need to be taken into consideration when designing a website for Chinese consumers.

**Collectivism:** As China is a collectivist country, the targeted websites may be culturally customised to a degree by emphasizing values important in collectivist cultures. Research suggests there are several web-specific features that can

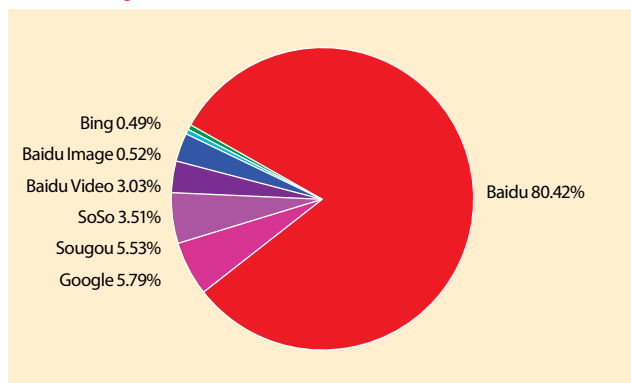
be included in a website to make it more appealing to collectivist cultures, like emphasizing the family theme.

**Power Distance:** Since China's score is high on power distance, cultural customisation may be achieved by adding elements that emphasise this value. For example, displaying awards or honors that a company or brand has received, or associations to other recognised brands, as well as celebrities and influencers.

### 'Wei' stands for "micro" and 'bo' stands for "blog"

Micro-blogging has been the growing phenomena in China. The Chinese Twitter equivalent is Sina Weibo, launched in August 2009, and in numbers also very active is Tencent Weibo, launched in April 2010. Tencent Weibo's user base is primarily in third and fourth tier cities, while Sina Weibo is more in first and second tier cities. Other Chinese microblogging platforms include Sohu Weibo, NetEase Weibo, and 163 Weibo. According to Sina's unaudited financial report, there are now over 300 million registered users on Sina Weibo. Tencent is growing even faster and reached 310 million users back in October 2011, however its activity ratio is not as high, compared to Sina Weibo, which launched the weibo.com domain name in April 2011.

China search engine market – November 2011



Source: <http://www.cnzz.com/>

Baidu has also moved into vertical channels, including travel, by making a big investment in Qunar.com. Baidu knows people in China often surf without a destination, are grateful for suggestions from trusted sites like Baidu, and are less sensitive to conflicts of interest, which may be due to lower understanding, and greater tolerance.

Even the best English website copy won't simply translate into Chinese. There are also many examples of companies with poor translated web pages or even some using free online translation tools. Ideally, the website undergoes a cultural transformation, which includes writing content optimised for Chinese search engines, writing content to articulate the brand message, and packaging the content so it makes most sense and is relevant to the Chinese market (as the English website might have content irrelevant for the Chinese consumers but is missing vital content important for decision making).

**Chinese Search Engine Marketing**  
Until very recent, organic website

search engine optimisation was equal to PPC (pay per click advertising) in China. Although PPC is important, organic search engine optimisation is critical.

Since Baidu is China's top search engine (80% market share), ranking highly on Baidu is a must for any websites. Baidu is particularly China-centric. To rank highly on Baidu a website needs to be (a) localised in the Chinese language and (b) hosted inside China. Baidu's search results are different than Google's. It is possible to "pay your way to the top" for your keywords on Baidu, which is widely accepted by Chinese users and differs from SEO techniques in most western regions. However Chinese search engine optimisation is still important, as the "natural" ranking is part of the formula that determines the fee.

### Chinese social media

A broader impact of China's deep involvement in social media is that some netizens only experience the Internet through social media platforms, and therefore would not distinguish between social media and the Internet itself. To them, the Internet is social media and vice versa.

The latest China Social Network Report 2011 (China Internet Network Information Center)

indicates that roughly 54.7% of netizens in China users today own or visit blogs, and 47.3% have a page on one or more social networking site (SNS). More than 25% write 10 or more posts on forums, blogs or SNS every day, and 92.3% of Netizens visit social media pages at least three times a week, while 27.1% have pages on five or even more different social networks.

Rather than eliminate social media, restrictions on foreign websites and social media have resulted in a flourishing home-grown, state-approved ecosystem in which Chinese-owned properties thrive, which differ in various ways from Western platforms. This variation is not all due to censorship. In China, local variations of Internet usage are driven by language, culture, levels of economic development, and the underlying digital ecosystem. YouTube, Facebook, and Twitter are blocked in China, but their Chinese equivalents are expanding. By some measures, usage of Chinese social media is some of the most intense in the world. In China, more than in many countries, social media has become deeply integrated into people's lives.

According to the 2010 TNS Digital Life Report, China is the first country in the world for number of



China social media landscape

netizens who join social networks to find information about brands. And the Internet is a trusted source, as 2010 Global Web Index indicates that netizens trust reviews and insights on social media three times more than a recommendation from an acquaintance.

Facing the thirst for information and consumption of Chinese netizens, international brands are entering full force the Chinese social media space. Not long ago it was not unusual for even internationally reputed brands not to have a Chinese-language version of their website. Today, most brands have a branded page in social networks like Kaixin001 or Renren, as well as Sina or Tencent Weibo. This is true for multinational corporations with a huge retail footprint in as well as brands that have been slow in penetrating the Chinese market or that have lagged behind in terms of brand definition in China.


Chinese netizens actively engage in discussions that could directly affect companies. A recent study by OgilvyOne in China found that 55 percent of China's netizens had initiated or participated in online discussions about companies. Understanding social media is no longer a luxury for companies operating in China—it is an imperative. Formerly, a lack of engagement with netizens could

be considered a lost opportunity. Now, the penetration and impact of social media is such that failing to understand what consumers are saying about a company online has become a business risk.

### Online Video Sharing:

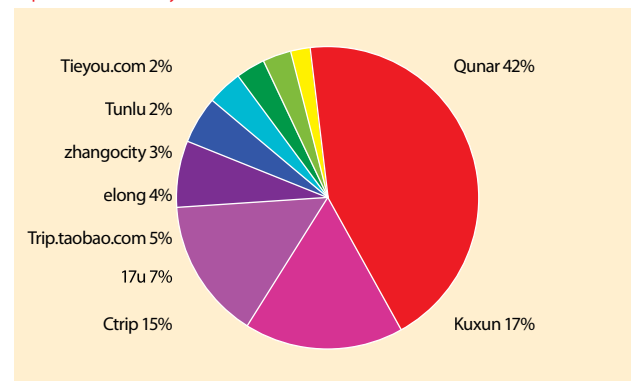
Different social media usage patterns tell a great deal about the Internet and the country involved. For example, Chinese netizens use online video platforms quite differently from how Americans use YouTube. Rather than short videos of cute animals or silly domestic mishaps that may be popular among YouTube watchers, Youku and Tudou are filled with longer form content, up to 70 percent of which is professionally produced. Users in China spend up to an hour per day on the sites, compared with less than 15 minutes spent by Americans on YouTube. In the way they present programs, the Chinese sites seem more like online television stations or a replacement for digital video recorders. Though individuals in China produce and post videos, a large portion of online video content is longer-format professional videos. Much of this content consists of foreign programs pirated, subtitled, and uploaded hours after broadcast in the United States.

Due to the blocking of popular Western social networking sites such as Facebook and YouTube, China has developed domestic sites that display similar functionality to their foreign counterparts.

 <p>Launched: 2005 Famous equivalent: Facebook</p>	<p>Like Facebook, Renren.com started as a social networking platform available exclusively to college students and – although now open to the general public – it still remains most popular with those attending university. In April 2011, the company announced it had reached 31 million active monthly users and filed to raise \$584 million in a U.S. IPO.</p>
 <p>Launched: 2008 Famous equivalent: Facebook</p>	<p>Kaixin001 allows users to upload photos, write blogs, and download Farmville-esque apps such as Happy Farm and Friends for Sale. More so than Renren, it appeals to a broader member base of young urban professionals.</p>
 <p>Launched: 2008 Famous equivalent: Twitter</p>	<p>Since its launch, Sina Weibo has emerged as the most popular microblogging service in China, claiming nearly 60 percent of the microblogging market and reeling in 250 million registered users as of October 2011. Each day, 25 million messages are sent on the platform. By comparison, Twitter has more than 200 million users and 50 million messages sent per day.</p>
 <p>Launched: 2006 Famous equivalent: YouTube</p>	<p>Youku not only allows users to upload videos of any length, it also offers a video library of popular films, TV shows, and clips. Because copyright laws in China are only loosely enforced, the site can display unlicensed content that YouTube may not be able to.</p>
 <p>Launched: 2010 Famous equivalent: Foursquare</p>	<p>Jiepan offers a location-based social mobile app for the Chinese Internet population. Like its American equivalent, Foursquare, users can “check in” at various locations throughout the country and earn rewards and discounts.</p>

Source: eMarketer January 2011

Top 10 Chinese OTA by share of visits in November 2011



Source: Experian

### Microblogging:

Some differences between Chinese and foreign social media are rooted in culture and language. At first glance, Sina Weibo is a latecomer to the microblog phenomenon. But launched in 2009, just about three years after Twitter, Sina Weibo is by far the most popular microblogging platform in China with over 250 million users. Similar to Twitter, Sina Weibo allows users to post 140-character messages, and users can follow friends and find interesting comments posted by others. Small but important differences in the platform have made some say it is a Twitter clone, but better. For example, unlike Twitter, Sina Weibo allows users to post videos and photos, comment on other people's updates, and

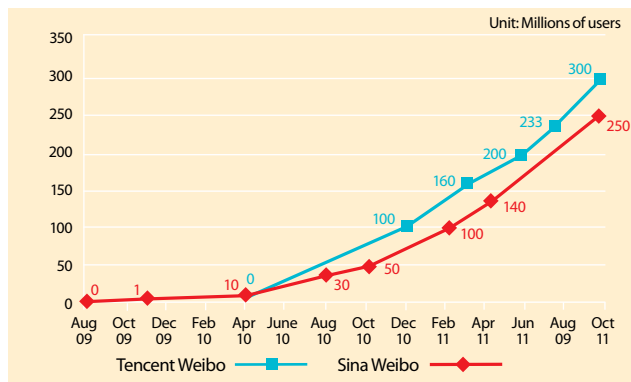
easily add comments when re-posting a friend's message.

Though mobile phones are used to send less than 20 percent of Twitter updates in the United States, nearly half of Sina Weibo's updates are sent via mobile phone. This phenomenon points to the growth of China's mobile Internet, one of the biggest trends in China.

### Social Networking:

Throughout much of the West, particularly the United States, Facebook holds sway as the default social network, gathering all demographics. The same does not hold true in China, where a handful of social networks attract segmented audiences, ranging from upmarket urban youth to university students and migrant workers.

## China's top microblogs

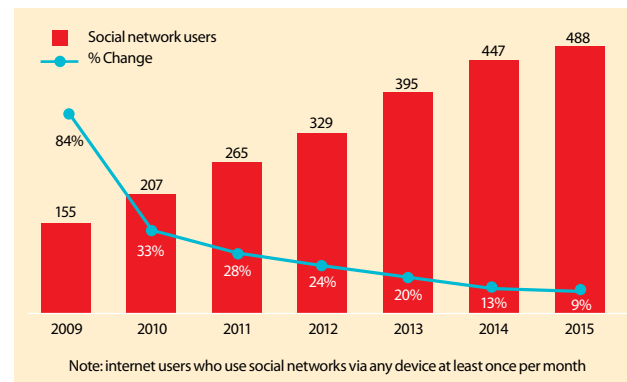


- **Douban** ([www.douban.com](http://www.douban.com)), a more specialised social networking site, attracts art students and those passionate about books, cinema, culture, and music. Users connect according to their interests and often hold offline activities, such as trips to local art exhibitions.
- **Kaixin001** ([www.kaixin001.com](http://www.kaixin001.com)), a platform designed for a more mature audience of young professionals, has a membership that is heavily dominated by white collar workers in Beijing; Guangzhou, Guangdong; Shanghai; and second-tier cities. Users do not upload personal content but rather share information they find elsewhere, often relating to health,

relationships, and professional advancement.

- **QZone** (<http://qzone.qq.com>), the first and largest social networking site in China by Chinese Internet giant Tencent, attracts youth from teens through age 25, often from second- and third-tier cities. A sizable portion of migrant workers, many of whom share personal diaries in a blog-like format, use QZone.
- **RenRen** ([www.renren.com](http://www.renren.com)), the platform in China most similar to Facebook, attracts university students who use the platform to connect and interact with classmates. The site is organised around users' school and

## Social network users in China to reach 488 million in 2015



graduation class. Many users upload videos and photos of their activities.

Besides these key social networks, there are various niche SNS that attract very passionate and loyal followings. P1.cn has established itself as having a focus on the luxury lifestyle, and with its by-invitation-only approach is somewhat similar to ASW ([asmallworld.net](http://asmallworld.net)) in the west. On the business social networking side, Ushi.cn is working to become the LinkedIn in China, and was backed by influential Chinese business leaders.

## Bulletin board systems

Beyond these sites that have more modern Internet functionality,

some original forms of social media still flourish in China. Bulletin board systems (BBS), which were a primal form of the early Internet, are forums that allow people to post basic messages online to get critical consumer comments about products and services. Postings are anonymous, which encourages users to give unvarnished views.

## Chinese travel distribution

At this point, most travellers use local bricks-and-mortar travel agents. Only 14% of China's 500m internet users have visited a travel website [PhoCusWright]. This is partly because they lack credit cards, or enough money to go anywhere. But it is also because real-world agents woo customers by offering refunds for cancelled

## China social network users attitude towards interacting with brands on social networks



Source: Jack Morton Worldwide 2012. ChinaInternetWatch.com

trips and generally going the extra mile. That said, the travel industry has gone digital in other countries – online booking is cheaper and allows easier price comparisons – so it will surely catch on.

