How to approach the Chinese tourism market and seize its opportunities

Simone Sturla, 27 October 2015
Get Ready for China!

The EU SME Centre is an EU Commission funded project which helps EU SMEs prepare to do business in China by providing them with a range of information, advice, training and support services.

The Centre is implemented by a consortium of six partners and was established in October 2010. It successfully completed its first phase in July 2014 and has now entered its second phase which will run until July 2018.
Simone Sturla currently lives in Beijing where, besides managing his own brand, partners and team, he consults Chinese and international tour operators alike. In 2012 he founded the project Italy [B][A][O] (Italy - By Appointment Only). He has designed itineraries and led tourists and professionals across three continents, before taking up the position of Research & Style Manager and subsequently Incoming Dep. Manager for Bradipo Travel Designer Spa (Milan). He subsequently moved to Beijing as Product Manager for the Chinese luxury operator L’Avion International.
Simone has visited China for the first time in 1997 to complete his Oriental Studies Degree from Ca’ Foscari University (Venice), and now has almost twenty years of experience in the Tourism Industry, and about China.
He contributed as author to the “White Book of Chinese Tourism” (Chinese Friendly, 2014) and is often contacted by media as a source for discussing current trends concerning the Chinese tourism market.
Agenda

45min

• China Tourism Historical Background
• Foundations and key tools for reading today’s market
• The Demand: Chinese Customers
• The Supply Chain: Market Players
• Case Studies
• Conclusions

15min

• Q & A session

Data included in this document are excerpts from EUSME Center Report released on Sept 2015
1. China Tourism Historical Background

1.1. Biometrics – A young industry
1.2. Technicalities
1.3. Today - Trends and current regulation
China tourism Industry is a young one. At the beginning of 1980 inbound tourism was designed by the government as a priority in order to introduce valued currency. In this period, a highly regimented outbound pilot project takes shape. Only at the end of the ’90s – when inbound and local market where secured – outbound tourism finally starts.

FIRST PHASE: 1983-1996
VFR – Visit Friends and Relatives: pilot projects towards bordering countries

Relatives pay ALL the expenses; VFR is used also for business trips (companies pay)

83’-90 – Hong Kong, Macao (from Guangdong), North Korea (from Heilongjiang)

90’ – Bordering regions: South East Asia and later Singapore, Indonesia (all high Chinese immigrant countries)

SECOND PHASE: 1997 - ADS (Authorized Destination Security) is implemented: outbound destinations are approved based on bilateral political agreements

Travelers pay expenses by themselves (so it is virtually open to anybody – also the ones who do not go for business, or do not have relatives) – OUTBOUND TOURISM STARTS

Is it regulated according to the “Provisional measures concerning the administration of outbound travel of Chinese citizens at their own expenses” by Chinese National Travel Administration (CNTA) and Public Security Bureau (PSB).
1.2 China Tourism Technicalities

The development of the ADS system mirrors China’s growing political importance in the International arena:

‘99 Australia & New Zealand

2001 China in WTO

2004 Schengen area (not UK)

2006 :134 countries are recognized as ADS (approved destination status)

2007 – finally USA obtains the ADS status, upon a specific Memorandum “Memorandum of Understanding Between the Government of the Peoples Republic of China and the Government of the United States to Facilitate Tourist Group Travel From China to the United States”

2013: Italian visa regulation in order to anticipate the EXPO sensibly decreases the visa process technical timing, reducing visa issuance to 3 working days.

2015 – October: during the President Xi’s visit in UK, the British Premier unfolds the new visa regulation that will grant Chinese citizens multi-entry visa up to 2 years. The British Premier himself presented an hypothesis to increase in a second phase the Chinese visa length up to 10 years. **NOTE**: details concerning under which conditions the UK visa mentioned by the British Premier in these days will be released, are not yet clear.
1.3 Today: Trends and Current Regulations

The results of the opening are tangible:

2013 - 88 million of Chinese tourist travel abroad
2014 – over 109 million (+16.6% than the previous year)

2012 expenditure – over 102 billion usd – highest spender for int. travels
2014 – over 155 billion usd

Note> Chinese population is estimated in 1.3 billion of people: 109 million of outbound tourist still represents less than 8% of the population.

