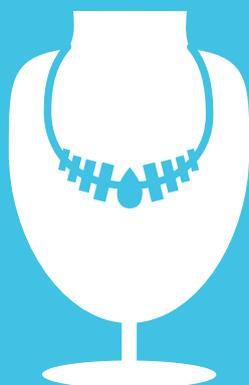
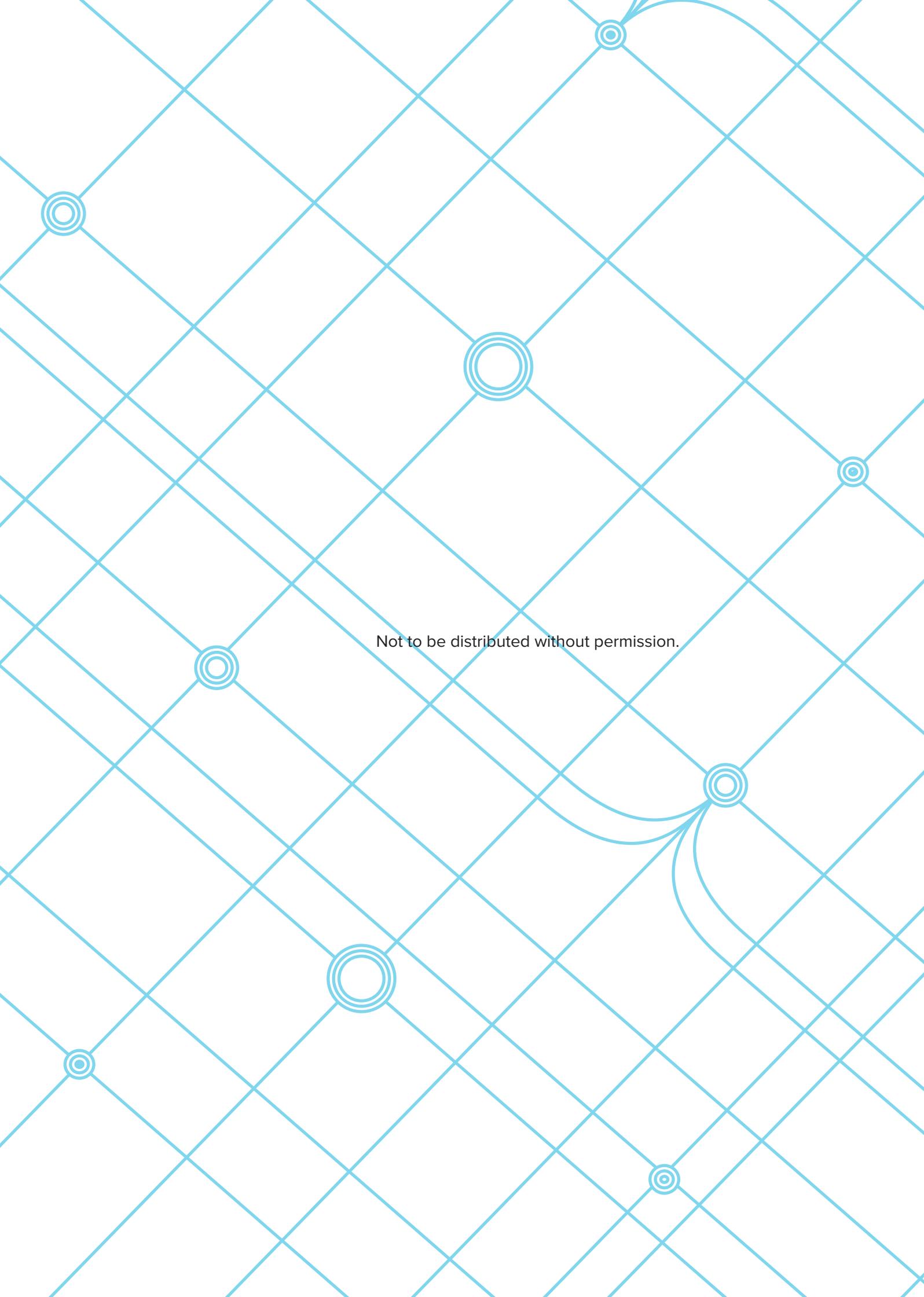


How to Target Chinese Shoppers Abroad





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HOW TO TARGET CHINESE SHOPPERS ABROAD

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INTRODUCTION



All eyes are firmly on China. The country is the world's second largest consumer market, having overtaken Japan in 2011 in terms of consumer expenditure at current prices with fixed 2015 US\$ exchange rates. As a result, China has emerged as the market to watch.

However, it's not just the expenditure of Chinese consumers on the domestic market that's turning heads. We are currently witnessing what many observers have dubbed the "Golden Age of Travel" for China, and the rise of Chinese shoppers is having a ripple effect on destinations around the world. From luxury sales across Western Europe, North America and the Asia-Pacific region, to the more quotidian, sales of diapers / nappies, infant formula, cosmetics and vitamins in Japan and Australia, the impact of Chinese tourists injecting a new vitality into stagnant and even declining FMCG categories has been significant. With reports of supermarket shelves being stripped bare, and even the Japanese coining a new term, bakugai, for the "explosive buying" impact of Chinese tourists on the domestic market, Chinese tourists are clearly having a positive impact on not just travel brands' revenues, but also on a diverse range of international retailers and manufacturers' bottom-lines.

Throughout this white paper, Euromonitor International will outline the position of the Chinese government towards tourism, the simplification of the visa process for Chinese travellers by many destinations featured in the analysis and explain the allure of shopping abroad in terms of attractive pricing and duty-free incentives.

The white paper spans a number of geographies across Asia, Western Europe, North America and Australasia, featuring articles from local analysts best placed to assess the impact of Chinese shoppers on various domestic markets and additionally assess the success—or otherwise—of measures by governments and retailers to facilitate commerce between local vendors and tourists from China.



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CHINESE SHOPPERS VIEWED FROM CHINA



Increased enthusiasm for travel among Chinese people

Travel has become a core aspect of Chinese consumers' new and more prosperous lifestyle. China has enjoyed strong economic growth the past few decades and, with that, a growing middle class has emerged. This growing economic class has come with a booming desire to allocate more time and budget on travel, especially outbound and international tourism, resulting in astronomical growth in the number of trips and expenditure taken by the Chinese.

Their enhanced confidence and interest to travel abroad stems from the gradually disappearing language barrier, as well as online research and booking options. Meanwhile, the continuous appreciation of Chinese yuan over the review period during 2010 and 2015 reduced the expense of outbound trips to some extent, encouraging more Chinese consumers to travel internationally. In addition, ever-expanding numbers of international airlines across mainland China, in line with the accelerated construction of international airports, contributed to the strong momentum for outbound trips. Furthermore, intensified competition among travel agencies, particularly online travel agencies (OTAs), introduced a price war and improved pricing transparency, benefitting consumers and growth of travel.

The huge efforts from the destination countries that Chinese tourists travel to have also been a key driving force behind the healthy development of outbound trips. In view of the mounting demand of outbound tourism from China, many destination countries have adjusted their visa application policies, such as decreasing visa fees, simplifying visa application procedures by speeding up and reducing the documentation required, opening more application centers and providing longer term multi-entry visas for regular visitors. Moreover, an increasing number of retailers in the destination countries have started to employ tour guides and salespeople who can speak Chinese to cater to and better serve Chinese tourists.

Popular destinations mainly concentrate in Asia

Asia has been dominating China's outbound tourism market. This can be mainly attributed to the relatively fewer differences in culture and tastes, lower travel costs, more convenient and short-haul transportation and less jet lag.

Hong Kong and Macau are the two most popular destinations for Chinese tourists thanks to the geographical closeness, delicious food, various attractions and wide choice of products with competitive prices for shopping. Since 2014, both cities face pressure from the protests from Hong Kong local residents, Occupy Central. The protestors demand more autonomy from the Chinese government, and are protesting against Chinese shoppers looking to benefit from VAT discounts by emptying the shelves of local shops. This has led to a significant decline in Chinese tourists visiting Hong Kong. On the other hand, the Chinese government started to clamp down on some of the illegal activities such as money laundering associated with the gambling industry in Macau, which has decreased the amount of travel by rich Chinese tourists to the area. Consequently, other popular Asian destinations such as Japan, South Korea and Thailand have benefited from the decreasing popularity of Macau and Hong Kong. And as Chinese tourists become more adventurous with their growing travel frequency and focus more on the recommendations from friends and relatives, they are shifting travel interests to newly rising destinations with consistent and maturing tourism facilities and significant shopping opportunities. However, some negative factors such as political instability in Thailand and health threats such as MERS in Korea strongly affected the decisions of Chinese tourists due to safety concerns.

