

# THE CHANGING FACE OF THE CHINESE TRAVELLER



AUTHORS

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*In Sichuan opera, face-changing performers wear brightly coloured masks. Many times within one performance, these masks change suddenly with a mere flick of a fan or wave of the hand. To businesses today, the opportunity presented by outbound Chinese travellers must seem just as multi-faceted and unpredictable as these face-changers.*

Chinese travellers continue to head abroad in greater numbers than ever before. The total number of trips exceeded 120 million in 2015. Despite slowing GDP growth, that number should top 130 million this year. Spending has risen accordingly. In 2014 alone, Chinese travellers spent approximately US\$165 billion overseas, a rise of 27% over the previous year according to UN's World Tourism Organisation. Other statistics suggest that there is tremendous potential for further growth. For example, according to China Outbound Tourism Research Institute only around 6% of Chinese citizens even hold a passport, compared with 46% of US citizens, collectively the second biggest spenders in the world.

However, the story of the growth of Chinese travel is not quite as simple as these statistics suggest. The distribution of this growth has been uneven. Certain destinations have actually seen a fall in visits, whilst others have benefited from a huge influx of Chinese travellers. This variation shows the dangers of just sitting back, hoping to ride the tailwind. Instead, companies need to anticipate the precise characteristics of the demand, and consider how to capture it more effectively. Businesses require a cohesive Chinese traveller strategy, where the realities of each region and destination must be considered separately, whilst always keeping the big picture in mind.

Chinese travellers are a key source of revenue to many industries, including Retail and Consumer Goods, Leisure, Hospitality and Transportation. It is therefore imperative to understand the spending preferences of Chinese travellers in detail. To help our clients achieve a more complete picture, Oliver Wyman conducted a survey of 1,750 Chinese people who had travelled abroad in the past year.

By sharing the results of our survey, we seek to dispel four common beliefs regarding Chinese travellers

1. "They go abroad only to shop"
2. "They spend indiscriminately"
3. "They are always in groups" or "Independent travellers are quickly replacing groups"  
(two related misconceptions)
4. "They are all troublemakers"

## BELIEF 1

### “CHINESE TRAVELLERS GO ABROAD ONLY TO SHOP”

**VERDICT:** Not true.

While nearly 100% of travellers shopped during their trip, fewer than 15% of Chinese travellers surveyed cited shopping as the main reason for their trip, in contrast to 63% who specified sightseeing as their top motivation. Recreation or entertainment was just behind shopping on the list of motivations, indicating that shopping facilities are insufficient in themselves to bring travellers to a particular destination. In general, our observations show that traveller traffic tends to lead to additional shopping opportunities, rather than vice versa.

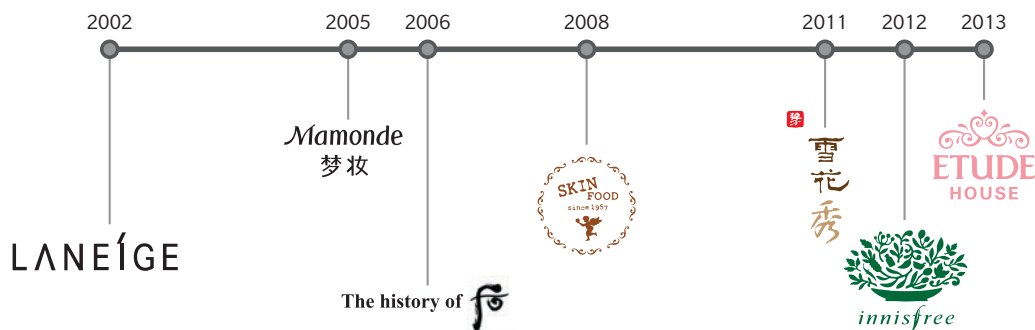


Hong Kong has long been the default first destination for new travellers from China, with shopping a large part of the attraction. Recently, as the growth in Chinese travellers and their spending have slowed, the Hong Kong economy has struggled. Indeed, Hong Kong retail sales fell 12.5% in the first quarter of 2016 as visitor arrivals fell, and this followed the slump of 2015 that led to a wave of luxury store closures. Consequently, Hong Kong will need to become less dependent on shopping spend by Chinese travellers, and encourage their spending on other activities.

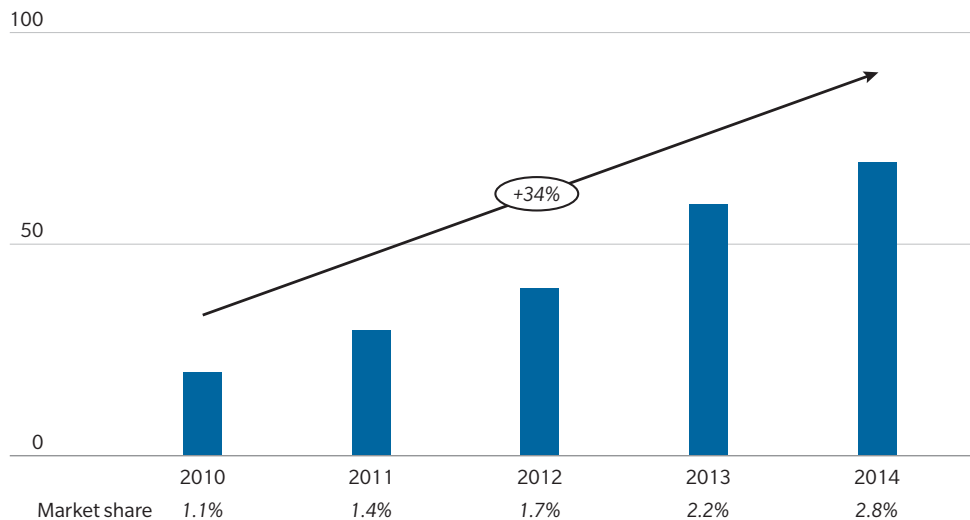
Meanwhile, South Korea is catching up quickly, almost matching Hong Kong for visit penetration (38% of our survey respondents visited South Korea, while 41% went to Hong Kong). Suggesting substantial scope for further growth, South Korea also enjoys a higher visit intention, with 31% of the respondents “planning to visit”, versus only 23% for Hong Kong.

