

PREPARE FOR TURBULENCE

THE CHINESE TRAVELER OF TODAY AND TOMORROW



CHINESE TOURISM TRANSFORMED THROUGH MORE DIVERSE TASTES

Chinese travelers are becoming more independent, spending longer in distant locations – and are even spending less on shopping.

A new survey reveals major shifts in the tastes of Chinese travelers, indicating that traditional ways of serving them may no longer work. Overall shopping fell to the third reason to travel in 2016, down from second in 2015, and shopping as a percentage of overall travel spend is likely to continue to decline. Travel-related businesses should also consider the impact of high-profile negative events that might put Chinese tourists off a destination, though the effect might only be temporary.

For a decade, outbound Chinese travelers have been the wind beneath the wings of industries including air travel, hospitality, department stores and luxury goods. Every year sees more outbound Chinese travelers than the last, with the number expected to reach 150 million as early as 2017. These travelers have gained a reputation as big spenders, and many businesses worldwide are targeting them closely.

However, the rising numbers don't automatically translate into boosts for travel-related businesses. China is a dynamic, developing country undergoing a wide-ranging social and economic transformation, which is changing how people travel, where they go, and what they do on holiday. As the archetypal Chinese traveler disappears, businesses need to adapt, which means understanding the subtleties and diversities of tourists' preferences and motivations. So, Oliver Wyman has surveyed 2,000 people representing a broad cross-section of Chinese travelers in order to find out what's new.

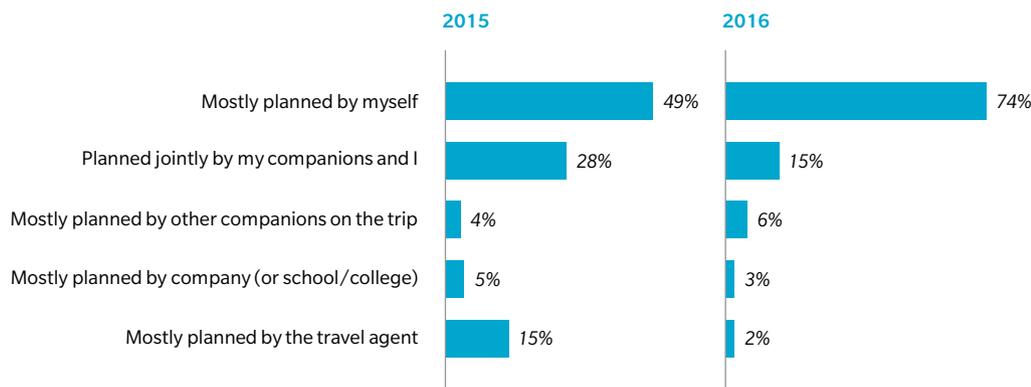
PRESENCE ON CHINESE PLATFORMS NECESSARY

The shifts start with the planning process. As the Chinese travel overseas more, they are becoming more sophisticated and planning their own holidays. Less than one in 40 holidays were mostly planned by travel agents in 2016, down from one in seven in 2015. Nearly three-quarters now plan their own trips – or more than nine out of 10 including trips planned by or with travel companions (See Exhibit 1).

That means companies need to be at the forefront of travelers’ minds as they research their holidays. In shopping, for example, more than 60 percent of Chinese travelers plan ahead, relying on word of mouth, brands’ official websites, Chinese e-commerce platforms, and travel forums. Brands and stores need a presence in each of these information sources.

Hotels should use Chinese-language platforms, as Chinese travelers rely heavily on online reviews, especially when they go overseas. TripAdvisor alone isn’t enough: Customers look for reviews on Chinese-language platforms such as Mafengwo, Dianping, Tuniu, Qyer, and Lvmama – so hotels need to feature on these, as well as on the key aggregators Ctrip, Qunar, and Elong.