For the most part, the Chinese traveller uses the Web to search for travel but calls a reservation centre to book. China has a service-oriented culture, which lends itself to communicating over the phone to make purchases. But the penetration rate of online transactions is growing very quickly, at about 50% per year. The majority of OTA (online travel agency) bookings, around 60-70% are being conducted via call-centres, where consumers after having researched online call in

their orders – interesting though that 90% of bookings on Ctrip's English language site are executed fully online.

The majority of bookings are for hotels and flights, while travel packages are still very low, especially for international travel. It is estimated that about 12% to 15% of flight tickets and hotel rooms are booked online in China. Of that online market, approximately 70% to 80% of transactions are done through third-party intermediaries versus supplier direct, like airlines and hotels. The focus of Chinese OTAs, such as Ctrip and eLong is domestic, while Outbound still remains a small but growing revenue source.

Outside of selling rooms, Chinese hoteliers are not as active on the Internet as in other markets. Nearly every OTA and meta search player has a substantial peer review service, but there is no dominant player like TripAdvisor in the U.S., even though Tripadvisor has a Chinese language site under the name of Daodao.com.

The economics of OTAs are slightly different than in the U.S. in that most OTAs operate on a simpler commission-based model that is more cost-effective for hotels.

China's online travel market during the first quarter of 2011 exceeded US\$2 billion in revenue from third-party online travel agents, up 4.7% compared to the fourth quarter of 2010, according to China Internet Watch. Ctrip remains the No. 1 OTA in China, capturing 47% of online bookings in the first quarter. The next closest is eLong.com, owned by Expedia, which captured 8%, and Mangocity, which captured 7% of the online booking market. Emerging players, such

as package travel site Tunio are worth watching. When it comes to overall website traffic, Qunar leads the market in China.

Baidu, China's largest search engine purchased a controlling stake in June 2011. In May 2011, Tencent, another online giant, snapped up 16% of eLong, a Chinese online travel company that is part-owned by Expedia. Together, Baidu and Tencent threaten Ctrip, China's biggest travel firm.

Finally, there are also various companies that are developing websites and online services to sell luxury travel experiences online, including Ctrip, eLong, MangoCity (mass market OTAs), CTS/CYTS (traditional travel agency), Qunar (travel search engine), as well as new package tour OTAs such as Tuniu, Manmanzou, and Travelzen, as well new start-ups. One of them is Jetsetter clone Affordable Luxury Network (myALN.com). While still widely unexplored, this space will be very active over the next couple of years. 虎



## CASE STUDY:

# Sina Weibo

**Sina Weibo, often referred to as “Chinese Twitter”, offers more in terms of content, structure and customization than its American counterpart. The following table illustrates some significant differences between Sina Weibo and Twitter.**

Aside from the technical functions, user habits also differ; where Sina Weibo users share and comment more about entertainment whereas Twitter users focus on news.

Weibo has effectively merged the social networking characteristics of SNS; the convenience and immediacy of instant messaging; the individual touch of blogs; and the variety of subjects of BBS. With this growing trend, how can brands utilise this unique opportunity?

## Consumer Insights

Most comments and tweets posted on Weibo reflect the user's personal perception and experience. It is no wonder that companies are now using social media, especially micro-blogs, to gather consumer insights and monitor consumers' perception of brands. This allows brands to capture current market information and perform checks for their brand positioning. Furthermore, regularly checking competitors' social media activities is also useful. Contents generated by consumers will reflect a competitor's strength and weakness, which could lead to possible opportunities.

## Brand Awareness

There is no doubt that brand awareness is crucial to sustain the growth of a brand. Weibo supports a wide platform of different embedded media including videos, images, music, and emoticons. Many consider Weibo to be a relatively inexpensive method to improve brand awareness. However, it is not to say that brands will achieve that goal completely for free. Quality content and influential followers takes time and money to build. Social marketing research and influence tracking will also play an important role.

## Integrated Interaction

Before the mega wave of new media hit, traditional media, such as television, offered one-way communication to a large number of audiences. Weibo is a two-way communication channel which relies on direct interaction and engagement. One important factor is the nature of the platform; brands need the constant exchange of information between users. Interactions between users help brands to notify signs of negative content and utilise the platform as a customer service tool. 📺

	Sina Weibo	Twitter
Characters	140	140
Pictures & Videos	Preview in main panel; click to enlarge normal size	Preview in side panel; often hosted on third party platforms
Retweet/Comments	Can add personal comments	Retweet content without
Replies/Comments	Comments are displayed under the original tweet similar to Facebook	Comments are displayed as new tweets
Polls	Polls are displayed as tweet; click to enlarge and participate	Currently not available
Emotion Icon	Available	Currently not available
Verified Accounts	Special user interface with added features	Same user interface and features
Game Centre	Available in beta	Currently not available
App Centre	Available	Currently not available
Groups	Available	Currently not available
Photo Album	Available	Currently not available
In-house Account Analysis	Available	Currently not available

# China Travel Social Media Seminars

DragonTrail, one of China's leading digital travel specialists provides experts for speaking engagements at industry related events.

National Tourist Boards, Hotel Companies and Travel Associations have invited us to speak at their events, conferences and meetings in the past.

**Dragon Trail**  
REACHING CHINESE CONSUMERS ONLINE

"This was a very important and insightful seminar, organised by Dragon Trail."

Social Media in China looks very complex and like a whole lot of work, but then again, people are talking with or without us - so we are definitely better off if we take part and try to influence it."

Oliver Sedlinger  
China Director, German National Tourist Board (DZT)

DragonTrail have been invited to participate in many events in Europe, North America, Asia and the Middle East including those listed below.



[www.dragontrail.com](http://www.dragontrail.com)

[www.chinatraveltrends.com](http://www.chinatraveltrends.com)

# 10 TIPS

With fast rising wealth and money to spend, it's no surprise the Chinese are in a buying frenzy. China's consumer spending is growing at an average annual rate of 18% compared to 2.2% rise for the US, according to the National Bureau of Statistics. Some consumption trends in China are well known, such as the increasing demand for luxury goods, but others might come as a surprise. This list of Top 10 consumption trends is based on studies and reports from international organisations such as the United Nations, the U.S. Department of Agriculture, and research firms including Euromonitor International and McKinsey & Co.

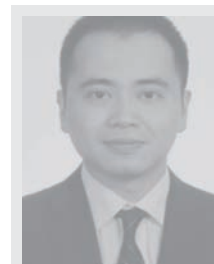
## Top 10 consumption trends

1. **Luxury is king.** China is the fastest growing market for a plethora of luxury brands. In 2006, Gucci had six stores in China; now it has 39. Likewise, Hermes now boasts 20 locations, a number that has quadrupled since 2005. Luxury consumption is poised to be a RMB \$27 billion industry by 2015.
2. **Green preference.** Wealthy Chinese are putting their money to good use: 84% of consumers say they are willing to shell out more for products and services certified as "green." Hybrid cars will make up 7% of China's light-vehicle sales by 2020, compared to just 2% in the US. China's government also invested about \$34.6 billion in renewable energy in 2009, twice as much as the US government.

3. **Travel international.** Travel is now a top priority for the wealthy in China. For the more adventurous Chinese travellers, USA and classic European destinations are no longer characteristic 'milestones'. Sophisticated and experienced Chinese are heading to more exotic locations like Fiji and Polynesian islands for finding balance from their extreme work-life, and inspiration.
4. **Real estate overseas.** Tough property laws are driving Chinese real estate investors abroad. The US, Canada, and the UK are prime markets for Chinese buyers. In London, Chinese buyers are the largest single block of investors buying property, accounting for almost 11% of 2010's sales.
5. **Eat healthy.** China's rapidly growing middle class and wealthy seniors especially are buying imported fruits, nuts, yogurt, and other trendy health foods. China's probiotic market, for example, is expected to grow 120% between 2009 and 2012.
6. **Going mobile.** The networking possibilities smart phones offer, like mobile web and instant messaging services, are hot in China especially among urban youth.
7. **Wine gulping.** Chinese bought about 126 million cases of wine in 2009. The country will take over the title of world's largest wine consumer from the US by 2015. Wine drinking is promoted by the Chinese government as healthier and classier than spirits.
8. **Pets friendly.** Lots of disposable income means Chinese are expanding their families – fur families, that is. The one-child rule and an aging population has also made pets attractive. Dogs particularly are viewed as status symbols. A multimillionaire coal baron bought a Tibetan Matiff for about \$1.6 million this year, while a Chinese woman paid \$600,000 for the same breed in 2009.
9. **Foreign education.** With more middle-class families able to afford foreign education, China's overseas student population has increased 24% since 2009. Britain's University of Cambridge boasted 1,000 Chinese students last year, making up 8.3% of the student population. American summer camps for younger children are considered culturally enriching as well. An estimated 60,000 young children attended American camps in 2011, for roughly US\$5,000 per person.
10. **Corn.** China's purchase of corn is second only to the US, but it's mainly for livestock, not humans, consumption. It will reach a record 5 million metric tons in 2012. This is driven by the increasing demand for high-quality grain-fed meat.

In 2000, China's accounted for only 7.1% of the world's total GDP (in PPP terms).  
In 2010, that figure increased to 13.3%.  
By 2020, it is expected to reach 20.7%

*Euromonitor International*



## Customer Satisfaction

**Dr Xu Chen, Researcher, China Tourism Academy**

Dr. Chen has conducted and participated in numerous national research projects for the China National Tourism Administration and actively engaged in international collaborations in tourism research and communications. His research interest includes tourism economy analysis, destination and tourism enterprise branding, consumer behavior in tourism and internationalisation. Dr. Chen received his PhD from Clemson University in the US.

## Satisfaction index spotlights service gap

Much has been said about the quality of service, or the lack of it, in China's tourism industry. What is needed is a reliable mechanism to measure how satisfied visitors are with their experience. The China Tourist Satisfaction Index (CTSI) was created with that in mind.

INAUGURATED IN 2008, CTSI IS A nation-wide research programme that monitors and analyses the degree of improvement in tourist experience and service quality in major Chinese tourist cities. It also helps to determine whether China's outbound travellers are happy with the services they receive.

Based on surveys conducted by the China Tourism Academy, a specialised institute under the umbrella of China National Tourism Administration (CNTA), the index serves as an evaluation tool in weighing and testing the performance of related tourism

service providers. The rating can then be used by tourism authorities to guide individual cities on raising the service bar for local citizens and tourists and encourage local governments and enterprises to constantly improve overall service quality. In a way, it acts as a third-party watchdog for the Chinese tourism economy to sustain competitive improvements.

The China Tourist Satisfaction Survey uses an innovative model comprising three components: tourist questionnaire, comment and appeal. Dozens of researchers

and hundreds of workers collect thousands of data and information monthly in 50 major cities in China. Survey results are then translated into index scores and submitted to city governments and national and regional tourism authorities for reference.

What the index provides is a remarkable tool that can be used to enhance the overall coordination ability of tourism authorities, and motivate local governments to attach greater importance to tourism and relevant industries to improve their service quality.

### Satisfaction rises but there is still room for improvement

The Index for Q3 2011 showed a visible improvement in the overall satisfaction level, a rebound that helped reverse the downward trend for the three previous quarters. This was due largely to satisfaction in overall service quality and price matching guests' expectations.

Beijing scored the highest satisfaction rate, at 80.74, followed by Hangzhou (80.38), Guangzhou (78.33), Shanghai (76.78), and Xi'an (76.72). Tourists from the UK, Australia, the US, Sweden and Macao gave higher satisfaction ratings, while those from Japan, the Netherlands, Hong Kong, Chinese Taipei and the Philippines were the least satisfied. Overall, short-haul

### Satisfaction index of online platforms

Online platforms	Satisfaction Index
Online reservation	95.22
Attractions	90.08
Shopping	86.06
Overall city impression	84.58
Entertainment and recreation	81.79
Accommodation	78.47
Dining	78.09
Destination	70.97
Locals' attitudes	65.12
Transportation	60.09
Value for money	58.45
Travel agents	56.71
Travel industry monitoring	12.28

### Satisfaction index of outbound travellers by city of origin

Origin	Satisfaction Index
Shanghai	77.31
Guangzhou	76.72
Beijing	76.20
Chengdu	76.17
Xi'an	74.87
Chongqing	74.75
Shenyang	74.37



**China Tourist Satisfaction Index has been a valuable tool for gauging the satisfaction level of customers in their domestic, inbound and outbound travel experience.**

and neighbouring visitors tended to be less happy with their travel experience.

Satisfaction levels for outbound travellers continued to fluctuate, with ratings for Q3 at 82.91 points – 3.11 points above the previous quarter but 5.21 points lower than the same period last year. Those departing from Shanghai indicated higher satisfaction levels. Travellers going to Switzerland, Korea, Thailand, Malaysia and Singapore were the happiest, while those travelling to Hong Kong, Spain, Macao, France and the US were the least happy with their travel.

Satisfaction scores for online service was 79.57, down 4.13 points from the previous quarter and 3.27 points from the same time last year. Areas that needed to improve

their online communication were transportation, travel agents and travel industry management.

Service standard still yielded relatively low satisfaction levels. Tourism industry service was rated at 76.02. Among the service areas, transportation, shopping and dining scored the lowest ratings, at 72.14, 71.16 and 71.03 points respectively.

**Index a valuable tool for tourism management**

Given the attention the surveys received from the industry and the society, party officials and local governments in China have adopted recommendations to rectify the issue and to widely mobilise the population to elevate satisfaction levels for tourists. The efforts have begun to yield visible results in further improving tourism service quality.

In this way, the China Tourist Satisfaction Survey has become the mainstream tool in evaluating tourism service quality in China, and a significant basis to drive improvement of tourism service quality. 🇨🇳

**The number of Chinese traveling outside the country rose to 54% from 2005 to 2009**

UNWTO





Chinese tourists to the U.S. spend more than visitors from any other country, according to the U.S.

Travel Association — Ad Age



## Hotel Regulation

**Liu Shijun, Director, India  
China National Tourism Administration**

Mr Liu was in charge of the national hospitality industry and tourism standardisation efforts at the CNTA as Deputy Director-General, Department of Industry Supervision and Management before being posted to Delhi. He has extensive experience and expertise in hospitality management, tourism, standardisation, international marketing and communications.