Outgoing tourism include Asian countries as well – closer and less expensive than Europe – and make the lion’s share: around 78% of outgoing traffic
REGULATIONS CONCERNING VISA TYPE: MAIN DISTINCTION

<4 : FIT (individual traveler)

>4 : GROUPS – still managed uniquely by Chinese operator (by law) – few notable and very pricey exception;

possible opening of regulation in Shanghai Special Zone – but not clear details available at the moment and possibly great investment required, with uncertain managing/governance policies
KEY FINDINGS:

Due to the historical young opening of the Chinese tourism market, Chinese do not possess a real traveling education, especially outbound, and are still focused on satisfying the Chinese Dream. The lack of traveling education at the moment still has an understandable repercussion on the selection of destinations, itineraries and kind of experiences.

For those willing to travel the regulation has been recently enhanced and simplified, but still represents a barrier due to the thorough requirements.
2. Foundations and key tools for reading today’s market

2.1 The Holiday System
2.2 Traveling: a social tool
2.3 Perceptions and Expectations
2.1 The Holiday System

1995 - working week of 5 days instead of 6
1999 – holidays introduced (3 festivities for a total of 3 week: Spring Festival, May Day holiday e National Day holiday)
PEOPLE START TO HAVE FREE TIME to dedicate eventually to travel (’99!!)
2008 – national holidays from 10 to 11 days, reduce of some festivities (3 to 2 weeks), and introduction of 4 more recurrences (Spring Festival’s Eve, Tomb-Sweeping Day, Dragon-Boat Festival, and Mid-Autumn Festival)
OVERALL HOLIDAY TIME DID NOT CHANGE, BUT IS MORE FRACTIONED!!!
(important step to boost local tourism)

Labor contracts start to include additional holiday days besides the national festivities (depending on each company)

HOLIDAYS DAYS ARE PAID!! (08’!!!!)

This system does not apply high level-government employees (despite new restrictions!), entrepreneurs, and people that for various reasons do not work but nonetheless have money to spend.
Due to its history and political aspects, China opened up to the 外国 only recently, and only recently its citizens have started to develop their individualities.

Orphans of the great classical culture we currently attribute to China, due to the Communism takeover, individuals are swimming today in a material culture that arrives from the West.

At a social level, any way that allows a Chinese individual to externalize and materialize its status is more then warmly welcome: without any attempt to being an expert, and knowing this leads us to unrightfully generalization, we could define this as an institutionalized social pattern.
2.2 Traveling: A Social Tool

**Traveling: the perfect tool**

- Allows to acquire luxury goods (at much lower price)
- Gives a chance to spread on social media photos taken during the trip

**Social repercussion**

- Material wealth is perceived as essential
- Share a story about oneself, defining at the same time the person.

Traveling, being a costly indulgence, perfectly sums up all the functions that can have an impact in defining and sharing a certain idea of status.
2.2 Traveling: A Social Tool

Self-definition

Social perception

Social appearance
- Apparels (jewellery, accessories)
- Travel

Connections
- Education
- Income
- Residing area
Now some analysis confronting costs among countries, which is fundamental in order to understand the perception of costs and expectations related to the connected products or services.
2.3 Perceptions and Expectations

## Food
- Extremely cheap in China
- Longing for home’s food
- Michelin restaurant

## Perceptions
- Much lower price than standard European counterpart
- Chinese restaurants in Europe are usually cheaper than its local counterpart, allowing to lower the travel budget
- Often requested. Good restaurants can be also very expensive in China
2.3 Perceptions and Expectations

Vehicles/ Transportation

- Extremely cheap in China
- Professionalism and standards
- Working hours, Taxes, Drivers’ food and lodging

Perceptions

- Much lower price than standard European counterpart (700rmb for a 8h Buick van in China vs around 400Eur in Italy as an example)
- Not really perceived
- Usually in Europe the food expense accounts for approx. 15-30 Eur – twice per day; in China can be around 3 to 6 Eur, even less; a simple accommodation in Europe starts at 60/80 Euros – whereas it can be as low as 8-15 Eur per night in China
2.3 Perceptions and Expectations

**Guides**
- Extremely cheap in China
- Professionalism and standards
- Guides and Tour Leader

**Perceptions**
- 60-80 Euros per day (400-600 rmb). Same price for 1h in Europe. Even more if specialized in Oriental languages
- Not really perceived
- A distinction not really clear for Chinese, that creates sometimes the feeling to be cheated (guides are more expensive than TL)
### 2.3 Perceptions and Expectations

#### Hotels
- Extremely cheap in China
- Design, Wide rooms
- Wi-fi
- Tailored service (Chopstick, chinese buffet, language)

#### Perceptions
- Comparison can be easily run: Milan city center 5* (Exclusive brand): 770Eur not high season (45smq); BJ similar conditions: 320Eur for 60sqm
- Due to urban planning and conservancy regulation EU hotels tends to have smaller rooms – many old hotels in minor destinations
- Often not available, or available at high price and by cable service
- Issue only for mass tourism, determine nonetheless preferencies
2.3 Perceptions and Expectations

Cost Perception

Experience evaluation

Service quality
Car Guide Hotel Food Special services

Appearance
2. Key Findings

KEY FINDINGS:

The holiday system as it is regulated so far undermines long-haul travels for Chinese rising middle class, and facilitates local tourism – some benefits are represented by the employee’s paid holiday system.

