The China Factor: Opportunities and Issues

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The Big Picture
World Trade and Tourism
A Shift in “Center of Gravity”

EUROPE

ASIA

NORTH AMERICA
World Tourism Trends

Economic growth -> Tourism growth

UNWTO Tourism Towards 2030: Actual trend and forecast 1950-2030
China Outbound Tourism
China Outbound Tourism (Number of Visits)

China Outbound Tourism (Expenditure)

Hong Kong, Macau and Taiwan account for 64% of outbound market

- Most popular “foreign” destinations are Korea, Japan, Europe and US
- 20% of all outbound tourists chose to travel to Korea (6.11 million), Japan (4.9 million) and Thailand (3.45 million)
- 7% went to Europe, North America, Australia, including 2.56 million to America, 1.48 million to Russia, 0.98 million to Australia, 0.92 million to Germany
Key Drivers for Growth of China Outbound Market

- Primary reasons: fast-emerging middle class, availability of affordable transportation, and policy changes
- Other factors for growth: favorable visa policy at destination countries, emergence of low cost carriers, “China friendly” consumption environment, increase in double income households, and emerging practice of taking vacations
- Majority of trips are short haul in nature but long haul trips are on the rise
- The new government policy in “Outline for National Tourism and Leisure 2013-2020” encourages workers to take paid annual vacation and it will further propel the growth of outbound tourism
- The middle and western regions, while lagging behind of coastal regions, show growth potential in years to come
- Prospects are rosy – 54% of Chinese travelers are young “post-80s generation”
Common Characteristics of Outbound Tourism Market

- Strong preference for organized group tours, mainly for reasons of cost and language
- Price is a determining factor in selecting lodging accommodation and restaurants
- Most desired goods for shopping are electronics and luxury brand items (without loyalty to any particular brands)
- Strong preference for Chinese (and Asian) food over western food
- VFR combined with leisure account for largest reasons for first time travel
Chinese Outbound Tourists Are Young, with 82.5% under Age 55

Age of Chinese Outbound Tourists

- <15: 8%
- 15-35: 17.5%
- 36-55: 31.5%
- >55: 43%
Four Largest Geographical Origins for Outbound Tourism

- 55.6% of travelling power are arising from 4 regions:
  - Huanbohai urban area (center: Beijing)
  - Yangtze River delta urban area (center: Shanghai)
  - Pearl River delta urban area (center: Guangzhou & Shenzhen)
  - Chengdu and Chongqing urban area in south west

- Travel Potentials Decreases from East to West
Four Major Sources for Outbound Tourists in China
Per Capita GDP in 2014, Top 10

1. Tianjin
2. Beijing
3. Shanghai
4. Jiangsu
5. Zhejiang
6. Inner Mongolia
7. Liaoning
8. Fujian
9. Guangdong
10. Shandong
Fastest Growing Destinations, 2015/2016

1. New Zealand
2. United States
3. Canada
4. Australia
5. Singapore
6. Italy
7. Thailand
8. United Kingdom
9. France
10. South Korea
11. Germany
Perceived Travel Constraints

Top 5 barriers of travel:

1. “The expenses of traveling overseas for pleasure are too high for me”
2. “I have work commitment”
3. “I have too many housework to do”
4. “I have a concern that the travel experience will not provide value for money spent”
5. “I have a concern that the travel experience will not provide personal satisfaction/self-actualization”

Source: Li (2007)
Key Motivators for Travel

Chinese outbound travelers are mostly motivated by:

1. Prestige and luxury experiences
2. Self-development
3. Novelty and knowledge
4. Exciting experiences
5. Escape and relax
6. Strengthening relationship

Source: Li (2007)
Major Players in China’s Tourism Market
Top 3 Tourist Agencies in China  
(CNTA, 2013)

Shanghai Spring International Travel Service Co., Ltd.
- Founded 1981
- Operator of LCC Spring Airlines
- Annual turnover of EUR857 million
- Comprehensive services for inbound, outbound and domestic travel services

CGZL International Travel Agency
- Founded 1980
- Largest travel agency in Southern China
- 185 direct sales points (outlets) in China with branch offices in Hong Kong, Macau and Malaysia
- Annual turnover of EUR558.7 million

China Youth Travel Services (CYTS) Tours Holding Co., Ltd
- Founded 1980
- Comprehensive travel services plus conferences and exhibitions and technical support plus travel related resources development
- 60 chain stores in China plus offices in Hong Kong, Japan and USA
Penetration Rate of China Online Travel Agent Market in 2015