### Exhibit 1: Korean brands in China

YEAR OF KOREAN BRANDS ENTERING  
NON-EXHAUSTIVE



SALES OF TOP FIVE KOREAN BRANDS\*1 IN CHINA  
US\$ BN



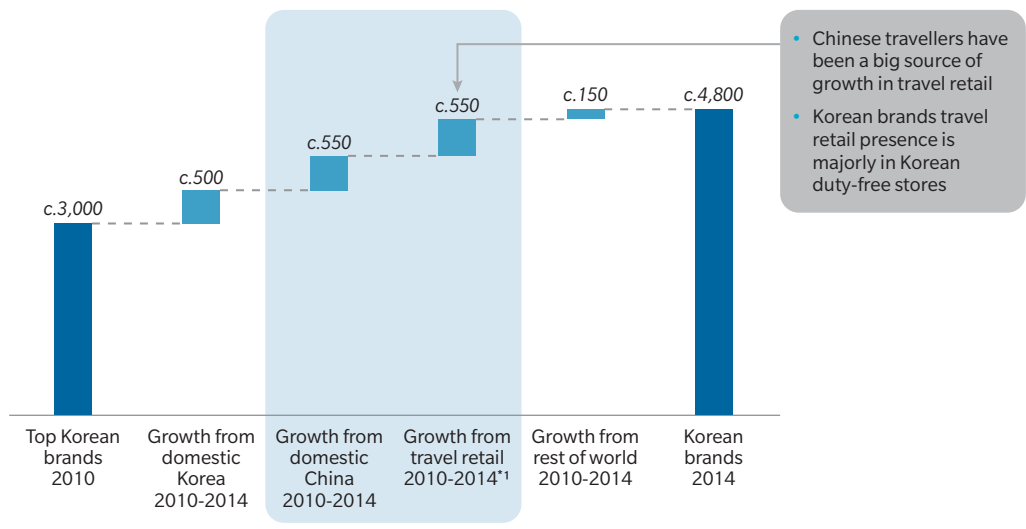
\*1 Top 5 Korean brands (in order of brand size 2014): Laneige, Mamonde, Innisfree, The History of Whoo, The Face Shop

Source: Euromonitor international and Oliver Wyman Chinese traveller survey

Shopping in South Korea is very popular, with 22% of those surveyed saying it was their “main reason” to visit, the highest relevant percentage for all major destinations. Korean downtown duty free stores are especially popular. South Korea has benefited greatly from the so-called Korean Wave – the increase in the global popularity of South Korean culture, from soap operas to cosmetics. Chinese visitors become ambassadors for Korean brands upon their return to China. As Exhibit 1 shows, we already see cosmetics brands like Laneige and Innisfree performing strongly in China domestically. Indeed, Chinese consumers (either domestic or travellers) account for most of the growth in Korean cosmetics brands (Exhibit 2).

### Exhibit 2: Sources of growth for Korean brands

ESTIMATED GROWTH BY DRIVER 2010-2014  
US\$ BN, %



\*1 Duty-free stores of overseas countries

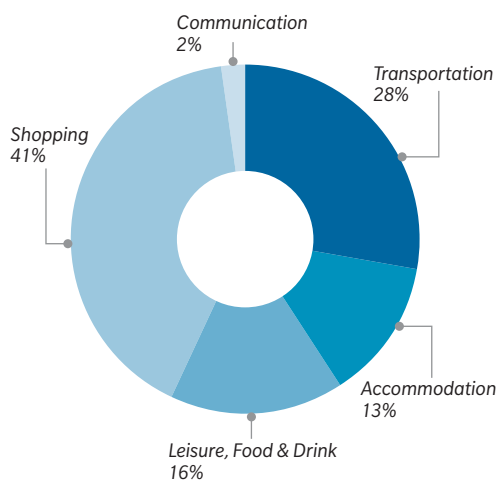
Source: Euromonitor international, Shinhan Investment Corp and Oliver Wyman Chinese traveller survey

Japan is another popular destination that has enjoyed rapid growth in the past two years, particularly for group travellers. Indeed, according to official statistics, total traveller numbers grew at an annualised rate of more than 100% from 2013-2015. In this case, the weak yen and relaxed visa requirements have contributed significantly to increased numbers of



Chinese travellers, which in turn spurred spending. Japan enjoyed the highest per person spend of popular Asian destinations, at more than US 3,000 per trip in our sample.

Exhibit 3: % spending of travellers globally



Source: Oliver Wyman Chinese traveller survey

Further afield, visitor numbers to Europe and the United States continue to increase steadily, varying from a 6%-10% Compound Annual Growth Rate (CAGR) from 2013-2015. These rather more distant destinations saw 50% longer stays (an average of 8-9 days as against 6 days for “near Asia” travel), and commensurately higher spend. Travellers to those destinations were least likely to be motivated by shopping, and relatively more likely to be travelling on business or visiting family or friends. This finding is particularly significant for travel, hospitality and leisure providers, who will need to carefully consider how best to serve and capture the growth in these markets and segments.

