



# Essential China Travel Trends

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2010 Year of the Tiger Edition



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2010 Year of  
the Tiger Edition

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# INTRODUCTION

China is rapidly emerging as the largest, most dynamic, most promising inbound, outbound and domestic travel market in the world. Amazingly, it has done this over the past 25 years from a standing start.

The next five years will be even more exciting as the Internet becomes the main tool for promoting, managing and delivering tourism globally and China boosts tourism growth, quality and sustainability as a strategic economic pillar.

China is also potentially the most important e-tourism market in the world--with the most Internet users, an intense web landscape, a vibrant consumer base and leading edge travel technology. Increasingly, consumer thinking, brand recognition and purchasing are being shaped online.

It also has special challenges - a distinctive culture and way of doing business, inadequate data, complex sales channels and unique marketing demands. It is one of the toughest markets in the world to do business in, but for those who understand and are patient, there is unlimited opportunity.

Our "Essential China Travel Trends," reveals some of the critical trends and potential pitfalls, and offers insights from practitioners in the industry.

We thank our contributors and partners, and hope you enjoy the first edition, published in the year of the Tiger.

Best regards,



Jens Thraenhart  
Dragon Trail



Lin Xu  
VariArts Travel Group



Professor Geoffrey Lipman  
GreenEarth.travel

Beijing - May 25th, 2010

*"China is a powerhouse economy. It will be the main driver of global Travel & Tourism growth in the foreseeable future. The Chinese State Council's recent Tourism Guidelines give the highest recognition to the industry as a strategic pillar of the national economy.*



*By holding our 10th Global Travel & Tourism Summit in China, we commend this commitment, while urging other governments to follow suit and demonstrate their recognition of Travel & Tourism's economic importance, as well as the influence it has on nearly every facet of our lives."*

Jean-Claude Baumgarten, President & CEO,  
World Travel Tourism Council (WTTTC)

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*"China is a world class destination and a leader in the tourism industry. China's recent bold move to upgrade its tourism strategy from sectoral to a state-level national strategy is a leading example for many countries around the world.*



*Already the world's fourth most visited destination, by 2020, China is expected to become the leading international tourism destination and the fourth largest outbound market. "*

Taleb Rifai, Secretary General,  
World Tourism Organization (UNWTO)

---

*"The travel and tourism industry in China (PRC) will move from strength to strength over the course of the next decade as domestic, inbound and outbound tourists continue to grow substantially. The national and provincial authorities have shown extraordinary commitment to our industry in these uncertain economic times - particularly in investment, infrastructure and product development.*



*This in turn has prompted a growing response across the region to the needs of visitors from this increasingly influential source market and here the Internet and social media are becoming essential tools for travel research and planning."*

Hiran Cooray, Chairman,  
Pacific Asia Travel Association (PATA)





# TRAVEL SUSTAINABILITY

By Professor Geoffrey Lipman



Director,  
GreenEarth.travel

Principal, Schuman  
Associates Brussels

Geoffrey Lipman is a principal at Schuman Associates Brussels, and an advisor to UNWTO and the World Economic Forum. He chairs the board of the DeHaan Institute at Nottingham University and is an adjunct professor at Victoria University Australia. He is a Board Member of STDi, Greenearth.travel and Dragon Trail. He has served as assistant secretary-general of the UNWTO, president of the WTTC and executive director of IATA. Lipman has written and lectured on tourism strategy, sustainability and airline liberalization, and co-authored studies on European aviation and airline mergers.

## **Sustainability – Evolving Strategies Coherent With Development**

Contrary to popular wisdom, there is a widespread and growing environmental consciousness in China that matches patterns around the world and exceeds that of many large and developing countries. This includes national strategies and regulations, corporate social responsibility programs and very active NGOs. It has gained momentum as a result of the global concerns with climate change.

But China faces fundamental sustainability challenges, including a starting position as a poor developing country, massive land and population size and widespread reliance on fossil fuels. The country's dynamic development path means that growth has been (and remains) the key driver of policy, poverty reduction and modernization.

National and provincial environmental response strategies have strengthened in comparatively recent times. Chinese government bodies are poised to fast track such initiatives and are already systematically building them into planning and development strategies. Similarly, business and consumer interest in green practices is mounting, particularly among the young, web-wise generation. It is also being driven by the need to match evolving good practice and product competitiveness in the global market.

The State Council and the National Development and Reform Commission are actively engaged in policies to create a new green growth model that addresses economic growth, poverty, energy saving and climate change simultaneously. The related NDRC action plan addresses mandates, industrial transformation, Incentives, resource conservation, energy optimization,



## THE DRAGON STIRS

Since 2008, when world leaders began to advance the green economic strategy, China has not only played a central role in the global and regional institutions, but more than any other country has placed travel and tourism at the heart of its response. It has:

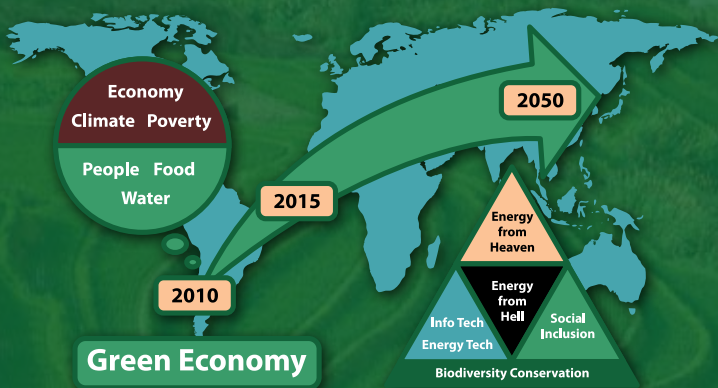
- Acted to boost domestic tourism, introduce innovative products and support the small and medium enterprise (SME) supply chain
- Continued to encourage the outbound market to help support Asian regional economies
- Introduced travel and tourism infrastructure as key components of long-term economic development and short-term investment and job creation action—high-speed rail, airports and super-highways
- Made tourism a major pillar of national economic development strategy
- Integrated the sector into its ambitious renewable energy and environmental protection planning

environment protection and community outreach.

Hotels—particularly new-build projects—are adopting stronger waste, water and energy policies. Indigenous green certification schemes are spreading, along with low-carbon transport initiatives—particularly for the exponentially increasing car segment. Emission controls on automobiles were initiated in 2000 and the following year clean car research and development became a priority—particularly fuel cell cars, hybrid cars and electric cars.

Distinct ecotourism and community engagement patterns are emerging in rural communities and intense sustainability planning and redevelopment standards related to energy efficiency and air pollution are appearing in cities. Festivals, mega-events, special tourism months and national city awards are increasingly adding environmental dimensions as well as socio-cultural ones.

These patterns of sustainable development can be expected to intensify, driven by global trends, government policy and increasing business, community and consumer behavior. Travel and tourism industries can be expected to increase their sustainability engagement as the world transforms over the next decades to a greener economy. China has shown that it will play a lead role.



## China Will Be A Global Leader of The Green Economy

In the past two years, the concept of a shift to a low-carbon economy has taken root in global decision-making institutions from the Group of 20 to the United Nations and international financing institutions such as the International Monetary Fund and the World Bank. China has been at the heart of this shift and its tourism is a key strategic element.

In short, the green economy is a way for the world to simultaneously respond to today's major economic, poverty and climate

crises, while preparing for foreseen challenges of massive population growth which will create huge strains on basic resources. It presupposes a world which progressively diminishes its addiction to black energy (coal and oil), substituting it with clean energy (wind, solar, wave, nuclear etc.). It will require enormous application of information and energy technologies, along with special response for the poor and for conservation of biodiversity. The needed change will happen at differing paces, but it must transform the entire global economy to a low-carbon model by 2050.



## Fast Facts

The Chinese government is giving prominence to building a resource-conserving, environmentally friendly society in its strategy of industrialization and modernization. According to Premier Wen Jiabao, "China is taking firm actions to protect the environment, increase efficiency of energy, develop renewable resources and reduce greenhouse gas emission."

The 2008 Olympics in Beijing and the Shanghai World Expo were widely recognized as state of the art green events.

2009 was National Ecotourism Year, which the chairman of the China National Travel Administration described as part of the planning for an ecological civilization, as well as to help meet the ever increasing needs for ecotourism around the world.

China has a national strategy for lower energy consumption, lower emissions and use of high-efficiency technology while attempting to maintain high productivity.

China has made great strides in the development of solar and wind energy and is promoting the research and widespread deployment of these technologies. It ranks amongst world leaders in terms of solar energy production and in wind energy development programs.

The 2008 Olympics in Beijing were widely recognized as the greenest ever and the Shanghai World Expo will set new standards for environmental and carbon responsibility.

As part of its strategic development policy, the State Council has called for environmental protection for tourism, emphasizing energy and water conservation and pollution controls. It emphasizes use of new energy and materials for the entire tourism supply chain with clear targets of 20% reduction of water and electricity consumption for major facilities by 2015. It also calls for evaluating and mitigating the environmental impact of tourist programs as well as promoting low-carbon tourism practices.

