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THE 21ST CENTURY GAME-CHANGER UP CLOSE CHINA OUTBOUND TOURISM

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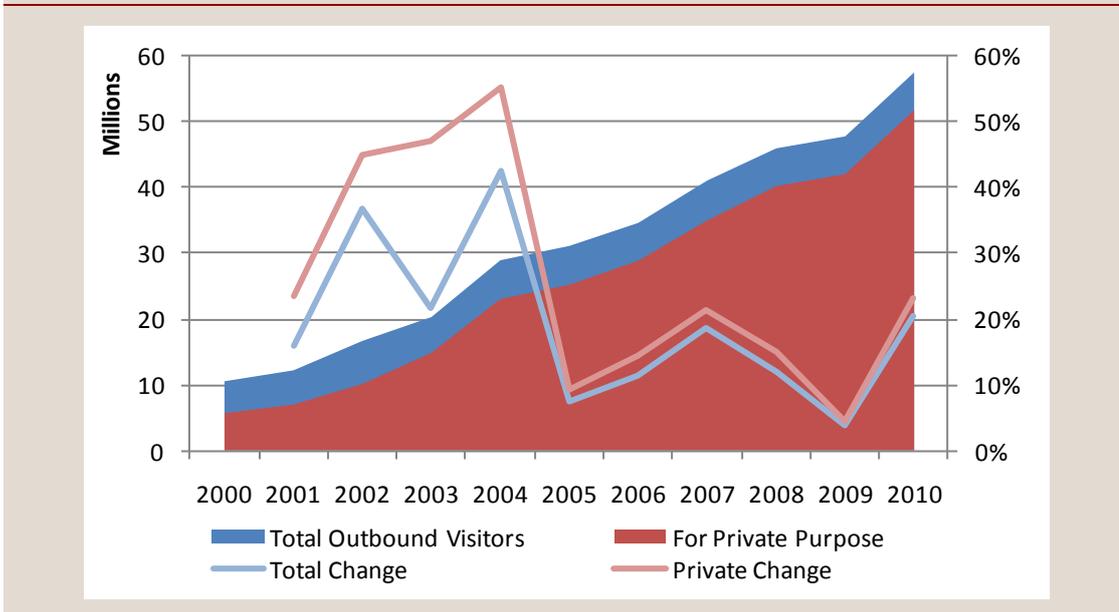


Outbound Tourism from Mainland China

Driven by a booming economy and increasing disposable incomes, mainland Chinese are looking more and more to travel abroad. In what markets do they make their mark, and how does one have to cater to them differently from other travelers?

Even someone living outside Asia has likely realized that China is an economic force that will reshape the international status quo. China is a manufacturing nation and an exporter on an impressive scale, backed by a population of 1.4 billion. The economic boom of the past decades has increased disposable incomes in China, and as in other countries with improved economies, people are looking for new ways to spend their wealth. After the basic material goods of housing and transportation, travel has become an increasingly important component of an individual's self-realization and expression.