We can deduce that the greatest growth is likely to come from destinations that offer attractive sightseeing and leisure opportunities, but are under-served in other respects. Capturing such growth would help players both to meet scaled-up demand and weather any downturns, such as the recent dip in Hong Kong.

But as we have seen, Chinese travellers are not solely motivated by shopping. Although shopping was the single biggest source of spending according to the survey results (Exhibit 3), non-shopping expenses accounted for almost 60% of total spend for the average Chinese traveller throughout the world. In fact, travellers paid out 28% of their total expenses on flights and local transport, and another 29% on leisure and accommodation. Players in these industries must gain greater understanding of Chinese travellers to anticipate where travellers, and their money, will go to next. This brings us to the second flawed belief.

## BELIEF 2

### “CHINESE TRAVELLERS SPEND INDISCRIMINATELY”

**VERDICT:** Not *entirely* true.

Relatively speaking, Chinese travellers do spend large sums while abroad. On average, they spend around US\$3,000 per person, roughly the equivalent of a month’s household income. Moreover, it is also true that they spend a lot on shopping – approximately US\$1,200 – which may have helped to fuel the misconception that they spend indiscriminately.

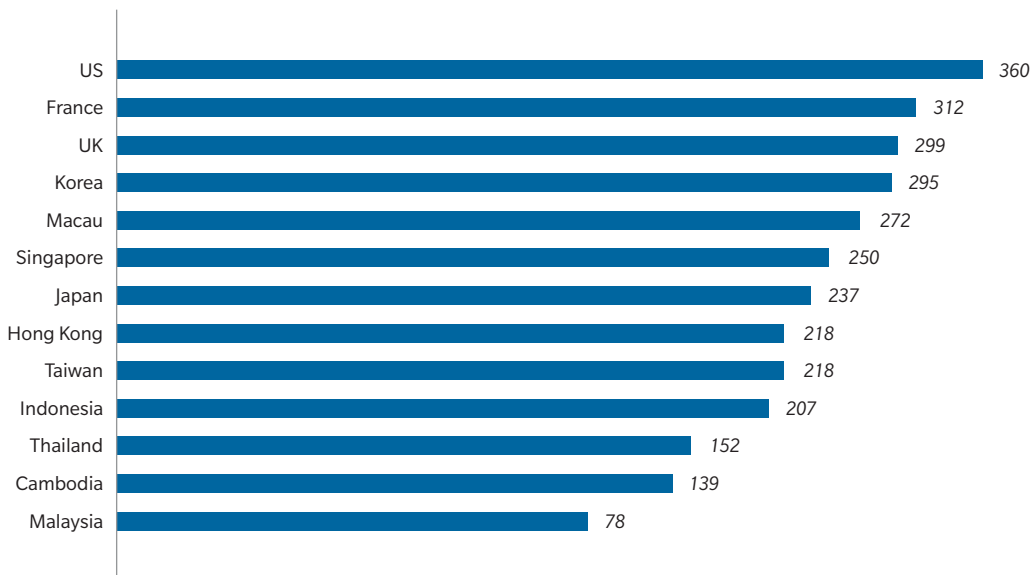
However, only around half of the spending is on themselves (self-spend), while as much as 32% is to purchase gifts for others (gift spend), and 19% is for resale back home (resell spend). This shows that the spending is quite savvy, and certainly not without due thought.

Resell spend is highest in the United States and France (see Exhibit 4), yet the reasons why resellers favour those locations are quite different. According to our research, whereas resellers heading to France gave “Wider Range” (21%) and “Lower Prices” (17%) as important motivating factors, those answers did not register high importance for US-bound resellers. For both locations, however, resellers ranked quality as the number one driver – 17% in the US and 25% in France.

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#### Exhibit 4:

PER PERSON RESELL SPEND  
US\$



Source: Oliver Wyman Chinese traveller survey

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Chinese travellers today have sophisticated needs, and know what they are seeking. Given the degree of variation between customer segments, the “build it and they will come” approach is outdated. Instead, a more targeted strategy, catering to individual segments among Chinese travellers, is a better bet.

Retailers and brands need to differentiate themselves by emphasizing their unique value propositions for consumers. They will have to keep in mind major considerations (pricing, quality and authenticity are the top three, according to survey respondents) while also taking into account the idiosyncratic realities of each destination and category.

Such an approach is just as relevant for leisure, food and beverage, travel and hospitality providers. Chinese travellers can be very value-sensitive when it comes to the choice of destination and itinerary planning. On average, travellers head to three destinations over the course of a seven-day trip, using the logic that visiting multiple locations is better value. In fact, Chinese tour providers have well understood this trend and offer packed itineraries, taking us to the third stereotype.





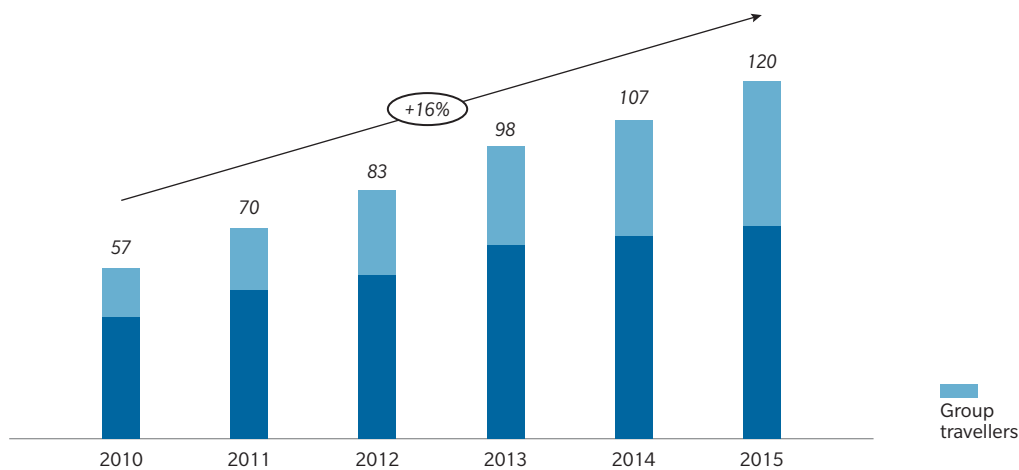
### BELIEF 3 (OR, MORE PRECISELY, TWO CONFLICTING BELIEFS) “THEY ARE ALWAYS IN GROUPS” OR “INDEPENDENT TRAVELLERS ARE QUICKLY REPLACING GROUPS”