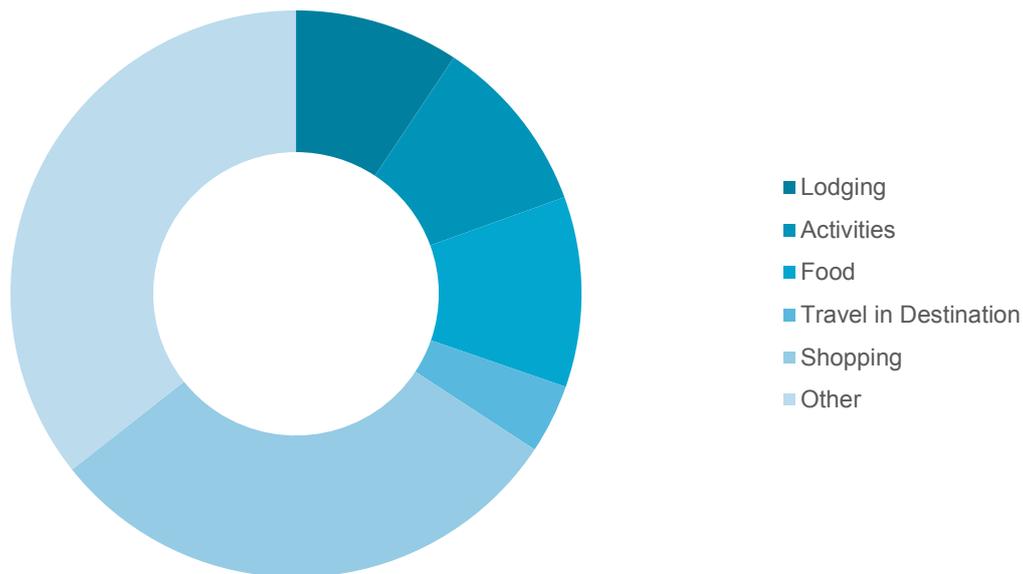
Some European countries and the United States have also been gaining in popularity, thanks to the presence of outstanding natural parks, numerous cultural activities, art and atmosphere, as well as the variety of cities and places to visit.

Shopping is the top priority for Chinese tourists

Since 2012, China has been the country with the highest outbound expenditure in the world, overtaking the US and Germany. Unlike other leading countries whose tourists concentrate spending more on lodging, Chinese tourists spend the majority of their budget on shopping and other expenditures such as gambling. These spending patterns are apparent when looking at the top destinations for Chinese travellers.

Chinese outbound tourists are very open to conspicuous consumption and normally consider shopping, especially designer outlets, as an essential element of the trip. Luxury brands covering categories from watches, jewellery, bags and apparel are the key targets for Chinese consumers owing to the huge price differences and wider product collections available in overseas markets. In addition, some domestic beauty and personal care brands from South Korea and Japan such as Sulwhasoo and Clé de Peau Beauté also rank at the top on their shopping list.

Chinese Tourists Outbound Expenditure in 2014



Source: Euromonitor International

Dynamic growth expected in the forecast period

Travel is becoming the “norm” for Chinese families despite the potential and impending economic downturn, which is unlikely to have a significant impact on Chinese travel rates. Outbound tourism is expected to continuously register healthy growth over the short- to mid-term future, due to the steady increase in the disposable income of Chinese consumers, along with their increased willingness to travel abroad. The strong support from the Chinese government including better infrastructure in second- and third-tier cities, added flight capacity to international destinations and the recently launched 2.5-day-weekend campaign where state-owned and privately-held companies receive incentives if they allow workers to take leave in Friday afternoon, will further promote outbound tourism.

Continued changes in consumer demand and spending behaviour are projected to be seen in the short- to mid-term future. Growth in the number of tourists in small groups, such as singles and couples, is likely to outpace growth in the number of larger groups, such as families and tour groups, because young Chinese tourists prefer a higher degree of flexibility. Consumers will focus more on planning and preparing their travel arrangements, as well as the quality and details of the products and services, rather than worrying about prices. Chinese consumers are also likely to purchase general merchandise such as toothpaste, electric cookers and other necessities in the department stores and supermarkets of their travel destinations, due to the high quality of these products manufactured in the destination countries and lower prices compared with China.

With the ambitious expansion and penetration of China UnionPay credit cards globally, more overseas merchants will not only accept China UnionPay cards, but also offer exclusive discounts for payments via China UnionPay to attract more Chinese consumers. Retailers in destination countries could put more effort towards enhancing Chinese visitors experience such as hiring staff who can speak Chinese, delivering purchased products to hotels or airports and tax refund services to attract more Chinese consumers. In addition, retailers also need to cater to the changing shopping demands and habits of Chinese consumers to including changing preferences of luxury brands and their shift to purchasing general merchandise for daily life.

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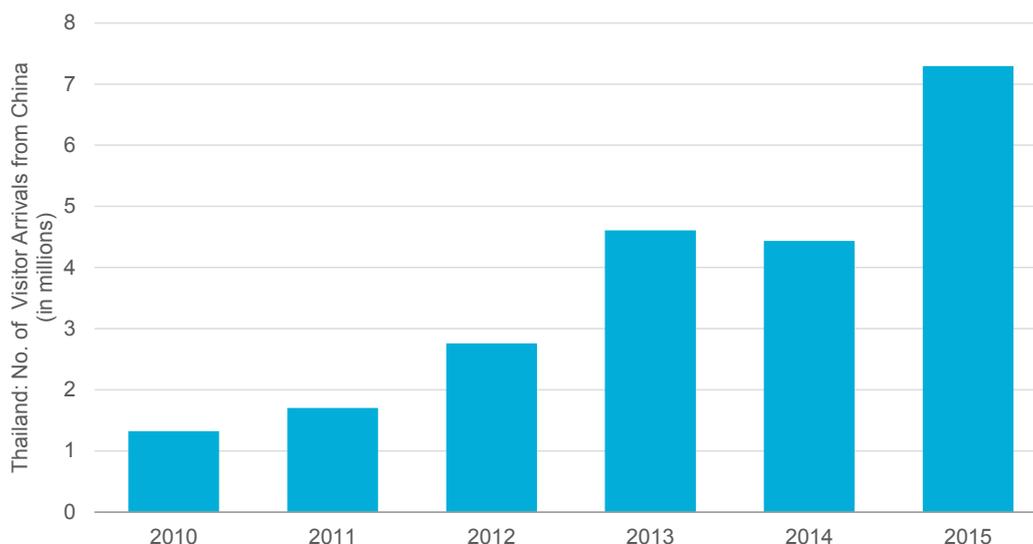
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CHINESE TOURISTS IN THAILAND



Thailand's popularity as a travel destination among Chinese tourists

Thailand has been experiencing exponential growth in the number of arrivals from China since 2010, reaching 4 million arrivals in 2014 and nearly doubling in 2015 with seven million Chinese tourists. This is all despite the Erawan Shrine bombings in Bangkok in August 2015. Thailand's surge in popularity among Chinese tourists can be attributed to the increasing transportation options to the country, as well as the growing awareness of Thailand as an ideal destination for nature, culture and entertainment. Moreover, a Chinese comedy box-office hit in 2012, "Lost in Thailand", drew much attention to the country. The comedy follows the adventures of two scientists and a tourist as they explore Thailand. It showcased Thailand's scenery and culture and piqued the interest of Chinese viewers, driving sharp growth in visitor arrivals.

Thailand: No. of Visitor Arrivals from China 2010–2015

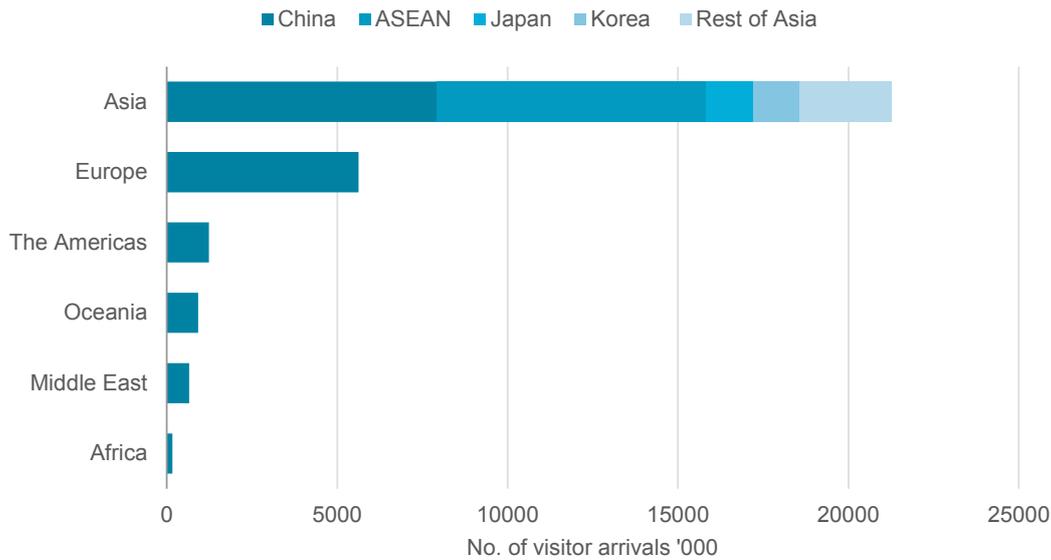
Source: Euromonitor International

Note: Data for 2015 from Department of Tourism, Thailand

Importance of Chinese tourists to Thailand's economy

Tourism plays a significant role in Thailand's economy, accounting for an estimated 9% of GDP in 2015. China clocked in the highest number of visitor arrivals, composing 27% of international arrivals. In comparison, the rest of ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore and Vietnam), made up 26% of international arrivals. Chinese tourists are also the main contributors to tourism receipts, raking in 189 billion baht in 2015. These numbers demonstrate the heavy reliance Thailand's tourism and economy has on Chinese tourists and the opportunities businesses have to tap into the potential of this market.