OUTBOUND TOURISM HAS INCREASED MORE THAN 5-FOLD SINCE 2000



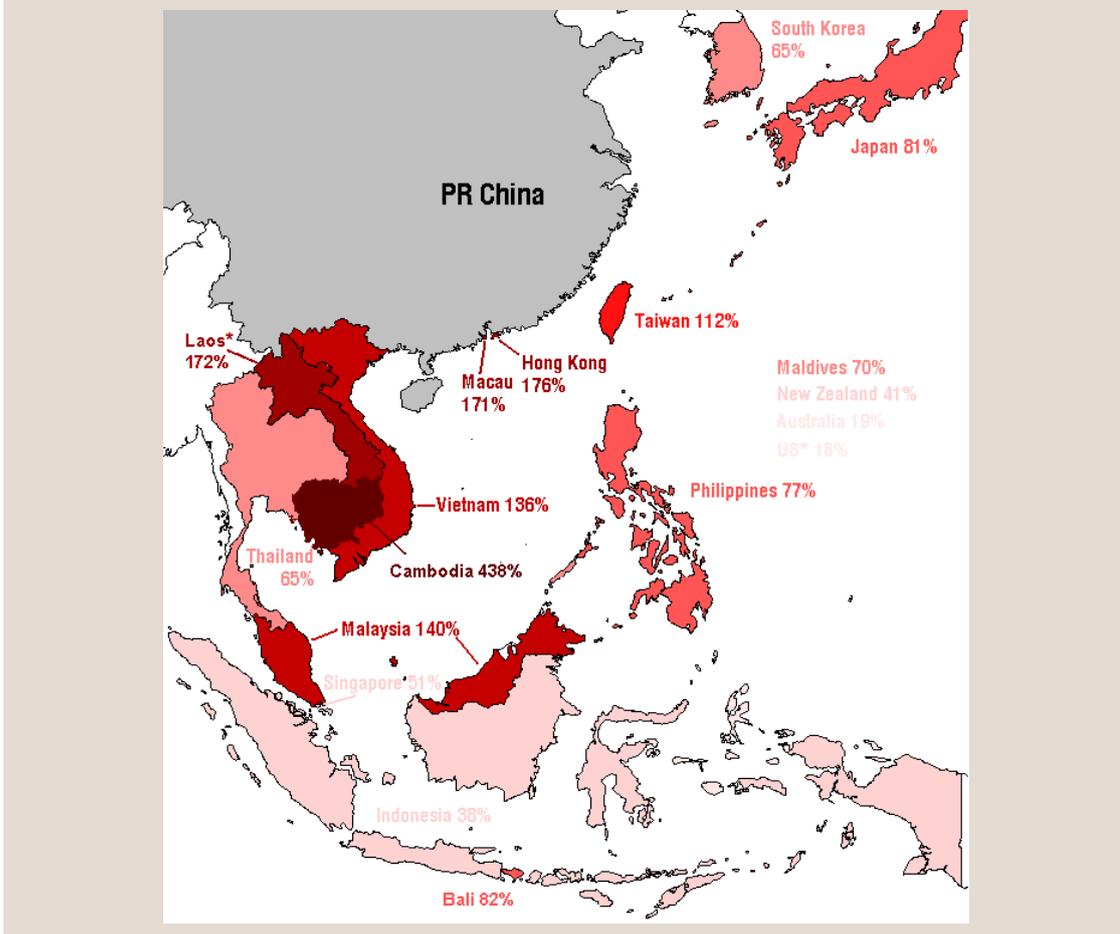
For many Chinese who have traveled widely within mainland China, the Special Administrative Regions (SARs) of Hong Kong and Macau, Taiwan, and countries further afield have increasing appeal. Data from the National Bureau of Statistics of China show that outbound travel increased at a compounded annual rate of 18.5% between 2000 and 2010, from roundly 10.5 million to 57.4 million. Clearly, the

economic crisis had a negative impact on outbound travel demand, with a minimal gain of 4.0% registered in 2009. Posting a more than 20% increase in 2010, outbound travel is back on track, and growing fast. Notably, the number of outbound trips in 2010 equates to only 4.1% of the total mainland Chinese population (compared to a ratio of 32.0% for Australia and 13.1% for Japan). In this article, we investigate the impact China Outbound Tourism has on regional and international destinations, highlight the spending profile using Hong Kong in the example, and give some suggestion for hoteliers to benefit from this growing demand.

INTERNATIONAL VISITOR ARRIVALS

We have reviewed 18 countries and SARs, the majority of which are located in Asia-Pacific. Between 2000 and 2010, all markets registered a total increase in international visitation, ranging from 18% and 19% in the case of the United States of America (estimated) and Australia, respectively, to as much as 438% for the Kingdom of Cambodia.

PROXIMITY TO CHINA DRIVES TOTAL VISITOR ARRIVALS

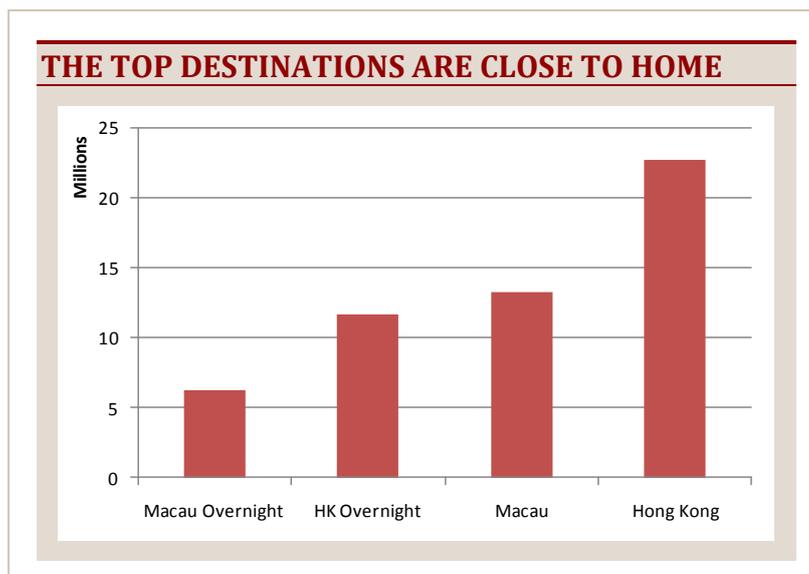


For the bulk of markets, visitation increased between 20% and 180%. Apart from Cambodia, markets registering the strongest increases include Laos (2009 data), Macau, Malaysia, Hong Kong, Vietnam, and Taiwan, all in excess of 100%. Notably, all areas are proximate to mainland China and, except for one, share a border with China or are Chinese territory. Slightly further afield, markets like Bali, Japan, the Maldives, the Philippines, South Korea, and Thailand registered strong international visitation growth of 60% to 80% between 2000 and 2010.