**Lu Kailin, Section Chief, Hotel Division, Department of  
Industry Supervision and Management, CNTA**

Mr Lu is a key official in charge of hotel classification standards and hotel industry supervision. He authored The National Standard Classification and Accreditation for Star-rated Tourist Hotels and Explanations and Rating Instruction of Hotel Star-rating Standards in China.

# Setting milestones for China's hotel industry

Having come of age during the 11th Five-Year Plan period, China's hotel industry is poised to enter the international stage and challenge the hospitality standards of developed destinations.

CHINA'S HOTEL INDUSTRY HAD become more diversified and sophisticated during the 11th Five-Year Plan (FYP) period.

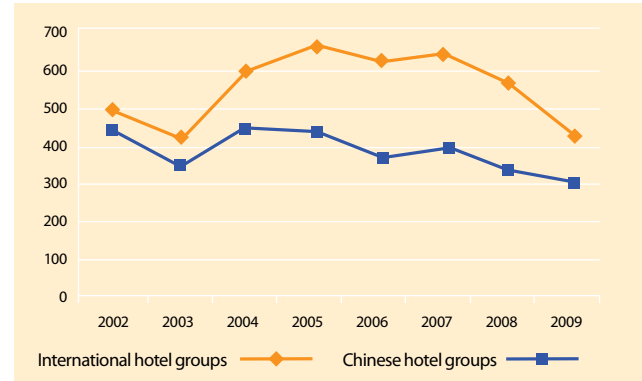
Increasingly, hotels leveraged technology to deliver more efficient and personalised service, such as in-room digital delivery of information on hotel bills, flights, room service and entertainment, tablets in place of printed menus and customer relationship management systems tracking guests' personal preferences.

Online booking platforms have become a major tool for reservations and sales. Ctrip, for example, offers online real-time reservations for

32,000 hotels in 5,900 cities of 138 countries. As such, hotels have to navigate a fine line between partnership and competition with such platforms when formulating their business strategies.

We have observed that hotels are diversifying in terms of categories and markets. Traditional tourist hotels are training their sights on domestic markets to capture growing domestic travel demand. Convention hotels with extensive meeting facilities are mushrooming in major cities. Resort development has picked up to cater to sophisticated travellers. Other accommodation categories such as

RevPAR comparison of international and Chinese hotel groups



Source: China Hotel Industry Study 2003 – 2010 (unit: RMB)

youth hostels, inns and motels are also coming on stream.

It's worth noting that no-frills budget hotel brands and boutique hotels are taking off. Three major groups alone – Jia, Jinjiang and Seven Day – now operate a total of 1,300 budget properties supplying 147,000 rooms. Luxury boutique resort brands such as Banyan Tree, Four Seasons and Amanresorts are also expanding their footprint in China.

Hotel investment is increasingly perceived as a strategic real estate play, as upmarket hotel projects usually enhance the value and perception of a real estate project and enjoy preferential treatment by local governments.

However, the increase in hotel supply has diluted occupancy and profitability. In 2009, Shanghai

registered average occupancy at 53%, the lowest in 10 years. The average room rate at RMB975 was the lowest since 2003.

**Revised guidelines and data management system ensure more effective industry monitoring**  
CNTA, the key authority regulating hotel operation, has completed a two-year review of guidelines for the classification and evaluation of star-rated hotels. The revised guidelines, effective since early 2011, reiterate that hotels must strictly adhere to the star-rating criteria and have hospitality as their core business. The guidelines also emphasise evaluation of service standards, sustainability, crisis readiness, and product differentiation.

The growth in hotel numbers in the 12th FYP period is expected to slow down. Limited returns have underscored the risks for hotel investment. Consequently, a correction in the industry is inevitable.

To effectively lift and monitor hotel quality, CNTA has simplified the star-rating evaluation process and shortened the required re-evaluation to every three years instead of five years. In July 2009, CNTA also delegated the star-rating hotel evaluation task to the China Tourist Hotel Association and it has since taken an overseeing role.

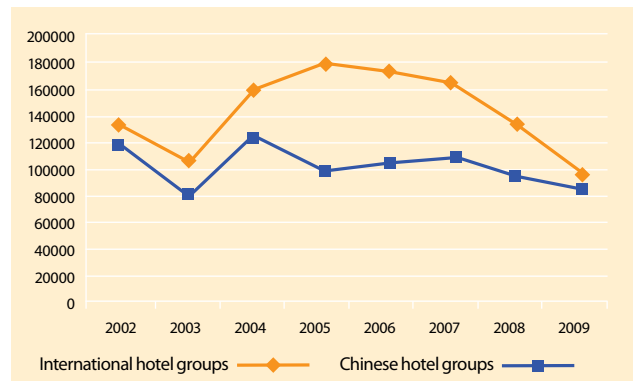
To deal with the hitherto overlooked issue of hotel properties' outlook, a set of architectural design guidelines for inns and star-rated hotels were drawn up during the 11th FYP period for implementation in the 12th FYP period.

A data management system was set in place towards the end of the 11th FYP to consolidate hotels' annual, quarterly and monthly

#### International Hotel Companies launching China-focused Brands:

- Inter-Continental Hotel Group (IHG) launched "HuaLuxe". Hualuxe Hotels and Resorts' name is derived from the Chinese word 'hua' for majestic and the English word 'luxe' for luxury, and will focus on four service areas, namely "tradition", "rejuvenation", "status" and "familiar spaces". Plans to launch in 100 cities across China in the next 15-20 years and is also extending the Chinese-featured brand overseas.
- French hotel operator Accor SA launched a new brand Grand Mercure that is tailored to upscale Chinese travelers, and plans to open 65 Grand Mercure hotels in China by 2015.
- Louvre Hotels Group from France has partnered with Chinese group Jin Jiang International Hotels to unveil the Campanile & Jin Jiang Inn co-branded initiative. The partnership, as a way to cash in on the growing number of Chinese tourists visiting France, applies to 15 Campanile hotels in Paris, Bordeaux, Lyon, Marseille and Nice, and will result in both brand names being displayed at the entrance, Chinese-language brochures, Chinese speaking staff, Chinese food items in the buffet and Chinese TV channels in each room.
- Kempinski Hotels & Resorts announced the launch of its new luxury brand Nuo, which will be developed only in China, and is described as five-star, featuring contemporary Chinese art.

ROP comparison of international and Chinese hotel groups



Source: China Hotel Industry Study 2003 - 2010 (unit: RMB)

financial results for analysis of industry trends and planning. During the 12th FYP period, CNTA aims to make it the most authoritative and comprehensive databank on China's hotel industry.

CNTA also issued guidelines and directives on sustainable hotel operation in 2010 aiming to achieve the State Council's expressed goal of reducing star-rated hotels' water and power consumption by 20% within five years. More than 3,000 hotels have achieved the "Green Hotel" standard by the end of the 11th FYP period.

#### More hotel trading and market correction expected

Looking ahead, the growth in hotel numbers in the 12th FYP period is expected to slow down as the

return on investment for hotel properties has been declining since 1994. While high real estate value is still attracting investment into hotels, leading to 20% annual growth in hotel inventories, limited returns have underscored the risks for hotel investment. Consequently, a correction in the industry is inevitable.

Previously inactive trading of hotel ownerships in China is expected to heat up as private capital increases and the policy structure for hotel ownership transaction matures. At the same time, certain China hotel groups have ventured overseas for acquisition opportunities (for example, Jinjiang's acquisition of the Interstate Hotels & Resorts Inc. in the US and Shenzhen New World

### Key facts of China's hotel industry in the 11th FYP period:

- China registered 14,691 star-rated hotels at the end of 2010, among them 603 5-star, 2,214 4-star and 6,399 3-star.
- Star-rated hotels' room inventory grew 6.3% annually. The increase in the 5-star category at an annual average of 16% outpaced other categories.
- Average occupancy rate of star-rated hotels was 57.88% in 2009, with 2- to 4-star categories achieving relatively higher averages.
- Star-rated hotels comprised 28% of China's tourism enterprises, 53% of fixed assets, 40% of operating revenues and accounted for 61% of employment in the travel and tourism industry and 72% of business tax.
- More than 70 hotel brands under the banners of some 40 international hotel groups were operating nearly 1,000 properties in China.
- Domestic hotel brands were gaining international recognition, with 10 local groups listed among the global top 50 by Hotels magazine.
- The RevPAR and GOP of five-star hotels operated by domestic hotel groups were catching up with those of the international hotel groups.

Group's acquisition of Los Angeles' Sheraton Universal Hotel and Marriot Hotel).

More state-owned properties are likely to be released into the market as the State Council in 2010 had directed state enterprises whose core business was not in hospitality to divest their hotel interests within three to five years. Some 2,500 properties with a total value of RMB100 billion will be up for grabs under the plan.

### Propagating the "China Service" concept

Meanwhile, driven by increasingly sophisticated consumer needs, China's hotel industry will need to evolve and diversify to compete

on service and appeal rather than price. We expect to see more accommodation leveraging natural resources to create relaxing environment, provide immersive cultural experiences and promote eco-friendly and sustainable lifestyles.

On the service level, the "China Service" concept is being promoted to foster a unique brand of Chinese-style service for visitors. CNTA is incorporating "China Service" into the standards for regulating star-rated hotels and is driving its development on various levels, through regional and local policies, incubating domestic hotel brands and developing human resources. 中



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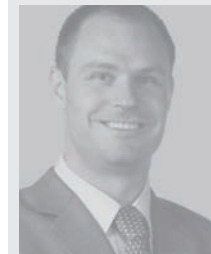
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China, as a country, spent more than 1 billion hours online per day in 2009....double the daily total in the United States. This figure is expected to grow to well over 2 billion hours per day by 2015

BCG report



## Hotel Profitability

**Damien Little, Director, Horwath HTL**

Damien Little has 12 years of consulting experience and has undertaken more than 400 hotel-related projects in 12 countries across the Asia Pacific region. He has significant experience in China, having travelled to more than 70 cities across the country. He joined Horwath HTL in 2001.

# Oversupply depresses profitability at China hotels

Abundant new hotel supply is hitting the bottom line of the entire China hotel industry. Regions in various stages of development will meet different fates. Some will tank, while the strongest regions will stay buoyant. Damien Little examines the impact of supply on the profitability of hotels in market types.

THE SPECTACULAR VOLUME OF new hotel supply that China has witnessed over the last 10 years has generated plenty of headlines. In all the discussion on China's impressive growth, what has been overlooked is the impact on profitability that oversupply has brought to many markets.

Data from the China Hotel Industry Study shows that 5-star hotels' gross operating profit (GOP) levels declined every year from a peak in 2005 of RMB 150,353 per available room (PAR), to a record low in 2009 of RMB 91,752 PAR. The

number improved in 2010 taking overall 5-star GOP back to RMB 117,448 PAR but this is still 22% below the 2005 peak.

The data, however, is broad in scope and hides many issues experienced by hotel markets across the country. China is a very large country and you cannot draw a single conclusion for what is a large collection of complex and varied markets.

Taking that into account, I will explore the profitability levels of hotels in five different types of hotel markets that I will label as: 1)

Tanked; 2) Stagnant; 3) Emerging; 4) Performers; and 5) Primary Leaders. All data presented is from the 5-star market and has been taken from the 2011 China Hotel Industry Study. Pipeline data has been sourced from STR Global.

## Tanked markets overwhelmed by new supply

Tanked markets are those that have been totally overwhelmed by new supply and do not seem to have the ability to generate demand to drag themselves out. There is also a continued heavy pipeline of new additions set to enter these markets.

Suzhou and Tianjin are representatives of this category. They have been hit extremely hard with new supply over the last three to five years and have suffered a relatively prolonged period of extremely low occupancy. Rates have been lowered driving down GOP. The 2010 GOP level of the 21 5-star hotels in these two cities was only RMB 53,810 per available room at a ratio of only 24%.

With significant additions still to come, these Tanked markets – in particular Tianjin – will not be seeing much relief anytime soon.

## Stagnant markets' new supply dampens rate growth

Stagnant markets are those that have failed to improve their

performance over the last five to 10 years due to an endless stream of new supply. While demand growth has been strong, it has been insufficient to allow for improvements in occupancy or growth in average rates. Examples include Wuhan, Shenyang, Chongqing, and Xi'an – although Xi'an has certainly shown greater growth potential in the last few years.

These markets are heavily reliant on domestic demand and, often, local booking sources and accounts that keep rate levels competitive. Aside from Chongqing, where demand growth has been strong, the others have struggled to record any real improvements in either occupancy or average room rates, limiting opportunities to invest in maintenance and upgrades. As a result, properties in the markets have generally aged.

The result has been a low average rate below RMB 600 and GOP levels not much better than the Tanked markets in 2010 at RMB 69,717 at 32% of total revenue.

Looking ahead, Chongqing will continue to be hit hardest with new additions. The scale of the new supply is likely to continue to depress market performance in the years to come. Shenyang and Wuhan may struggle to support the new inventories in the coming years, while Xi'an may have more



**The total revenue per available room for the Primary Leading hotels in 2010 was a staggering 168% higher than the Tanked markets.**

potential to improve performance with some quality hotels in the economic development zone. On the whole though, most of these markets may not achieve much improvement.

#### **Emerging markets see competition heating up**

Emerging markets are those that are starting to mature as viable hotel markets for international brands. Cities in this category include Changsha, Wuxi, Hefei, Fuzhou, Foshan, Guiyang, Zhengzhou, Jinan, Taiyuan and Ningbo. All, except for Taiyuan, have a leading international 5-star hotel in the market, but competition generally remains limited – although in Ningbo, competition has already heated up.

The performance levels in these markets are a step above the stagnant markets, with higher ADR levels driving improved GOP. Occupancy remains weak, however, at only 60% in 2010 and typically it is the leading one to two hotels in the market that are driving performance and profitability.

Emerging markets typically lack any real depth in room night demand and will have a hard time coping with large amounts of new supply.