Exhibit 1: Role of the travel agent in planning trips declined significantly

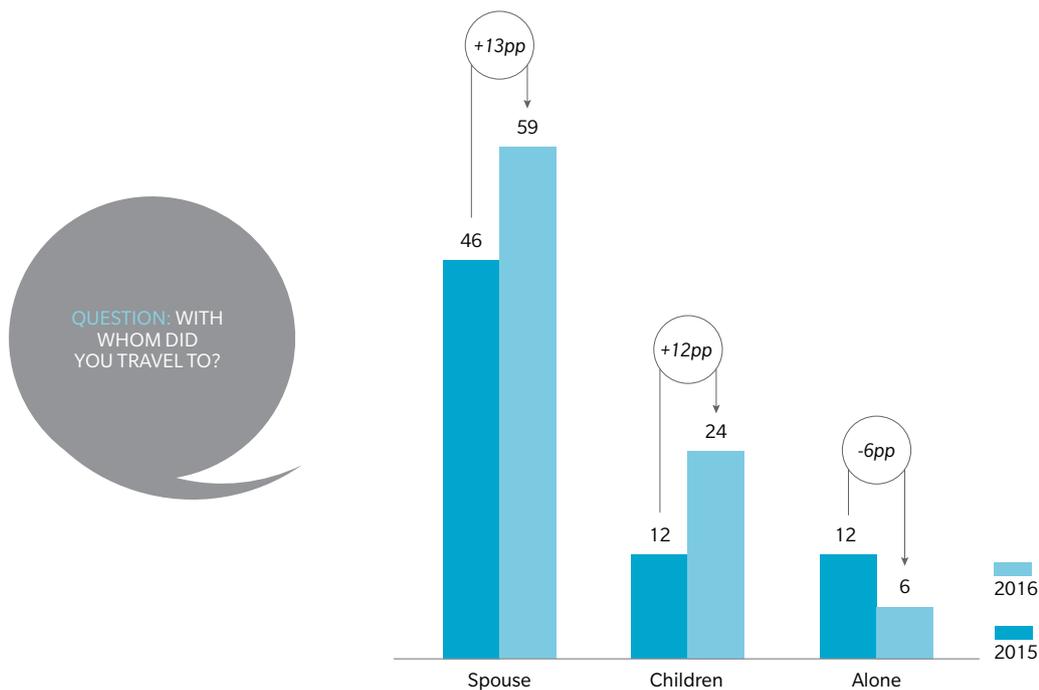


LONG, FAMILY TRIPS ON THE RISE

One of the biggest shifts is that fewer Chinese are traveling alone, while the proportion with children has increased significantly. Families on holiday generally move, dine, stay, and play together as a single unit, so destinations should ideally have something for all family members. Women traveling with children are more likely to buy cosmetics and perfumes, and men to buy wine and spirits, while children demand food and snacks. Families are a particularly lucrative segment, as travelers with children tend to spend more than those without, often prioritizing factors such as convenience and child-friendliness over price (See Exhibit 2).

Exhibit 2: The proportion of Chinese traveling with their families has increased significantly

COMPARISON OF COMPANIONS, N=2,000
% OF RESPONDENTS

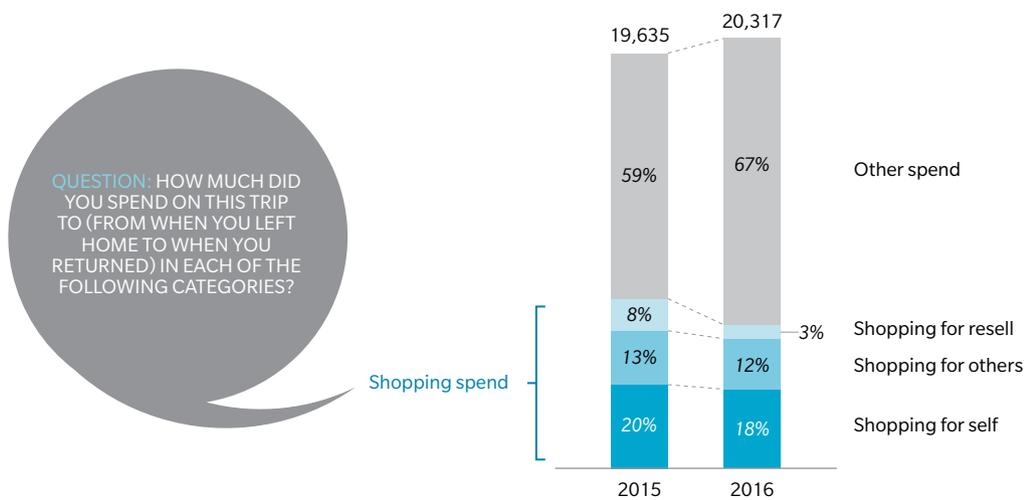


Intercontinental trips are lasting longer. The duration of visit for Chinese travelers to the United States has increased by several days since our last survey. They cite aspects of the country such as the natural scenery and attractive cities, but tend to be less interested in shopping. The average length of trips to the United Kingdom and France jumped significantly too, bringing greater spending on accommodation, entertainment, and food and beverages. France is associated with luxury, so travelers opt for luxury or boutique hotels and tend to spend their money on cosmetics and jewelry. The weak pound has begun to attract less-wealthy Chinese travelers on package holidays to the UK, traditionally seen as expensive (See Exhibit 3).