Markets like New Zealand and Australia with challenging accessibility registered modest growth. Many factors influenced the growth of international visitor arrivals across these markets. There have been bumps along the way, including Severe acute respiratory syndrome (SARS) epidemic in 2003, when all but the Maldives were impacted, as well as the economic downturn in 2008 and 2009. While several markets started off a very low base at the beginning of the decade, such as Laos and Cambodia, the average for all 18 markets grew by 72%, whereas the total increased from roundly 133 million to 229 million, at an annual compounded growth rate of 5.6%.

MAINLAND CHINA VISITOR ARRIVALS

China Outbound Tourism into 17 countries and SARs (excluding Laos due to lack of data), as well as overnight visitors for two SARs, reviewed increased at a compounded annual rate of 10.2% between 2003 and 2009, trailing the People’s Republic (PR) of China’s average annual real GDP growth by one percentage point.

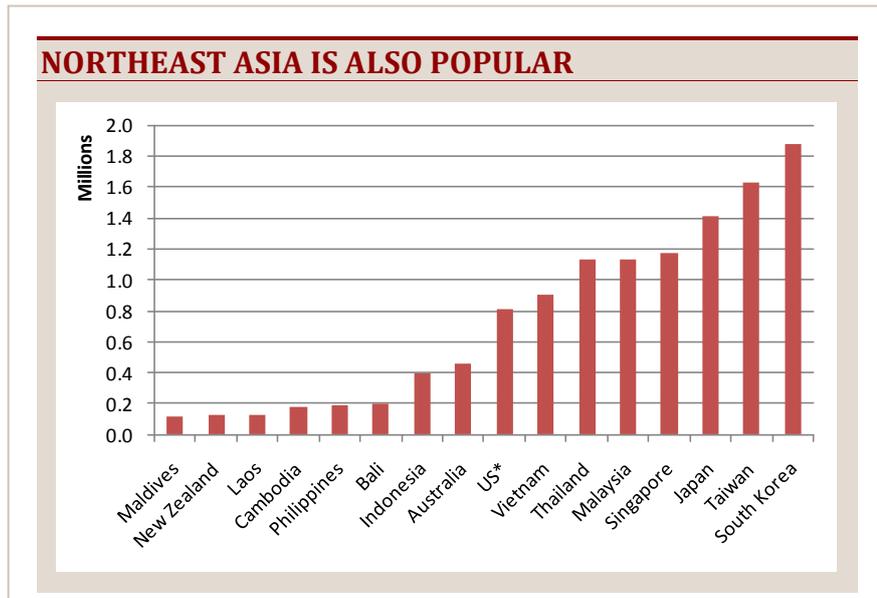


The market with the largest number of visitor arrivals from mainland China remains Hong Kong, with approximately 22.7 million visitors, including 11.7 million overnight visitors in 2010. Macau registered the second-largest share of visitors, yet

it equated to less than two thirds of the level for Hong Kong. South Korea was the largest overseas destination, with approximately 1.9 million mainland Chinese

visitors. Taiwan and Japan registered 1.6 and 1.4 million visitors, respectively. The next batch of destinations includes Singapore, Malaysia, Thailand, and Vietnam and ranges from 1.2 million down to 0.9 million mainland China visitors.