Each of the emerging markets will see a moderate amount of new supply. Ningbo, already struggling with recent supply additions, is likely to be impacted the most and may move into the Tanked category in the next couple of years. Wuxi, Guiyang, Taiyuan and Zhengzhou could be tested the most in regards to the depth of top-tier demand. However, as long as additions are spread over the next three to four years, these markets should be able to absorb the supply.

#### **Performing markets' occupancy growth hit by new supply**

Performing markets are those that have an established base of quality hotels and have largely been able to support the growth in supply with strong growth in demand and at the same time grow room

#### **Hotel profitability of the five types of hotel markets in China**

Key Data	Tanked markets	Stagnant markets	Emerging markets	Performing markets	Primary Leading markets
Number of Hotels	21	28	34	54	49
Total Rooms	6,483	9,985	11,969	21,376	19,815
Occupancy	50%	62%	60%	63%	63%
ADR (RMB)	673	528	619	824	1,427
Rev PAR (RMB)	336	325	371	522	893
Total Revenue (PAR) (RMB)	220,406	216,883	321,411	372,176	591,424
GOP (PAR) (RMB)	53,810	69,717	116,454	137,282	268,823
GOP (% Total Revenue)	24%	32%	36%	37%	45%
Hotels In Pipeline	25	31	49	73	47
Rooms In Pipeline	8,329	11,495	16,707	24,932	16,733

Source: Horwath HTL, 2011

rates. Cities in this category include Guangzhou, Shenzhen, Hangzhou, Qingdao, Chengdu and Nanjing.

The Performing hotel markets are able to record a relatively higher premium in average room rates at above RMB 800. However, occupancy remains relatively soft

at 63% due to consistent increases in room supply. The volume of GOP generated per room is more significant, albeit at a similar percentage of total revenue as that recorded by the Emerging markets.

Some Performing markets will see significant new additions,

particularly Chengdu, Guangzhou and Hangzhou. While Performing markets with a larger base of existing quality supply are better placed to handle new inventory, some may slip into the Stagnant category over the next five years, with future growth in room rate levels curtailed by persistent low occupancy performance. The markets with smaller existing supply bases such as Chengdu, Hangzhou, Qingdao and Nanjing are at most risk of this.

#### Primary leading markets stay buoyant despite new stock

The analysis for Primary Leading markets has been restricted to Shanghai, Beijing and Sanya and has only included hotels that recorded an average room rate higher than RMB 1,000 in 2010. Shanghai and Beijing are clearly the two leading hotel markets in China with considerably larger hotel supply, significant rate depth and the presence of the best hotels in China. The Sanya market has been a phenomenal growth story over the last five years with impressive room rates and GOP levels.

The Primary Leading markets perform significantly above Performing markets in regards to average room rates, recording a premium of 73%. They generate

significant revenue from the premium ADR and food and beverage. Total revenue per available room for the Primary Leading hotels in 2010 was RMB 591,424, 59%, a staggering 168% higher than the Tanked markets. The higher revenue has translated into a higher GOP at RMB 268,823 at an impressive 45% of total revenue. The GOP level PAR is almost double that of the next best category and five times that recorded by the Tanked markets.

While the supply pipeline for the Primary Leading markets remains strong (and I have only included pipeline hotels that we think could meet the minimum rate criteria of RMB 1,000), these markets are well placed to absorb the additions without compromising performance. Beijing would seem best placed for this with a relatively small supply increase in the coming years, while Shanghai will feel more pain with relatively strong additions. Sanya has the largest pipeline increase, yet for the last five years has demonstrated not only a strong ability to absorb new supply, but to continually push room rate growth. This will surely be tested, but there are yet to appear any indications that this will not be the case moving forward. 🍵

#### CASE STUDY:

## Chinese customers altering the hotel landscape

**Mary Gostelow, who travels 300 days a year, observes how the expanding horde of Chinese consumers are changing the way hotels are used.**

At breakfast, a more mature group of Chinese will watch and follow their leader. If he chooses a Dalian congee, so will they. Younger Chinese may well combine, American style, sweet pastries and fruit with savoury items.

A few years ago Chinese travellers felt shy about foreign foods. Now they relish fine dining (though they may well fill up on pot noodles back to their hotel room). Constant boiling water in five star hotels is now a norm. Hyatt has been training aspiring managers

from all over China so that regional penchants can be accommodated, for groups.

I used to be able to swim, often alone, in hotels' indoor pools as soon as they open in the morning. For the last three days, in three different hotels, I have turned away from pools, already over-occupied within 15 minutes of opening.

The new wealthy, including Hurun Report's 900,000-millionaire roster, appreciate brands and the finer things of life. At Banyan Tree, part of Galaxy's Macau complex, you are presented with a case of six Laguiole knives to choose with which to eat your Australian wagyu fillet, washed down of course with Chateau Latour or, if you must go New World, Screaming Eagle. 🍷



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PACIFIC ASIA TRAVEL ASSOCIATION (PATA)



## MICE Regulation

**Kate Chang, Regional Director, Greater China, PATA**

Ms Chang has become the face of PATA in China since joining the association in May 2005. Based in Beijing, she identifies, analyses and interprets trends, policies and opportunities in China's tourism sector to assist PATA in creating and expanding activities and programmes to better support China's tourism sector. A graduate of the Tourism & Hospitality Management School of Beijing International Studies University, Ms Chang was the Assistant Director in Australia for the China National Tourism Administration prior to joining PATA.

# Turn red tape into road signs for successful events

Regulations are a fact of life in business. Respecting cultural differences and using red tape as guidelines to what is achievable can go a long way to creating successful events in China.

I AM A BELIEVER OF THE CHINESE proverb that “there are rules everywhere, be it in a nation or a family”. It is far better to understand and manage their impact than trying to cut corners, especially when conducting business in china.

From its legal origins, red tape has today become a euphemism for regulations that are supposed to keep competing interests in check while protecting the common good.

However, we tend to believe that regulations only slow the permission process and postpone decisions to cover up inefficiencies

or protect vested interest. We also associate red tape with a fear of making wrong decisions.

What does this mean for MICE, a key beneficiary of a surging economy such as China's?

## Tougher rules complicate events organisation

Since the global economic downturn, we have noticed that the Chinese government appears to focus more than ever on return on investment in developing the MICE business. New regulations to better manage government involvement in international events have since come in to play that, while well

intentioned, frankly seem to be more of a complicating factor.

The upshot is that event organisers, especially association meeting planners, foreign companies and event delegates, may find regulations as obstacles in holding a MICE event in China.

New national guidelines issued in early 2011 say that international conferences held in China with public sector fiscal input or participation by government officials will be subject to stricter approval procedures and sterner budgetary oversight.

Any bid to hold international conferences must now be approved by the relevant authorities. Importantly, events lacking “substantial content” will not be permitted. The new rules also state that descriptions such as “summit” or “international seminar” cannot be used without approval. All government departments, including local governments, are also required to cap expenditure for hosting international conferences.

However, the authorities correctly realise that small and medium size events are as important as large events, cumulatively attracting hundreds or thousands of delegates. Size isn't everything. Indeed, the authorities say that events with more than 100 participants will come under closer

Use the regulations as road signs of what can and cannot be achieved for an event. As with travel, a guide in the form of a trusted local PCO can help steer international organisers on local rules and regulations.

scrutiny and may even be rejected if they fail to meet the new criteria.

The problem arose since too many large events in China, especially those organised by foreign companies or associations, tend to invite Party or State leaders and senior officials to either speak or attend. It seems the government has indicated its desire to minimise casual government participation in private sector events while it seeks to create a firm and transparent foundation for government-private sector partnerships.

## Using red tape as guidelines for PATA events

Based on PATA's experience, with better understanding between the authorities and private sector we can turn red tape into guidelines

Similarly, clear and continuous communications is essential. Ensuring each partner is properly briefed limits suspicion and builds trust, which can go a long way to helping an event succeed.

that can create positive events that satisfy Chinese regulators and event organisers.

In April 2011, PATA held its 60th Anniversary Conference in Beijing operating under the new rules.

The event attracted about 1,000 delegates from 66 countries representing more than 400 organisations. There were 460 international delegates, 540 local delegates, seven government ministers, 35 diplomats from 29 countries and 180 international and local media.

Partnership was key to the success of the event. With great support from CNTA, PATA obtained approval from various government bodies such as the Ministry of Foreign Affairs and Public Security. More importantly, the State Council

green-lighted the event.


That's not to say challenges were non-existent. We still had to deal with visa restrictions for media and Public Security's rigorous collection of all delegates' passport information. There were also budget restrictions and audits for hosts under the new regulations.

The event went well because PATA respects cultural differences and exacting protocol procedures.

Based on PATA's experience, I would strongly recommend that organisers maintain clear and continuous communications with the host destination and authorities. Patience and managing expectations are essential as is a high degree of flexibility to accommodate inevitable last-minute changes.

Overall, the new regulations, although vague in some aspects, will encourage greater transparency and due diligence. As such, I see the guidelines as road signs that point the way to successful events rather than red tape to hobble the organiser.

If event organisers read the signs correctly – and work with a trusted local PCO – they can expect to have more focused events that deliver better fiscal management in China.

When properly read, the road signs serve as a proactive and constructive tool to creating successful events in China. 

China is investing about US\$75 to \$100 billion each year in clean energy for the 10 years between 2010 and 2020

Harvard Business Review





# CHINA OUTBOUND TRAVEL & TOURISM MARKET

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## Meetings & Conventions in Beijing

**Daniel Tschudy, Editor, events magazine**

Daniel Tschudy has been involved in the global tourism, hospitality and MICE industries for four decades. Originally from Switzerland, he spent 13 years working overseas – Canada, Germany, France, Japan and China. In 1987, he co-founded MCI, now the leading global congress- and association-management agency group. Tschudy also works as a journalist, speaker and consultant, with a particular interest in China and the region. He is editor of *events* magazine (Germany) and writes regularly for *Handelszeitung*, Switzerland's leading economic newspaper.



## Beijing chasing Paris and London in congress industry

Beijing has come a long way in its quest to become one of the world's top capital cities for tourism and MICE. It is today one of Asia's Top 3 convention cities. However, it still has to overcome growing pains to truly live up to its place in the global league.

IN THE GLOBAL RANKING OF tourist arrivals to capital cities, Beijing has yet to find its place in the Top 10. However, given 2010's 4.9 million arrivals and the Beijing Commission of Tourism Development's (CTD) goal of doubling its performance, Beijing could potentially overtake New York in tourist arrivals by 2016. The future is looking bright for Beijing's inbound tourism industry.

The meeting and convention sector is without doubt the most lucrative segment of the inbound

industry. The expenditure per night/per person of international delegates is often two-and-a-half times higher than leisure travellers'.

In 2010, nearly 100 international congresses and conventions were held in the Chinese capital. Accordingly the International Congress and Convention Association's (ICCA) annual ranking of global meeting towns placed Beijing in the 12th place globally and 3rd in Asia, after Singapore (5th in world ranking) and Taipei (11th).

CTD wants Beijing to become the top congress city in Asia and sees the meeting and convention sector as a main tool to achieve the goal of reaching 10 million visitors by 2016.

Even Shanghai and Hong Kong have since fallen behind the capital.

As CTD wants Beijing to become the top congress city in Asia, it offers substantial financial, administrative and promotional support to international congress organisers. CTD sees the meeting and convention sector as a main tool to achieve the goal of reaching 10 million visitors by 2016.

The capital city's international hub airport, fantastic sightseeing attractions coupled with efficient transport and a quality hospitality infrastructure are certainly conducive to achieving this objective.

### The flip side of the coin

But growth, especially unbridled growth, comes at a price.

Beijing's notorious traffic woes have become more than just an irritation – city transfers can get unpredictably stuck in gridlock at any given hour of the day or the evening. On certain days, air pollution is so bad that outdoor events have to be cancelled, while sightseeing tours can become really unpleasant.

UK-based research agency The Right Solution observed in its 2011 China Meetings Industry Research Report that international organisers' satisfaction with venues and service providers in China had been sliding: in 2009, 60% of all foreign respondents rated overall services as "very good" or "excellent"; in 2010, the percentage dropped to 44%. On the other hand, 22% of all respondents

**By 2030, China's carbon dioxide emissions could equal the entire world's CO<sub>2</sub> production today, if the country's carbon usage keeps pace with its economic growth**

*Wired Mag*



**Beijing will need to bring its service quality on par with its tourism infrastructure if it is to better compete with regional rivals that have long established enviable service levels.**

judged the services in 2010 as "bad" or "just acceptable".

Satisfaction levels have fallen as the tourism industry has had to bring in thousands of unskilled labour to support the rapidly developing tourism sector.

Meanwhile, as the euphoria from 2008's Olympic Games dissipates, so too has the city-wide courtesy drive. It's fast becoming a thing of the past. English is still a problem, even in some 5-star properties, and that obviously does not help improve perceptions of service quality. The fact is foreign travellers are no longer 'news' to Beijing citizens or to the service industry. Such perceptions will only handicap Beijing's drive to become a truly global and leading hospitality destination.

International visitors, and particularly the global meetings and incentive industry, require attentive service both for delegates and the associations and companies that bring them in. It is not enough to provide a clean bus at the airport or a modern hotel room. The international market requires faster administrative support, more flexibility in time planning, more openness to short-term changes, and a readiness in catering to international standards.

In view of the overwhelming quality challenge, Beijing will need to bring its service quality on par with its tourism infrastructure if it is to better compete with regional rivals that have long established enviable service levels. 志

# 10 TIPS

China is well known for its unique business environment and culture. A firm grasp of the differences between Chinese and western business etiquette and culture can be invaluable in building business contacts.

## How to build business contacts in China

1. **It's not what you know.** Don't underestimate the importance of *guanxi*, the network of connections that allows things to get done. Thousands of years of family-oriented culture, coupled with more recent periods of shortages where you needed good connections to get essential products has resulted in an enduring concept of *guanxi*.
2. **Show respect.** You need to know and use the correct form of address during greetings, meals, drinks or conversations. If you're asked "Don't you find the pollution in China terrible?" a truthful but respectful response could be "Well, it's bad, but given China's fast economic growth, it's understandable".
3. **Eat well.** Expect to be taken out to eat, where ordering expensive and rare dishes is the done thing. You can avoid any undesirable delicacies by listing some allergies before your hosts order food or perhaps by saying your stomach isn't accustomed to certain foods. Drinks flow freely and simple toasts include "*wo jing ni*" (I show you respect), or "*gan bei*" (literally, 'dry your glass') after which you may be expected to do so.