Thailand: No. of Visitors by Country-of-Origin 2015



Source: Department of Tourism, Thailand

Modes of transport and popular destinations

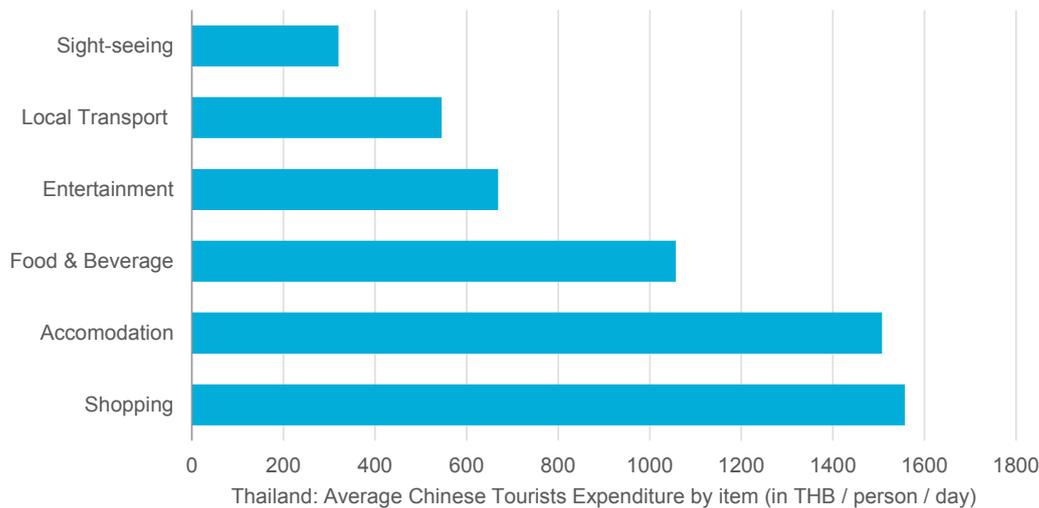
The majority of Chinese tourists enter Thailand through air transport. Suvarnabhumi Airport in Bangkok serves as the primary international airport, although the other 11 commercial airports see frequent visits from Chinese tourists as well. A growing portion of Chinese travellers have also been driving to Thailand from Yu Nan since the opening of the Kunming-Bangkok road in 2008.

The most popular destinations among Chinese tourists include Bangkok, Chiang Mai and Phuket. Bangkok's growing prominence as a shopping haven feeds the need for Chinese tourists' favourite brands and products and also offers the best of city life and entertainment. Chiang Mai has seen an influx of Chinese tourists seeking to replicate the experiences they watched in "Lost in Thailand", which was filmed there. The culturally-rich city houses historical temples and hill tribe villages. It is also an ideal destination for nature lovers, boasting mountains, caves and waterfalls. Phuket and its outlying islands, such as Phi Phi Islands, draws Chinese tourists year after year. Beach getaways are a favourite among tourists and Chinese tourists are no exception, taking to the clear waters and limestone formations of Phuket.

Consumption of luxury and fashion

Shopping ranks as a high travel priority and is the main expenditure item among Chinese tourists in Thailand. Shopping brings in more tourism dollars than accommodation, food, sight-seeing, entertainment and transport as Chinese tourists prefer to spend on tangible material possessions which they can bring home.

Thailand: Average Chinese Tourists' Expenditure by item



Source: Department of Tourism, Thailand

Luxury and fashion items contribute the lion's share of shopping receipts from Chinese tourists. Chinese consumers pay close attention to status and wealth and sought-after luxury and fashion items reflect this. They also prioritise value over style, and seek good deals in hopes of making their money's worth. Bangkok's success as a shopping destination among Chinese tourists is due to the city's ability to serve both needs, offering a multitude of local and international fashion brands across a diverse range of price points and a variety of choices for shoppers. Luxury shopping centre Siam Paragon, located conveniently at the heart of the city, sees high foot traffic from Chinese tourists frequenting Louis Vuitton, Dior, Cartier, Burberry and Rolex amongst many others. Thailand offers luxury goods at a more competitive price, approximately 10–20% cheaper than China, since China imposes higher taxes on these goods. As such, Chinese consumers splurge on luxury when travelling to Thailand. On other end of the price spectrum, Platinum fashion mall carries apparel and accessories at wholesale prices and is a hotspot for Chinese tourists looking for a bargain. Weekend markets and night markets, such as Chatuchak market and Rod Fai market, showcase pop-up stores which liven up Bangkok's retail environment and draw in crowds of Chinese tourists as well. Few cities in Asia are able to rival Bangkok as an ideal shopping destination, given the diversity in its offering.

Moving forward: Adapting to changing Chinese consumption habits

Typically, as an economy transitions from rapid industrialisation to a stable, modern society, societal values and consumption habits undergo a transformation. Chinese consumers, especially millennials who are the main demographic segment embracing travel, are likely to shift away from materialism to embrace experientialism and self-expression instead. As such, businesses in Thailand must be fast in adapting to the changing needs of Chinese tourists.

As of now, changing consumer behaviours of Chinese millennials have been taking root in the luxury industry and impacting it slowly but surely. Logo fatigue has crept in among some Chinese tourists, causing them to turn away from brands which have lost their exclusivity, dubbing them “brands for secretaries”. These brands often ride on conspicuous logo designs and have grown far too common, losing their appeal among Chinese consumers who no longer perceive them to be as luxurious as they once were. Instead, these consumers are beginning to seek niche brands like Saint Laurent and Céline which have more subtle designs. Thus, luxury brands must maintain an aura of mystique and exclusivity to retain Chinese tourists. They must abstain from becoming too accessible, even if it is a trade-off from expanding their consumer base and increasing sales, as this strategy would prove unsustainable in the long-run. In addition, Chinese consumers have begun placing greater value on luxury experiences, be it luxurious travel, gourmet dining, perfume-making or art auctions. To cater to this need for experiential luxury, brands such as Berry Bros & Rudd, a luxury wine and spirit merchant, offered wine-making experiences in France to Chinese consumers. Furthermore, Louis Vuitton’s maison shop in Shanghai has an invitation-only floor designed as a private residence where consumers can pamper themselves while waiting for customised merchandise from the brand. As consumers changing consumption of luxury consists not just of the product, but the experience, in-store experiences would be increasingly valued by the wealthy Chinese tourists. Luxury brands have to invest in innovation for in-store concepts to ensure customers derive value when purchasing the brand. For example, Christian Dior incorporated virtual headsets, Dior Eyes, in its stores for consumers to have a 3D experience of its runway shows.

Instead of flocking to international fashion brands and purchasing apparel, accessories and footwear in bulk, this shift in consumer behaviour would mean future Chinese tourists will prefer purchasing unique fashion items for the purpose of individual expression or as a memento of their travel experiences. Although international brands such as H&M and Zara see high traffic volume from Chinese tourists in Thailand currently, the opening of these stores in their home cities in China will soon drive them to seek brands and goods unique to Thailand instead. Thus, local brands should leverage this to attract Chinese tourists. Local designers should innovate in their designs instead of imitating Western fashion readily available in international stores. NaRaYa, a Thai fabric brand, exemplifies this and has been a hot favourite among Chinese tourists. NaRaYa positions itself as a textile expert and creates handbags, accessories and home décor in a wide selection of unique fabric designs that are carefully chosen and boasts superior quality. It even has a Chinese New Year Collection which appeals to Chinese tourists, especially since peak travelling seasons like December are close to the Lunar New Year. On the other hand, fast fashion brands hoping to continue to rake in money from shopping tourism should develop product lines unique to Thailand. This would appeal to Chinese tourists who are fans of the brand and would like to bring home a souvenir. For example, Victoria's Secret's Pink has its own limited edition Hawaii line in Honolulu, offering hoodies, tops and yoga pants with pineapple and palm tree prints or cultural-specific slogans. It has been a hit among Chinese tourists in Hawaii and similarly, brands can adopt this approach for Thailand.

Outlook: Chinese tourists in Thailand

China's economic turmoil poses ambiguity for the tourism industry. However, there is reason to believe that despite the uncertainty in China's economic outlook, travel would continue to persist. The underlying desire to travel is becoming a growing priority for the Chinese. Despite the sharp devaluation of the Chinese currency in 2015, Chinese tourists were unfazed, recording growth rates in Chinese outbound tourism and almost doubling in visitor arrivals in Thailand. In coming years, Thailand is likely to remain a favourite destination among Chinese tourists due to the easing of visa regulations in November 2015 and a joint Thailand-China railway due to be completed in 2020. The outlook for Chinese tourists in Thailand remains optimistic and businesses must take advantage of this opportunity and be quick in adapting to their needs.