# INTERNET & SOCIAL MEDIA MARKETING

By Jens Thraenhart



Co-Founder,  
Executive Partner  
& Chief Strategist,  
Dragon Trail

Publisher &  
Editor-in-Chief,  
[ChinaTravelTrends.com](http://ChinaTravelTrends.com)

Educated at Cornell University with a Masters of Management in Hospitality, Jens Thraenhart was recognized 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. He has led marketing and Internet strategy teams with the Canadian Tourism Commission and Fairmont Hotels & Resorts. His e-strategy advisory firm Chameleon Strategies 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. He recently launched the online resource portal and community [ChinaTravelTrends.com](http://ChinaTravelTrends.com).



- The number of Chinese Internet users has grown by 1,500% since 2000  
- CNNIC
- China had 420 million Internet users in April 2010, 29% of the population  
- CNNIC
- Most engaged country online: 92% of Chinese netizens contributed to social media  
- Forrester Research
- 85% of online users approve Internet censorship  
- Trendspotting
- More bloggers in China than in Europe and USA combined  
- Universal McCann
- Social media is the most influential communications medium in modern China, according to 67% of public affairs executives - Edelman Media Influence Survey, 2009



## Internet & Social Media Marketing

There were 420 million Internet users in China by the end of April 2010, more than the entire population of the United States, according to China Internet Network Information Center (CNNIC), the country's official domain registry and research organization. That's an increase of around 50% over 2008, and an increase of 1,500% since 2000.

The online landscape in China is vastly different from other parts of the world, and international platforms often fail or get banned here. Popular sites such as Facebook, Youtube, Flickr and Twitter have fallen victim to the Great Firewall of China. While young innovative Chinese Netizens can find a way to get to these sites, why would they want to? In China, local Internet companies rule the digital space, and the numbers are staggering.

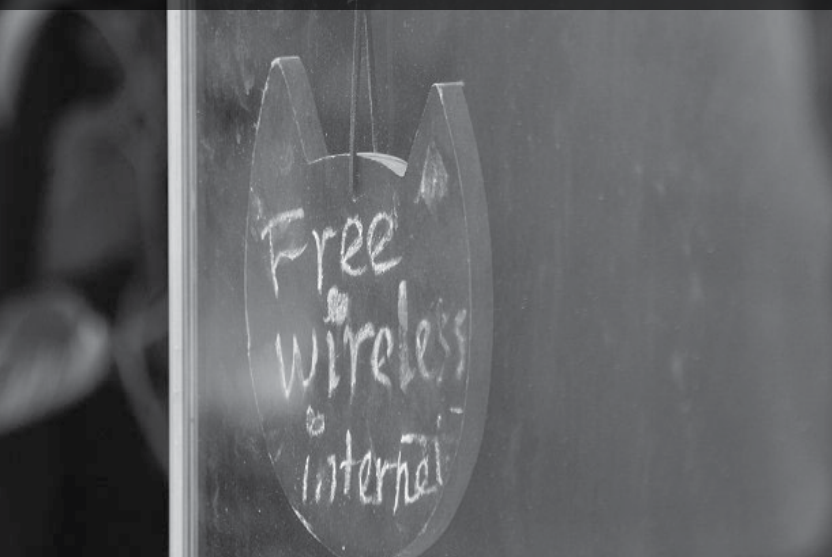
China's first bulletin board system (BBS) was launched in 1994, marking the beginning of the country's online community. China's Internet users are online for an average of 16 hours per week, the same amount of time they spend watching television. Online engagement in China is twice as high as in the United States and Europe, according to a 2008 report from Forrester Research. A high percentage contribute content by uploading videos and pictures, as well as writing and commenting on blogs. The Internet in China is dominated by long-running, multi-service portals like Sina, QQ and Sohu, which began offering social networking, discussion forums, blogs, instant messaging and other social media long before Twitter and Facebook existed. As the nationally preferred form of social media, BBSes are available for every imaginable topic, and in these forums, netizens can be extremely vocal, resourceful, risk-taking and subversive. The power of the Internet in China has never been stronger and



48%

of Chinese travelers use online travel  
discussion forums to fine-tune plans.

*Source: Nielsen Outbound Travel Monitor*



Free  
wireless  
internet

has not even begun to be realized at a national penetration rate of 28%, compared to 70 to 80% in North America and Europe, according to World Internet Stats.

## Online Travel

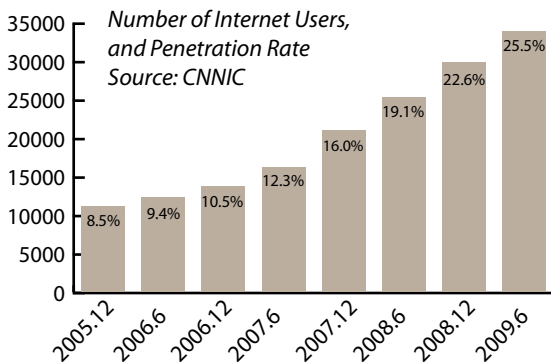
Chinese travelers use the Internet heavily to make their purchase decisions, while still using travel agents for most final transactions, due to convenience. Travel agents in China tend to recommend travel packages that they have either known for years or that offer them the greatest incentive, if the consumer has no specific destination or hotel in mind. This is why it is vitally important for brands to be top of mind with Chinese consumers before they contact a travel agency.

According to CIC Data, a Shanghai-based company that researches Chinese consumer behavior online, 81% of BBS and blog users check online word of mouth before purchasing a product. Purchase decisions based on user-generated online info were made by 59%, compared to only 19% in the United States. The Nielsen Outbound Travel Monitor found that Chinese travelers search for conventional destination information ahead of their trips (61% of leisure trips taken), and then turn to online travel discussion forums (48%) to fine-tune their plans. Nielsen's study also showed that among all media, travelers were most likely to recall seeing Internet advertising for travel destinations.

Of travelers who leverage social media and travel reviews in the decision-making process, 25% purchased travel online, according to a report in PhoCusWright FYT's October 2009 newsletter. This marks a notable shift in travel buying behavior, as cash still remains the most popular payment form for travel in China.

In addition to the rapid increase and penetration of the Internet in China, online engagement is high with over 40% sharing travel reviews or uploading photos and videos online, compared to just under 20% in North America and Europe, according to “Chinese Technographics Revealed,” a 2009 report by Forrester Research.

In 2009, the number of users booking travel online increased 78% to 30.24 million, according to a report released by CNNIC. PhoCusWright reveals that China’s online travel space currently totals approximately \$6.9 billion USD, accounting for about 11% of the country’s entire travel market. China’s online tourism market is booming, as an increasingly wealthy middle class travels for leisure, while the use of credit cards and the Internet soars, according to iResearch, a Chinese Internet research and consulting firm, which projects that by 2011 online booking will account for about 20% of the total travel market.



## Outlook

Sheer market size paired with increased wealth and consumerism started the original travel boom in China. The emergence of new



120 Million new Internet users in 2009 equal  
14,000 new users per hour. *Source: CNNIC*

local entrepreneurs and increased global attention spurred by events like the Beijing Olympics and Shanghai Expo (2010) will serve as catalysts to grow China domestic and outbound travel. Despite clear demand for travel products, challenges still exist in the form of lack of standardized distribution, visa issues, and the dominance of a few big travel agents, as well as lack of credit card use.

Leveraging the Internet to get brand insights and to connect with consumers is nowhere so powerful as it is in China. However, since the Chinese online landscape is so different, it is impossible to take a social media campaign from the West and simply plug it into China. To make it more effective it should tap into the qualities that make Chinese netizens perfect social media advocates. For instance, social media campaigns should play on the individual's susceptibility to shared opinions and values, by being as interactive as possible. A campaign should aim to make

Chinese netizens feel liberated by offering them opportunities to express themselves. This can be done via profiles, avatars, BBS and blogging elements within the campaign.

As well as making an impact, a social media campaign also has to measure its impact using the unique qualities that indicate success, based on the extremely impressionable Chinese internet audience. Creating social media campaigns in China may be trickier due to government red tape and less freedom to express the brand message. However, strategic use of social media to increase brand awareness is extremely powerful in China. For this reason, it is important to adapt your campaign to fit with the terms and conditions of whichever social networking system you execute it on, and understand the online behavior of Chinese netizens, so you can listen, monitor, moderate and engage.

# TRAVEL TECHNOLOGY

By George Cao



Co-Founder,  
Executive Partner  
& Chief Technologist,  
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 Hotels' 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 Go10000, China's first meta-search engine in the travel category, offering services in travel research and trip planning, travel meta-search and travel-focused social networking. 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.



30 million people in China access the Internet only on their mobile phones. - iResearch, 2009



## China Travel Technology

Driven largely by the fast-growing consumer demand, travel-related technologies have seen tremendous growth in the past decade. The Internet has brought about fundamental changes to travel research, planning and purchasing by Chinese travelers. According to a 2008 report from Research in China, 67% of China's total Internet users choose the Internet as their main source of tourism information. More than 70% of netizens made a hotel reservation or booked an air ticket online in 2007. The report also said that 20% of all Chinese netizens use online channels to complete their purchases.

Since completing the first nation-wide wireless telephone communication network in 1996, China's mobile communication service providers had grown their combined subscription base to over 756 million users by January of 2010, reports China's Ministry of Industry and Information Technology (MIIT). All three major telecom carriers have launched third-generation (3G) mobile communication networks. Mobile phone-based travel applications and services are hailed as the new frontier of travel e-commerce development in China.

Encouraged by the huge success of online travel agency Ctrip, which dominates the online travel booking market in the international capital market, investments into technological and business model innovations in online travel in China continues.