4. **Singing for your supper.** Karaoke is increasingly popular so expect to be shown into a large specially fitted lounge for the private use of your group. Make sure you have a few old hits up your sleeve to impress your hosts.
5. **Learn the Lingo.** Learning a few simple greetings and more importantly, how to pronounce names and titles, is invaluable preparation. For example, being able to greet "Director Xiao" in Mandarin as "Xiao Zong" (Shee-ow Dzung) will get you some credit and is significantly better than not using his title and mispronouncing his name.
6. **Using an interpreter.** Ensure you speak in short, clear sentences and use the most common version of a word (say "company" rather than "firm"). Most importantly, keep eye contact with the person you're communicating with, rather than the interpreter. If you're without an interpreter, avoid spending too much time talking directly with people in lower positions just because they speak better English.
7. **Think local.** Getting both yourself and your company a Chinese name are a priority. The most common way is by combining the desire for a similar sound with the need for an auspicious or strong set of characters. A Chinese website or simple Chinese brochures will make you and your company even more approachable.
8. **Be sensitive.** Avoid sensitive issues, such as Chinese Taipei, Tibet, Tiananmen, China's human rights record and Falun Gong. Chinese in general are very patriotic, and highlighting any cracks in the system, however small, is not the done thing.
9. **Do your homework.** The pace of opening up reforms, the speed of development and the scale on which internationalisation is taking place means corners may have been cut. If it looks too good to be true, it may well be. As with any new trading partner, make sure you check creditworthiness and background.
10. **Take a long-term view.** It takes hard work, dedication and an occasional shifting of the goalposts to nurture a fruitful relationship with a Chinese company. Be self-aware and realistic, and remember that today's banquets, karaoke and delayed signing of contracts could be the turning point for a profitable business relationship in the future.

Source: Edward Holroyd Pearce  
(<http://www.crcasia.com/insight/10-tips-build-business-contacts-china>)

**The number of Chinese traveling outside the country rose to 54% from 2005 to 2009 (to 47.7 million)...and “they spent more than French, Japanese or Canadian travelers.”**

*U.N. World Tourism Organization; March 17, 2011*



## Aviation

**Mario M. Hardy, Vice President Asia Pacific  
UBM Aviation**

Mario Hardy is based at UBM Aviation regional headquarters in Singapore and leads UBM Aviation business across the Asia Pacific region which includes offices in Beijing, and Tokyo. With more than 27 year's professional expertise in the aviation industry, Mr Hardy began his career with People's Express Airlines in 1985, before joining Canadian Airlines in 1987 where he spent 12 years in a number of sales, marketing and operational roles, leading to his appointment in a senior management role heading the Group Sales & Charter division in 1997. He joined OAG in 1999 and held several positions, leading to his appointment in 2007 to Vice President – Asia Pacific at UBM Aviation.

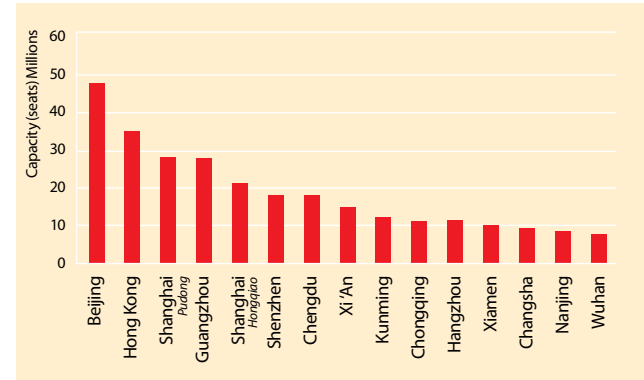
## China's rapid growth of airports, airlines, and air capacity

China is already the world's second largest economy after US and it is expected that it will overtake the US economy in 2016. As China's GDP increases and disposable income levels rise, the population becomes wealthy enough to travel both within and outside the country's borders. Due to the population of China and surrounding countries, there is a huge market opportunity for aviation businesses operating to/from and within China, which is currently only in its infancy phase.

WITH MORE THAN 1.3 BILLION people, China is the world's most populous country representing 20% of the world's population. China's population growth is stimulating the massive growth seen at the Chinese airports. All the top 20 cities in China have a population of over 3m inhabitants, compared to the US, which has

only 2 cities (New York and Los Angeles) with a population of over 3m. Atlanta Hartsfield Jackson Airport (ATL) is the busiest airport in the world by capacity since 1998 with Beijing Capital (PEK) in second place for the past two years, but with Beijing's rapid growth, it is forecast to overtake Atlanta in 2012 after 15 years at number 1.

Top 15 airports in China by capacity 2011



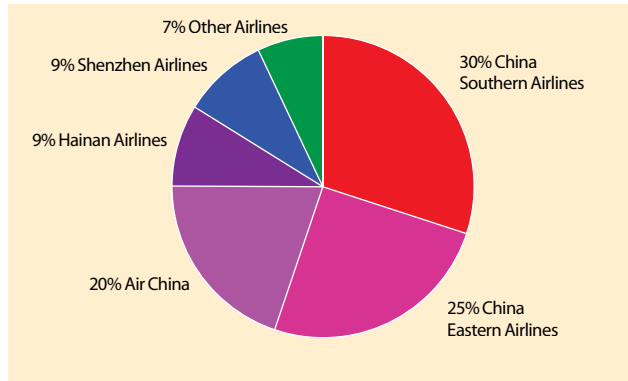
Source: UBM Aviation, 2012

Beijing has grown rapidly over the past 10 years on the back of the rapid aviation growth in China. Beijing Capital International Airport is not only an aviation gateway of Beijing and a window for international communication, but also a radial centre for the China civil aviation network. The recent opening of Terminal 3 at Beijing Capital Airport in 2008, a sweeping structure designed that is far bigger than all of Heathrow's five terminals combined cannot keep up with China's booming air-travel demand. The city already has Beijing Capital International Airport and Nanyuan Airport, but they are not big enough to handle growing demand and a third airport is being built. Due to be completed in 2015, Daxing Airport, located 50km

out of the city in the village of Nangezhuan, is expected to handle 120 to 200 million passengers a year. Shanghai International Airport (PVG) shows the highest average capacity annual growth rate at 12.57% in China and Beijing Capital International Airport (PEK) shows an average growth rate at 8.96%.

The international expansion of the Chinese carriers, which had previously concentrated largely on expanding their domestic networks and more recently on consolidation in the country, is fueled by strong economic growth. This economic growth is fuelling development and aircraft demand through an increased demand in air travel in the country. The largest airline in the Chinese market by capacity is China Southern Airlines

## China domestic aviation market - segmentation by capacity 2011 - top 5



Source: OAG Schedules iNet

## China's fleet mix 2010 – 2020 orders

Aircraft Category by Year	Regional	Single aisle	Twin aisle long range	Twin aisle medium range	Twin aisle short range	Twin aisle ultra large	Total
2010	143	1,271	99	46	13	36	1,607
2011	149	1,370	112	46	13	37	1,727
2012	167	1,493	140	47	12	38	1,897
2013	189	1,606	174	52	12	40	2,073
2014	205	1,657	188	54	11	39	2,154
2015	221	1,681	193	53	11	39	2,198
2016	237	1,718	198	51	11	39	2,254
2017	250	1,724	203	49	10	39	2,275
2018	261	1,725	210	49	6	38	2,289
2019	269	1,723	209	48	3	37	2,289
2020	276	1,695	205	44	3	37	2,260
<b>Total</b>	<b>2,367</b>	<b>17,663</b>	<b>1,931</b>	<b>538</b>	<b>105</b>	<b>419</b>	<b>23,023</b>

Source: OAG CAMRO

## China's Airport Boom



Source: Aviation Industry Corporation of China, 2011

with its main hub in Guangzhou, closely followed by China Eastern Airlines and Air China.

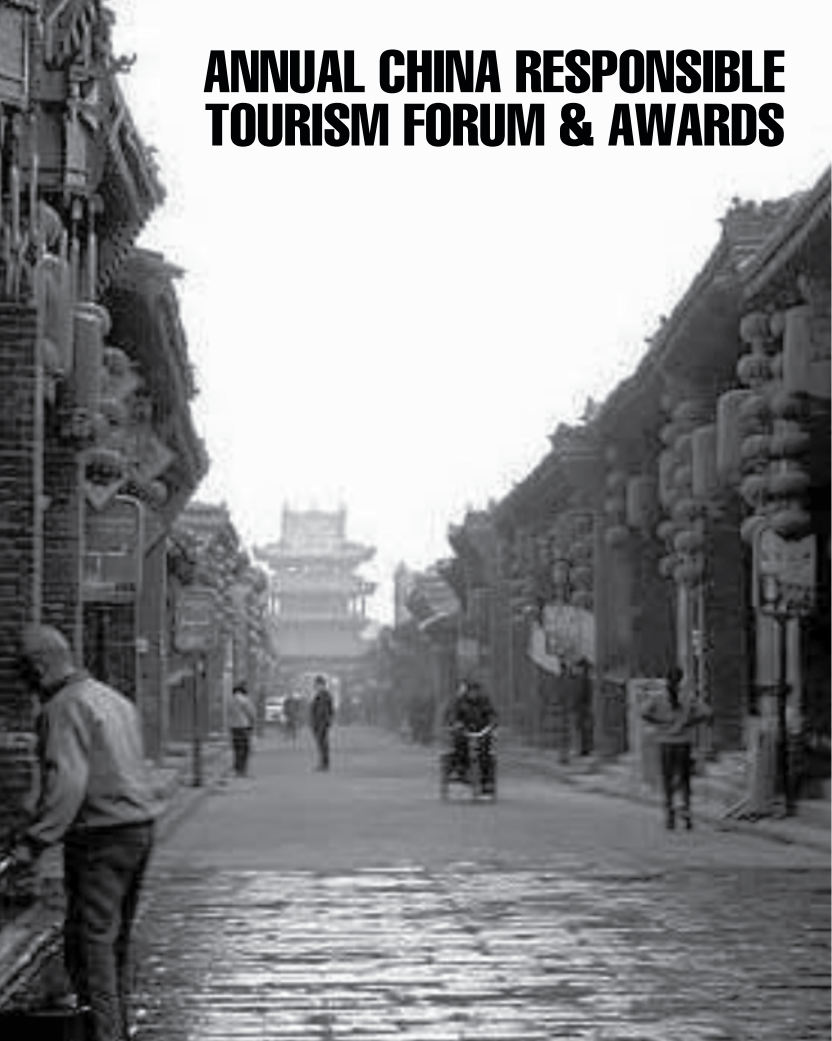
The mix of China's predicted fleet is steadily growing in next decade. China's aircraft fleet is projected to increase by 2020 to over 2,260 aircrafts. China's inability to domestically mass-produce modern high-performance jet engines at a consistently high-quality will be a challenge for their relatively young aviation industry. Aviation Industry Corporation of China (AVIC) is treating engine development as a high priority as it plans to invest 10 billion RMB (US\$1.53 billion) into jet engine research and development over the next 5 years in order to shorten this learning curve.

The Chinese air travel market has the potential to grow 10 times from where it is today, assuming China will reach a similar level of propensity to travel as Europe and the US and to become 4.3 the size of the US air travel market. Beijing is expected to play a major role in transport for the Asia Pacific region and the main bridge with the rest of the world. This potential presents huge opportunities for the aviation industry and that in years to come the top 20 airports of the world will be dominated by Chinese airports. 

For the complete report, please visit: <http://bit.ly/HXu9dD>



# ANNUAL CHINA RESPONSIBLE TOURISM FORUM & AWARDS



## Green Evolution

**Professor Geoffrey Lipman**  
**Chief Disruption Architect, Green Earth Travel**

At the forefront of the global travel and tourism industry for nearly five decades, Professor Geoffrey Lipman joined the International Air Transport Association in the 1960s and became its executive director before his appointment as the first President of the World Travel & Tourism Council from 1990 to 1999. Between 2006 and 2010, he served as Assistant Secretary General and spokesperson of the UNWTO, the World Tourism Organization, and prior to that acted as advisor to the Secretary General. Professor Lipman is also an Associate of Cosmos China and President of ICTP (International Council of Tourism Partners).

# Green growth, travelism and China's development paradigm

There are clear signs travelism (travel and tourism) will be an increasingly important element as China adjusts its socio-economic model and plays a leading role in the long-term global green shift.

HAVING EARLIER DESIGNATED travel and tourism as a strategic pillar of economic development, China recently identified the sector as a domestic consumption engine in the 12th Five-year Plan. The policy has for some years been backed by a rapid development of new airports, high-speed trains and superhighways, providing the essential arterial network for travelism. Growing automobile production and purchase is another factor as is the plan's goal of boosting household income.

The opportunity to travel – for leisure and business, domestically

and internationally – will simply be more possible for more and more people. Indeed, CNTA figures for the first half of 2011 show 1.4 billion domestic trips with an annualised growth of 12% and generating more than a trillion yuan [CNTA and UNWTO]. It is a chilling reality that the number of domestic trips is about double the total amount of worldwide international travel.

Moreover, the policies to grow outbound travel remain unchanged; as a planned part of China's superpower engagement, expanding trade policy and globalisation. Again it is indicative,

that during the first half of this year, 32 million Chinese went abroad, an annual increase of 19%. More special destination agreements are coming on stream, which can only spur outbound travel to the 100 million mark projected by 2020.

Of course the thorny issue of sustainability is a major challenge – but that is the essence of green growth. How to maintain essential expansion to increase wealth, jobs, investment and social inclusion, while sustainably controlling waste, water, biodiversity and energy; as well as managing the “black swan” crises that seem to be increasingly prevalent.