- Online channel: 13.1%
- Non-online channel: 86.9%

2014 and 2015

Source: cctcm.com, Feb 2016
China’s Online Travel Agency Market Share, 2014
Main Players in China’s Hotel Industry

Top 15 China Hotel Groups

<table>
<thead>
<tr>
<th>Rank</th>
<th>Hotel Groups</th>
<th>Headquarters</th>
<th>Rooms</th>
<th>Hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Homeinns Hotel Group</td>
<td>Shanghai</td>
<td>296075</td>
<td>2609</td>
</tr>
<tr>
<td>2.</td>
<td>Jin Jiang International (Holdings) Co., Ltd.</td>
<td>Shanghai</td>
<td>231033</td>
<td>1520</td>
</tr>
<tr>
<td>3.</td>
<td>Huazhu Hotels Group Ltd</td>
<td>Shanghai</td>
<td>209955</td>
<td>1995</td>
</tr>
<tr>
<td>4.</td>
<td>Plateno Group</td>
<td>Guangzhou</td>
<td>195976</td>
<td>2112</td>
</tr>
<tr>
<td>5.</td>
<td>Greentree Inn</td>
<td>Beijing</td>
<td>108458</td>
<td>1219</td>
</tr>
<tr>
<td>6.</td>
<td>Vienna Hotels Group</td>
<td>Beijing</td>
<td>40512</td>
<td>155</td>
</tr>
<tr>
<td>7.</td>
<td>Eastern Grown</td>
<td>Shenzhen</td>
<td>30409</td>
<td>182</td>
</tr>
<tr>
<td>8.</td>
<td>Thank You Hotels</td>
<td>Guangzhou</td>
<td>24075</td>
<td>257</td>
</tr>
<tr>
<td>9.</td>
<td>99 inn</td>
<td>Qingdao</td>
<td>23813</td>
<td>428</td>
</tr>
<tr>
<td>10.</td>
<td><a href="http://www.podinns.com">www.podinns.com</a></td>
<td>Hangzhou</td>
<td>22287</td>
<td>387</td>
</tr>
<tr>
<td>11.</td>
<td>Shandong Inzone Tourism Group</td>
<td>Jinan</td>
<td>21605</td>
<td>312</td>
</tr>
<tr>
<td>12.</td>
<td>Wanda Group</td>
<td>Beijing</td>
<td>21405</td>
<td>199</td>
</tr>
<tr>
<td>13.</td>
<td>Jinling Hotels Group</td>
<td>Beijing</td>
<td>21083</td>
<td>68</td>
</tr>
<tr>
<td>14.</td>
<td>New Century Hotels and Resorts</td>
<td>Hangzhou</td>
<td>18859</td>
<td>67</td>
</tr>
<tr>
<td>15.</td>
<td>Jinling Hotels Group</td>
<td>Nanjing</td>
<td>16552</td>
<td>62</td>
</tr>
</tbody>
</table>

Source: Yingdie Consultancy company summarized from all hotel groups official website. Hotel numbers only include hotels opened before 1 January, 2015, not include pre-opening hotels

http://www.360doc.com/content/15/0425/09/23113663_465841282.shtml
Top 10 Hotel Groups in China

- Homeinns Hotel Group
- Jin Jiang International
- Huazhu Hotels Group Ltd
- Plateno Group
- Greentree Inn
- Beijing Tourism Group (BTG)
- Vienna Hotels Group
- Thank you Hotels
- Eastern Crown
- 99 Inn
- Others

Source: Yingdie Consultancy company summarized from all hotel groups official website. Hotel numbers only include hotels opened before 1 January, 2015, not include pre-opening hotels

http://www.360doc.com/content/15/0425/09/23113663_465841282.shtml
#### Top 20 China Tourism Groups