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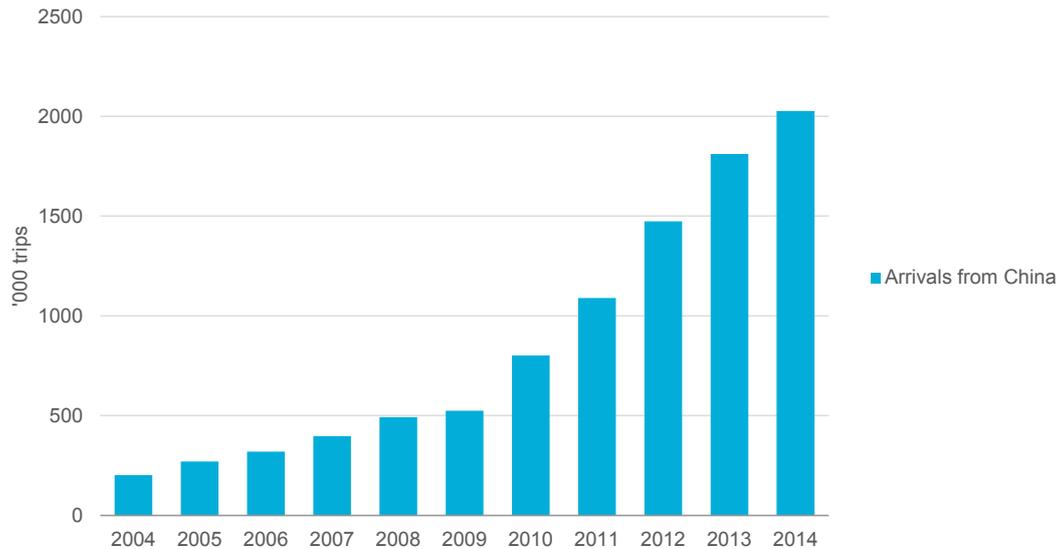
CHINESE TOURISTS SPEND BIG ON US LUXURY GOODS



Chinese tourists to the US continue to grow

Over the past five years, the number of Chinese tourists visiting the US has grown steeply. The number of arrivals from China reached over 2 million trips in 2014, more than double the number that visited in 2010. China's robust economic growth, particularly over the past two decades, has fuelled a growing middle class with increased disposable income and many newly wealthy Chinese chose to travel overseas.

In order to attract more Chinese visitors, the US relaxed visa requirements and improved visa processing procedures for Chinese visitors in 2014. The validity of tourist and business visas has been extended from one year to ten years, and student and cultural exchange visas also have been extended from one year to five years. These governmental initiatives for visas have also contributed to the growth of arrivals from China to the US.

USA: Arrivals from China, 2004–2014

Source: Euromonitor International

The US has become one of the favourable destinations for Chinese travellers to visit, as the country offers a wide range of attractions such as national parks, beaches, mountains, amusement parks, museums, shopping and dining. Within the US, New York, San Francisco, Los Angeles and Las Vegas are major destinations for Chinese visitors. Chinese visitors enjoy visiting these cities as they can experience any number of world-class activities. Also, cities like New York and San Francisco have large Chinese populations, including many Chinese students studying there, thus increasing their appeal as destinations for Chinese tourists looking to visit their family and friends.

As the number of arrivals from China increased, total expenditure by Chinese tourists has also grown. Euromonitor International's travel and tourism research estimated total Chinese tourists receipts reached US\$6.2 billion in 2014, a growth of 142% from 2010. Chinese tourists are now the 6th largest spenders by country of origin in the US inbound tourism market.

After this period of unprecedented tourism growth from China, the pace of Chinese tourism is expected to continue growing, albeit at a reduced pace, in the next five years, which is largely attributed to the strong US dollar and a slowing Chinese economy. Arrivals from China are expected to see a CAGR 6% growth or by 0.7 million trips in 2014–2019, compared with CAGR 31% or by 1.5 million trips in 2009–2014.

Authenticity, cheaper prices and wider product availability of luxury goods lure Chinese shoppers

Despite slower growth in the number of visitors, affluent individuals from China will continue to enjoy visiting the US as they want to buy genuine products rather than counterfeit products, which are often sold in their home countries. In addition, China's high import taxes make purchasing luxury goods more expensive, while US prices are lower by comparison. According to Euromonitor International's luxury goods 2015 pricing data, the retail price of the Tiffany & Co Open Heart necklace by Elsa Peretti sold through Tiffany & Co retail stores was US\$1,450 in the US, compared with US\$2,295 in China, a 45% difference between two countries. This is not only within jewellery, as a price difference is also seen in other product types like apparel and handbags. Furthermore, the wider product availability at US stores appeals to Chinese tourists, as they are able to buy unique goods that may not be available in their home country. These factors are especially important for domestic luxury brands looking to attract wealthy Chinese tourists in the US.

Retail strategy for targeting Chinese visitors

To capitalise on the growth of Chinese arrivals to the US, luxury retailers and department stores have strengthened their efforts to make shopping more comfortable and convenient for Chinese visitors. For example, luxury brands including Louis Vuitton, Gucci and Chanel have placed a greater emphasis on hiring multilingual sales staff who are able to communicate with customers in Mandarin and Cantonese. While a language barrier is a big problem for foreign visitors, having staff speaking their native language allows customers to feel more comfortable shopping. Luxury department stores like Saks Fifth Avenue, Neiman Marcus, Barneys New York and Nordstrom are accepting China UnionPay credit cards to offer Chinese travellers shopping with ease and convenience. The duty-free chain, DFS Galleria, is carefully monitoring and analysing popular products for Chinese shoppers and changing their product selection accordingly. As gift-giving is an important part of Chinese culture, DFS Galleria also offers a list of gift ideas on the website to help tourists to find suitable gifts / souvenirs from the US. Real estate companies that own outlet malls are working with Chinese tour operators to schedule a stop to their outlet malls in group tours to welcome more Chinese tourists.

Traditional Chinese holidays are also an important period for retailers to offer special marketing campaigns. In 2015, Bergdorf Goodman and Bloomingdale's set up a themed display for Lunar New Year, while luxury brands like Dolce & Gabbana and Mulberry created a special edition of dresses and bags to commemorate the Chinese New Year.

Social media and social networking

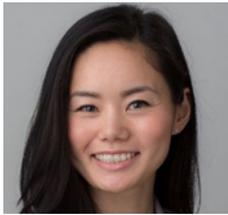
With the rising population of internet users in China, and Chinese people increasingly utilising social media and social networking, luxury brands are focusing on developing online marketing to attract Chinese luxury shoppers. Instead of waiting for tourists to arrive in the US, luxury brands are making efforts to interact with Chinese tourists before they come to the US, and encourage them to schedule their visits to the stores in their trip. Weibo and WeChat are some of the most influential social media and social networking platforms in China, and many luxury brands have their accounts to communicate with Chinese users. Luxury department stores, like Bergdorf Goodman, which does not have stores in China, are taking advantage of creating Weibo accounts in China to increase brand awareness and promote their retail stores as the best destinations to shop during visits to the US.

A referral program may be a great promotional campaign to take advantage of consumer preference in interacting and sharing their experiences with friends and families through various social media and social networking. Offering a special promotion through referral programs will encourage existing brand fans to refer the brand to their family and friends, while a referral program will help the brand to reach out to new and potential customers.

Outlook

The number of arrivals from China is expected to continue growing over the next five years. Thanks to a variety of tourist attractions that cities can offer to foreign tourists, major cities in the US will still draw foreign tourists. The relaxation of visa rules will welcome more Chinese visitors to the US. Also, the number of Chinese students studying in the US continues to increase. According to the Open Doors report by Institute of International Education, China sent 304,040 students to study in the US in 2015, compared with 127,628 students in 2010. This number is seeing its tenth consecutive year of growth, and China is a top source of international students, representing 31% of total international students studying in the US in 2015. The number accelerated as individual wealth in families increased and the generations born and raised under the one-child policy are now college-educated adults. As more students from China choose to study in the US, more Chinese have incentives to come to visit family and friends studying or living abroad in the US. Unlike the average leisure tourists, they tend to come for extended holidays over the New Year and during Chinese traditional holidays.

The growth of Chinese visitors to the US will continue to give retailers a boost. Luxury retailers will need to make a sustained effort to attract Chinese luxury shoppers and to make tailored shopping experiences for these highly coveted tourists. Retailers will keep on hiring multilingual staff and accepting China UnionPay cards to allow Chinese tourists to shop with ease and convenience. While more Chinese tourists have experiences shopping luxury goods, offering exclusive luxury brands that are only available in the US will largely help attracting Chinese luxury shoppers who are looking for something new and different. While Chinese tourists will increasingly use the internet to plan a trip, active promotional campaigns through social media will be an important channel of marketing over the forecast period.