**VERDICT:** Neither of these common claims is true. Both the number of tour-group travellers and the number of independent travellers are on the rise. Independent travellers are not replacing group travellers, but are complementing them. Chinese travellers were never monolithic, but are now even more diverse than before.

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#### Exhibit 5: Outbound Chinese traveller trips, 2010-2015

MILLION TRAVELLERS, INCLUDING ALL DESTINATIONS

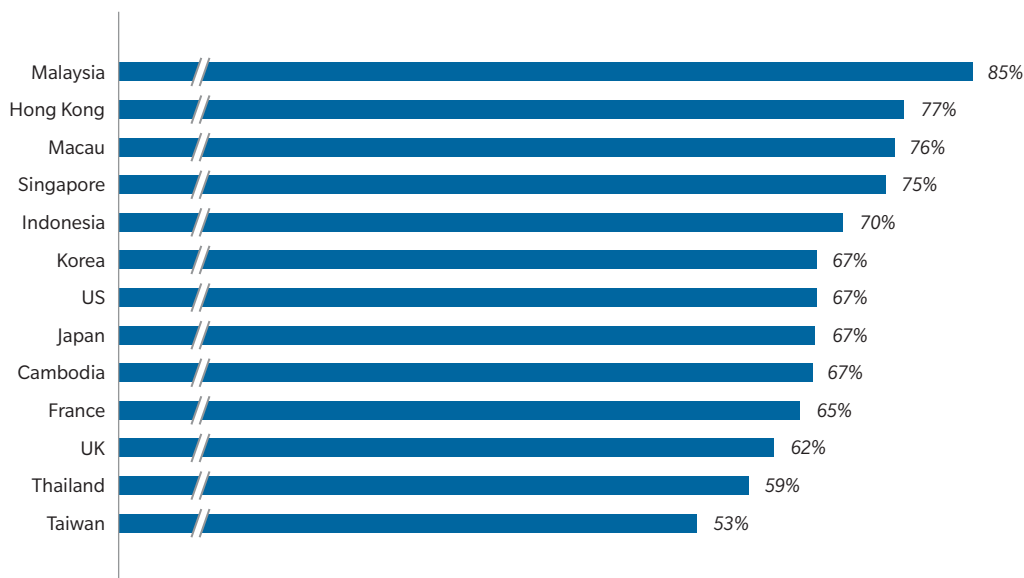


Source: China National Tourism Administration (CNTA), Oliver Wyman Chinese traveller survey

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In the past few years, group travellers have actually accounted for a larger share of all travellers (Exhibit 5), dispelling the misconception that groups are gradually being replaced by individual travel. However, as travellers become more experienced, this trend will not continue indefinitely. The split between the group and independent travellers is likely to remain fairly balanced as travellers gain experience and greater independence, at the same time as numerous newcomers begin travelling, often in groups. The split also varies by destination. For example, Hong Kong and Macau rank close to the top for the percentage of independent trips, yet Taiwan ranks close to the bottom (Exhibit 6).

Exhibit 6: % of individual initiated trip



Source: Oliver Wyman Chinese traveller survey

With group and independent travellers showing very similar per person spend (within 5% of one another) and both here to stay, the two segments are both too valuable to ignore. Nonetheless, each group presents significantly different challenges due to substantial variations in demographics and profile.

## INDEPENDENT TRAVELLERS VS. CONDUCTED GROUP TRAVELLERS

On average, the Chinese traveller visits three locations during a seven-day trip, spending US\$3,000 per trip. But there are key differences in the characteristics and preferences of group travellers on conducted tours on the one hand, and those of individual travellers on the other.

### Group travellers on conducted tours

Group travellers cede a great deal of control over their itinerary to tour operators. They tend to travel on a lower budget, staying in less expensive hotels, take roundabout routes designed to take advantage of cut-price fares, and eat cheap Chinese meals negotiated with Chinese restaurants.

Although they do prefer Chinese food, they may be open to taste new things from time to time. They look for familiarity, such as hot water kettles and Mandarin service.

### Independent travellers

Those who plan their own travel tend to spend more. Research shows they are more likely to stay in 4-star and 5-star hotels. They also tend to be open to experiencing the authentic local culture of their chosen destination. They take control of their itinerary, conducting a great deal of research before travelling.

The key to attracting independent travellers is to start engaging them early. According to our research, Chinese travellers, especially those on shopping trips, plan in advance, with the Internet being the main tool for this purpose. This is examined in greater detail in a later section.