This preliminary picture already helps to understand the physiology of Chinese tourism divided by cluster, taking in consideration social class of the potential traveler and its free time.

We are used maybe to consider China as a developing Country – and this is true in some areas, but those are not the ones most of the travelers are coming from. Service-wise cities like BJ, SHA and generally first and second tier cities are much more contemporary and service-oriented than what we are used to in “Old Europe”.

We need to redefine the paradigm with which we measure service excellence.
3. The Demand: Chinese Customers

3.1 Influential Sources: Where Chinese Customers form their opinions
3.2 Daily Life Conditions – What do Chinese customers Value
3. The Demand: Chinese Customers

Self-definition and Social Status

Media

Social Perception / appearance

Double influence
Where do Chinese Customers form their opinions?

Media/ Social Media/ Movies
Chinese are very much influenced by Media and Peer2Peer communication (and Chinese ones mainly, as many non-Chinese media outlets are often restricted: while it may not be so hard to ”jump the wall” with VPN devices, language still represents an obstacle)

- TV
- Star System, VIP, Models, Actors, etc.
- Magazine
- Social Media Platforms/ online Users Generated Content
- Movies
- Foreign Trends
3.1 Influential Sources

**Influential factors (Input)**
- Magazine
- Influential People (Stars, role-models, actors)
- TV
- Movies
- Foreign trends
- Social Media Platforms (Weixin/Wechat, Weibo, Baidu, etc)

**Output**
- Social Sharing (Social Media)
- Social activities and sports
- Shopping items and attitude
- Value system
- Travel destinations and experiences
3.1 Influential Sources

Where do Chinese Customers form their opinions?

Media represents the fundamental key to reach them, and address new travel solutions, services, experiences.

*In a demand driven system, the only way to create a new trend is addressing the base.*

Destinations see periodically a **dramatic increase of incoming business** when featured by a movie for example (international or Chinese one): Venice with the Tourist, while Thailand or US jumped ahead in sales after local Chinese comedies were released.

**TV programs inviting stars traveling** are very popular, as well as **magazine covers** (as well as currently happens for the fashion industry): this detail is amplified by **social media** that have a wider impact and reach the VIP’s **millions**
3.2 Daily Life Conditions

What do Chinese customers Value?

Point to take into consideration: life standards

- How do these people live?
- What is it that they cannot stand in their daily life?
- What do they crave for?
- What worries them?

To whom this approach may look maybe too psychological, please consider life in megalopolis of +20 million people something to be out of scale is to be expected, as well a country-system that counts +1.3billion people.

Please consider the following examples:
3.2 Daily Life Conditions

What do Chinese customers Value?

BLUE SKY
One common concern for those living in Beijing is the pollution.
It is now my personal habit to check first thing in the morning the pollution level through an App linked to the American Embassy (which still is somehow more conservatory that the Chinese counterpart); not rarely before getting out of the door I wear my anti-pollution mask (not the one you see in the japanese movies, a REAL anti-pollution mask with replaceable filters) – and of course I do not turn down the air-purifiers almost constantly running at home.

In Milan the major is used to call the traffic to alt if the Pm10 reach 50.
January 2013 The American Embassy registered 755 AQI (Air Quality Index) e 886 Pm2.5(16) (source: US Embassy). Stating on 2014 following Chinese government request, they lower the maximum registration to 500 (which is marked as Hazardous; everything more is simply “Over Limits”)

• Do you believe a breath of fresh air would be highly considered, especially for the kids (summer camps, study abroad) or the elderly (retirement or medical holiday)?

This concern influenced for example the Maldives and the Polar Expedition product in an incredible way. (two destination of no interest previously for the Chinese market).
Reason why: Polar Ice and Maldives soon will not be there anymore – due to global warming / pollution effects.

The designers identified correctly what could be perceived as a unique witness opportunity, taking advantage of a daily experience very well known by the addressed cluster
What do Chinese customers Value?