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FRANCE: KEY DESTINATION FOR CHINESE SHOPPERS

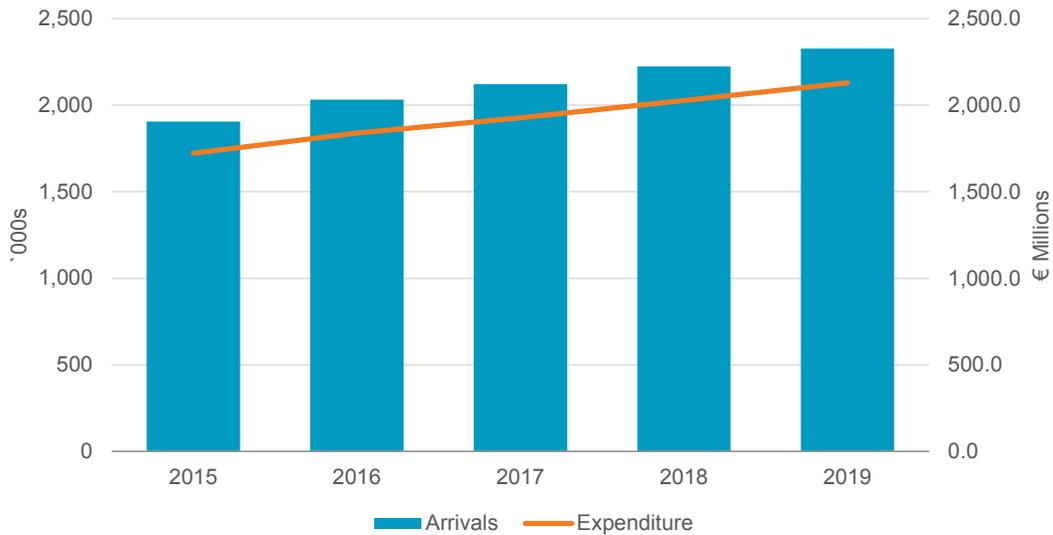


Chinese tourists travelling to France

For Chinese tourists travelling outside of Asia, Europe has a strong allure. Chinese tourists value destinations with history and tradition. Europe is also an ideal shopping destination and home to the major fashion capitals of Paris and Milan and London offering significant shopping opportunities. More Chinese tourists visit Europe than all other continents combined. During 2015, Europe is expected to host 8.6 million visitors from China; this is forecast to increase by 23% through to 2019, when the number of visits will pass 10 million. Europe's advantage over the other destinations stems from its heritage sites but also it being the home of designer labels such as Louis Vuitton, Chanel, Prada and Burberry.

Within Europe, France is the leading destination with 1.9 million trips from China expected in 2015. Paris has the essential mix of a big city atmosphere with flight connections to China, visitor attractions and most importantly, is the home of fashion brands such as Hermes and Christian Dior and luxury department stores like Printemps and Galleries Lafayette. In addition, France has much to offer in terms of rural tourism outside of its capital. According to Euromonitor International, Chinese tourists are expected to spend US\$1.6 billion in France in 2015, much of this on shopping.

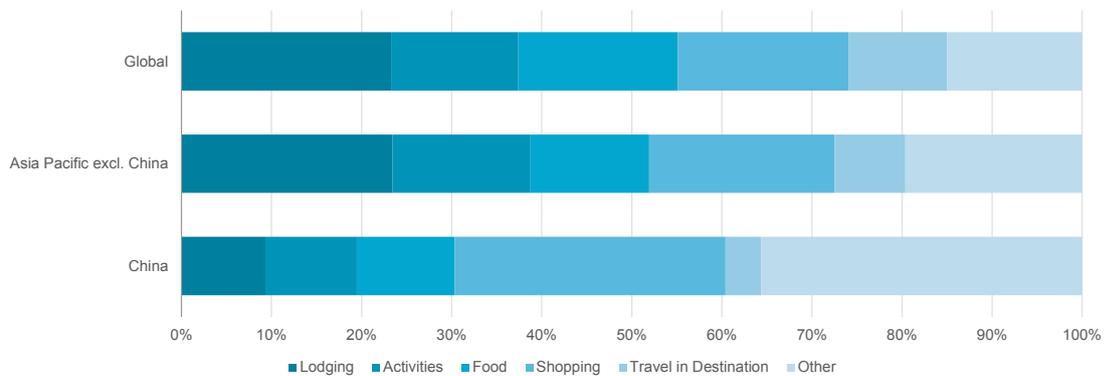
Arrivals to France from China with Expenditure 2015–2019



Source: Euromonitor International

For the typical global outbound traveller, spending on accommodation is the largest with over 20%, followed by food and shopping. For Chinese tourists this is reversed, with over 40% of expenditure on shopping, followed by food and just around 10% on accommodation. Chinese visitors would economise on these outgoings to increase their shopping budget.

Outbound Expenditure by Travel Segment in 2014

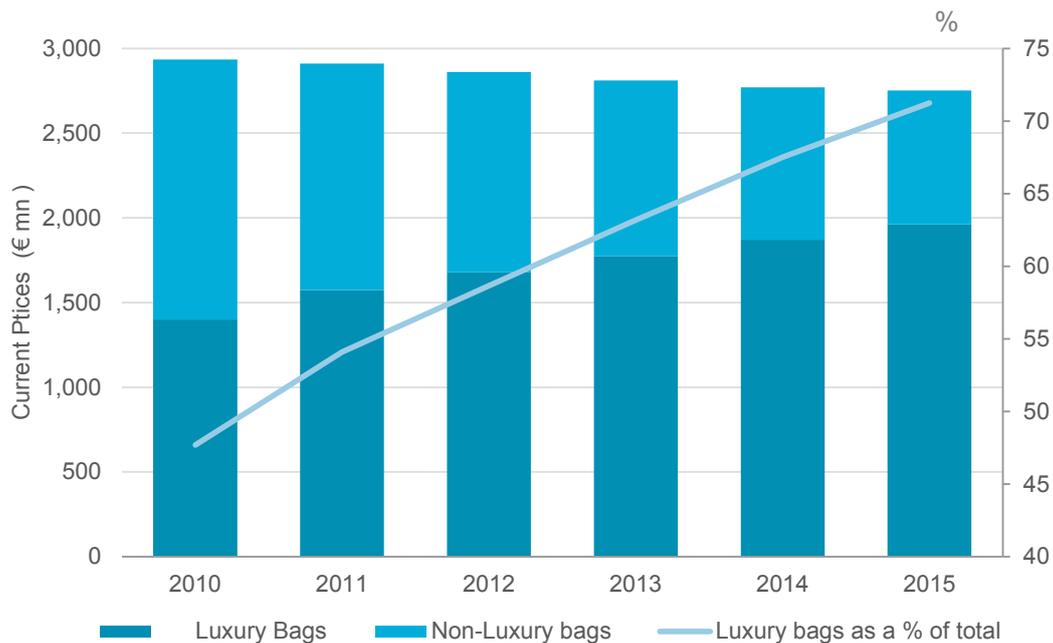


Source: Euromonitor International

What are they buying?

The influx of wealthy tourists from China helps boost the demand for luxury goods in France. Indeed, despite the doom-and-gloom economic climate in France, the luxury goods market shows healthy growth of 3% in current value terms in 2015. It is France's rich fashion heritage that has allowed the country to maintain its position as a prime tourist destination for aspirational consumers. France is home to two of the world's biggest luxury goods companies, LVMH Moët Hennessy Louis Vuitton and Kering SA, as well as some of the world's most glamorous shopping streets. In 2015, luxury accessories and leather goods were the fastest growing categories, outpacing the overall market. Luxury bags grew by 5%, reaching almost €2 billion. In 2010, luxury bags represented about half of the overall bags market in France; today, they take 70% of the overall bags market. Luxury bags as well as luxury accessories are the favourite items sought after by big-spending tourists, as these products represent a clearly visible statement of wealth and status. Furthermore, France being a mature market for luxury goods, avid luxury shoppers can find in Paris the latest collections from well-established as well as up-coming brands. More options make France, and in particular Paris, a shopping paradise.

Luxury Bags within Bags



Source: Euromonitor International

Exchange rates and visas are fuelling international spending

Prices for luxury goods are often much lower in euro than in other currencies, enticing consumers to travel specifically for the purpose of luxury shopping. The Euro-Yuan exchange rate, as well as high sales tax on luxury goods, is making continental Europe a hotspot for luxury consumers from China. According to Euromonitor International's luxury goods 2015 pricing data, a Gucci Jackie leather shoulder bag in France costs US\$2,400. The same bag in China costs US\$3,600.

Nonetheless, on 11th August 2015, China devalued its currency, lowering the “daily fix” (a guiding rate) by 1.9%, marking a shift in policy and the biggest devaluation in 20 years. This devaluation has consequently made foreign goods more expensive. It is still too soon to know what will exactly be the sales implications of China's currency devaluation. However, the depreciation of the renminbi will almost certainly have a huge bearing on the luxury goods market globally.