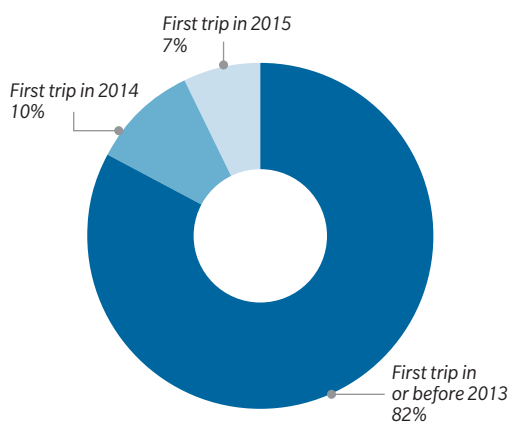
Traditionally, due to the extent of tour operators' control over the itineraries of Chinese travellers in conducted groups, engaging those operators had been critical points of influence. However, our study indicates that their influence may be fading. The Chinese travellers we surveyed considered their tour operators to be the *single least useful source of information*. Given the continuing importance of group travel, they will doubtless continue to play a strong role. But tour operator relationships are no longer enough.

Experienced travellers are more likely to be from Tier 1 (T1) cities. In our survey, 50% of those whose first trip was in 2013 or earlier hail from T1 cities, versus just 33% of those who took their first trip in 2015. Furthermore, they account for a larger share of travellers to European destinations. More experienced travellers typically enjoy higher incomes and plan and travel independently, as well more frequently. Indeed, those who have been travelling abroad for more than two years took 50% more trips in 2015 than those taking their first trip in that year, suggesting that demand is increasing as travellers gain experience.

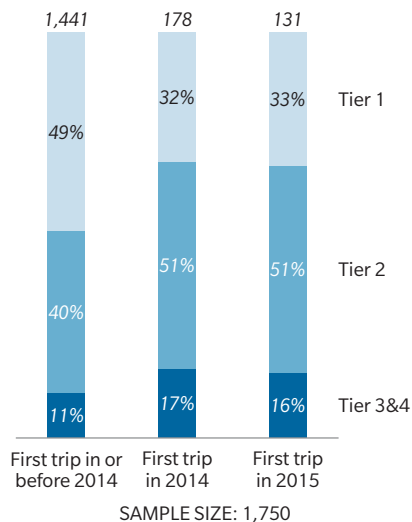
Less experienced travellers generally come from cities in other tiers, and have somewhat lower income. They are more likely to travel in groups and to go to Greater Asia or "near Asia" (including Japan, Korea and Southeast Asia). Given economic circumstances, this segment is also set to grow. Currently only 5% of travellers from non-T1 cities are heading abroad, compared to 15% for T1 cities, yet the growth in disposable income for Tier 2 (T2) cities is around 11%, in comparison to 9% for T1 cities.

**Exhibit 7: Traveller experience and home city tier**

TRAVELLER SPLIT BY YEAR OF FIRST TRIP  
% OF RESPONDENTS



TRIP STARTING YEAR BY CITY TIER  
# OF TRAVELLERS



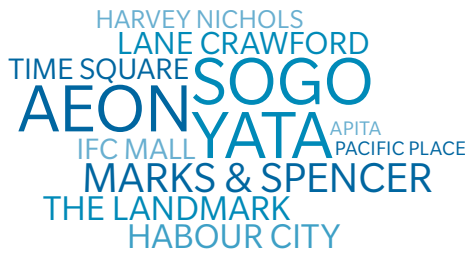
Source: Oliver Wyman Chinese traveller survey

# SHOPPING PREFERENCES PER DESTINATION

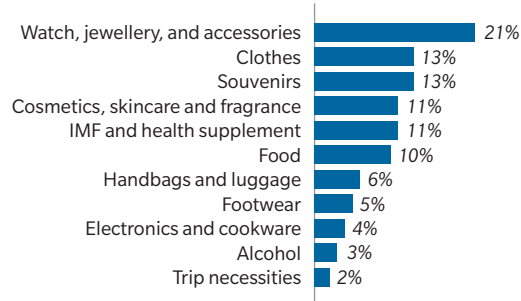
## HONG KONG

Hong Kong has tended to be the default first destination for Chinese travellers. Watches and jewellery is by some distance their most popular shopping category.

MOST POPULAR RETAIL PLAYERS  
BY NUMBER OF VISITORS



SPENDING SPLIT BY CATEGORY, N=1,750  
% OF SHOPPING SPENDING IN CERTAIN CATEGORY



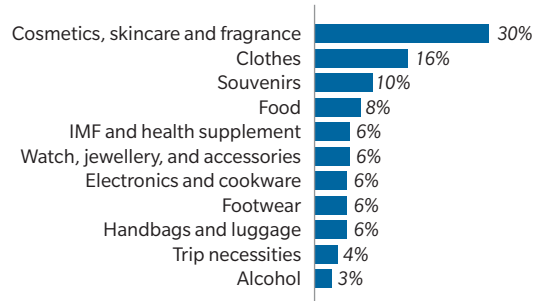
## KOREA

Korea is the most popular destination for Chinese travellers. Moreover, more Chinese travellers cite shopping at the primary motivation for a visit to Korea than for any other destination. Cosmetics, skincare and fragrance is by some distance the most popular category for this shopping spend.