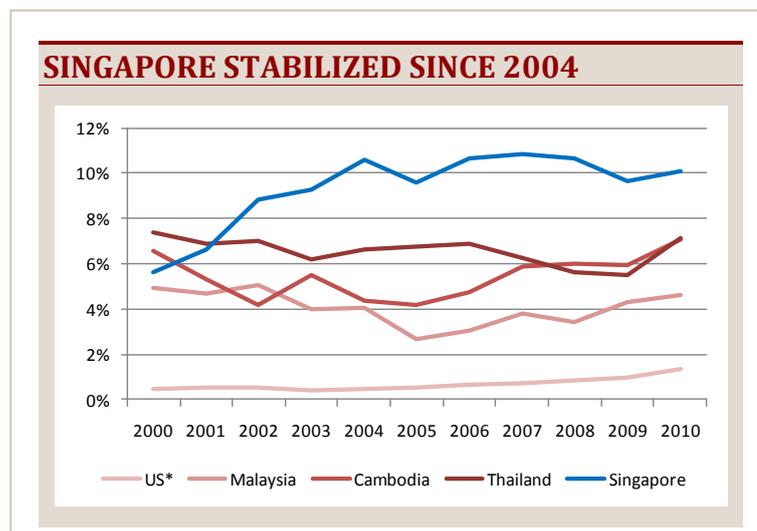
The difference between these two groups reflects the geography of Asia, where flights in excess of two or three hours do pose a deterrent to travel. Notably, higher-frequency shopping and weekend trips of affluent mainland residents occur within a limited radius, as compared to vacationing and group tours that can lead to more distant places.



Undeniably, the large mainland Chinese population and increasing affluence will drive continued growth in outbound tourism going forward. By providing and marketing the right kind of attractions and shopping experience, as well as Mandarin-speaking staff in key positions in tourism-related industries, destinations will be able to attract a larger share of the outbound market.

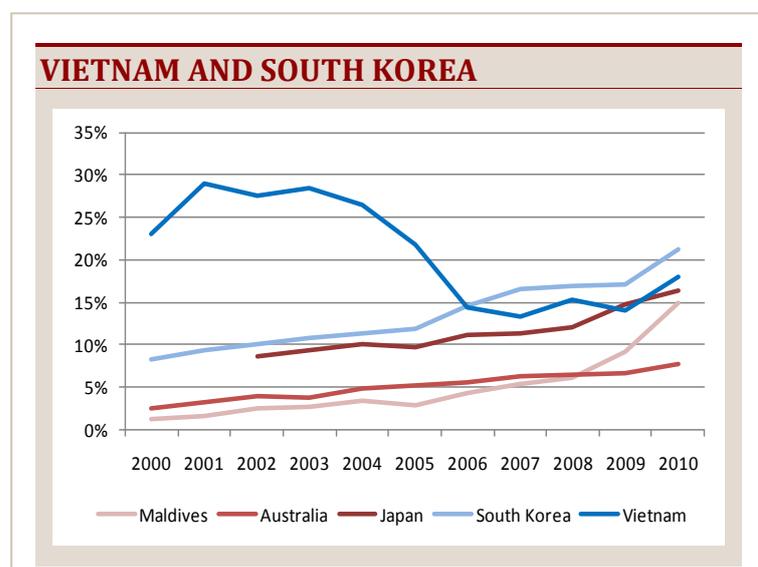
Destinations where mainland Chinese travelers are already well catered to include Hong Kong, Macau, and Taiwan, the latter of which has enjoyed a rapidly increasing share of mainland visitors (29% in 2010) since travel restrictions were lifted in 2006. The only market registering a significant decline in mainland Chinese visitors is Vietnam, likely due to a busy border from the outset and rapid growth in other regional and long-haul markets. While Singapore has maintained a stable share of mainland Chinese visitors of around 10% since 2003, South Korea and Japan registered an increasing share of visitors as of 2006 and 2009, respectively, as travel restrictions were reduced. The Maldives is a destination that has been embraced by mainland Chinese outbound travelers since 2009, tripling its share within just two years to 15%, taking benefit of favorable pricing in the slow and shoulder seasons. Two other markets worth mentioning are Bali and the Philippines. Following the

events in Bali in 2005 and the absence of visitors from established source markets, the share of mainland Chinese visitors increased rapidly – eight percentage points within four years. The Philippines registered a rapid increase from 1.7% to 4.1% in 2005. In many cases, these increases do not necessarily reflect actual outbound tourism demand, but rather the administering of travel restrictions, both by the respective destination and China authorities. Several destinations are confronted with declining or stagnating demand from long-haul markets and regional markets of smaller scale. Coupled with increasing capacities in the tourism industries and a need to diversify into the tertiary sector, governments increasingly look toward Chinese outbound travelers to stimulate economic activity.



Among the markets with no or only limited growth in the share of mainland Chinese visitors, Singapore poses an exception. After rapid increase from 2000 to 2004, the number of visitors remained stable around 10%, reflecting strong demand from other source markets.

Among the destinations with steady growth from 2000-2009 and an uptick in 2010, Vietnam stands out. Following the opening up of Vietnam to larger numbers of tourists as of 2003, the share of mainland Chinese visitors declined significantly. Nevertheless in 2010, the total number of arrivals from mainland China registered a record high. Also, South Korea registered an ever-increasing share of mainland Chinese visitors.