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ctrip.com International, Ltd.</td>
</tr>
<tr>
<td>2</td>
<td>Qunar.com</td>
</tr>
<tr>
<td>3</td>
<td>Jin Jiang International (Holdings) Co., Ltd.</td>
</tr>
<tr>
<td>4</td>
<td>HNA Group</td>
</tr>
<tr>
<td>5</td>
<td>Overseas Chinese Towns Enterprise Co.</td>
</tr>
<tr>
<td>6</td>
<td>Beijing Tourism Group (BTG)</td>
</tr>
<tr>
<td>7</td>
<td>China National Travel Service (HK) Group Corporation</td>
</tr>
<tr>
<td>8</td>
<td>Tongcheng Network Technology Co., Ltd.</td>
</tr>
<tr>
<td>9</td>
<td>CITS Group Corporation</td>
</tr>
<tr>
<td>10</td>
<td>Beijing Wanda Travel Holding Co., Ltd.</td>
</tr>
<tr>
<td>11</td>
<td>Jinling Hotels &amp; Resorts Corporation</td>
</tr>
<tr>
<td>12</td>
<td>New Century Tourism Group</td>
</tr>
<tr>
<td>13</td>
<td>Shanghai Spring International Travel Service</td>
</tr>
<tr>
<td>14</td>
<td>Guangzhou Lingnan International Enterprise Group Co., Ltd</td>
</tr>
<tr>
<td>15</td>
<td>Hangzhou Tourism Group</td>
</tr>
<tr>
<td>16</td>
<td>China CYTS tourism holdings Co., Ltd.</td>
</tr>
<tr>
<td>17</td>
<td>Shandong Inzone Tourism Group</td>
</tr>
<tr>
<td>18</td>
<td>Anhui Tourism Group</td>
</tr>
<tr>
<td>19</td>
<td>Beijing Utour International Travel Service Co., Ltd.</td>
</tr>
<tr>
<td>20</td>
<td>Dalian Haichang (Group) Co., Ltd.</td>
</tr>
</tbody>
</table>

International Expansion of Chinese Hotel Companies
(e.g. HNA Hospitality Group, Plateno Group, and Shanghai Jinjiang International Hotels)

- New challenges with further growth of domestic market
  - Rising operational cost
  - Rising labor cost
  - Difficulty of acquiring talents
- Strategies to extend life cycle in new marketplace by employing both asset-light vs. asset-heavy strategies
- “New brands, New Life”: e.g. 7 Days brand vs. H12 and Maison Albar for Plateno Group
- Attempts for localization of management and operational team
- Chinese tourists as a supplement but not necessarily as the main source market
- Jinjiang Hotel in Seoul – Chinese account for 70%+ market

Source: Travel Daily: http://www.traveldaily.cn/article/91998
Acquisition of Trophy Properties

- Jiinjiang International Holdings’ acquisition of Louvre Hotels Group in 2014.
- Anbang Insurance Group’s acquisition of Waldorf Astoria
- Kai Yuan Holdings’ acquisition of Marriott Hotel Paris

Challenges:
1. Post-merger/acquisition management challenges
2. Unclear positioning strategies
3. Cultural and language differences

Domestic Tourism
China Domestic Tourism (Number of Visits)

China Domestic Tourism (Expenditure)

Billion RMB

Domestic Tourism

• Growth slows down since 2013
• The percentage of travel spending as percentage of total income is decreasing
• Destinations in East China are still popular
• Most popular domestic destinations continue to be:
  • Vacation: Sanya
  • Urban destination: Beijing, Shanghai
  • Sightseeing: Xi’an, Huang Mountain, Zhangjiajie, Hulunbeier
  • Life style: Xiamen, Chengdu, Lijiang
  • Travel around / car driving: Yantai, Suzhou, Hangzhou

Global Hotel **Construction**
*Asia = nearly 50% in Pipeline*

Total of 508k Rooms Under Construction in STR Database

Source: STR
Added Hotel Room Supply by Countries & Phases

*China = nearly 60% of Asia Pipeline*

In thousands

- Countries shown with existing number of rooms in thousands,
- Number of rooms under construction indicated on graph, in thousands

New Zealand (39)
Taiwan (53)
Singapore (54)
South Korea (55)
Australia (241)
Vietnam (47)
Japan (439)
Phillipines (42)
Thailand (166)
Malaysia (113)
Indonesia (144)
India (199)
China (1,642)

Source: STR
Inbound Tourism
China Inbound Tourism

• The number of inbound tourists was 128 million in 2014
• 79.4% are from Hong Kong / Macao / Taiwan
• “Foreign” inbound tourists stood at 26.36 million.
• The top three “foreign” source markets are Korea, Japan and USA
## Main Purpose of Travel by Inbound Foreign Tourists