## Internet Infrastructure and Applications

China has built the world's largest Internet infrastructure, covering almost all cities. According to a November, 2009 article in the state newspaper People's Daily, on the 2009 China Internet

Conference, 96% of towns are connected to broadband and 99% of villages have Internet access.

China surpassed the United States in February 2008 to become the world's largest internet market. By the end of 2009, over 90% of China's 384 million Internet users had broadband access, according to a January 2010 report from the China Internet Network Information Center (CNNIC). Two hundred thirty three million Internet users use their mobile handsets to access the Internet.

Major suppliers from all sectors of travel in China—including hotels, airlines and travel agencies—have developed their own solutions to enable their customers to search and book their products online.

Most online bookings for intermediaries and local suppliers are powered by home-grown central reservation systems. Hubs1, Derbysoft and CHINAonline supply domestic CRS solutions to hotel customers. These providers, plus Pegasus Solutions and TravelClick, handle global distribution for hotels. Travelsky, the government-mandated monopoly global distribution system (GDS), provides CRS solutions to all major airlines in China.

## **Mobile Infrastructure and Applications**

Mobile communication services had 756.6 million subscribers in China as of the end of January 2010, growing by 16% that year, according to statistics from MIIT. The number of subscribers accounted for 56% of the country's population. In January, mobile phone subscribers in China sent 66.53 billion short messages, averaging 2.85 short messages per phone number a day, the MIIT figures show.

Operator	Standard	Increase in subscribers (million)	Total subscribers (million)
China Mobile	TD-SCDMA	3.41	7.69
China Telecom	CDMA2000	3.3	65.45
China Unicom	WCDMA	0.759	4.82

China market: 3G mobile user base, March 2010

*Source: Industry sources, compiled by Digitimes, April 2010*

Smartphones accounted for 15% of total mobile phone shipments in China in 2009, and the percentage is rising steadily. At present, Symbian, Windows Mobile and Linux are the three main operating systems in China's smart phone market. But big changes are coming to the smartphone market with the launch of 3G services. China Unicom, China's No. 2 cellular carrier, began selling the iPhone in China in October 2009 under an exclusive, three-year deal with Apple. Its main rival is the OPhone, based on Google's Android operating system and backed by leading carrier China Mobile.

To capture the new market opportunities introduced by 3G networks and smartphones, Chinese travel suppliers and intermediaries alike are fast in moving their web-based service to the smartphone platforms. Mobile phone-based travel applications and services are hailed as the new frontier of travel e-commerce development in China.

## Payment Technology

Chinese consumers have been reported to be wary of both credit card use and online transactions in the past, but in recent years, with improved security, Chinese are more open to using credit cards and conducting online bank transactions.

Online payment in China has shown rapid growth in market scale and number of users. In 2008, the number of users registered for online payment service hit 52 million, and in 2009 the figure will have exceeded 90 million, projects Research in China's "China Online Payment Industry Report." The report valued the 2008 online payment market at 210 billion RMB, and predicted it would reach 430 RMB billion in 2009.

The growth of e-commerce in China, including online travel booking, has forced payment infrastructure to adapt accordingly in order to support this new sales channel.

With the State Council's issuance of Management Measures for Payment and Settlement Organizations, a regulation requiring the supervision of the online payment industry has been enhanced. The central bank will build up the payment service organization system, which is led by the People's Bank, primarily supported by banking financial institutions, and assisted by payment and settlement organizations. The chaos once in payment industry will be controlled and malicious market competition alleviated. Those online payment enterprises in unfavorable operation will be eliminated, only the profit-making enterprises will survive, so the industry concentration will be further strengthened.

The largest third-party online payment platform in China, Alipay, announced its number of users broke 200 million in July 2009, overrunning the giant Paypal to take the first position in the online payment industry. At that point, Alipay was seeing a daily trading volume of 700 million RMB, with four million daily transactions.

The number of mobile users in China is expected to reach one billion in 2013, according to Framingham, Maryland-based Interactive Data Corporation (IDC). Mobile users are used to

# 1 billion

Mobile Users in China are forecasted  
to reach 1 billion by 2013



making small payments on their mobile phones. Generally there are two popular means to make payment via mobile: sending a text message or using a mobile prepaid charge card. According to a recent report from Analysys International, mobile payment accounts for 2.7% market share of the Chinese third party payment market, compared with 97% market share for online third party payment (using providers such as Alipay and Tenpay), and 0.5% market share for telephone payment.

With the development of the Internet, particularly the further development of online shopping, the future competition among online payment enterprises will rest with individuation, accuracy and service.

# TRAVEL DISTRIBUTION

By Charlie Li



General Manager ,  
China Southern Airlines

Charlie Li has worked as general manager of E-commerce Co. Ltd of China Southern Airlines since 2007. Li has 18 years of experience in China's airline and online travel industry. He most recently worked as eLong's senior director of the air partner service group, where he led product development and maintained the key supplier relationships with major Chinese and international airlines. Charlie holds a bachelors degree from Shandong University in China and an Aviation MBA from Concordia University in Montreal, Canada.

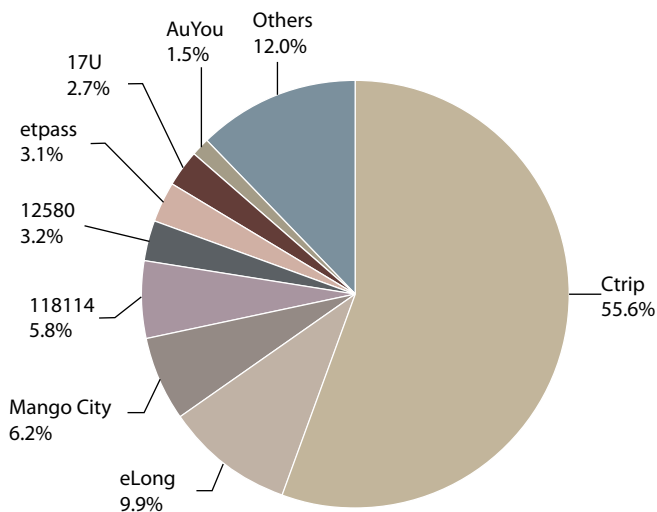


90% of travel was booked offline  
in China in 2009.  
*Source: China Travel Daily*

## The Growth of Online Search and Booking

The emergence in China of the new generation of online travel companies, such as Ctrip and eLong, has changed the rules of the game in a once fragmented market. Historically, China's travel distribution marketplace was spread out over more than 7,000 licensed ticketing agencies, 17,000 licensed tour operators and tens of thousands of unlicensed travel companies selling air tickets, hotel rooms, packages and group tours. By leveraging a combination of online distribution platforms and the traditional call center channel, online travel planning providers are changing the competition landscape.





China Online Travel Booking Market Share, 2009

Chinese travelers still have not widely adopted online booking. Traditional channels such as physical sales outlets and call centers still handle more than 90% of the country's US \$60 billion in annual gross travel bookings. Even Ctrip, the undisputed market leader which dominates the online travel market with over 50% of market share, still processes about 70% of its bookings through a call center. eLong, as the number two player and a subsidiary of Expedia Inc., lags behind Ctrip, cornering less than 10% of online market share. Other players, like Mangocity.com and Yooe.com, focus their business in the Southern China region.



78%


China's online travel booking users in 2009 reached 30.24 million, increasing 78% from the previous year.

*Source: CNNIC*

Travel meta search has experienced phenomenal growth over the past five years and meta search leaders now pose significant challenges to the leading online players by diverting online bookers to the sites of travel suppliers and many small and medium-size online travel agencies (OTAs). Qunar.com, China's leading travel search engine, is now also the second most visited travel planning website for Chinese travelers, behind Ctrip. In 2009, Kuxun.cn, China's number-two travel search engine, was acquired by TripAdvisor, whose online travel content could potentially be combined with Kuxun's travel planning tools to build a one-stop-shop platform in China.

Ctrip will likely keep its dominant position in China's travel distribution market over the next three to five years, supported by its aggressive expansion in the Greater China market in 2009. We can expect Ctrip to make more strategic acquisitions or investments in the hotel sector in an effort to consolidate the hotel inventory. It would not be a surprise to see Ctrip become a full-service travel company in five years.

It will be very hard for any new home-grown competitors to challenge Ctrip over the next few years, given the scale of its business and its ambition to step into the hotel supply segment. For the global OTA players, now is the time to think about their entry strategy before it becomes too late and too expensive to launch in China. Currently, the major United States and European OTAs, like Priceline and Travelocity, have made some overtures to the market, but still do not have a physical presence or widely recognized brand in China.



# 75%

Three Chinese airlines—Air China, China Eastern and China Southern—are the dominant players in China's air transportation market, with a combined market share exceeding 75%. Source: CAAC

## Policy and Trends to Watch

**Operating Licenses:** Separate operating licenses are required for selling air tickets, packages and group tours. Air ticketing licenses are now issued by China Air Transport Association (CATA) and can not be obtained by companies that are majority controlled by foreign investors. The license for group tour operation is issued by China National Tourism Administration (CNTA) and is now accessible to any foreign companies, as well as to foreign individual investors. But this license category is currently restricted to inbound and domestic tour operation. An ICP (Internet Content Provider) license is also required for running any online business.