Another factor luring Chinese luxury shoppers is the ease of obtaining visas to France as to any other Schengen countries. In January 2014, France launched its fast-track visa for wealthy Chinese citizens. It now takes 48 hours for tourists to obtain a visa. The loosening of visa restrictions is a strategy that other countries, such as Britain, are now looking to apply. Wealthy Chinese tourists have been key drivers of luxury goods spending; however, the tide might be turning in the short to medium term.

Potential impact of Paris terrorist attacks on luxury shopping

Following the terrorist attacks in 2015 in Paris, the outlook for travel and tourism demand in the city is likely to be impacted in the short to medium term. As one of the world's leading luxury shopping destinations, Paris might heavily be affected by the fall in foreign spending. In order to generate more traffic and to reassure the world, a solidarity campaign under the hashtag #ParisWeLoveYou was launched by several French companies on 15 December 2015. It sent a clear marketing message to the rest of the world that Paris is open for business. It is important that French manufacturers and retailers work together to find ways to drive leisure and shopping tourism and promote the ideals that Paris and France stands for: *liberté, égalité* and *fraternité*.

How can manufacturers and retailers prepare for the opportunity?

Luxury houses in France benefit from a unique *savoir-faire* and a prestigious brand image. Whilst price plays an important role, possibly a greater incentive for the discerning wealthy traveller is the “Made in France” label, which almost acts as a brand in itself. Continued emphasis on craftsmanship and heritage resonate well with evolving demand trends.

Retailers play an important role to keep France as a luxury shopping hub and encourage foreign spending. First, they need to make shopping easy. Printemps and Galleries Lafayette have websites in Chinese as well as Chinese-speaking personal shoppers. They both offer special services, such as personal shopping and extended-hours. Also, methods of payment need to be facilitated. China UnionPay is widely accepted in large department stores such as Galleries Lafayette and Printemps, concept stores of luxury brands such as Hermès and Cartier, as well as for upscale hotels. So far, however, acceptance is mostly in the Paris Region, with limited acceptance in the provinces. However, this is overcome by China UnionPay card holders being able to withdraw cash from 30,000 ATMs as well as China UnionPay cards with Visa, MasterCard and AMEX. It has been reported that Chinese visitors use China UnionPay cards in the capital and switch to cash in the provinces.

Second, retailers need to recreate the luxury in-store experience. Luxury shopping has entered into a new phase, in which conspicuous consumption is giving way to more meaningful and authentic shopping experience. Accordingly, retailers will need to centre part of their brand identity on consumer’s in-store experience. Organised tours to factory outlets for example are gaining momentum and are a superb way to tell a story about the brand. Galleries Lafayette sees its flagship Boulevard Haussmann outlet as a visitor attraction in its own right with guided tours of the history of the building and business (although not in Chinese) and other activities such as fashion shows. Fashion brands looking to raise their profile are using stand-alone beauty stores to make a bigger statement to beauty consumers and improve consumers’ experience with the brand. Chanel and Christian Dior have opened beauty only stores in Paris. Guerlain - LVMH’s heritage beauty brand - revamped its flagship store on the Champs-Élysées in Paris, to include a café / restaurant “Le 68” as well as the L’Institut Guerlain, a private residence-like spa.

Finally, luxury brands need to embrace the digital age. Luxury companies that are quick to adopt mobile technology are able to deliver a more customised and high-end experience to guests, creating a major competitive advantage against others. For example, Gucci launched an omni-channel initiative in the US called “Find in Store”, enabling consumers to identify which stores carry particular items. Harvey Nichols in London has focused on the concept of a “connected store”, where staff and technology work together to engage the consumer. New technologies allow retailers to “connect the dots”, ensuring customers are no longer constrained by physical spaces and stock availability.



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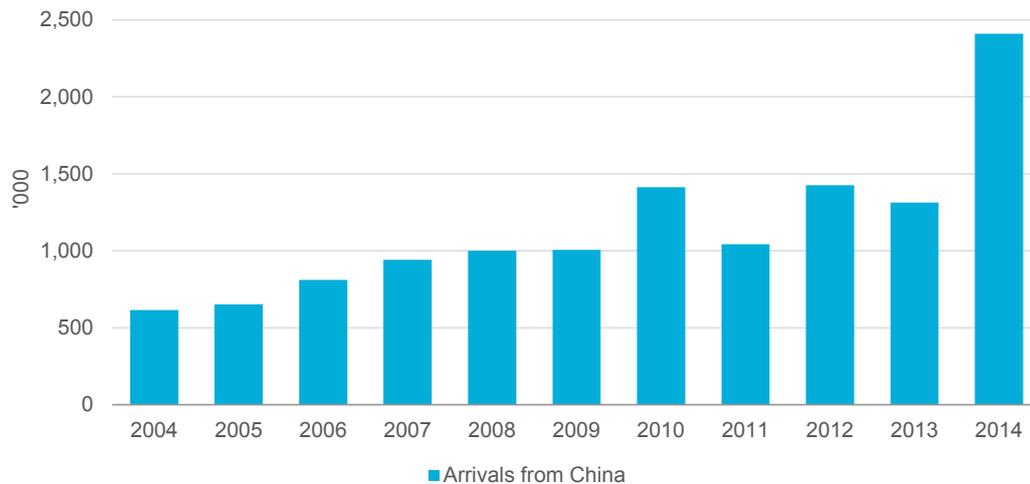
HOW “BAKUGAI” IS CHANGING JAPAN



Every year in Japan, the Jiyukokuminsha publishing house selects a “word of the year” from a larger list of words / phrases meant to capture the reality of Japan and represent the collective mind of Japanese citizens for the year. In 2015, the “word of the year” was “bakugai”. The direct translation for “bakugai” is “explosive buying” and it is a term to describe the explosive power that Chinese tourists have had in the retail sector and in the Japanese economy with the vast amount of products being purchased in such a short amount of time during their visits. It is important to understand the state of Chinese tourists in Japan, the spending power that these tourists are displaying especially in fast moving consumer goods (FMCG), whether or not this is sustainable in the forecast period and perhaps most importantly, what should manufacturers learn from this phenomenon.

Unprecedented level of inbound Chinese tourists

While the diplomatic relationship between Japan and China could certainly be considered challenging from both sides’ perspective, this has certainly not been a deterrent to Chinese travellers visiting Japan and spending a significant amount of savings in their Asian neighbour’s economy. Chinese tourists to Japan has drastically risen over the past 10 years and has accelerated recently due to several reasons, but what was once only reserved for upper-income households is becoming more common for an increasing number of China’s emerging middle class. As shown in the chart below, Euromonitor International’s travel research shows that inbound tourists to Japan from China has risen from 616,000 in 2004 to over 2.4 million in 2014, at an annual average growth of 15%.

Japan: Number of Visitors from China

Source: Euromonitor International, National Tourism Organisation

However, the past two years has seen accelerated growth in tourists visiting Japan from China. 2014 saw an increase of 83% from the previous year and the most recent data at the time of publication from the Japan National Tourism Organisation (JNTO) estimates that the number of Chinese tourists in 2015 jumped an astonishing 107 percent from 2014 to reach nearly 5 million visitors. This strong growth in 2015 is due to several reasons. First, there was an easing on visa requirements for Chinese citizens by the Japanese government in January allowing for easier entry. Second, the Japanese yen has maintained a weaker value compared to the Chinese yuan allowing for Chinese consumers to have fewer reservations about making the visit with their higher spending power. And perhaps, most importantly is how Japan has become a shopping mecca for Chinese tourists due to the desire for “Made in Japan” goods, the unique shopping experience the country provides for Chinese tourists and in addition the recent duty-free status now granted to tourists. These factors and more have led to a strong increase in tourists and with it an “explosion” of inbound tourism spend in the country.