Food Quality concern is another emergency in China. Almost daily are the news concerning milk manipulation and subsequently deadly poisoning, chicken fevers, pigs fevers that end in hundreds of carcasses floating in rivers contaminating water, water springs contamination by extractive mining operations, criminal use of exhaust oil by restaurants… the list goes on.

Mediterranean Diet is a UNESCO Intangible Heritage. For Example. Agritourism culture is well-developed in European countries as well as the Slowfood movement and attention to the origin of the products in general: as strange as it may seem to westerners…only very recently this concept start to make sense to Chinese crowds.
3.2 Daily Life Conditions

What do Chinese customers Value?

**Time:** Commuting time is a daily affair: we all have it in Paris, Barcelona, London, Rome – sure.

*Difference is...* Beijing city – officially – counts over 19 million people *(The municipality covers an area of 16.400km², as half Belgium)*

*Milan city: 1.3 million people*

Beijingers are expected to have a daily commuting time of about 2 to 3h (I am referring to city resident here)

Do not marvel that Europe represents an incredible opportunity for exploring more than 20 countries al together, or many cities/areas in the same country, *as time and distances are perceived differently: consider that traveling west from BJ by air - after a 4h flight you still are in China.*

**This may be considered an advantage for destinations and areas perceived from us as “remote”**
3. Key Findings

What do Chinese customers Value?

To analyze daily perception and issues of the market you are targeting may grant interesting facts and points of view that will be precious for attractive communication and travel designing. Cluster analysis may result in further breakthrough.

Data must be correctly interpreted – media are often driven by specific interests (i.e. client’s interest) – and a presence in the market so different in culture and daily experience can represent a fundamental step in order to individuate opportunities and address them correctly.
4. The Supply Chain: Market Players

4.1 Historical evolution of THE Chinese Tour Operator
4.2 The Market Players
4.3 Collaborating with Chinese TO: challenges
4.1 Historical Evolution of THE Chinese T.O.

Who is THE Chinese Tour Operator: CITS story

1954 – China International Travel Service is a Government department for non political contact among Countries: 12 offices

1964: Renamed CNTA (Chinese National Tourism Administration): political and tourism company activities were followed by the same people

1982: CITS and CNTA become 2 different entity (first related operatively to travel and the second on its political aspects)

1999: official separation, while CITS still belong to the government (even if financially responsible). At this time has 46 offices in China.

2001: no surprise, CITS in among the first 500 companies in China, and among the first 100 (1st for tourism) for revenue and profit

2012: Award from WBL (World Brand Laboratory – Chinese) for being no.1 in tourism industry in China (estimated Brand value of brand 22,56 billion RMB (2.685.580.000 Euro)

So quite a presence in the market – a fearsome colossus that luckily presents many soft spots (at least regarding some clusters which still represent a minor interest)
4.2 The Market Players

Tour Operators

- Demand Driven
- **Deals mainly with groups** (mass market mostly – with some exception)
- Low expertise – not able to sell, but only to supply a request
- Spread on the territory and **Solid Online presence** on social networks
- Often deal with Chinese counterparts abroad
- Price driven
- Selected cluster (mainly mass market)
- Very High mark up

Output

- No Innovation
- Due to the Low Expertise and Scarce Innovation deals mainly with groups – 1st time traveller
- Due to low prices are attractive for mass market, and allow people to obtain a group VISA (ADS requirement are less rigorous)
- Service is basic, while addressing the „luxury market“ mark ups insanely high, as still believe that paying high price is part of the luxurious experience (not true anymore, and not applicable when customer pays with their own money – i.e recent crisis concerning gov’t officials)
### 4.2 The Market Players

**OTA**
- Direct contact with service suppliers
- **Price driven**
- Cross-cluster
- **Very Solid Online** presence on social networks
- **Require high commission and lowest price on the market**

**Output**
- Good instrument for EU low season periods (holiday period are different), or developing destinations
- Suitable for Services and all kind of Accommodations
- Its value for customer reside in the **low price - beware**
4.2 The Market Players

**CLUBS**

- Looking for **different product related to their activity** in order to define further service for their members
- **Poor delivery** and sales capability
- **Selected Cluster**
- **Social network** presence
- **Insane mark up** or “access” fee to advertise the travel products

**Output**

- Good way to reach the intended cluster
- Poor delivery channels: cannot rely on them to guarantee a presence, and will need to promote the product by yourself and manage directly requests
- Insane mark up often reduces the chance of closing the file: Chinese way of bargaining, confidence based on connections, and local presence can help in sorting out viable deals
4.3 Collaborating with Chinese T.O. - Challenges

Keep your cluster in mind

We saw the passive attitude of the Chinese TO. Basically they will only ask you something that is clearly popular, and when for some reason they are not able to provide through the usual channel: i.e. is too original or new, or too specialized. In this scenario foreign operator may prevail and have space, while the mass market stays – and will stay – in their hand.