**Air Booking:** Three Chinese airlines—Air China, China Eastern and China Southern—dominate here, with a combined market share exceeding 75%. Most Chinese and international airlines still pay commissions to Chinese intermediaries. Recently, Chinese carriers have begun aggressively pushing online direct sales, but travel intermediaries still handle 90% of airline bookings.

**Hotel Booking:** Most hotel companies work with intermediaries on a commission model, which normally ranges from 10 to 15%. Indirect channels still handle over 90% of hotel bookings for most Chinese hotels. One exception is 7 days Inn Group, the NASDAQ-listed economy hotel chain, which handles over 98% of its booking through online direct and call center channels.

**GDS Market:** Travelsky is the only global distribution service legally allowed to operate in China. The market is not open to international players. For China's domestic travel, the market share for bookings processed by Travelsky has dropped significantly over the past five years as more airlines pursue a direct online strategy and some of them are very successful in developing dedicated agency booking platforms. According to China Travel Daily, Travelsky processed 55% of domestic air booking in 2009. The major international GDS players, like Sabre, Travelport, Amadeus and Abacus, have had quiet operations in China since before 2000. They are now capturing outbound travel booking market share from Travelsky.

A source close to Travelsky, who requested anonymity, said the GDS market might be fully opening as early as the first half of 2011. This would signal big opportunities for international GDS operators and travel distribution companies.

# CHINA'S TOURISM CAPACITY 2.0

By Lin Xu



Founder/President,  
VariArts Travel Group

Founder,  
China Luxury  
Travel Network

Lin Xu's personal and professional relationship with China extends across the academic, entrepreneurial and creative spheres. She is a China scholar, art lover, and eco-living promoter. Lin was trained as a Sinologist at Stanford University after completing a business degree at Peking University. She has conducted research on Chinese politics, culture and economic policy-making, as well as social phenomena of the Asia-Pacific region. She worked as an executive in Asian business development and investment consulting in the United States, France and China, before starting VariArts Travel Group. She also helped found the China Luxury Travel Network (CLTN) and co-founded the China Sustainable Travel Network (CSTN).



## China's Tourism Capacity 2.0

In the fast track of tourism growth, China is facing the challenge of developing segments that have the potential to move the industry up market. Travel suppliers need to develop a broad range of products and better services to cater to the increasingly diverse needs of high-end visitors.

In its 11th five-year plan, the Chinese government has set future directions leading the industry to a new level, particularly in the



- 
- Export earnings from international visitors are expected to generate 3.3% of China's total exports (344.6 billion RMB or \$50.7billion) in 2010. *Source: WTTC*
  - In 2010, total revenue in China's tourism industry is expected to grow 13 percent to hit \$205 billion USD. *Source: China Tourism Academy*
  - Chinese tourists are forecast to make 2.1 billion domestic trips in 2010, up 12 percent from 2009, which would generate \$161 billion USD of revenue. *Source: China Tourism Academy*
  - China's cruise industry is expected to result in 600,000 cruise passengers visiting Chinese seaports by the end of the year. *Source: China's Ministry of Transport & Communications*
  - With an average growth rate of 30%, from 2003 to 2008, the number of China's golf courses has increased from two hundred to over one thousand. *Source: China Golf Market Report 2008*

segments of meetings, incentive travel, cruising, green tourism and health tourism. This has important implications for all market segments and presents particular opportunities for the luxury sector.

If travel operators and hoteliers can adapt to satisfy a diverse range of needs and tastes, they can lead China's travel industry into its next phase of growth.



## Tour Operators

For years now, local Chinese tour operators have been engaged in price wars, and local shops continue to provide commissions to operators who bring clients to their stores, although the practice is officially illegal. This has had the negative effect of inducing some operators to undercut their prices and rely heavily on the sale of non-tour-related products to make a profit.

Moreover, as a result of necessary stop-offs to shops, many operators insist on strictly adhering to fixed itineraries. This causes travelers to have very little independence and minimal interaction with locals. Additionally, local tour operators have failed to satisfy guests' curiosity regarding aspects of China not related to monuments or attractions.

China's largest travel providers have yet to fully grasp the desires and preferences of today's individualistic travelers. However, as a result of international demand for increased flexibility and distinct attractions, China has seen a surge in the number of niche tour operators and destination management companies emerging to satisfy this demand. A significant number of non-profit organizations and companies previously not associated with the tourism industry have also started offering unique travel experiences that focus on specific regions or areas of expertise.

As a result, travelers to China have more choice than ever before in regards to the destinations, activities and style of travel available to experience. This trend is likely to continue due to the fact that the Chinese government continues to ease regulatory constraints and make infrastructural improvements. Effective late 2009, the Chinese government drastically reduced the barriers to entry for travel operators in China, making it easier for new companies to enter the market. The greater competition has already encouraged increased specialization and improvements in service.

### *What is steeper: China's ski slopes or the sport's growth?*





# \$50.7 Billion

Export earnings from international visitors are expected to generate 3.3% of China's total exports (344.6 billion RMB or \$50.7 billion USD) in 2010. Source: WTTC



## Accommodation Providers

Chinese manufacturers are renowned for their ability to recreate products developed elsewhere in the world, and this is no different within the hospitality sector. As a result, Chinese investors have traditionally copied hotel designs or attractions to mimic those found in other places. Unfortunately, it is often the case that investment companies design and build hotels with minimal knowledge of the market that they are trying to attract.

This trend is largely the result of a general lack of experience, in addition to significant cultural differences between the Chinese and the rest of the world. In many cases, the preferences of international travelers are opposite to their domestic counterparts. Both of these factors have resulted in a large number of properties unfit to meet the desires of international travelers, in both the quality of services offered and the type of facilities available.

It's no secret that a huge number of international hotel brands have heavily expanded into China's major cities, and are currently working fast to expand within China's second-tier cities as well. These international brands not only provide travelers with greater choice and recognizable brand names, but bring with them the knowledge of international preferences and standards of service.

Through a gradual dissemination of information, the tastes and preferences of international travelers are being better understood by the local brands. This greater understanding of client preferences can already be witnessed in the surge of boutique hotels and tasteful, culturally themed accommodations being built in China.

## Auxiliary Services

A great indicator of the significant strides being made in China's luxury travel market is witnessed through the emergence of auxiliary travel services, previously unheard of in China. With a greater variety of services and destinations available to international travelers than ever before, companies are finding it increasingly difficult to get their products to market and distinguish themselves from the competition. As a result, the first signs of specialized sales and marketing companies focused on the travel industry, brand networks, and hospitality consulting services are beginning to appear.

Specialized sales and marketing companies are playing a greater role in the Chinese tourism industry than they have in the past. Travel companies and hoteliers alike are eager to access new markets, and get their products and services into the hands of the people that would appreciate them. Brand networks, or organizations that unify companies of similar standing or nature, are also emerging in China, as a result of the greater demand for transparency and trust. Similarly, consulting firms are being commissioned, more and more, to assist companies in delivering the high-quality services that are increasingly being requested.

In conclusion, China's travel and hospitality industries are booming, and swiftly making the jump from standardized offerings to unique, tailor-made products that take into consideration the preferences of the individualistic traveler. With the emergence of travel operators that provide greater options and flexibility, as well as knowledgeable hoteliers and auxiliary services providers, it won't be long before China can satisfy the desires of the world's most discerning travelers, and eventually rival some of the globe's most luxurious tourist destinations.

# OUTBOUND TOURISM

By Professor 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 Shanghai and Heide, Germany. COTRI co-organizes the annual China Outbound Travel & Tourism Market, where it gives out the Chinese Tourists Welcoming Award.



## Outbound Tourism

As part of China's impressive economic growth, it has developed from just being an exotic destination to also representing the biggest Asian outbound tourism source market. Just within the last decade, the annual number of border crossings exploded from 10 million to 50 million. Chinese tourist groups can get visas now for almost all countries in the world, and the affluent, mostly urban, part of the society can easily obtain foreign currency.





Chinese tourists have turned into a major target group for destination marketing organizations and tourism companies around the world. Experience with this new customer group has shown that Chinese tourists have their own distinct expectations, needs and behavior. Success in the Chinese outbound market requires careful product adaptation, new forms of marketing and differentiated means of fulfillment.

Traveling internationally is today an important part of the social capital accumulation of the new consumer society in China.

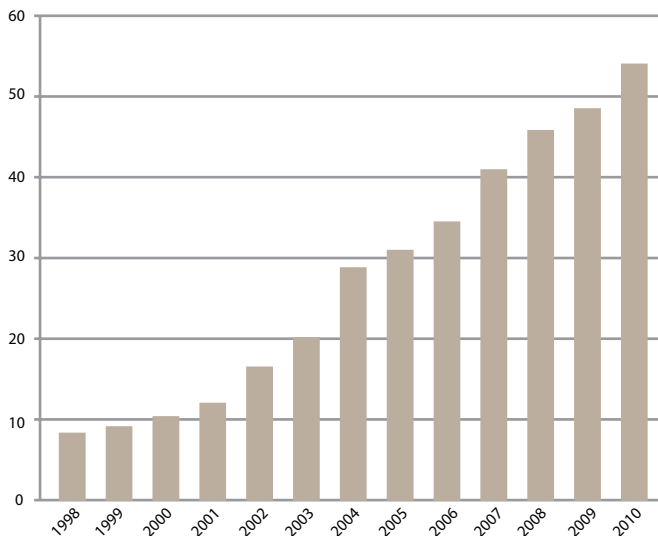


10%

The China outbound market will capture  
10% of the global international tourism  
market within the next decade.