This shift is a challenge for every country but it's accentuated in China by the speed and scale of development, as well as the historically low environmental starting point.

There are many reasons to believe that China will also get this right, if solutions are considered in the correct strategic perspective and not simply looking at snap shots in today's early transition phase. It is well known that the Long March started with a small step.

## China forging ahead as a leader of sustainable development

One of the advantages of the socialist market economy and its

Sustainability is a major challenge and it's accentuated in China by the speed and scale of development, as well as the historically low environmental starting point.

associated planning regime is the ability to forge strategic directions of change more readily than in western politico-economic models. I learnt this in the 90s as President of WTTC when we worked closely with CNTA on the initial opening of tourism markets.

It is clear that in its own way and its own pace China is positioning to be a leader of sustainable development and particularly of renewable energy. Indeed these issues are also important elements of the current national plan. Earlier this year UN Secretary General Ban Ki Moon noted that “(China's) renewable energy investments are second only to Germany's. With your manufacturing strength, you are well positioned to be a leader in what is shaping up as one of

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These will merge with measures for smart grids, clean cities and renewable energy. For example this year the UN and China launched a project to deploy energy-saving light bulbs across China that is forecast to reduce energy consumption by up to 8%.

#### Seizing green growth opportunities

Similarly tourism hotels and resorts will become green growth beacons in themselves. They are an important part of real estate development in China, because they stimulate domestic and foreign investment, attracted by visitor spending cash flow. They are usually greenfield developments and there are many international building and operational standards and certification programs that will become increasingly merged with national or provincial models. We can look forward to increasing international collaboration in this area, where an outstanding example exists in regard to Hainan Island, specifically designated for tourism investment.

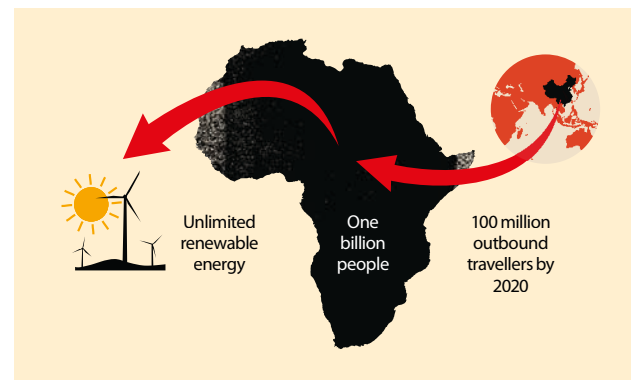
Finally, synergies between China's geopolitical trade and tourism strategies can be a revolutionary piece of the international green growth and travelism agenda if the dynamic

the main global marketplaces of the future." Secretary Ban also noted that China's impressive roster of new cities could become global beacons of sustainable development.

The economic mainstreaming of tourism has the advantage that its growth patterns and their interrelationships with other national priorities will be more keenly monitored and reviewed. It has the chance to be an integral part of this repositioning and equally a beacon of China's green growth commitment.

Embryonic green growth, travelism related policies for aircraft, cars, hotels and travel service providers will widen and deepen from national through provincial and local levels.

#### Chinese outbound travellers business



Source: Greenearth.travel, 2012

outbound market can be linked to China's emerging global business agenda.

There is much talk about the nature of China's overseas investment as an increasing part of global economic rebalancing – so far what has not been fully appreciated is that with investment in resource industries in Africa for example growing people flows follow automatically. These tourism export flows for the host country can be captured for development purposes – an essential element of the green growth paradigm.

Simply put, the sheer number of Chinese travellers offers enormous new possibilities, but couple that with more direct flights with new technology longer range aircraft and the dramatically escalating

connection possibilities of the Middle East carriers and the potential becomes obvious.

Taken one step further and this area can be targeted for new local green growth travelism jobs in the construction, hospitality and services field.

And if the travelism related resort and infrastructure construction can be directed towards the low carbon transformation of local communities, it opens up whole new possibilities to creatively target new climate adaptation, aid for trade and carbon credit funds that can in turn transform conventional development wisdom. The cash flow from a growing number of experience-seeking affluent Chinese visitors can be the game changer. 花

## CASE STUDY:

# First Responsible Tourism Forum underscores China's key role

**Nancy Cockerell, from the World Travel & Tourism Council, reports from the first China Responsible Tourism Forum (CRTF) held in Beijing on December 16th 2011. Organised by the Pacific Asia Travel Association (PATA), the conference stimulated discussion between the tourism industry and government on the important issue of responsible tourism.**

Organised in co-operation with the Organising Committee of the China International Heritage Towns Exposition, the forum brought together more than 130 delegates from government and industry, as well as national and international experts in the field of sustainable, or responsible, tourism.

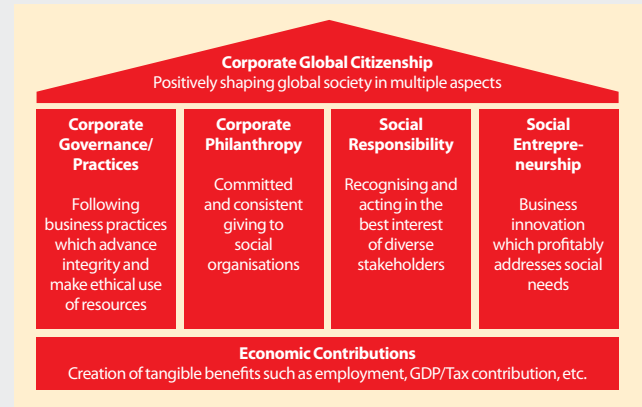
Speakers and participants confirmed in the presentations and ensuing discussions that China is at the forefront of grass-roots

responsible tourism development.

Over the past two years, despite the global economic recession and financial crisis, tourism demand has exceeded all expectations – both in terms of China's inbound arrivals and receipts but also, and more importantly, in terms of local demand for domestic and outbound tourism. And this unprecedented growth is set to continue.

While the economic impact has so far been extremely positive, it risks jeopardising the sustainability of tourism development in the longer term, whether in China or other countries.

The case studies presented covered projects designed and developed to reinvigorate abandoned or neglected villages, generate new jobs through tourism, and restore and preserve ancient heritage and customs. The different projects depend on



Source: Boston Consulting Group, 2012

the buy-in and engagement of many stakeholders – including local villagers, local governments, non-governmental organisations (NGOs), tourists and volunteers.

But greater efforts need to be made by the destinations themselves to raise awareness of the need for responsible tourism, and to attract and engage responsible tourists – or 'conscious travellers', to use the term coined by one of the CRTF's keynote speakers, Anna Pollock of DestiCorp.

If destinations heed this key message, they will be well rewarded since conscious travellers generate higher yields, help promote and market destinations and companies through their patronage, favour responsible

suppliers, encourage best practice and accelerate innovation, as well as helping to ensure that suppliers stay ahead of demand.

The Forum coincided with the launch of the new PATA China Board, the PATA China Beijing Chapter and first PATA Student Chapter in China at Beijing International Studies University.

"Our long-term goal," Kate Chang, Regional Director of PATA's Greater China office, told delegates, "is to help protect the heritage and culture of ancient towns and villages in China through public-private sector cooperation, while at the same time carefully developing these towns and villages to boost tourism and generate economic growth and employment for local communities." 

For the complete report, please visit: <http://slidesha.re/HZ6IAo>

China will be the world's second largest consumer market by 2015 – (currently third behind the U.S. and Japan).

*Boston Consulting Group*



## Mobile Marketing

**George Cao, Co-Founder & CEO, Dragon Trail**

After graduating from the Cornell School of Hotel Administration in 1996 with a master's degree and a specialty in information technology and revenue management, George Cao developed Choice Hotel's first automated revenue management system. Cao founded Search Party in September 2004, and shortly thereafter moved with his family to his native China to build and manage Search Party's software development group. In 2005, he started Go 10000, China's first meta-search and travel-focused social network. His Beijing-based travel technology firm is joint venture partner of brand engagement agency Dragon Trail, helping travel brands develop a China presence leveraging social media, digital marketing and internet technologies.

# Mobile boom fuels travel app popularity

The growing prevalence of smart phones with internet access augurs well for mobile apps targeting travellers

CHINA'S MOBILE INTERNET industry is growing at much faster rates than many developed countries. China is set to surpass one billion mobile connections by May 2012, according to *Wireless Intelligence*.

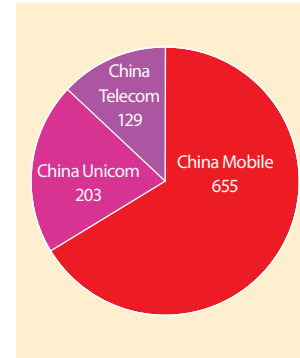
About 22% of urban Chinese mobile phone users browsed the Internet on their phones at least once a week in 2010, up from 15% in 2009. Leading the trend are urban youth, with 41% using web browsing on their phones in 2010, compared to 29% in the year before. Not bad for a mobile phone market that boasts almost a billion total users and over 400 million users with Internet-enabled mobile

phones, surpassing the number of PC internet users. According to the released data from three telco operators in China, there are 987.58 million mobile subscribers in China by end January 2012.

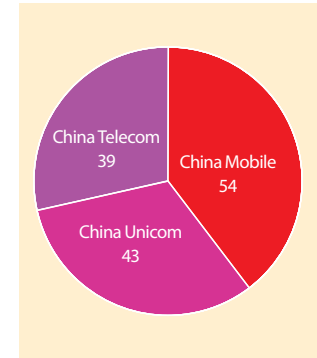
Another rapidly growing trend is instant messaging services, such as MSN Messenger and QQ. Just 1% of the population used instant messaging on their mobile phones in 2008, but two years later the number jumped to 15%.

There are three different 3G providers in China – China Mobile, Unicom and China Telecom – each running a slightly different version of the mobile service. China Mobile dominates the industry

Total mobile subscribers in China  
breakdown by Operators (millions)



3G mobile subscribers in China  
breakdown by Operators (millions)



Source: Published data for January 2012 from China Mobile, China Unicom, China Telecom

with an estimated 648.7 million connections, equivalent to a 67% market share.

Chinese leading market research firm Analysys International indicates that smart phones will take up 50% of China's total mobile phone market by 2013. Given this trend, mobile apps have strong prospects. The download of mobile phone apps in China already reached 863 million in 2010, and it is expected to surpass 20 billion by 2013.

Mobile internet brings travellers a lot of freedom and convenience during their journey, and becomes more and more essential for travellers. iResearch data also stated that the size of China's online travel market reached RMB 100 billion in 2010, with a year-on-year growth of 58%. In addition to

that, China's mobile internet users reached 318 million by the end of June 2011.

Qunar Mobile is a full-feature app that covers information of flights, hotels, train tickets, packages, and group-buying deals. It supports product search, payment, booking, and LBS services. Search volume via Qunar Mobile has reached 10% of PC search volume, and airline tickets' mobile booking grows over 100% every month.

Location check-in service Foursquare's equivalent in China would be Jiebang. Jiebang has a location-based mobile app that allows Chinese users to earn shopping coupons and restaurant discounts depending on their check-in activities at different locations in China. 花



## CASE STUDY:

# Social media campaign boosts Canada's profile

**The Canadian Tourism Commission (CTC) harvested over 1.2 billion overall media impressions in a virtual travel “Hello Canada Campaign” executed in collaboration with Dragon Trail ([www.DragonTrail.com](http://www.DragonTrail.com)) in 2011.**

The campaign, CTC's first major marketing campaign in China since gaining the Approved Destination Status (ADS) from the Chinese Government in June 2010, leveraged digital marketing and social media to influence Chinese consumers to choose Canada as one of their next vacation destinations.

The first of a multi-phase campaign, it featured a highly interactive and engaging social media driven online game, built on Dragon Trail's proprietary TripShow platform.

Chinese consumers virtually travelled to Canada by literally flying from Beijing, Shanghai, or Guangzhou to Vancouver or Toronto to complete one of three virtual itineraries in Canada to

either explore Canada's west or east coasts or complete a coast-to-coast trip. Each completed virtual trip was eligible to win one of three “real” trips to Canada.

To increase viral spread and social media engagement, the game encouraged participants to invite friends or spread the message on social media sites.

The campaign achieved the goals of increasing brand awareness, capturing consumer data for future marketing campaigns and building a following on China's major micro-blogging platform and Twitter equivalent in China, Sina Weibo.

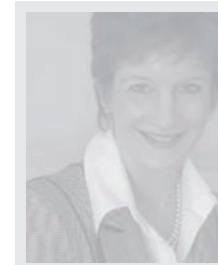
In the six-week campaign period, over 3.3 million visitors were drawn to the campaign website generating over 1.2 billion overall media impressions. Over 230,000 clean consumer data records were captured, and the followers on Sina Weibo numbered 40,000. It was also named the “Best E-marketing Campaign 2011” by *Travel Weekly China*. 

For the complete report,  
please visit: <http://bit.ly/18Z0xi>



**The Chinese are obsessed with the Internet  
Chinese people spend around 70% of their  
leisure time on the Internet**

*McKinsey & Co.*



## Human Resources

**Lesley Reynolds, CEO, Portfolio**

Portfolio has offices in London, Hong Kong and Shanghai (WOFE). Lesley has worked in Executive search and selection in the hospitality and leisure sector for 25 years and is one of the most knowledgeable in her field. Whilst leading a significant team of specialists, she remains hands-on executing senior corporate assignments. Her early career included various management roles in the luxury hotel market. Lesley is married and has two teenagers.

# Recruiting and retaining talent in China

The hotel and travel industry in China is experiencing some big challenges from a perspective of talent and human resourcing. On the one hand there is a completely inadequate supply of service trained people at all levels to satisfy the extraordinary pipeline of hotel, travel and related service infrastructure development signed for the coming years. On the other, we are witnessing changing attitudes towards the compensation packages provided to expatriate foreigners.