As exceptions to the last statement, and as example that anything can be done if communicated and designed correctly, I will bring out two cases in the following section.
4. Key Findings

While the OTA situation is self-explanatory and not substantially different from the west, the main characteristic to be taken into consideration concerning the Operator in my opinion is that they are demand driven – beside the obvious fact that their cluster is to be addressed correctly. Influencing this demand will be crucial.

Luxury is not sold online or through unprepared staff– anybody paying certain prices asks questions, wants to have a certain kind of service (that starts during the sales service, before the trip): Chinese operators at the moment do not - or are not willing to – have the preparation necessary to address this cluster

Local presence is therefore essential both to built up a fruitful relationship with players – in order to proper convey a product they need as demanded by their customers
5. Case Studies
Recently someone specifically and brilliantly designed two travel product that become a major trend in the Chinese market. Was able to do that taking into consideration the cluster of reference, the market player, and the customer perception.

Both made use of destination that were not popular, not logistically close to the country, and do not include ANY traditionally preferred activity by Chinese tourists.

From a design point of view and judging their success, simply two masterpieces.
5. Case Studies

MALDIVES EXAMPLE  “Maldives 6 night” travel package

taking a closer look the package is so formulated:

• 3 night Maldives (FB – Formula Club)
• 2 nights HK (no services – BB)
• 1 night inflight

This itinerary make use of 1 internal flight (almost low cost even if covering 2.000km, as BJ-HK case) and a short haul HK-Maldives

To a very competitive package price, they added value with a shopping opportunity (lower prices and tax refund in HK), and limited the time of sea experience- so to share on social networks - at minimum. (Chinese usually are not beach/sea lovers, and there is still a widespread unwillingness to get tanned)

• Simple to sell, low price, provide a story (or two) to tell, plus some new accessories to take home.

This happened in 2010. Today Chinese represent an very important market for Maldives: now airlines opened direct routes (before were not available, and Chinese Embassy was opened only in 2011) – and the destination became a routine one, while absent before.
5. Case Studies

POLAR EXPEDITION
Opposite approach from the previous example, the TO bet vast amount of resources both on logistic operation and media (we may maybe consider a possible forward-thinking financial support from the destination itself – so rare nowadays as usually a short-sight approach is in use, focusing on existing market alone and missing future opportunities):

The ice-breaker boat is pre-paid in full – a cost few operators can take lightly.

Then rooms are re-sold online or through t.o. network, or re-sold to others operators. What is promoted here is the uniqueness of the experience – and the price is competitive due to the buy-out operation (TO financial resources).

Very clever (and costly) was the sensibilization campaign making use of testimonials, and subsequent social web spread.

Something possible to do only with vast financial possibilities, that nonetheless created a new extremely successful destination, before absent on the market.
5. Case Studies

Few more word about the destinations attitude

By experience I confronted myself with an attitude that I found very bold: **to focus only on existing markets can be a short-sighted play.**

Tourism market works well when political and economical situation are stable, as is a third-tier industry. Recent events demonstrate that the wheel can have unexpected downturn, impacting negatively on occupancy and employment in destination that have solely a tourism vocation.

While few invest in communication and service modernization, and differentiate their markets, most seems satisfied with what naturally comes (i.e. bordering customers): anticipating the need could be fruitful to any destination, more than having the local promotion agency chasing markets after a slow occupation period.

When a new market’s tourists will arrive, those will be brought by somebody else – and the only remaining leverage to take them over will be price: a poor choice. So consider anticipating the need, and lead the change.
Conclusions
Previous Case Studies demonstrate that *having clear how the reference market works* makes wonders:

basically enable to sell the unthinkable, to people on the other part of the globe and not particularly sensitive to ecological issue (in the example case), convincing them to visit an empty nature – something completely opposite to the trend usually linked to the Chinese tourists.

**Power of communication:** make use of the right tools while knowing your target cluster.

*Now challenge yourselves to fill the gap between customers and existing offer, targeting clusters with products designed in a way that bears in mind their expectations, and keep yourself up-to-date about this constantly changing market!**
Q&A Session
Get Ready for China

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