*Source: COTRI*

**China Outbound Tourism 1995-2010 in million border-crossings**  
COTRI. Source: CNTA, CTA; 2010 estimate



Chinese travelers, especially those going beyond neighboring countries and regions, are not spending time and money just for relaxation. Gaining prestige and new knowledge are important travel motives next to other motivations like meetings, overseas studies and visits to friends and family members abroad.

China is already the biggest domestic tourism market in the world by number of trips, and COTRI research projects that the China outbound market will capture 10% of the global international tourism market within the next decade.

## History of Chinese Travel

Chinese have been traveling within their own country for many

centuries as officials, traders, poets, pilgrims, nature seekers or refugees. Outbound travel, however, has no strong tradition. There is neither a Marco Polo nor an Ibn Battuta in the collective memory of the Chinese culture. In the 20th century, first turmoil and wars prevented the development of outbound travel for reasons other than emigration, and then a policy of frugality in the first three decades of the People's Republic of China perpetuated this isolation.

Since the beginning of the “Opening and Reform” policy in 1978, the wish to see the outside world has been growing ever stronger. Nevertheless, the proportion of Chinese who could enjoy family visits to Hong Kong and some Southeast Asian countries or could travel abroad as part of an official business or cultural delegation still stayed well below one percent of the total population for the following two decades.

## **China's Travel Boom Decade**

The years since 2000 have seen, in stark contrast to earlier times, a rampant growth towards the 50 million border crossings mark. More than 60% of all outbound trips of the last 15 years happened only within the last four, 2005 to 2009.

When global tourism contracted due to the economic crisis in 2009, China's outbound tourism still managed to rise by 4%, both in number of travelers and in terms of spending.

Today, China is already one of the top five tourism source markets worldwide. Growing Chinese overseas investment, more reachable destinations, increased diversification and sophistication of the travel market and the continuing need to gain prestige through conspicuous consumption will support the further growth of business and leisure outbound tourism.

# HOTEL DEVELOPMENT

By Damien Little



Director, Horwath HTL

Graduate of the prestigious Hotel School at Cornell University, and recognized as an expert when it comes to hotel development in China, Damien Little is a Director of Horwath HTL in Asia, a leading consulting company specialized in hotel and real estate development, based in the Singapore office, and prior to that based in Horwath's offices in Beijing and Hong Kong. In his role, he oversees the China Market, and brings significant experience, having traveled to more than 70 cities across China. Prior to joining Horwath HTL in 2001, Damien worked for both Arthur Andersen and PricewaterhouseCoopers in Sydney.



# 81

China has the second biggest tourism industry in the world, but it ranks 81 in terms of size of the industry in relation to the country's overall economy.

*Source: WTTC*

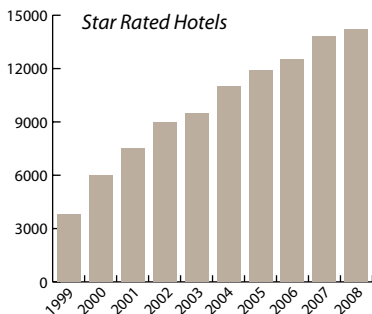
# China Hotel Development Trends

Over the past decade, China has experienced one of the largest increases to hotel supply ever to be recorded in such a period. The growth in official star-rated hotel supply tells much of the story, but not all of it. The story it fails to tell is that of the extraordinary development of the budget hotel sector. The drivers behind this growth have not been a series of isolated factors, but a combination of many interrelated factors.

## The Numbers

From 1999 through 2008 (the most recent year for which data are available), the number of star-rated hotels in China increased from 3,856 to 14,099, at a compound annual average growth (CAAG) of 15 percent. Due to changes in data collection, it is only possible to assess the growth in star-rated room supply from 2001 through 2008. However, even over this short period of time, we can see that the number of star-rated guest rooms essentially doubled, increasing from 816,260 to 1,591,379, at a CAAG of 10 percent. The 4-star hotel market recorded the fastest growth from 1999 to 2008 at 28 percent, followed by 5-star hotels at 21 percent.

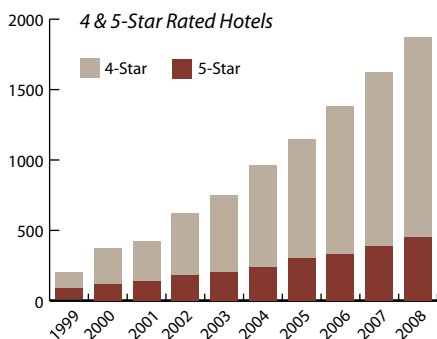
The growth in star-rated hotels does not necessarily correspond with the growth in hotel supply, as this can also reflect existing hotels obtaining official star ratings during



Source: *The Yearbook of China Tourism Statistics*

this period. This is most likely to have impacted the numbers in the earlier years of the time period listed. Also, since the typical rating process requires a hotel to be in operation for 12 months before an

official rating is granted, much of the new supply that opened in 2008 for the Olympic Games is not included in the numbers above.



Source: *The Yearbook of China Tourism Statistics*

While these numbers in themselves are extraordinary, they don't even take into account the explosive growth of the budget hotel sector, as budget hotels typically do not seek official star rating approval. Given the large numbers of new budget hotels opening each year and the multitude of brands and operators spread out across China, it is very difficult to accurately track the growth of this sector. However, just by looking at the main players, we can see that from a virtually non-existent sector in 1998, there are now more than 1,800 budget hotels with more than 225,000 rooms introduced to the market by the bigger budget brands (Home Inn, Jin Jiang Inn, Hanting Inn, 7 Days Inn, Green Tree Inn, Motel 168, Ibis and Super 8). This rapid expansion is set to continue into the new decade.

Combining the growth in star-rated hotels and budget hotels results in a potential total of close to 8,500 new hotels and one million new hotel rooms in China since 2001.





# 10,243

new star-rated hotels opened in China  
between 1999 and 2008

Source: *The Yearbook of China Tourism  
Statistics*

## Key Drivers of Hotel Supply Growth

**Fundamental strength in economic growth:** Quite clearly, the main driver of hotel supply growth has been the double-digit economic growth China has recorded over the last two decades. This fundamental ingredient that has allowed many of the other key drivers of hotel supply growth to take place. Economic growth has seen a tremendous expansion not only of international business travelers to China, but also of domestic business travelers within China. According to data from the 2009 China Hotel Industry Study, approximately 47 percent of total hotel demand in China is from business travelers.

### **Relaxation of travel restrictions, introduction of holidays**

Up until the mid to late 1980s, Chinese nationals were required to possess an authorization letter from their company in order to stay in a hotel. A wedding certificate was required in order for a man and woman to share a room. Changes to these policies allowed for greater freedom of movement in China, and as wealth grew in the 1990s, significant changes began to take place in the China travel market. The move to a five-day work week in 1995 and the introduction of the three Golden Week national holidays in 2000 (the first Golden Week was implemented for National Day in October of 1999 to celebrate the country's 50th anniversary) further changed the dynamic of travel within China. Infrastructure development has been able to support growth in domestic and international travel across the country.

### **Considerable investment in infrastructure development**

Everywhere you go in China there is new infrastructure—an airport, a train station, a system of freeways. The growing wealth of the government from significant and sustained foreign trade surpluses has allowed it to spend considerable sums of money

on infrastructure development. The quality and speed of infrastructure development in China has been a key factor separating the country from the other Asian giant, India, over the last 20 years. It has allowed for unprecedented growth in domestic travel within the country. In 2000, the Civil Aviation Administration of China (CAAC) tracked statistics at 135 airports across the country. By 2009, this had increased to 166 airports and passenger volumes through these airports had increased from 133.7 million in 2000 to 486.1 million in 2009. Not only did the number of airports increase by 23 percent, but many of the other existing airports built bigger and better new terminals.

### **Government revenue through land development**

A significant source of revenue for local government in China is through land sales, which has resulted in a heavy focus on release of land to developers as a way to fill local coffers. In many instances, governments require the development of commercial facilities to ensure developers do not only focus on highly profitable residential developments. Governments often include the stipulation that a hotel (preferably five-star) is included in development plans, as a requirement of the land acquisition. Many local governments also view hotels as leading developments (as opposed to supporting facilities) that can aid in attracting foreign investment and further development in the area. From the real estate developer's perspective, it is believed the inclusion of a hotel will help increase the selling price of residential units or retail and office space. All of this has resulted in many mixed-use projects in China that include a hotel component.

## Future Trends

**Brands moving into smaller markets:** The pace of hotel development in China is set to continue into the first half of this new decade. One trend that should become more prevalent is international brands reaching into secondary and tertiary markets.

**Continued focus on five-star brands:** Continued focus on five-star brands: Despite a lack of four-star branded products in the market, local developers will continue to have a focus on five-star international brands. Level entry five-star brands should be a key component of development pipelines for many of the large international groups.

**Domestic brands continue to dominate budget sector:** With international groups not willing to use the leasing expansion strategy of domestic groups (for a whole host of reasons), domestic brands will continue to totally dominate the budget sector. A lack of suitable franchise partners will also slow the development of international mid-tier and limited service/budget brands in China.