News quickly becomes viral in China over the Internet, and crises, tragedies, and politics can have a rapid impact on visitor numbers. Most recently, Chinese travel to South Korea was impacted by controversy over the deployment of the THAAD missile defense system. However, past declines in Chinese tourism due to trouble with a specific destination typically reverse after six-to-nine months.

Exhibit 3: Average shopping spend as share of trip budget

N=2000, N=1750, %



Source: Chinese traveller survey 201512, Chinese traveller survey 201703, Oliver Wyman analysis

A TURNING POINT FOR SHOPPING

In contrast, trips to Hong Kong and Japan – where shopping claims a bigger proportion of overall spending – have shortened, though they are still attracting increasing numbers of visitors. Hong Kong is seen as good value, while in Japan the Chinese like to buy cosmetics, perfume and skin products, as well as electronics and cookware.

However, shopping has suffered from factors such as the decline of daigou: buying luxury goods at lower overseas prices on behalf of a customer in China. This has now waned, as the price differentials shrink, cross-border ecommerce takes off, and more people travel and can buy goods themselves. As a result, spend on shopping shrank in absolute terms year-on-year, even as total trip spend increased.

Despite this new development, Chinese travelers will continue to play an important role in shaping the market given the growing number of outbound travelers, presenting opportunities for both consumer brands, retailers and service industries.

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

CONTACTS

JAMES BACOS

Global Retail & Consumer Goods Practice Leader
james.bacos@oliverwyman.com
+49 89 939 49 441

WAI-CHAN CHAN

Global Consumer Goods Practice Leader
wai-chan.chan@oliverwyman.com
+852 2201 17 00

NICK HARRISON

Global Retail Practice Co-Leader & France Lead
nick.harrison@oliverwyman.com
+44 20 7852 7773

SIRKO SIEMSEN

Global Retail Practice Co-Leader
sirko.siemssen@oliverwyman.com
+49 89 939 49 574

RICHARD MCKENZIE

Retail & Consumer Goods Practice Lead – Asia
richard.mckenzie@oliverwyman.com
+852 2201 17 00

COEN DE VUIJST

Retail & Consumer Goods Practice Lead – The Netherlands
Coen.DeVuijst@oliverwyman.com
+31 20 541 9790

JEREMY SPORN

Retail & Consumer Goods Practice Lead – North America
Jeremy.Sporn@oliverwyman.com
+1 646 249 0517

MARIA MIRALLES

Retail & Consumer Goods Practice Lead – Iberia
Maria.Miralles@oliverwyman.com
+34 615 036 406

NORDAL CAVADINI

Retail & Consumer Goods Practice Lead – Switzerland
Nordal.Cavadini@oliverwyman.com
+41 44 553 37 64

ANDREW GLOVER

Retail & Consumer Goods Practice Lead – UK
Andrew.Glover@oliverwyman.com
+44 20 7852 7770

Copyright © 2017 Oliver Wyman

All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of Oliver Wyman and Oliver Wyman accepts no liability whatsoever for the actions of third parties in this respect.

The information and opinions in this report were prepared by Oliver Wyman. This report is not investment advice and should not be relied on for such advice or as a substitute for consultation with professional accountants, tax, legal or financial advisors. Oliver Wyman has made every effort to use reliable, up-to-date and comprehensive information and analysis, but all information is provided without warranty of any kind, express or implied. Oliver Wyman disclaims any responsibility to update the information or conclusions in this report. Oliver Wyman accepts no liability for any loss arising from any action taken or refrained from as a result of information contained in this report or any reports or sources of information referred to herein, or for any consequential, special or similar damages even if advised of the possibility of such damages. The report is not an offer to buy or sell securities or a solicitation of an offer to buy or sell securities. This report may not be sold without the written consent of Oliver Wyman.