A major boost for Japan's struggling FMCG industries

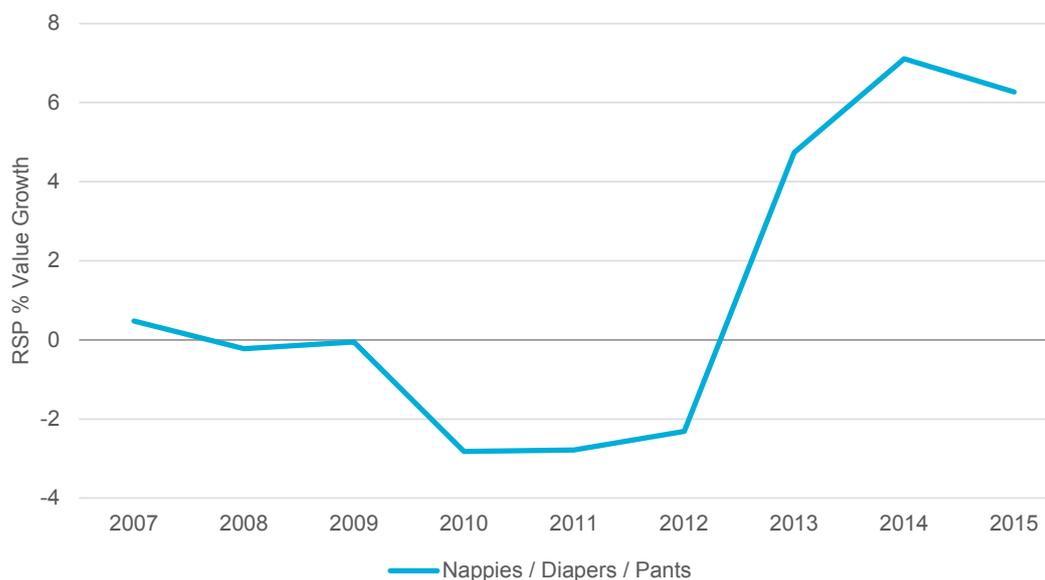
With Chinese tourists set to account for nearly a quarter of all inbound tourists in Japan in 2015 according to JNTO, this demographic has been a welcome boost to Japanese manufacturers' bottom-line to offset domestic demand. When Chinese tourists come to visit Japan, shopping and purchasing "Made in Japan" goods in order to bring back home is a key priority of their trip. For example, while the average tourist to Japan spends ¥65,000 (US\$540) during a trip, Chinese tourists are spending 35% more at ¥88,000 (US\$730) on average. Furthermore, Chinese tourists are spending on products across the entire FMCG spectrum, causing all manufacturers to take note of this important consumer base. The same study from the Japan National Tourist Agency states that 63% of tourists purchased cosmetics and perfume, 55% purchased food and spirits products, 52% purchased consumer health products and 37% purchased consumer appliance items, which features significantly higher unit priced items such as rice cookers and beauty appliances.

This boom has led to highly sought after products amongst Chinese tourists that feel the need to take back "Made in Japan" products to their home market for themselves but also as souvenirs or as gifts. Consumer health products in particular have benefited from this phenomenon. Japanese consumer health products are seen as much safer compared to similar products that are made in China and as such, tourists want to bring back as many OTC products as they can due to the smaller size for transportation and the longer shelf-life. A popular Chinese blogger identified 12 Japanese consumer health products, including products such as eye drops and analgesics, amongst others, calling them "God's Drugs". The products were well circulated through Chinese SNS and led to be considered almost essential for those visiting Japan, leading to dramatic growth for those products. Kobayashi Pharmaceutical, a Japanese manufacturer with products listed in the 12, has seen significant growth due to this "bakugai" impact. The company even reported in their recent Q2 investor presentation that sales from inbound tourists demand in the first two quarters of their fiscal year was ¥2.5 billion (US\$20.8 million) or 4% of their total sales. This was up from ¥0.8 billion (US\$6.6 million) the previous year signifying how strong the recent impact of increase in Chinese tourists has had on the company's bottom-line.

Population declining while baby products are booming

While several categories are seeing an increase in sales due to this spike in tourists, perhaps no other category than nappies / diapers / pants exemplifies the positive impact that this audience is having on Japanese manufacturers in comparison to its domestic market. With Japan's well-known demographic issues and its aging and declining population, sales for nappies / diapers / pants have long been static or negative in growth. However, recently, sales for the category have shown strong growth despite the declining population. In the chart below, after several years of stagnant growth, sales for nappies / diapers / pants begins to show strong growth in 2013.

Retail Growth of Nappies / Diapers / Pants Sales in Japan



Source: Euromonitor International

The major driver of this spike in sales is from Chinese consumers demanding “Made in Japan” nappies versus domestically manufactured ones. Affluent Chinese consumers have long been hesitant of the safety of these products made in China and are turning to purchase brands such as Unicharm’s Moony and Kao’s Merries in the Japanese market versus the exact companies’ brands made from Chinese factories. In fact, Chinese tourists are often seen buying nappies to take back home from their visits, this demand has led to many businesses that are buying nappies / diapers / pants in Japan to send back to China.

How to sustain growth in a declining market

So what are Japanese manufacturer's learning from "bakugai" and how should they capitalise on this phenomenon? With the Japanese government still pursuing strong plans to increase inbound tourism leading up to Tokyo's hosting of the Olympics Games in 2020, manufacturers across industries are cautiously optimistic that the inbound tourists from China will continue and the demand for FMCG products will be strong in the immediate future. Even with the threat of potentially turbulent economic times in China and a China hard-landing, Japanese manufacturers still expect Chinese tourists to continue to pour into Japan due to the government's strong tourism plans and expectations. As such, manufacturers and retailers are expected to continue to strongly promote their products to in-coming Chinese tourists in the hopes of riding the phenomenon and offsetting spend from a declining domestic consumer base.

However, Japanese manufacturers must not be entirely reliant on inbound tourists to drive growth. While there is still optimism that the number of Chinese tourists will continue to rise, Japanese companies should still prepare for a scenario in which "bakugai" significantly slows down. As such, Japanese manufacturers and retailers must use this time as a key opportunity to capitalise on its strong brand equity in China especially with the vast amount of tourists returning home with an abundance of "Made in Japan" goods. While the reason for these products' success is often their exclusivity and the fact that they are part of an overall experience, nonetheless, Chinese consumers are returning home and providing strong word of mouth reviews for a host of Japanese FMCG goods. And with only 2% of Chinese visiting Japan in the calendar year, there is a large available population of middle-class Chinese consumers unable to visit whom place great interest in Japanese brands. Despite the challenges, Japanese manufacturers and retailers should use this time and opportunity to focus on ways to improve confidence and perception of the safety and quality of their products that are "Made in China" to Chinese consumers. Turning the "bakugai" domestic surge in sales into a more strategic expansion into China's vast market would ensure a much more positive outlook for Japanese companies to 2020 and beyond.



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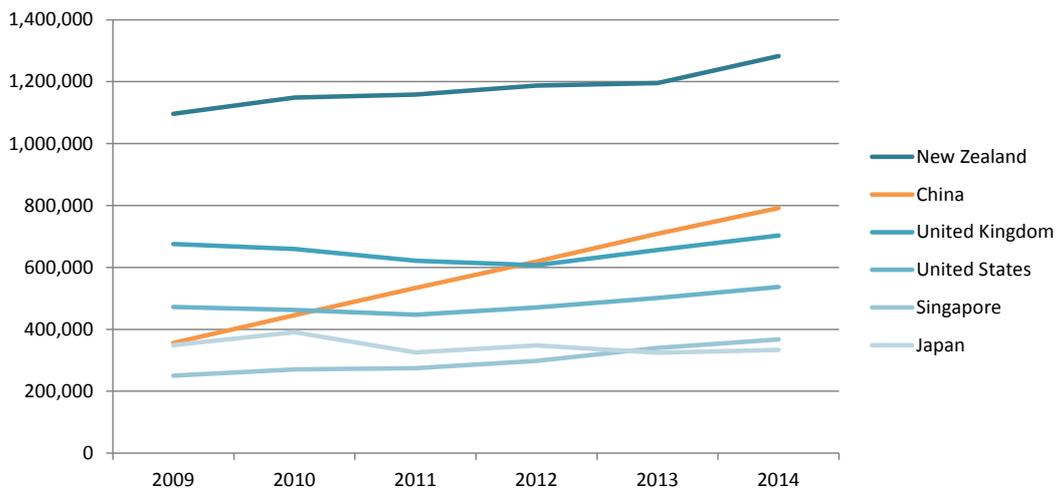
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CHINESE SHOPPERS DOWN UNDER



Chinese travellers are becoming increasingly important to the tourism industry in Australia as inbound arrivals from China grew to 792,000 trips to Australia in 2014, an increase of 12% on the previous year. China is now the second most important inbound tourism source market for Australia, overtaking the US in 2011 and the UK in 2012, and is forecast to surpass the one-million-arrival mark by 2018.

Arrivals to Australia by Country, Number of Trips 2009–2014



Source: Euromonitor International

Traditionally, Chinese inbound tourism has been dominated by large tour groups; however, the number of Chinese Free Independent Travellers (FIT) is growing. Free independent travellers are distinguished from “tour group tourists” that typically have all accommodation, transport and activities pre-booked through a large tour group. Free independent travellers book some part or all of their travel itineraries themselves. According to Destination New South Wales, the number of Chinese FIT holiday visitors reached 211,400 during the year ending September 2014. The FIT trend has been driven in part by China’s new tourism law, which came into effect in October 2013. The new legislation aims to protect Chinese consumers by addressing issues such as coercive shopping measures and low quality tours, paving the way for more FIT and semi-FIT travel. Chinese FIT tourists are attractive to Australian tour operators because they are more likely to be repeat visitors, travel to regional areas, spend more and stay longer.

Hotel group Accor, for instance, has responded to burgeoning Chinese tourism in Australia by offering Chinese services within its hotels across the country. Accor’s Optimum Service Standards programme includes training staff to understand cultural differences, offering Chinese menu items and Mandarin-speaking staff, as well as providing Chinese newspapers, television channels and translated welcome kits. China UnionPay will also be accepted at Accor hotels to allow guests to use domestic debit banking cards as a method of payment.