# STRATEGIES FOR DEVELOPMENT

By Xiaolan Wei



Academic Committee  
Director,  
China Tourism Academy

Wei Xiaolan launched his career in travel at the Beijing Tourism Bureau in 1982. Beginning in 1988, he spent 15 years working in several different capacities at the China National Tourism Administration, including stints as director of research and director of policy and regulation. He directs the Tourism Research Center at the Chinese Academy of Social Sciences, and serves as academic committee director at the China Tourism Academy.



10% By 2020, total tourism revenue  
will account for 10% of GDP.  
Source: CNTA



# From Size to Strength: China's Tourism Market Trends

## Market Overview

In its 30-year history of modern development, every aspect of China's tourism industry has seen drastic change. Even looking at the past decade, tourism revenue has more than tripled, according to the China National Tourism Administration (CNTA), which forecasts that in 2010, about 2.1 billion trips were taken within China's borders.

China's fast economic growth and rapid infrastructure development have formed the basis for a strengthening travel and tourism market. Policy has had a major role in the development of the travel market in China. In the second half of the 1980s, the Chinese government began to include tourism in its national economic plan, formally establishing it as an industry. By 2000, it had grown into a 451.9 billion RMB industry, accounting for just over 5% of GDP. By 2009, it had more than tripled to a 1,400 RMB industry, but slipped in terms of GDP contribution, to 4.2%.

Looking forward, the China National Tourism Administration (CNTA) has set the goal that by 2020, total tourism revenue will account for 10% of GDP, which will leave it still lagging today's global average of about 11.7% GDP. The CNTA's target to move from 499.5 billion RMB in revenue in 2001, to 3,600 billion RMB by 2020, requires an impressive eightfold growth. This is a very ambitious growth rate, especially when we take into account the cyclical nature of economic development.

To meet the CNTA's goals, the Chinese travel market needs to mature, deepen and find new revenue streams. By 2020, with 40 years of development behind it, the Chinese travel market will hopefully have evolved from a big industry into a strong one.

## **Market Characteristics**

Customer behavior has changed significantly in the Chinese travel market over the past three decades. Customers are no longer satisfied if we just build a gate for selling tickets, as we did in the 1980s. Today's customers demand more sophisticated holiday and leisure products. Their diverse needs range from luxury vacations to business travel to adventure tours.

Today's biggest trends in the China travel experience fall into these three groups: sea, sand and sun; nature and nostalgia; adventure travel and hot springs. Tourism builds a new way of life—the chance to turn dreams into experience, and to explore adventures beyond everyday life.

## **Recommendations for Development**

China's tourism market development is supported by one strong fundamental element: growth in the number of travelers. As this foundation expands, it creates a challenge in improving quality and efficiency. The solution requires producing a dynamic product, following these four principles:

1. Learn about the customers' demands beyond the superficial
2. Work to meet the customers' three-dimensional needs.
3. Engage travelers with varied options and customized service.
4. Cooperate more at the operation and management level, instead of looking at competitors only as opponents.



# 1.9 billion

In the year of 2009, about 1.9 billion trips  
were taken within China's borders.



## Conclusion

The UNWTO projects that by 2020, the number of people traveling annually in China will reach 135 to 145 million, of which foreigners will account for 27.50 to 33.50 million. International tourism receipts will reach \$52 to 75 billion USD, and domestic tourism revenue will reach 190 to 270 billion RMB (27.7 to 39.4 billion USD), for total tourism revenue of more than 360 billion RMB (52.6 billion USD). If China's tourism industry can meet the goal of eightfold growth from 2000 to 2020, it will become a true pillar of the national economy.

### Total Tourism Revenue Growth, 2000 to 2009

Year	Total Revenue (Billion RMB)	Growth	% of GDP
2000	451.9	12.92%	5.05
2001	499.5	10.53%	5.21
2002	556.6	11.43%	5.44
2003	488.2	-12.2	4.1
2004	600	25	3.7
2005	765	27.5	4.2
2006	893.5	16.7	4.9
2007	1,096.4	22.7	4.3
2008	1,160	5.8	3.9
2009	1,400	7	4.2

Source: *Statistical Yearbook of China Tourism* published by China National Tourism Administration and *National Economy and Social Development Statistics* published by The National Bureau of Statistics.

## Tourism planning forecast summary, 2006 to 2010

	Unit	2006	2007	2008	2009	2010
Inbound	million (people/ times)	127	135	143	151	160
Inbound (Overnight)	million (people/ times)	50.55	54.6	59	63.7	68.8
Inbound (Overseas)	million (people/ times)	22.1	24	26.2	28.6	31
Forex Tourism Receipt	billion USD	32.2	35.4	39	43	47
Outbound	million (people/ times)	34.1	37.5	41.3	45.4	50
Domestic	million (people/ times)	1,310	1,410	1,530	1,650	1,780
Domestic Tourism Receipt	billion CNY	582	640	704	774	850
Total Tourism Receipt	billion CNY	843	927	1,019	1,121	1,230
Travel Rate	% (of total population)	99	106	114	122	131
Direct Employment	million (people)	8	8.5	9	9.5	10

Source: China's Travel Industry During The 11th Five-Year plan published by China National Tourism Administration .

## Development of China domestic tourism, 2000 to 2009

Year	No. of Tourists (Billion)	Growth (%)	Revenue (B. CNY)	Growth (%)
2000	0.740	2.8	330.0	16.6
2001	0.784	5.9	352.2	6.7
2002	0.878	12.0	387.8	10.1
2003	0.870	-0.91	344.23	-11.23
2004	1.102	26.67	471.074	36.85
2005	1.212	10	528.5	12.1
2006	1.394	15	622.9	17.9
2007	1.61	15.5	777.1	24.7
2008	1.7	6.8	870	12
2009	1.9	11.1	1000	14.9

*Source: Yearbook of China's Tourism Statistics published by The National Tourism Administration.*

# THE AFFLUENT CHINESE CONSUMER

By Rupert Hoogewerf



Founder, Hurun Report

Creator, China Rich List

Curious to know who was behind China's fast-growing private sector, Hoogewerf founded the China Rich List (formerly known as the Hurun Rich List) in 1999 with two students from Shanghai's Donghua University, publishing the first four years' results in Forbes magazine. Since then, the list of the PRC's wealthiest citizens has become an eagerly awaited annual event for China's private sector. 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.



48%

of China's millionaires live in Beijing,  
Guangdong and Shanghai.

*Source: 2010 Hurun Wealth Report*



## China's Luxury Travelers

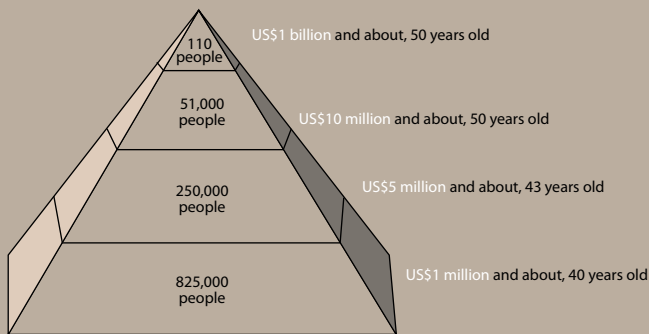
As the rest of the world struggles to pull itself out of the financial crisis, Chinese consumers are flush with cash and confidence as never before, offering a safe haven for the luxury market during stormy times internationally. With the Chinese economy performing strongly across the board, China's growing legions of wealthy consumers have the financial clout to invest heavily in their lifestyles, especially in fields such as luxury travel, and are doing so in style. Indeed, China is the world's fastest-growing market for luxury brands, expected to surpass Japan this decade, and for those looking to gain a foothold in this rapidly growing market, a deeper understanding of these people is vital.

In the context of China's strong economic performance—with 8.7% GDP growth and a 30% rise in the Shanghai Composite Index in 2009—there are more wealthy Chinese able to make an impact in the luxury market than ever before, and their numbers are growing fast. According to the 2010 Hurun Wealth Report published in April, which analyses the number and distribution of China's wealthy nationwide, there are 875,000 people with more than 10 million RMB (or 1.47 million USD), which marks a growth of 6.1% over the previous year. It is the spending power of these people, and their ability to afford a luxury lifestyle, which accounts for the manner in which China is surging ahead in the luxury market.

## Demographics of China's Luxury Consumers

Most notably, China's luxury consumers are youthful, with an average age of 39, making them 15 years younger than their counterparts outside of China. Despite the images that spring to mind of the Louis Vuitton-wielding women who throng the

## HOW BIG IS THE LUXURY MARKET IN CHINA?



*Source: 2009 Hurun Research Institute*

nation's boutiques, in actuality the bulk of the market is male, with a male-to-female ratio of seven to three. Most of these entrepreneurial men have made their money from the service, property and manufacturing sectors, according to the report.

Geographically, the traditional economic and political powerhouses are still home to the lion's share of China's wealthy. Beijing leads, as home to 151,000 millionaires, followed by the economic centers of Guangdong and Shanghai with 145,000 and 122,000 respectively. However, despite their predominance, these places account for only 48% of China's total. The share of the market in China's second- and third-tier cities is growing. Prosperous Zhejiang, for instance, has 110,000 millionaires, and five other provinces are home to more than 20,000. This year luxury brands are focusing intently on developing their market share in the tier two and three cities.