## The Competitive Staffing Pool

At staffing level first, start by considering the size and scale of the issue. The service sector has for the last decade been the largest within the Chinese economy. In 2011 alone it was recorded that there 1.4million more job openings than there were applicants and this was up from a whopping figure of 1m the previous year. In this space, hospitality, leisure and travel are competing with the luxury retail market for the same

english speaking, customer service oriented staff. It can be stated that part of the problem is the new generation of Chinese worker who has grown up to assume that there will be more jobs tomorrow.

The Gen-Y, who has witnessed at close quarters all the trappings of affluence has an appetite for a slice of this life for themselves. They have become highly aspirational and many expect fast personal development and regular salary rises – if they don't find them with

their current employer, they will move on swiftly. There is little loyalty witnessed amongst this workforce and the CVs of candidates in this group show job-hopping every 6-12 months as routine. The effect of this is that the emerging junior and middle management in hospitality businesses have large development gaps as they have often not yet matured as managers at the same pace as the opportunities that have arisen for them.

As a final point, it has been noted that some Chinese companies are inducing employees to join them with 'switching fees', whether these are paid to sign on or on the completion of a probation period, the bottom line is that the position is a rosey one for Chinese employees.

## Internal Management Development

Every multi-national company, group and independent hotel or travel business that one engages with on the subject of talent provides a range of pro-active examples on how they attempting to partially address the topic through internal management development. Several of the large Group's have their General Manager's tightly KPI'd on the number of Managers they can develop for their Group's Management pool, one General

Manager shared with me that he had provided 45 managers in the last 5 years - a deeply impressive achievement, but a drop in the ocean against the overall requirement sought.

Management Companies face an additional challenge because, although some owners are enlightened and are aware that GM's may need to be bought in externally due to the shortage and to keep the talent pool fresh, companies regularly face the issue that some owner's, having signed a particular management company, then expect that company to deliver the required talent as part of their contract.

## Retention

We see employee retention as a key issue for businesses right alongside fast rising labour costs. Independent hotels, often address this topic more creatively. At Shanghai's, much acclaimed, Puli Hotel, Martijn Van Der Valk, the General Manager, indicates that an emotional connection and career development have to sit alongside salary and benefits in order for them to retain the core staff to continue to exceed service delivery expectations. Martijn explains, "the emotional connection is more and more important especially for new

generation team members. They will stay for a “good boss”, for “good colleagues”, for “good friends in the company”. They are sensitive and receptive to the level of care from the company to them. We continue to very much focus on keeping a good work environment and we spend a lot of time, energy, money and other resources for the teams to make and to keep them happy.

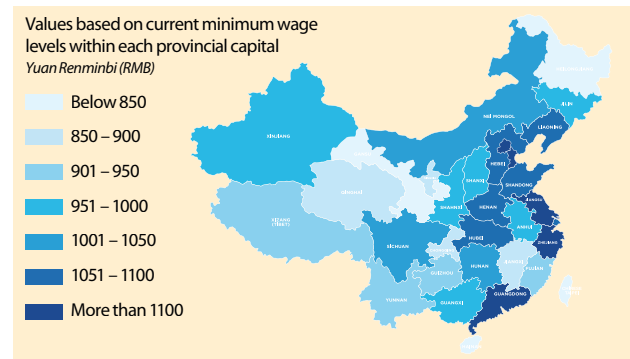
Brands that have entered the market with a strong people philosophy are able to show this has contributed to both attraction and retention. Brian Williams, Chief Executive of Swire Hotels acknowledges he was able to create a very ‘Gen Y’ culture for his ‘House’ and ‘East’ brands, “When we launched our group, I decided that one way to ensure the longevity and sustainable operating standards we needed was to have a ‘people philosophy’ at the heart of everything we do – so we made sure that our People are at the heart of the Brand. We then made sure we created an environment that reinforced our brand standards in areas that our teams worked – great back of house design, comfortable and casual team uniforms, state of the art team dining and changing rooms and above all a communications programme that

is unstuffy, open, non-threatening and supportive. We then reinforce/ review and adapt our ‘people philosophy’ every year to make sure we are keeping it fresh/current and of course ‘on-brand’.

And it appears the Swire Hotels brand strategy has worked, Brian cites terrific team morale, excellent operating results and low team turnover plus 75% of management at the next opening in East Beijing, have been promoted internally.

According to Charlie Dang, Beijing’s Managing Director for Westin, it’s the authenticity of the brand’s values that engage the employees and contribute to retention. One of the Westin values is ‘wellness’ and as part of the team associates enrichment experience with the brand the hotel provides many of the same services for the employees as for the guest. Back of House between 5pm and 7pm, a team of 5 therapists are on hand to provide massage for 20 minutes per person; there is yoga on Saturday morning and a competition by department for the most time spent in the gym in the week. These benefits combined with other significant genuine employee engagement initiatives have helped the Westin Beijing become the top feeder hotel in the Group.

### Minimum wages across China



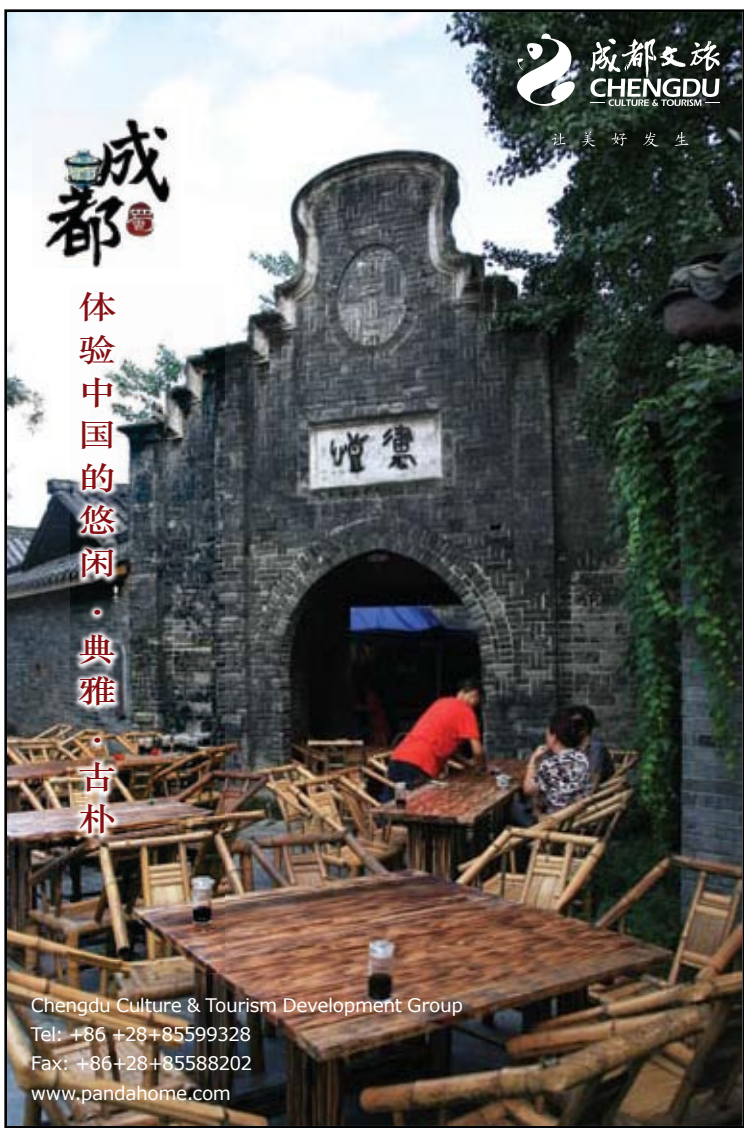
Source: Dezan Shira & Associates

### Streamlined Allowances for Foreigners

Whilst all the above point to a position of the employee calling the shots, a word of caution. The last few years have seen the tide turning for the life of the expat foreigner, often General Manager. Whilst it seems obvious to state that mandarin speaking is becoming increasingly preferred or rather essential for any post outside of primary and secondary cities in China, the packages paid to foreigners are increasingly being trimmed. Culturally, in a country which has for so long supported a one-child policy, should it come as a surprise that expats with no kids are preferred by Chinese owners? Education for expat children is at international level in the primary cities like Beijing and Shanghai

but venture further afield and not only does the provision become poor but an owner will flatly refuse to support the education cost as a benefit for more than 2 children. We are increasingly witnessing a base salary and fixed benefits allowance, the same for all managers in the same banding (interestingly this is becoming evident further afield than China as other international companies adopt this policy).

In conclusion, there is a wealth of opportunity and experience to be gained in China. As a foreigner, mandarin, open-mindedness, flexibility and respect for all stakeholders (owner, management company and staff) along with sensible package expectations and there is an insatiable requirement for talent at all levels. 龙



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## China's Growing Cities

**K K Fung, Managing Director, Greater China  
Jones Lang LaSalle**

K K Fung leads a team of more than 1,300 people across 12 corporate offices, in addition to another 10,000 staff working in client premises. Mr Fung works closely with market and business leaders to develop strategic direction, business priorities and operational advice across Greater China. Operating in the world's fastest growing economy, this includes expanding the firm's presence in the region and developing new business lines relevant to the real estate industry. Mr Fung's career with Jones Lang LaSalle has spanned more than twenty five years. He joined the Firm (formerly Jones Lang Wootton) in 1984 after completing a degree in Land Economics from the University of Aberdeen, Scotland. K K Fung took over responsibility for Greater China, including Hong Kong and Macau, in 2009.



# Big opportunities beyond Beijing, Shanghai, and Guangzhou

Jones Lang LaSalle highlights 50 secondary and tertiary cities across mainland China that offers substantial commercial real estate opportunities.

THE CHINA50 REPRESENTS A continental-sized market of global scale. It is an economy of US\$2.9 trillion, comparable to Germany. If it were a single entity, it would rank as the world's fifth largest economy. Its cities are growing fast, outpacing the rest of China. The China50 will account for 12% of all global growth over the next decade. The 10 fastest-growing large cities in the world (by GDP) are all in the China50. Chongqing is the planet's fastest-growing large city.

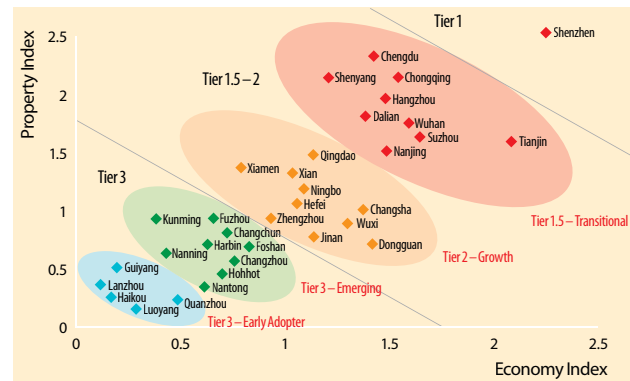
Chengdu has emerged as the premier China50 real estate market; Chongqing, Shenyang and Tianjin

have the strongest momentum; Wuhan and Xi'an offer good upside potential across multiple sectors.

The balance of growth has shifted from coastal to inland and northeast cities, highlighted not only by the impressive performances of Chengdu, Chongqing and Shenyang, but also by the evolution of cities in central China, such as Changsha, Zhengzhou and Hefei.

Some coastal cities, particularly in the Pearl River Delta, have temporarily lost ground as they go through a restructuring process. But momentum will return as they move up the value chain.

China50 Evolution Curve 2012



The retail sector will provide the largest real estate opportunity in the China50, on the back of strong growth in the middle classes. International retailers are moving deep into the China50 to tap into favourable demographics. They are expanding rapidly into cities such as Harbin, Kunming and Guiyang.

For international hotel operators, new opportunities are now emerging in Tier 3 cities, but operators will need to be more flexible and adaptive in order to compete effectively in these untested markets.

The China50 will continue to offer a compelling long-term growth story, but fears of excessive risk may lead to some caution in the property market over the short to medium term. They will not be

Cities are positioned on our City Evolution Curve based on a combination of Economic and Property Indicators:

**Economy** – Economic size and growth, metropolitan population, infrastructure, openness, labour, education, wealth and business environment;

**Property** – Investment volumes, stock, developer activity, corporate concentration, retailer concentration, internationally branded hotels

immune from volatilities in the global economy, but importantly, its inland cities may prove to be more resilient than most, underpinned by the structural growth of China's domestic economy. 🏠



K K Fung, Managing Director, Greater China  
Jones Lang LaSalle

## Tier 3 Cities presenting opportunities for international hotel brands

DRIVEN BY GROWTH OF DEMAND from an expanding economy, a vibrant real estate market and local governments' planning mandates, new hotels have been developed in Tier 1 cities since the beginning of the last decade, while cities such as Hangzhou, Tianjin and Xiamen have followed suit over the past five years or so.

Hotel development has become a crucial factor in most cities' overall growth and positioning. Motivated by large scale events, Beijing and Shanghai have already gone through a rapid growth phase, especially for internationally-branded properties. These cities have started to prepare for the next development cycle with local governments earmarking new areas for master-planned

development and hotel owners evaluating the potential to build new properties or reposition existing hotel assets. With core products well established, Tier 1 cities can expect newcomers and niche products, such as boutique brands, to add diversity to the marketplace.

Most Tier 1.5 and Tier 2 cities (and some Tier 3), on the other hand, are just starting to see new hotels coming on line with more openings expected over the next three years. Most of these new hotels were planned during the 2007-2010 period and will include a number of internationally-branded and managed properties. The supply of internationally-branded hotels in the main China50 cities grew by 19% between 2010 and

### There are five city categories that have been defined as follows:

#### Tier 1 Core Cities:

The China50 cities are benchmarked against four Tier 1 cities – Beijing, Shanghai, Guangzhou and Shenzhen. As China's primary real estate markets, they are characterised by high levels of international business connectivity, deep corporate bases and well-developed international grade stock, and they are the country's most liquid and transparent markets. The China50 cities do not include Tier 1 Core Cities.