BALI SAW A RAPID INCREASE FROM 2005-08

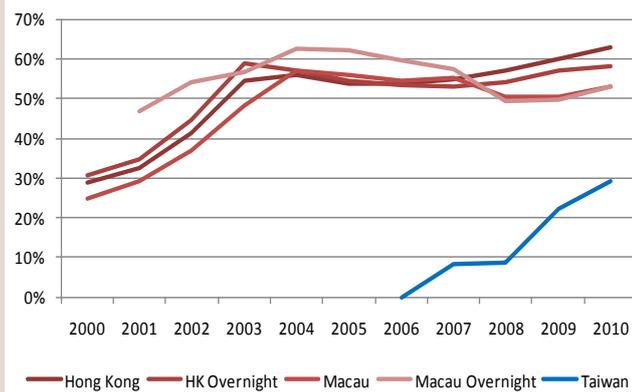


Among the destinations that registered a significant increase in the share of mainland Chinese visitors, Bali is the exception. Clearly a popular choice, the market registered a rapid increase between 2005 and 2008, as more traditional source markets softened. Conversely, as key

markets like Australia rebounded in 2010, the mainland Chinese share declined. This makes Bali the only destination reviewed with a negative trend in 2010.

The SARs of Hong Kong and Macau exemplify the effect the handovers had on visitor arrivals. Interestingly, with the introduction of the International Visitation Scheme in 2003, which allowed an increasing number of mainland residents to visit Macau and Hong Kong, the share of visitor arrivals remained fairly stable, reflecting strong demand from other source markets and capacity constraints in the local tourism market. Since Taiwan began allowing visits by mainland Chinese tour groups in 2006, their share of visitors has risen sharply, reflecting the impact travel regulations can have on the outbound travel market.

TAIWAN REGISTERS A RAPID INCREASE



First-time travelers typically join tour groups and head for destinations closer to home, including Hong Kong, Macau, and Taiwan. Breaking through the language barrier, travelers will visit popular destinations such as Bangkok or head for Europe with keen agendas. The tour groups are not an entirely new phenomenon in Europe or elsewhere as Japanese and Korean travelers paved the way before them. Allan Yip,

Chief Marketing Officer of Kosmopolito Hotels, notes that although these first-time travelers range over a wide spending power spectrum, from value oriented to high end, the overall sightseeing itinerary remains much the same, with differences rather in the type of hotels stayed at and shops visited. Chinese tour groups are predominantly made up of families or at times couples. Symon Bridle, Senior Vice President of Operations at New World Hospitality, sees select- or limited-service hotels well positioned to cater to the value-oriented tour groups as the itinerary for a hotel stay “may be in late in the evening and out early in the morning, and the only meal component may be breakfast.”

Yip identifies another visitor profile of free independent travelers (FIT) that are abroad more frequently. Especially safe, regional cities, such as Singapore, are becoming increasingly popular for family vacationing. Usually these destinations are first experienced on business trips and thus provide a more familiar setting, reducing uncertainties. FIT demand has significant growth potential for these ‘easy access’ destinations.

Another group of travelers consists of high-net-worth individuals who travel frequently. They are generally a younger demographic of 30 to 45 years who converse freely in English and look for exotic destinations and the long-haul markets

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Symon Bridle, SVP Operations, New World Hospitality

of Europe and the United States. Specifically, in relation to this segment, Bridle explains, “A large part of the China market, while not necessarily booking online, uses the internet to do research and get social network feedback to help