## Travel Habits of China's Wealthy

Spurred on by buoyant property prices, China's wealthy are spending growing amounts of time and money on their quality of life, with luxury travel their leisure activity of choice. According to Hurun Report's research, wealthy Chinese take an average of 16 days holiday and three trips abroad per year, and

they are developing marked tastes. In terms of destinations, the United States, France and Australia are the clear favorites internationally, while Sanya, Yunnan and Tibet are where they prefer to go domestically. For hotels, the Shangri-La, Grand Hyatt and Hilton brands find the most favor amongst these increasingly discerning travelers. Nuances in preference also exist according to the precise demographic. For instance, second- and third-tier consumers prefer Canada to a much greater extent, and women like Hong Kong more than men do.

Luxury travel is closely tied to luxury consumption in the Chinese market, as luxury products are often more affordable and more plentiful in certain destinations outside of China. In this respect, it is no surprise that London and Hong Kong are among the top destinations. Taking a Patek Philippe 5146J gold watch as an example, in London and Hong Kong consumers can purchase one for more than 100,000 RMB less than the 333,800 RMB

### Top International Travel Destinations

- |     |           |
|-----|-----------|
| 1.  | U.S.A     |
| 2.  | France    |
| 3.  | Australia |
| 4.  | Japan     |
| 5.  | Singapore |
| 6.  | Italy     |
| 7.  | Hawaii    |
| 8.  | UK        |
| 9.  | Dubai     |
| 10. | Canada    |

Source: 2010 UNWTO  
World Tourism Organization

price tag demanded in Shanghai—a compelling reason to make one of those three trips per year. Indeed, the strength of the renminbi, the easing of visa restrictions and the conferring of approved destination status by the Chinese government upon certain foreign nations, all give Chinese luxury travelers more reasons to pack their suitcases.

When it comes to getting from A to B, there is a huge market for business class travel in China, with China Airlines the carrier of choice. However, given the vast wealth of those at the top of the pyramid among China's wealthy, many are not willing to settle for flying alongside hundreds of others. Consequently, the market for private jets is taking off. Alongside rising affluence and soaring confidence, factors such as the deregulation of Chinese airspace and a slump in international demand have seen the Chinese particularly well placed to invest in private jets. Private yachts, too, are making similar headway in the Chinese market.

## Luxury Goods Consumption

Luxury travel is not the only area in which China's luxury consumers are growing more sophisticated. According to the Wealth Report, collecting various high-end goods is a growing trend, with watches, cars and art the most popular items. On average China's wealthy consumers own three cars, and four luxury watches. Moreover, especially in the wake of the Sichuan earthquake of 2008, charitable giving is also becoming well-established, with education, disaster relief and social welfare the most popular causes.

In terms of brands, the results of the Hurun Report Best of the Best Survey, which polled the opinions of several hundred Chinese millionaires, shows that they are developing distinct

# 875,000

Chinese have more than 10 million RMB (1.47 million USD) .

*Source: 2010 Hurun Wealth Report*



tastes in luxury brands. The survey reveals that Giorgio Armani, Bentley, Shangri-la, China Merchants Bank, HSBC and Nokia are firm favorites in their respective categories over the past six years, with other brands such as Patek Philippe establishing their popularity more recently.

China's wealthy consumers are deeply preoccupied with their children's education, and overseas study is becomingly increasingly *de rigueur* for those who can afford it for their children. According to Hurun Report research, four out of five Chinese millionaires are considering educating their children abroad. Generally speaking Great Britain, with its fine academic heritage, and the United States, with its world-class institutions, are their preferred destinations for secondary schooling and university respectively. The suitable environment they provide for becoming fluent in English is also an attractive factor.

In short, China's luxury consumers are developing rapidly, both in terms of spending power, and in terms of sophistication. For the luxury travel market, and indeed for all luxury brands, it is a market they simply cannot afford to ignore or misunderstand.

# MEETING INDUSTRY AND MEGA EVENTS

By Daniel Tschudy & Mary Ma



CEO,  
HQC Group

In 1987, Daniel Tschudy co-founded the MCI Group, one of the leading congress and event management agency groups in the world. Since October 2007, he has served as CEO of HQC Group, a Switzerland-based quality and performance testing agency in the hospitality and tourism industries. Since 2008, he has consulted in China and South Africa (in relation to the 2010 FIFA World Cup).

&



VP of Operations,  
VariArts Travel Group

Mary Ma's personal and professional relationships extend widely across China's hotel & travel industries. Over the past 20 year, she has witnessed and partaken in the short history of China's travel and event industry. She is an expert on the hospitality industry and has acquired an intimate understanding of hotels and tour operations.

## Mega Events Upgrade China's Meetings Industry

When the year ends, China will have recently organized two of the largest events in the world: the 2008 Olympic Games in Beijing (the second largest sport event after the FIFA World Cup); and this year, ending October 31, the World Expo in Shanghai. If it meets its target 70 million visitors, Expo 2010 is projected to be the largest ever world gathering.

In a very short time, China had to learn, adjust and expand tremendously in order to be able to host both events, and to meet the deadlines given for preparation. Both Beijing and Shanghai have seen the largest infrastructural (and some substantial social) transformation in their histories and thus both cities have developed so that they are almost unrecognizable.

These two mega events have served as powerful catalysts for the growth of the young Chinese meetings industry (also referred to as MICE, standing for meetings, incentives, conventions and exhibitions). On a mid- and long-term perspective, the two host cities, Beijing and Shanghai, will profit from new global awareness among corporate and association meeting planners. Both have built up MICE-suitable infrastructure with new airports, public transport facilities, hotels, conference centers and even entertainment adjusted to foreign visitors.

Beijing's brand new China National Convention Center is the former media center of the Olympic Games, and this summer they will host its first truly global convention.



# 100 million

100 million Chinese will travel abroad by 2015, and total spending by Chinese outbound travellers will exceed US\$ 100 million in five years time – more than double this year's projected total

(Source: China National Tourism Administration, 2010)





300 billion China spent 300 billion RMB on Beijing Olympic Games preparation.

What needs to follow all of this “hardware” development is an improvement on “software” issues, such as great command of the English language among tourism and meetings suppliers, interactive communication behaviors and tools, and in-depth learning exchange between the East and the West (on history, mentality, procedures and objectives). There are a number of specific areas for improvement, such as efficient taxi services for foreigners, safe traffic conditions for pedestrians and a fast and powerful IT set-up across hotels and venues.

But even once much of the above begins to truly develop, the business will not flow immediately. As with previous Olympic





Games and other major international sporting events, the actual year of the events is often marked by misunderstandings. Confusion arises from unrealistic expectations for the short-term potential (in number of visitors); commercial over-eagerness to profit from the flow of visitors; and forgetting about the “ordinary” business and leisure community, which would actually stay away from destinations during large events. But if Beijing and Shanghai execute public relations campaigns based on long-term objectives and modified to address the needs of various foreign markets, they (and thus China), will eventually create sustainable return on investment and grow to become major players in the global meetings industries and in mass tourism as well.

Besides the big cities like Beijing, Shanghai and Guangzhou, second tier cities such as Qingdao, Chengdu and Hainan have actively emerged in recent years, providing more options for events in China. Some should be able to capitalize on an increase in the overall number of international meetings in China, driven by to the globalization of today's economy, and more and more business occurring between people from all over the world and China. And with the arrival of the world's leading international meetings and tourism associations in China (such as ICCA, MPI and SITE), the education exchange between East and West will continue, to the benefit of China's tourism and MICE industries and its foreign visitors.





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CONSUMERS BY LEVERAGING  
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**IS DOMINATED  
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“...Dragon Trail has been vital to our social media success in China.”



# Dragon Trail

REACHING CHINESE CONSUMERS ONLINE



## China Travel Social Media Forums

Dragon Trail also organizes company-specific seminars upon request, and is available for speaking engagements world-wide.



SELECT SPEAKING ENGAGEMENTS (2009-2010):



Germany  
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"This was a very important and insightful seminar, organized 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)*



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CHINESE TRAVEL  
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420 Million  
Internet  
Users in  
China (2010)

IN 2009, THERE  
WERE 47.5 MILL.  
OUTBOUND  
TRIPS FROM  
CHINA

48% OF CHINA'S  
MILLIONAIRES  
LIVE IN BEIJING,  
SHANGHAI, AND  
GUANGZHOU

92% OF NETIZENS  
PARTICIPATE  
IN SOCIAL MEDIA  
IN CHINA

CHINESE TOURISTS  
SPENT US\$ 36.2 BILL.  
ABROAD IN 2009,  
A 280% INCREASE  
FROM 2000

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THE Luxury Travel Consolidator in China

# VARIARTS GROUP



VARIARTS GROUP

VariArts Travel Group is a leader of the high-end travel industry in China. By establishing China Luxury Travel Network ([www.CLTN.net](http://www.CLTN.net)), it has consolidated China's highest quality travel supply chain, bridging it closer to VariArts' fast growing international distribution channels and sales offices, via cutting edge technology and high touch management. This is the first and only high-end leisure travel network in China, dedicated to increasing the service standards and sales performance of its by-invitation-only members. With the valuable experience of launching CLTN under its belt, VariArts is in the process of establishing an outbound platform with the world's best travel providers to serve the unsatisfied needs of affluent Chinese travelers.