MOST POPULAR RETAIL PLAYERS  
BY NUMBER OF VISITORS



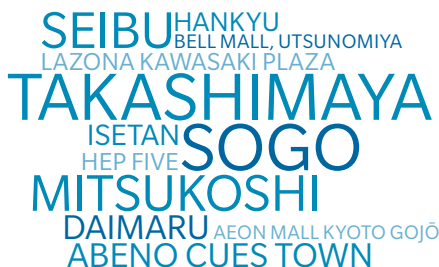
SPENDING SPLIT BY CATEGORY, N=1,750  
% OF SHOPPING SPENDING IN CERTAIN CATEGORY



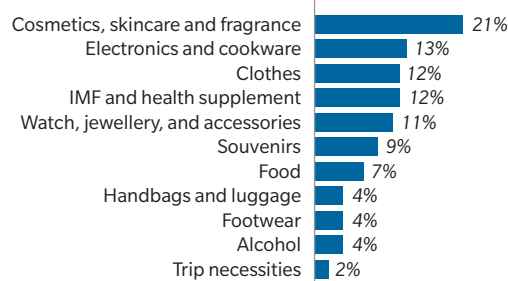
## JAPAN

Japan is the fastest growing destination for Chinese travellers. While most money is spent on cosmetics, electronics and cookware is unusually popular. Four items in particular have become known as "must buy" items by Chinese travellers visiting Japan: rice cookers, ceramic knives, vacuum-insulated thermoses and high-tech toilet seats, collectively referred to as "the four treasures."

MOST POPULAR RETAIL PLAYERS  
BY NUMBER OF VISITORS



SPENDING SPLIT BY CATEGORY, N=1,750  
% OF SHOPPING SPENDING IN CERTAIN CATEGORY



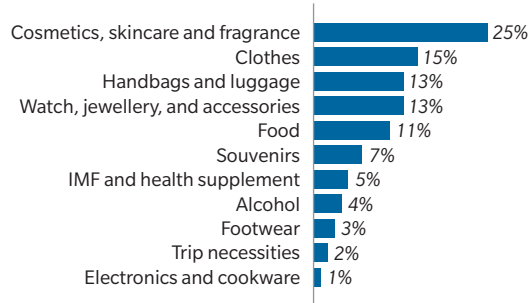
## FRANCE

Travellers to France spend more in shopping for others than they do for themselves. Cosmetics, clothes, handbags, watches and jewellery are all popular categories

MOST POPULAR RETAIL PLAYERS  
BY NUMBER OF VISITORS



SPENDING SPLIT BY CATEGORY, N=1,750  
% OF SHOPPING SPENDING IN CERTAIN CATEGORY



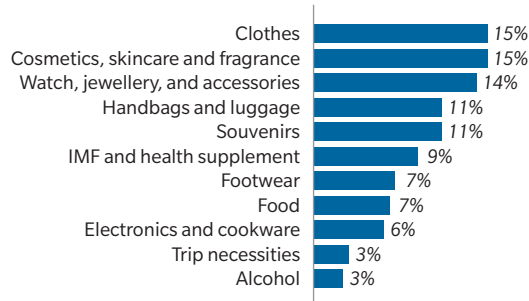
## US

As with France, travellers to the United States spend more for others than for themselves. The spending is more evenly spread, with similar spending on clothes, cosmetics and watches and jewellery

MOST POPULAR RETAIL PLAYERS  
BY NUMBER OF VISITORS



SPENDING SPLIT BY CATEGORY, N=1,750  
% OF SHOPPING SPENDING IN CERTAIN CATEGORY



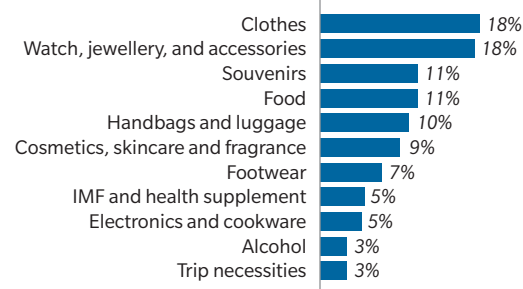
## UK

Chinese visitors to the UK are likely to be more experienced travellers, just as they are to France and the United States. Spend is again quite evenly spread between several categories.

MOST POPULAR RETAIL PLAYERS  
BY NUMBER OF VISITORS



SPENDING SPLIT BY CATEGORY, N=1,750  
% OF SHOPPING SPENDING IN CERTAIN CATEGORY



Source: Oliver Wyman Chinese traveller survey

## **BELIEF 4**

### **“CHINESE TRAVELLERS ARE ALL TROUBLEMAKERS”**

If you happened to be at Don Mueang International Airport in Bangkok on 4 Sept 2015, you might have caught sight of dozens of tourists bursting into a noisy rendition of the Chinese national anthem to protest the ten-hour delay of their flight. Four tourists promptly found themselves on the China National Tourism Administration (CNTA) blacklist, banned from future travel. Nor was this a first-time event. A decade before, at a Malaysian resort, hundreds of Chinese visitors staged a sit-in, singing the national anthem.

Chinese travellers are sometimes associated with unruly behaviour, yet this often arises as a result of cultural misunderstandings. In the latter example, the Chinese tourists were offended by cartoon pigs on the back of their hotel cards (innocently intended to indicate pork-consuming guests to service staff in a majority-Muslim country). Other colourful examples abound.

Brands and retail, travel, leisure and hospitality providers all need to be aware of Chinese culture to best serve Chinese travellers. Some alleged bad behaviour is attributable to cultural deviations. For example, there is no tipping culture in China and it is often socially acceptable to eat food on public transport.

Of course, a line needs to be drawn between cultural transgressions and genuinely unacceptable behaviour, but actions can be taken to anticipate and respond appropriately in either case. For example, service charges can be included on bills, and proper usage of facilities should be explained or alternatives provided. Meanwhile, rules, and penalties for breaking them (such as cleaning fees for smoking in non-smoking rooms), should be clearly communicated. Open two-way communication is the surest way to avoid misunderstanding.

# PROFILE OF AN INDEPENDENT TRAVELLER

Anna is a final-year student at a leading university in Shanghai. Her home town is Nanjing. She has travelled fairly widely, having already visited Thailand, Laos, South Korea and the United States with friends and family. The next destination Anna has in mind is Japan, simply because it is somewhere she has never previously visited.