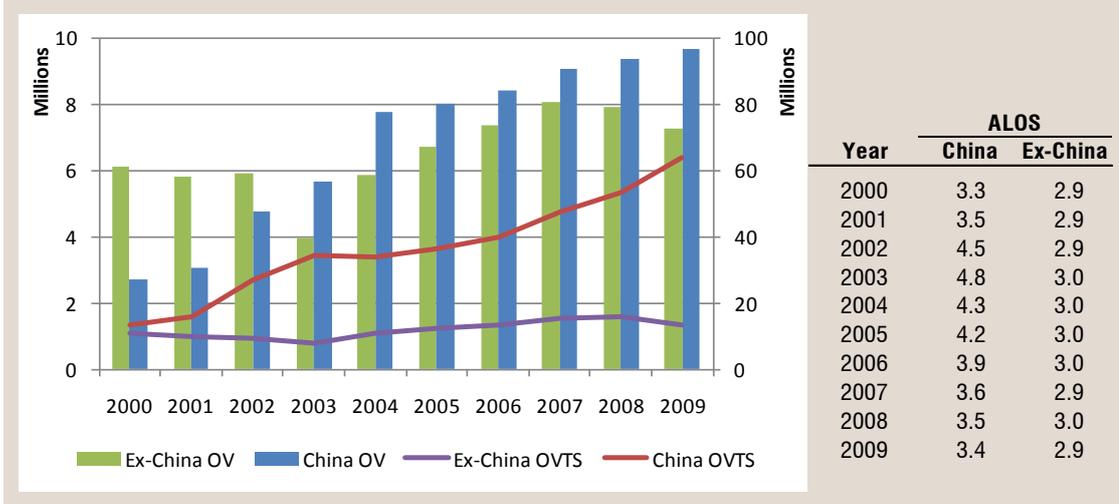
them make decisions.” It is thus critical to make a brand and property accessible and to communicate in the proper ways. “Having a Chinese website is a definite plus to gain accessibility in overseas markets, certainly at the higher end,” Bridle continues, “to a degree the China market is looking more for the hotel’s image through visuals, not on heavy data or information content.”

An activity that is popular among most travelers, in particular Chinese, is shopping. The outbound Chinese visitor enjoys shopping and will spend a considerable amount of money doing so. Motivations here are mainly quality, exclusivity, and ostentation, as certain products are not available or only introduced later in the home market. Heavy taxation in mainland China can also play a role for less-affluent travelers. A diverse mix of attractions to visit and casinos cater to two other popular activities.

SPENDING PATTERNS – SHOP TILL YOU DROP

Data from the Hong Kong Tourism Bureau (HKTB) can provide insights into outbound travel spending trends (full-year data only available for 2009). Overall, Hong Kong registered a steady increase in overnight visitors (OV) from mainland China, reaching nearly 10 million in 2009, compared to 7.3 million from all other source markets combined. The following table summarizes the markets excluding China as ‘Ex-China.’

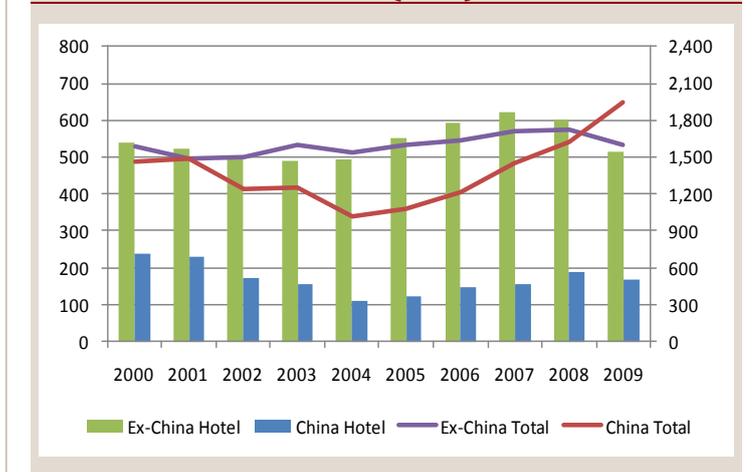
OVERNIGHT VISITORS FROM CHINA STAY LONGER AND SPEND MORE (HK\$)



Total spending (TS) for mainland Chinese visitors came close to HK\$64 million, compared to HK\$13.3 million for all other source markets combined. Notably, the length of stay for mainland China visitors decreased from 2003 onwards, inciting shorter, but possibly more frequent trips, whereas other source markets registered a

stable average length of stay (ALOS).

CHINA PER-DIEM TOTAL SPENDING INCREASES, HOTEL SPENDING FLAT (HK\$)



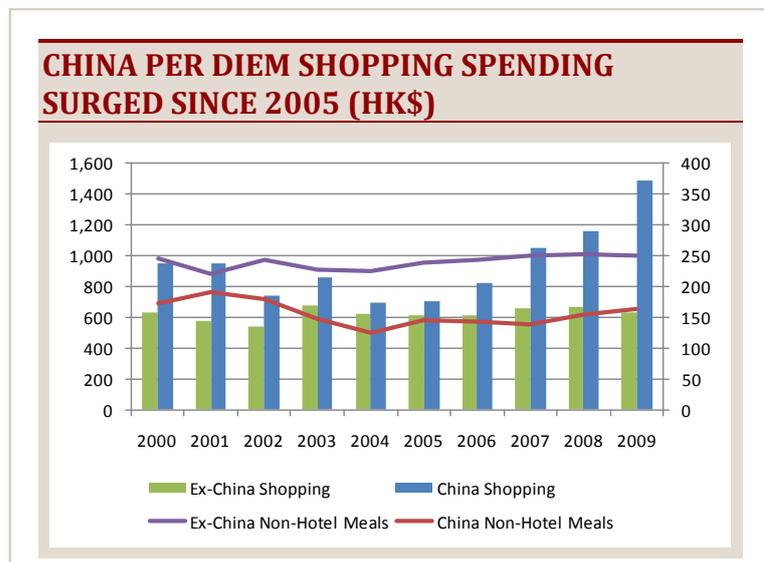
Per diem spending on hotels for mainland Chinese overnight visitors is considerably lower compared to Ex-China markets by approximately HK\$370 over the ten-year period. However, in terms of total spending, overnight