VariArts management team is a group of sophisticated multinational travel experts with interesting backgrounds. It first started as a travel design and destination management company (DMC) in 2005, specialized in providing unique travel, as well as premier events and meeting services as its two pillar businesses ([www.variarts.com](http://www.variarts.com)). The DMC maintains its leading position in China by keeping on the development of unconventional travel experiences for its high profile international clientele.





# VariArts Travel

VariArts is a travel design & management company, specialized in unique group travel and MICE services. Our mission is to properly introduce China to the world; bringing to light its time honored traditions, natural wonders, and vibrant state of affairs. Our strategy is simple: provide well thought out, flawlessly organized, customer configured trips throughout every corner of this magnificent country. All discovery opportunities are crafted to encourage participation and interaction, in an attempt to forge mutually beneficial relationships between our clients and the communities, businesses, and regions they visit. Working in this manner, VariArts continues to dispel the growing notion that homogeneity has plagued our magnificent Earth. Let us help you rediscover the Art of Travel.



VARIARTS TRAVEL

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

# CHINA LUXURY TRAVEL NETWORK



**CLTN** China   
Luxury Travel  
高端旅游联盟 Network

THE CONNOISSEUR'S COLLECTION

[www.cltn.net](http://www.cltn.net)

[info@cltn.net](mailto:info@cltn.net)

Tel: +86 10 8532 4808

Fax: +86 10 8532 4809



## Tour Type

Adventure  
Art & Architecture  
Cultural  
Eco & Nature  
Ethnic Minority  
Family  
Festival  
Food & Wine  
Health & Well-being  
Photography  
Religion  
Seminar & Education  
Sports  
Who's Who

## Activity Type

Art & Culture  
Attractions  
Culinary  
Health & Wellness  
Language  
Live Shows  
Networking  
Outdoor  
Volunteer

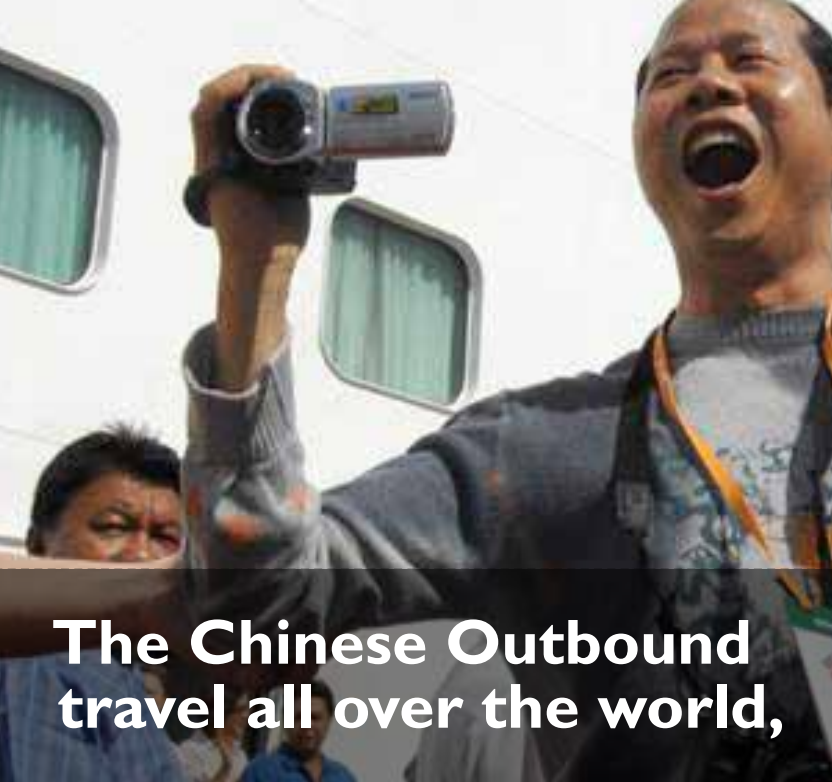
## Hotel Type

Art  
Boutique  
Courtyard  
Ethnic  
Luxury Chain  
Historic  
Modern  
Natural  
Resort  
Villa

## Other Services

Ground Transportation  
Private Jet Services  
Airport VIP Channel  
Personal Concierge  
Dinning Experience  
Shopping Assistant  
Interpreter  
Event Solution  
Party Planning





# The Chinese Outbound travel all over the world,

TRAINING & COACHING

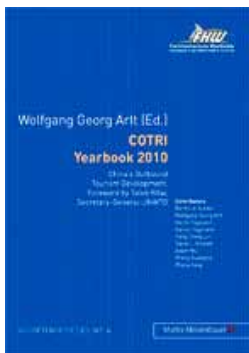


CERTIFICATION & CONSULTING



# Tourists will continue to are you ready for them?

RESEARCH



Please contact COTRI  
(China outbound tourism  
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中国出境游研究所



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**www.win-chinese-tourists.com** offers for the first time such a one-stop solution which provides you with all you need for success in the Chinese market:

**How to make them satisfied with you, how to spread the word and how to turn demand into bookable offers.**







## ChinaTravelTrends.com

ChinaTravelTrends.com (Twitter: @CnTravelTrends) is the one-stop resource website and community focused on China outbound tourism, and English-language social media and digital marketing, giving international travel and tourism organizations insights about the complexity of the China travel market and its online landscape. Information will include interviews, articles from contributors and experts, syndicated reports, marketplace of services, a community to connect with fellow professionals, industry surveys and an expert panel. China Travel Trends is published in association with Dragon Trail and COTRI. Join the China Travel Trends Community at [www.Community.ChinaTravelTrends.com](http://www.Community.ChinaTravelTrends.com)



## Dragon Trail ([www.DragonTrail.com](http://www.DragonTrail.com))

Dragon Trail is the premier brand engagement firm to help travel and tourism organizations connect to 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. Dragon Trail also develops and licenses proprietary travel technology solutions, such as our trip planner and meta search solutions, as well as social media applications, online communities and e-Learning systems, in order for travel companies to fully leverage technology as an enabler to engage with consumers and the travel trade.



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### China Luxury Travel Network (CLTN)

The China Luxury Travel Network (CLTN, online at CLTN.net) is China's first by-invitation-only alliance of luxury travel providers, including premium hotels and resorts, travel operators, special event venues, activity planners and transportation suppliers. By unifying the very best in hospitality and destination management services, CLTN provides individuals and group organizers with a one-stop-shop for luxury travel services in China. CLTN's online market place is dedicated to empowering overseas operators and agencies with the tools to tailor-make their China tours with the very best services available.



TravelDaily (www.traveldaily.cn) is China's leading online publisher focusing on distribution, marketing and technology developments in the travel and tourism industries. With a focus on up-to-the-minute news combined with in-depth analysis by leading industry experts, TravelDaily keeps readers ahead of industry trends. TravelDaily.cn has also organized the China Travel Distribution Summit for the past three years, bringing together attendees from 23 countries. Events have featured senior executives from companies such as Expedia, Ctrip, Elong, Zuji, Cendant, Abacus, BTI, Northwest



Airlines and China Southern Airlines as guest speakers to share their in-depth observations and strategic thinking about the industry.



COTRI ([www.china-outbound.com](http://www.china-outbound.com)) is the worldwide leading research institute for research, consulting and quality assessment relating to the Chinese outbound tourism market. Its collaboration with Dragon Trail, offers an integrated “China Solution,” including technology, marketing, trade sales, and research, as well as service training, combined with specific industry expertise and local knowledge. Together, both Dragon Trail and COTRI co-publish the resource website and community [ChinaTravelTrends.com](http://ChinaTravelTrends.com). COTRI is publishing self-learning programs for the Chinese and other source markets in partnership with PATA and also publishes other materials like the COTRI Yearbook etc. COTRI also organizes the COQ China Outbound Tourism Quality Label.



## Win-Chinese-Tourists

([www.win-chinese-tourists.com](http://www.win-chinese-tourists.com))

The Win-Chinese-Tourists consortium is founded by COTRI (China Outbound Tourism Research Institute), and Dragon Trail, is striving to increase the satisfaction of Chinese outbound travelers by helping hospitality, retail, travel and tourism service providers all over the world to understand, communicate with and cater in a profitable and sustainable way for the specific expectations and needs of this outbound tourism source market. The consortium of member firms offers for the first time a one-stop solution for travel and tourism organizations for success in the Chinese market: How to make them satisfied with your services, how to promote and spread the word, and finally how to sell and turn demand into bookable offers. Activities under the consortium include



the Chinese Tourist Welcoming Award (since 2004), resource website and online community ChinaTravelTrends.com, as well as seminars and speaking engagements.

## China Tourism Academy: Annual Report of China Outbound Tourism Development 2009 / 2010 (English Edition)

CTA's 2010 report provides the best available reference for tourism organizations, service providers, tourism promotion organizations, researchers and anyone interested in the Chinese outbound tourism market, including detailed information about tourists' behaviour at their destination, consumption, analysis of satisfaction levels, market analysis and the socio-economic backgrounds of tourists by region. The English Edition of the CTA Annual Report 2009/2010 is published in cooperation with CTA, the official tourism research institute of the China National Tourism Administration CNTA, and COTRI. More information is available at <http://www.chinatraveltrends.com/resources/publications/>



## 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. It manages Live The Deal, a campaign to help the sector implement the carbon reduction outcomes of the Copenhagen Climate Accord.





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NOTES