During her time abroad, Anna's favourite things were the "sunshine" and the Southeast Asian cuisine. She was also greatly impressed by the courtesy shown by strangers, citing examples of drivers giving way to each other and passers-by smiling at her. However, she felt that public transport overseas lacked proper security measures.

For each of her trips, Anna plans extensively in advance, consulting travel blogs and websites discussing local attractions. Sometimes, she also looks at packages offered by travel agents, and combines these with her own schedule to visit multiple locations.

Anna has preferred to dine at local eateries when abroad, particularly in Southeast Asia. She also visited fast food and Western restaurants, especially in Russia and the United States.

Because she normally split the bill with friends, she would not typically have a budget in mind beforehand, although very high-end dining is usually ruled out. Her typical approach would be to check online for the highest-rated restaurants and go there. On the other hand, she tries to keep her hotel expenditure within a budget.

When purchasing goods abroad, Anna liked to visit local supermarkets and gift shops. She does not usually make special trips to shopping malls or department stores. However, she does make an exception for South Korea, where she would visit branded stores and shopping malls eligible for tax refunds. Her favourite things to buy abroad are cosmetics and specialty souvenirs.

In terms of service, Anna remarked that it would be nice if the staff could speak a "couple of sentences" of Mandarin, although "it doesn't have to be very much". She is fluent in English. She observed that, on her travels, the only service people she encountered who could speak Mandarin were South Korean shopping guides. Everyone else spoke English.

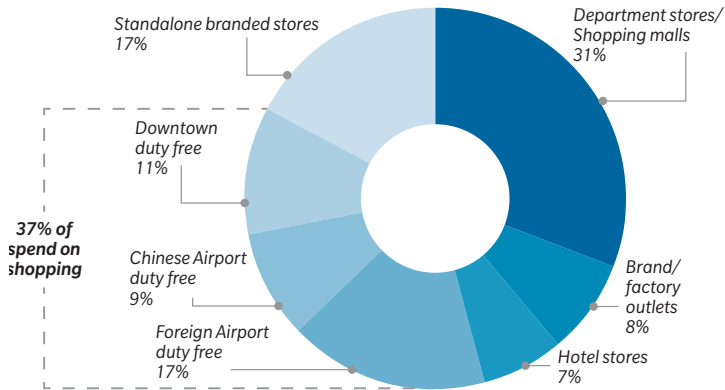


## HOW DO THEY SPEND?

Duty free channels capture more than one third of total shopping spend, so a duty free strategy is key for consumer goods brands. Cosmetics is the most commonly purchased category, followed by alcohol.

### Exhibit 8: Shopping channels

SPLIT OF SHOPPING SPEND, N=1,750  
RMB K, % OF SPEND



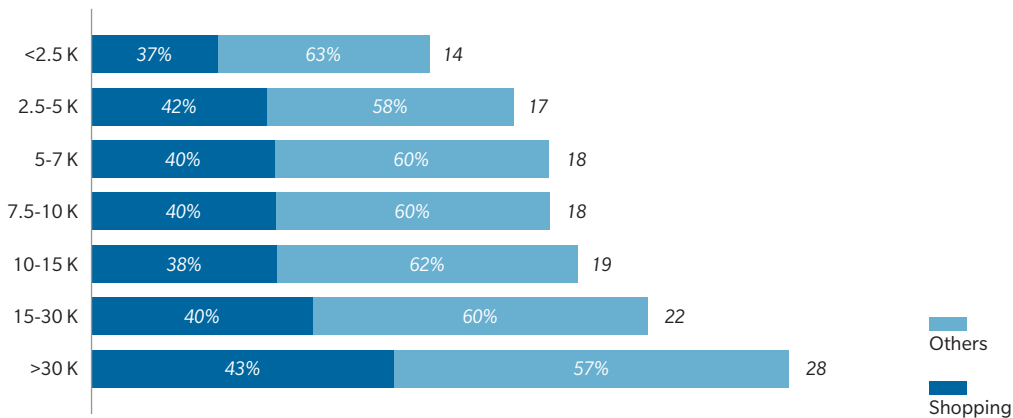
Source: Oliver Wyman Chinese traveller survey

However, department stores and shopping malls are the most frequently visited channel. They still receive nearly one third of spend, with clothes, food and souvenirs being the most purchased categories.

What both these channels have in common is a wide variety under one roof. A closer examination of shopping preferences per destination reveals why this variety is so important.