visitors from China for the first time surpassed the Ex-China average by roundly HK\$350, partially attributable to the financial crises and decreased overseas corporate travel and thus spending. Regarding spending for meals outside hotels, a relatively stable trend can be observed for both Chinese overnight visitors and Ex-China overnight visitors from 2004 onwards, at a difference of roundly HK\$100 per diem over the six-year period.

Spending on shopping on a per diem basis shows a diverging trend as of 2005, more than doubling for China overnight visitors compared to a flat trend for Ex-China markets.

Reasons include more frequent trips to Hong Kong by high-net-worth individuals and an improved retail offering in Hong Kong, particularly on Canton Road. At the same time, luxury watch, jewelry, and fashion stores in Central, anchored by the Landmark building, drive

high-profile shoppers to the Island. David Martin, Head of Retail at Hong Kong Land, comments, “Whereas in 2005 there were two segments of shoppers, those for household goods and those for luxury goods, the market has changed since 2008. Sophisticated travelers that frequently visit Hong Kong have a larger total budget and do spend on more personal items, including fashion, as compared to accessories, watches, and jewelry. [...] At the same time, the size and number of stores have



«...the size and number of stores have increased significantly, with multiple stories, providing a range of goods that previously was simply not available.»

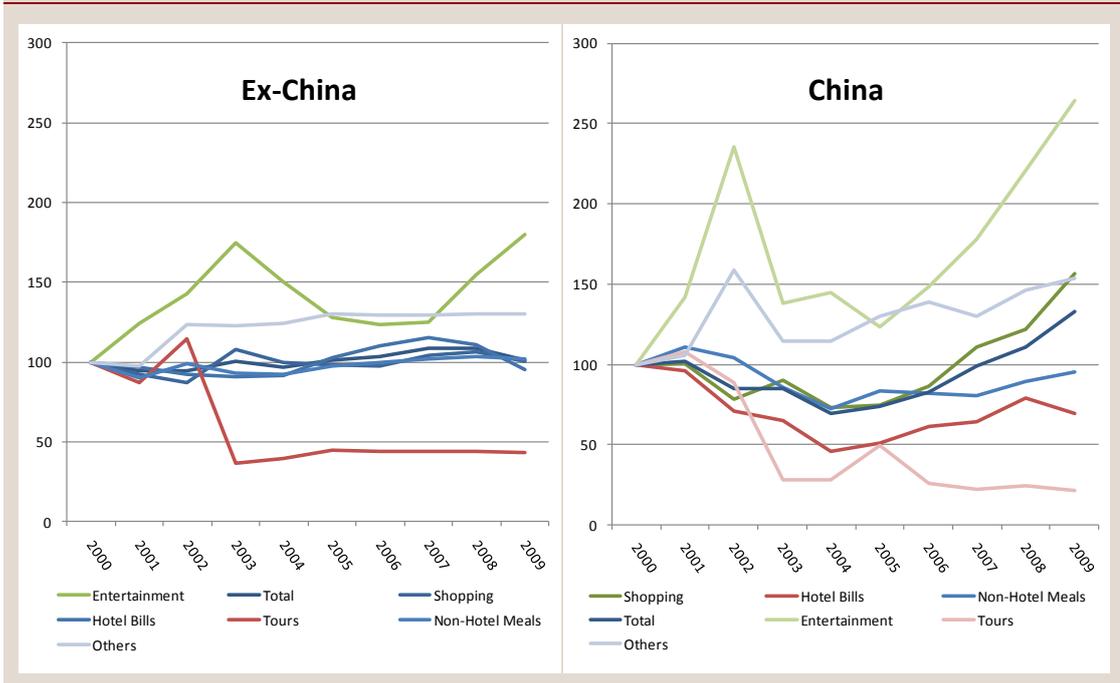
David Martin, Head of Retail, Hong Kong Land

increased significantly, with multiple stories, providing a range of goods that previously was simply not available.” This reflects on the size of the ever-increasing market but also mirrors trends observed

in the type of outbound traveler: a savvy, top-end consumer.