<table>
<thead>
<tr>
<th>Year</th>
<th>Number (millions)</th>
<th>Business</th>
<th>Sightseeing</th>
<th>Visiting Relatives</th>
<th>Service</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>22.21</td>
<td>5.45</td>
<td>11.33</td>
<td>0.17</td>
<td>2.09</td>
<td>3.07</td>
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<tr>
<td>2007</td>
<td><strong>26.11</strong></td>
<td>6.96</td>
<td><strong>13.15</strong></td>
<td>0.08</td>
<td>2.33</td>
<td>3.60</td>
</tr>
<tr>
<td>2008</td>
<td><strong>24.33</strong></td>
<td>5.68</td>
<td>12.04</td>
<td>0.07</td>
<td>2.43</td>
<td>4.11</td>
</tr>
<tr>
<td>2009</td>
<td><strong>21.94</strong></td>
<td>5.33</td>
<td><strong>10.13</strong></td>
<td>0.08</td>
<td>2.27</td>
<td>4.21</td>
</tr>
<tr>
<td>2010</td>
<td>26.13</td>
<td>6.20</td>
<td><strong>12.38</strong></td>
<td>0.09</td>
<td>2.46</td>
<td>4.99</td>
</tr>
<tr>
<td>2011</td>
<td>27.11</td>
<td>6.33</td>
<td><strong>12.22</strong></td>
<td>0.11</td>
<td>2.69</td>
<td>5.76</td>
</tr>
<tr>
<td>2012</td>
<td><strong>27.19</strong></td>
<td>6.28</td>
<td><strong>11.63</strong></td>
<td>0.11</td>
<td>2.86</td>
<td>6.31</td>
</tr>
<tr>
<td>2013</td>
<td><strong>26.29</strong></td>
<td>6.19</td>
<td><strong>10.12</strong></td>
<td>0.20</td>
<td>3.20</td>
<td>6.58</td>
</tr>
</tbody>
</table>
Challenges in Marketing China As a Destination

• Air pollution, food safety and personal safety are top three inhibitors according to a survey in 23 markets
• Language and communication is another major issue
• New Challenges for growth of inbound tourism industry

Source: Tourism Public Opinion Think Tank of China
In the Key Words for China Tourism Industry at China Tourism Industry Convention

2013
• Clear your plate campaign（光盘行动）
• I’ve been here（到此一游）
• “Daddy, where are we going?”（爸爸去哪儿）

2014
• Malaysia Airline flight (马航失联)
• Alitrip (阿里去啊)
• Acquisition (并购)

2015
• Toilet revolution (厕所革命)
• Tourist blacklist (游客黑名单)
• Tourism entrepreneurs (旅游创客)
Potential to Learn from Other Asian Experiences
Culture (文化 Wénhuà)
DEVELOPMENT OF QUALITY IN TOURISM AND HOSPITALITY

Business

Home

Society

Educational Institutions
The Service Culture
“Asia-ness” or “Asian-ness”

• “Asia-ness” or “Asian-ness” can be explained by unique, distinctive or specific characteristics peculiar to “Asia” and “Asian” people and society

• Related to socio-cultural values and history
Shangri-La Hotels

Asian Hospitality from Caring People

Shangri-La Hospitality from Caring Family
Hospitality in Socio-cultural Context

In Asia, traditional rituals such as Thai *wai* and bowing are blended in the service model.
“Shangri-La Hospitality basically covers what we do in Asia. Within each country, you need to **adapt to the local requirements**... In Thailand it is normal for a service employee to serve you tea or coffee on one knee. In the Philippines, this is a big no-no. Similarly, in most countries, staff would normally walk in, serve the tea, turn their back, and walk out. Japanese expectations, however, are that you walk in, serve the tea, and walk out facing the guest. It is the little things like that you need to pick up from each culture ... We have to be individualistic in each of our cities but still maintain our strong brand integrity” (Campbell and Kazan, 2008).
The “Starbucks Effect”

- One coffee store chain changed the world of coffee industry
- Lessons we learned…
Points to Ponder...

• Chinese tourists behavior is contextualized in the Chinese cultural value
• Travel has become part of ordinary people’s life
• China is transferring from mass market to special interest market
• Different market segments emerges.
  • Domestic tourism in China: Leisure, vacation, education, lifestyle
  • Outbound tourism in China: Novelty, learning, education
  • Special interest groups
  • Specific market segments
• Marketing through social media platform is crucial for the success of business
Thank you!