### Exhibit 9: Income and spend

SPEND ON TRIP BY RESPONDENT'S MONTHLY HOUSEHOLE INCOME, N=1,750  
RMB K, % OF SPEND



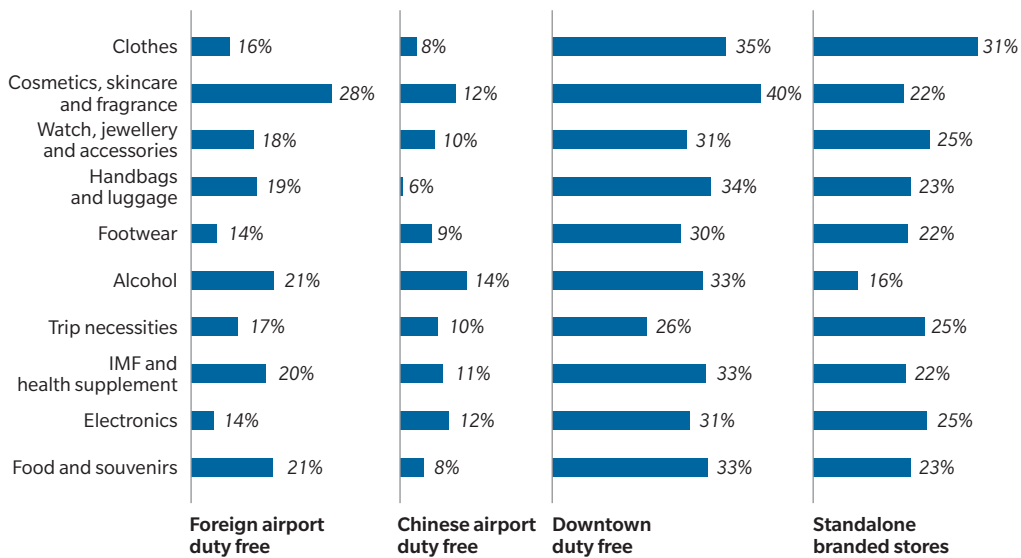
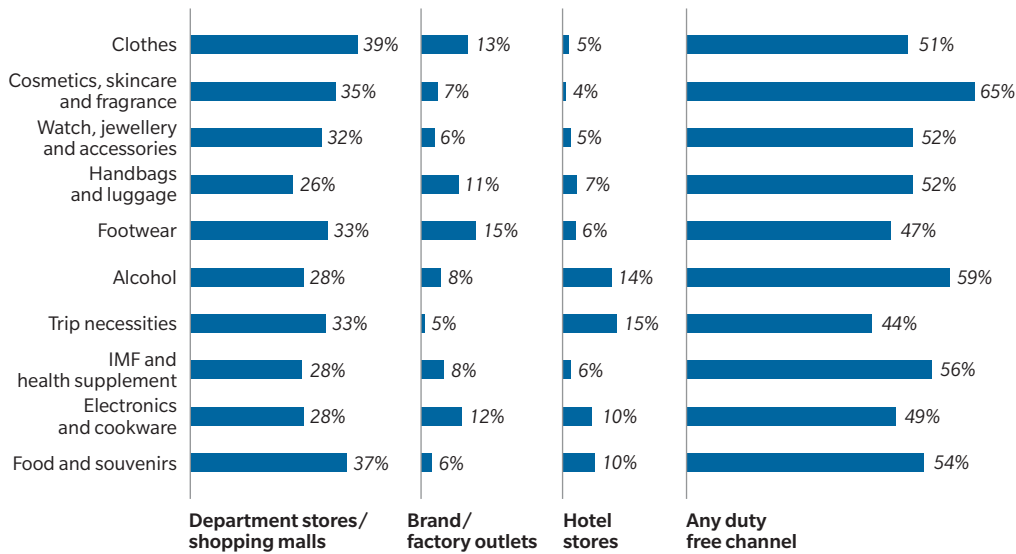
Source: Oliver Wyman Chinese traveller survey



**Exhibit 10: Chinese travellers focus on specific categories purchased in each channel**

Beauty product is preferred in duty free stores while cloth is preferred in department stores/shopping malls and branded stores; department stores/shopping malls has the highest penetration rate

PENETRATION OF CATEGORIES PURCHASED FOR ALL COUNTRIES, BY CHANNEL  
% OF RESPONDENTS



Source: Oliver Wyman Chinese traveller survey

# CONCLUSION

## THE WAY FORWARD

### **Segmentation is key...**

There is no such thing as an archetypal Chinese traveller. If you make broad generalizations, you risk missing the insights that give you an edge over competitors. Only by understanding the subtle variations in the preferences and motivations of various segments of Chinese travellers can you plan an appropriate strategy.

### **...and it's going to stay this complex for a while**

We don't anticipate that these fine subtleties are going to disappear, to be replaced by a monolithic block of identical travellers. Many more Chinese are going to embark on their first trips abroad over the next few years, but their destinations, accommodation, trip planning, food tastes and shopping habits are likely to remain similarly diverse.

### **Don't wait for the Chinese to come to you**

Avoiding misconceptions about Chinese travellers is only the first step to capturing the opportunity they present. A comprehensive strategy is required.

A central feature of this strategy must involve early engagement with potential customers while they are still in China. With three quarters of travellers saying they plan purchases in advance, brand awareness and consumer touchpoints need to be established in China before the trip begins.

Remember, too, that half of travellers' shopping spend is for someone at home who will naturally be more eager to receive a gift they already crave. Such purchases are least likely to be made on impulse – substantial research on specific items for family and friends, usually performed online, is likely to have already been done before the trip.

If you're only engaging with travellers while they are in airport shops or at their eventual destination, you will have already made a costly mistake. On the other hand, the rewards of early engagement and resulting success in selling to Chinese tourists are likely to be great. These include easier entry into China, or smoother expansion of an existing presence within the domestic Chinese market.

A guarantee of genuineness and price are key factors for eventual buying decisions. If you have an existing China presence, these factors should be integrated into the current strategy for your China business. If you have yet to establish a presence in China, act as if you will do so at some point in the future. You should also be aware that there may already be Chinese people overseas who are selling your product on one of China's e-commerce platforms and shipping direct to consumers in the mainland. You should ask yourself: does this represent an opportunity to be encouraged, or a threat to be countered?

Given the changing face of the Chinese traveller, we encourage every consumer-facing business to make an honest assessment of its current capabilities in capturing this opportunity. Where there are clear gaps, you would be well advised to take steps to address them now.



## ABOUT OLIVER WYMAN

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

In the Retail practice, we draw on unrivalled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in retail: an obsession with serving the customer, constant dedication to better execution, and a relentless drive to improve capabilities. We believe our hands-on approach to making change happen is truly unique – and over the last 20 years, we've built our business by helping retailers build theirs.

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