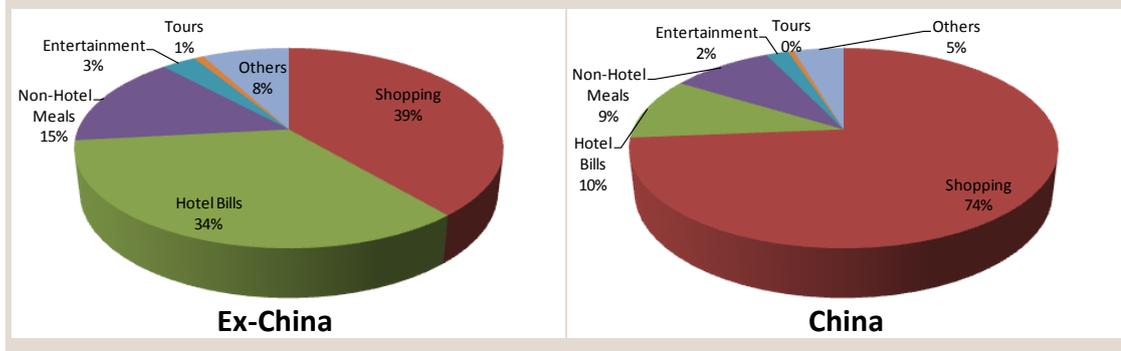
Indexed per diem spending among overnight visitors reveals interesting trends for China and Ex-China source markets. Ex-China travelers generally exhibit a mature spending pattern, with upticks in entertainment and other spending and decreases in tours, partially attributable to the opening of Hong Kong Disneyland. Per Diem spending for Chinese overnight visitors was more dynamic, showing strong increases in entertainment spending and decreases in tours and hotel bills.

MORE DYNAMIC SPENDING GROWTH PATTERNS FOR CHINA



Broken down into the various categories, the importance of shopping for China overnight visitors is evident, accounting for 74% of total spending, whereas Ex-China travelers spend a similar share on shopping and hotels combined. Given the aggregate data set, the numbers mask different spending patterns between tour groups and FIT. High-end FIT visitors from China are likely to spend more on accommodation than Ex-China visitors, a trend that has led hotel owners to increase the suite ratio at their properties. Currently, the Renaissance Harbour View is adding suite inventory and our sources report that similar plans exist for the Grand Hyatt.

IN 2009, SHOPPING BY FAR HIGHEST SPENDING CATEGORY FOR CHINA



HOW CAN HOTELS CAPTURE DEMAND FROM THIS GROWING MARKET?

It is evident that the Chinese outbound traveler creates new demand for many hotels in the region and beyond. Catering to the high-end segment can be lucrative for hoteliers, yet requires a property to communicate the right image to Chinese consumers. Beyond websites in Mandarin, hotels need to follow through and have Mandarin-speaking team members in the front of house. Bridle suggests, “A warm welcome from a Mandarin speaking associate and ideally an introduction to the General Manager, or other senior manager, will certainly give face and recognition”, which high-end travelers, especially of an older generation, are very conscious about. Furthermore, upmarket hotels in China are generally of recent construction and in good condition with impressive lobbies. Bridle continues, “While the excessive room sizes are difficult to match for hotels abroad, a functional, quality room product with impeccable infrastructure can offset room size disadvantages.”

And don’t forget that proximity to luxury, branded shopping – even within the hotel – is definitely a plus, both in capturing guests and possibly generating rental income.

Notes : Data series with an (*) include 2010 HVS estimates. For data series with (**) no data was available for 2010 at the time of this article.

All information published in this article has been collected from the respective tourism bureaus, ministries, organizations and administrations or is based on HVS research.

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

About the Author



Dan Voellm, Managing Director, HVS Hong Kong, joined HVS's New York office as a Consulting and Valuation Analyst in 2005. Prior to joining

HVS, he gained operational experience in various restaurants and hotels in Europe and the U.S. He moved to HVS Singapore in early 2008 and then on to take charge of the Hong Kong office by mid-year. Dan has provided advice in major markets, including China, South Korea, Hong Kong SAR, Maldives, Taiwan, Thailand, Vietnam, Cambodia, Singapore, and Indonesia. While based in New York, he conducted a wide range of appraisals, market studies, and underwriting due diligence services in 22 states as well as Canada. Dan holds a Bachelor of Science (Hons) degree in International Hospitality Management from Ecole hôtelière de Lausanne in Switzerland. For further information, Mr. Voellm can be contacted at:

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