#### Tier 1.5 Transitional Cities:

A new city category identified in 2012 that includes cities such as Chengdu, Chongqing, Shenyang, Tianjin and Hangzhou. These cities lead the China50 in terms of economic and real estate maturity and activity. They have benefited from strong policy support from central government, and have seen significant infrastructure investment and high levels of FDI. With large, open and diverse economies, there is strong presence of domestic firms and MNCs, and they have a critical mass of international retailers and hotel operators. They are witnessing massive commercial real estate development. Their real estate investment markets are evolving rapidly, with growth in international grade stock and the first substantial en bloc transactions. They have strong potential across all major commercial real estate sectors.

#### Tier 2 Growth Cities:

This category includes cities such as Xi'an, Qingdao, Ningbo and Wuxi. These cities have a high degree of wealth and/or international connectivity, as well as strong underlying demographics to support robust retail markets and industrial diversification. All are seeing increasing commercial real estate development. They tend to have strengths in particular economic and real estate sectors.

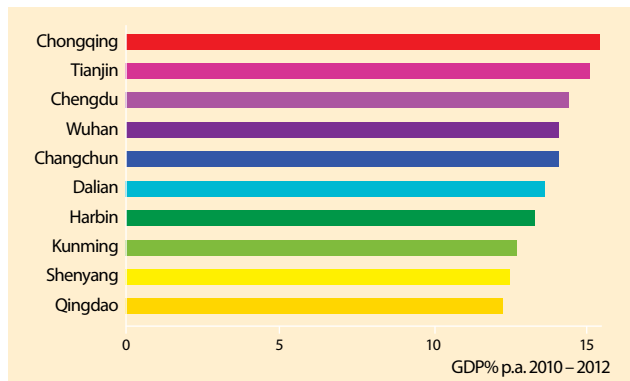
#### Tier 3 Emerging Cities:

These cities, which includes Kunming, Harbin and Nanning have moved into 'lift-off' phase, and are starting to see significant volumes of commercial real estate development. They are being targeted aggressively by retailers and hotel operators.

#### Tier 3 Early Adopter Cities:

These cities are beginning to have success in creating commercial real estate demand from domestic and pioneering foreign companies, who are looking to establish first mover advantage. Examples include Guiyang, Taiyuan and Urumqi. Market transparency is significantly lower than in the categories above. They are setting in place the conditions for 'lift off'.

## World fastest growing large cities

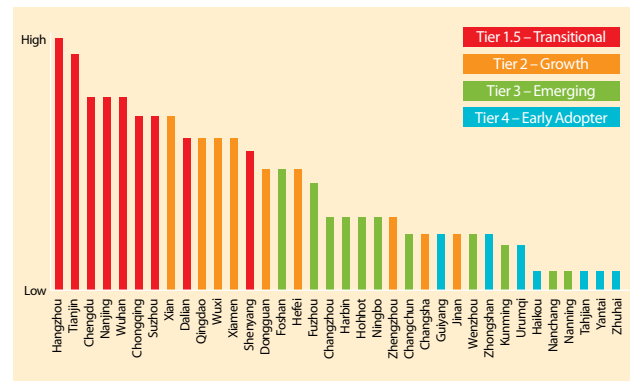


2011, compared with 10% in Tier 1 cities. Chongqing, Tianjin, Chengdu, Dalian and Wuxi will be particularly exposed to increases in guest room supply in the near future. Such an influx of new hotels is likely to set the scene for intensive competition and many of these markets will take time to regain balance.

With Tier 1, Tier 1.5 and Tier 2 cities facing supply pressures, many Tier 3 cities are appearing on developers' horizons and presenting new development opportunities. However, the rules of the game in these mostly domestic markets are a departure from the larger and more developed markets. For instance, in many Tier 3 cities, existing hotel product is out-dated, owners'

management capabilities are limited, overall room rates are low, and a high share of demand for both lodging and entertainment derives from local government. For these reasons, international operators will be slow to expand their footprint in Tier 3 cities, while many domestic hotel operators will benefit from local brand recognition and their ability to service local needs. In order to sustain a healthy pace of growth in China, international operators will need to be more flexible in both hard and software requirements in order to compete effectively in these markets. While many will adapt a defensive mid-market strategy, a first-mover 'best hotel in town' approach is also viable in a number of markets. As fewer

## Internationally-branded 4 and 5 Star Hotels



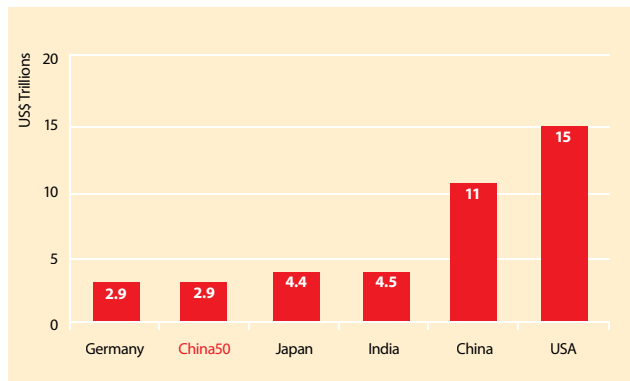
expansion opportunities exist in the more familiar Tier 1 and 2 cities, international operators will continue to find themselves compelled to pursue opportunities in Tier 3 markets. As such, the ability to adapt to the Chinese customer will be imperative.

The development of investment-grade commercial property has traditionally been and continues to be dominated by Hong Kong and Singaporean developers. Since the publication of our China40 report however, a few Chinese-based national and regional players have emerged and are likely to become formidable players over the next five to ten years. Not only have these players developed, or are on the cusp of developing, high-quality assets, but some have come

through with stellar track records in marketing, leasing and managing commercial properties

In the retail sector, domestic firms such as China Resources Land, COFCO and Longfor Properties are developing branded retail concepts that are being successfully replicated throughout the China50. We are now seeing retail schemes by domestic developers - with strong 'hardware' execution, an attractive trade and tenant mix, and good asset management - that are capturing a good share of consumer footfalls, thereby providing stronger bargaining power for these landlords. We expect that the experiences and subsequent successes of these domestic developers will provide

China50 would be the fifth largest economy in the world



Nominal GDP (PPP), 2011. Source: EIU, IMF, IHS Global Insight

them with sustainable competitive advantage in the coming years, resulting in greater competition for international retail developers.

Domestic players are still lagging behind their international counterparts, but if recent developments in China's residential sector is a guide, whereby a few projects capture an outsized share in any given market, then we should soon expect a handful of domestic players to rise to the top, and perform on par with, or even possibly outperform, their international peers.

As the industry matures, we expect a few large, well-endowed players, such as Wanda, to emerge to capture the full extent of the real estate value chain. However, given the size of the

China real estate market, the rise of specialist developers focusing on particular geographies, sectors (healthcare, hospitality, retail), products (mixed use, mass-market, redevelopment), or roles (mall operations, property management) is likely to be a more pronounced trend in the industry. 🏠

For the complete report,  
please visit: <http://bit.ly/1DcDHO>

In 2008, Chinese tourists passed all other nationalities as the biggest shoppers in France, according to a survey by the French government

*The Financial Times*



# Supporting Contributing Organizations

## China National Tourism Administration - CNTA ([www.CNTA.gov.cn](http://www.CNTA.gov.cn))

The China National Tourism Administration (CNTA) is the Chinese government authority responsible for the development of tourism in the P.R. China. The CNTA is subordinate to the State Council, and is headquartered in Beijing, with regional branches in various provinces. CNTA has several overseas offices in 14 countries and regions called CNO (China National Tourism Offices) that are charged with promoting tourism to China. CNTA is also responsible for controlling the outflow of tourists from China abroad.



## China Tourism Academy – CTA ([www.CTAweb.org](http://www.CTAweb.org))

In 2008, the China Tourism Academy (CTA) was launched as a specialized institute directly under the China National Tourism Administration. CTA aims to establish itself as think tank of the government, brainpower of the industry and highland of the academia specialized in promoting the development and international exchange of the Chinese tourism industry, providing technical support to the inspection of tourism development plans submitted by local governments, organizing the training of high-level and professional talents in the tourism field and managing international and domestic academic exchanges.



中国旅游研究院  
China Tourism Academy

## China Travel Trends

([www.ChinaTravelTrends.com](http://www.ChinaTravelTrends.com) /  
[www.ChinaTravelTrendsBook.com](http://www.ChinaTravelTrendsBook.com))

ChinaTravelTrends.com is an English language, one-stop resource website and community focused on the changing tourism, marketing, and consumer trends in China. Chinatraveltrends.com aims at giving international travel and tourism organizations insights about the complexity of the China travel market and its online landscape. China Travel Trends has an online community of nearly 1,000 tourism industry professionals interested in the Chinese travel market, and publishes the "Essential Guide to China Travel Trends".



## COTRI – China Outbound Tourism Research Institute ([www.China-Outbound.com](http://www.China-Outbound.com))

COTRI is the worldwide leading independent research institute for analysis, consulting and quality assessment relating to the Chinese Outbound Tourism market. With the head office in Heide, Germany and a Chinese branch based in Beijing, COTRI offers a broad range of services, including market research, analysis, consulting and coaching for destinations, companies and individuals.



## DRAGON TRAIL ([www.DragonTrail.com](http://www.DragonTrail.com))

Dragon Trail is an award-winning travel technology and digital marketing firm to help travel and tourism organizations to reach and connect with Chinese consumers by leveraging the Chinese online and social media landscape to develop and seed relevant content, executing results-driven digital marketing campaigns, and enabling innovative technology solutions.

100% CHINA – 100% TRAVEL – 100% DIGITAL



## GreenEarth.Travel ([www.GreenEarth.travel](http://www.GreenEarth.travel))

GreenEarth.travel is a policy think tank that supports travel and tourism as a key contributor to the green economy, with an emphasis on innovation and investment as a force for socio-economic development. It provide services / tools for Green Growth Travelism (Travel & Tourism) to encourage countries, cities, communities, companies and consumers to practice "Quadruple Bottom Line" Sustainability, and embrace "Smart Travel" to be clean, green, ethical.



## Horwath HTL ([www.Horwath.com](http://www.Horwath.com))

Horwath HTL (hotels tourism and leisure) is one of the world's pre-eminent consulting specialists in the hotel, tourism and leisure industries, providing unequalled experience and expertise for client projects around the world through a combination of detailed local knowledge and international understanding. Horwath HTL is currently the world's largest consulting organisation specialised in hospitality, with 50 offices in 39 countries. Horwath HTL is the organizer of the annual China Hotel Development and Financing Conference in Beijing.



#### **Hurun Report ([www.hurun.net](http://www.hurun.net))**

Established as a research unit in 1999 by British accountant Rupert Hoogewerf, Hurun Report Inc has grown into a leading luxury publishing group based in Shanghai, China. Hurun Report Inc publishes four luxury magazines, including the monthly Hurun Report reaching the households of 105,000 proven wealthy Chinese individuals and their advisers, the Hurun Rich List which ranks China's RMB billionaires and is widely considered the Who's Who of Chinese business, as well as a White Paper in association with ILTM about the Chinese Luxury Traveler.

**胡润百富**  
**HURUN REPORT**

#### **PATA – Pacific Asia Travel Association ([www.PATA.org](http://www.PATA.org))**

The Pacific Asia Travel Association (PATA) is a not-for profit membership association that acts as a catalyst for the responsible development of travel and tourism within the Asia Pacific region. In partnership with private and public sector members, PATA enhances the sustainable growth, value and quality of travel and tourism to-from-and-within, the region.

**PATA**  
Pacific Asia Travel Association

#### **TUI China ([www.Tui.cn](http://www.Tui.cn))**

An affiliate of World of TUI, the world's leading tourism group, TUI China was established in late 2003 as the first joint venture with foreign majority share in the Chinese tourism industry. Its headquarters are in Beijing whilst its operations reach deep into the far corners of China. World of TUI generated approx. 50,000 predominantly western tourists to China yearly and provides M.I.C.E services for renowned companies worldwide. In 2011, the company was awarded one of only three pilot outbound travel licenses for joint venture companies by the China National Tourism Administration and the China Ministry of Commerce.

**TUI**  
TUI China Travel Co. Ltd.  
中德旅游集团有限公司

#### **UBM Aviation ([www.ubmaviation.com](http://www.ubmaviation.com))**

UBM Aviation specialises in the supply of aviation data and aviation information products, aviation market intelligence and news and events for the global aviation industry. We bring together buyers and sellers of air travel and transport, enabling the world's airlines, their customers and suppliers to successfully conduct business.

  
**UBM Aviation**  
the freedom to innovate

**In 2010, Chinese tourists became the world's top tax-free shoppers in Europe**

*Global Blue*



KAZAKHSTAN

RUSSIA

China Travel Trends 2012

# Map of China

KYRGYZSTAN

MONGOLIA

Yining

Kuşu

Urumqi

Turpan

Aksu

Korla

XINJIANG

Kashgar

Hetian

Dunhuang

GANSU

Jaiyuguan

Golmud

QINGHAI

Xining

Yinchuan

Lanzhou

NINGXIA

Baotou

Hohhot

Taiyuan

SHANXI

Datong

Zhengzhou

Luoyang

Xian

Xiangyang

Yichang

Chongqing

Chengdu

Lijiang

Dali

Kunming

Nanning

Guilin

Yangshou

Foshan

Guangzhou

Macau

Zhongshan

Zhuhai

Haikou

Sanya

Beijing

Tangshan

Tianjin

Shijiazhuang

Jinan

Kaifeng

Xuzhou

Nanjing

Wuxi

Changzhou

Hefei

Huangshan

Wuhan

Jinhua

Nanchang

Wenzhou

Fuzhou

Xiamen

Shantou

Dongguan

Shenzhen

Hong Kong

Shanghai

Jiaxing

Shaoxing

Ningbo

Suzhou

Nantong

Weifang

Qingdao

Yantai

Dalian

Shenyang

Qiqihar

Harbin

Hailar

Changchun

Jilin

LIANG

NORTH KOREA

SOUTH KOREA

YELLOW SEA

EAST CHINA SEA

ZHEJIANG

JIANGXI

HUNAN

GUANGDONG

GUANGXI

GUIZHOU

YUNNAN

SICHUAN

CHONGQING

HUBEI

HENAN

SHANXI

SHANDONG

NEI MONGOL

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