Luxury shoppers set the scene

Chinese tourists generally visit Australia not only to experience iconic sites, the outback and beaches, but with the intention to shop. Many of these tourists are considered to be “big spenders”, partaking in luxury shopping and gambling during their visit. Additionally, China represents Australia’s largest source of international students, with many of these students supported financially by wealthy parents.

Chinese shoppers purchase luxury goods to express status and sophistication, and are drawn to big brands such as Louis Vuitton, Chanel and Rolex. Australia has built its status as a luxury shopping destination for Chinese shoppers, supported by the arrival of many global luxury companies and national tourism campaigns encouraging Chinese tourists to visit the country. Furthermore, consumers can escape high import tariffs and consumption taxes when purchasing luxury goods abroad, with luxury goods potentially costing 30% less in Australia. Luxury jewellery and timepieces and luxury accessories are two categories that have been positively impacted by demand from Chinese tourists, recording current value compound annual growth rates (CAGRs) of 7% and 6% respectively during 2010–2015.

Since 2011, Australia has experienced a stream of international luxury brands either establishing their presence or expanding their store network. The arrival of these global luxury brands indicates the ability for the country to attract high net worth individuals, particularly from China. According to Euromonitor International data, foreign expenditure on luxury goods accounted for almost 30% of total sales in 2015, with a large proportion of these sales coming from Chinese tourists.

The increasing acceptance of China UnionPay has eased the process of luxury shopping in Australia. David Jones became the first department store to accept China UnionPay in its stores in 2013. In addition, the retailer employs Mandarin-speaking staff at select stores. The four major banks in Australia, ANZ, Westpac, NAB and Commonwealth have all entered agreements with China UnionPay, making it easier for Chinese retail customers to engage with luxury houses in Australia.

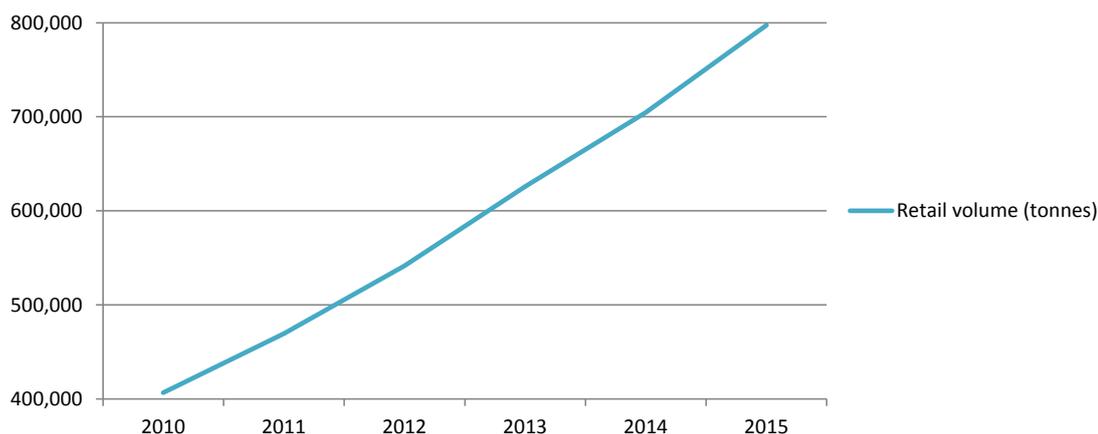
While Chinese shoppers will continue to support value growth in Australia's luxury goods market, they have diversified their spending, increasingly fuelling sales in consumer goods areas such as infant formula and health supplements. China has been identified as a key market for Australian tourism within Tourism Australia's Tourism 2020 Strategy, which estimates that Chinese nationals could be spending up to A\$13 billion in Australia by 2020.

Demand for Australian-manufactured infant formula

Infant formula dominated headlines in Australia during 2015, as Chinese demand for Australian-made formula led to in-store shortages. As the local tabloid press relished in "secret milk powder shops", "ugly scenes at supermarkets" and "local mums in despair", supermarkets and pharmacies extended rationing of baby formula, in some cases limiting purchases to two tins. The shortage has been caused by shoppers buying formula in Australian retail outlets and shipping products to China, either as a gift for family and friends in China or to sell to Chinese consumers via social media or other e-commerce platforms. This grey market is furthermore facilitated by souvenir shops and courier companies specialising in sending formula from Australia to China. This trend first appeared in 2013; however it re-emerged during 2015, so much so that both the a2 Milk Company and Bellamy's Australia Ltd had to increase production in order to keep pace with rising consumer demand.

While sales of liquid milk formula remain negligible in China, milk formula volume sales in powder format have increased exponentially, growing by 96% between 2010 and 2015 to reach 797,500 tonnes. Similarly, retail value sales for milk formula have risen by 139% between 2010 and 2015. Chinese consumers are wary of domestically-manufactured milk formula products due to the melamine scandal of 2008, and as a result, demand for imported formula has surged. Imported dairy products are perceived as being safe, high-quality products and Chinese consumers are willing to pay a premium for infant formula manufactured in Australia.

Retail Volume (tonnes) of Powder Milk Formula in China 2010–2015



Source: Euromonitor International

Domestic sales of milk formula, in value terms, were somewhat tempered in China in 2014 and 2015, which is attributed to the increasing number of Chinese tourists purchasing formula when travelling overseas and then selling it on upon their return. Nevertheless, this still translates into 15% and 16% year-on-year retail value growth rates in 2014 and 2015 respectively.

E-commerce growth in China has been a major driver for imported infant formula demand, with both the a2 and Bellamy's Organic brands possessing Tmall Global online stores. Moreover, the relaxation of China's one-child policy in 2013 has led to an increase in the birth rate in China, which has also stimulated formula demand. Lastly, unlike in Australia and other developed markets, formula manufacturers do not have to adhere to certain advertising regulations which advocate breastfeeding; however there is potential for this to change in the foreseeable future.

The appeal of Australian vitamins

China's food scares and Australia's "cleaner and greener" reputation have also spurred sales in Australia's vitamins and dietary supplements (VDS) industry in 2015. Chinese tourists, sceptical about locally manufactured and counterfeit products in the wake of contamination scandals, are driving the popularity of Australian brands, which are trusted due to strict food safety requirements and quarantine control. Demand is coming from Chinese tourists, migrants and international students as well as their families. It has become commonplace for Chinese shoppers to ship products home for their families or to take Australian vitamins and dietary supplements home to sell for profit.

The top two VDS companies in Australia, Swisse Wellness and Blackmores, are developing their reputations among Chinese consumers, particularly the middle class. Indicative of the strong appeal of Australian vitamins in China is Hong Kong-listed Biostime's A\$1.67 billion acquisition of Australian-owned Swisse Wellness in 2015, outbidding Chinese private equity firm Hony Capital and Chinese drug manufacturer Shanghai Pharma. Biostime is an infant formula producer and has over 200 offices in China. Its acquisition is expected to benefit Swisse Wellness' expansion plans in terms of China-wide distribution, e-commerce and a loyalty program. Blackmores has subsequently become the leading Australian-owned vitamins company in Australia, and reported surging Asian demand in 2015. In fact, Blackmores saw its share price rise above A\$200 in 2015, following a deal with Bega Cheese to expand into baby formula.

Chinese tourists are drawn to products with a healthy and natural brand image. They are looking to enhance their wellbeing through VDS consumption, with memory boosting, inner or outer beauty and energy positioned products highly sought after. Chinese e-commerce platforms are taking advantage of the demand for Australian products, with Tmall Global hosting Blackmores and Pharmicare. Similarly, Chinese online direct sales company JD.com signed a partnership with Blackmores in 2015 to sell the brand through JD.com with same-day delivery capabilities.

Demand from Chinese tourists is so far showing no sign of slowing, and their willingness to pay a premium for Australian products is expected boost sales in Australian VDS over the next five years. There are thus far ranging opportunities for Australian-branded products, which will be further supported by the China-Australia Free Trade Agreement (ChAFTA).

Can trade agreements and B2C measures by Australian retailers curb this grey market?

However, for Australian brands looking to make their mark in China, there are more effective ways of reaching Chinese consumers than one suitcase at a time. Blackmores' partnership with Bega Cheese, for instance, is a fitting example of cross-category innovation and indicates that opportunities for VDS players are not just restricted to over-the-counter consumer health. Blackmores announced its intention to enter the infant formula category in October 2015, unveiling a partnership with dairy company Bega Cheese, with a new range of nutritional products supplied by Bega's subsidiary Tatura. The infant formula was officially launched by Blackmores global brand ambassador and Chinese tennis star Li Na in January 2016. While the company aims to prioritise Australian consumers, with 80% of initial output targeting Australia, the rest of the product will be destined for Asian retailers, including via Tmall Global.

According to Euromonitor International data, China has over 671 million internet users in 2015, as opposed to Australia's 19 million, and the internet retailing channel in China is worth CNY1,794.7 billion (US\$293 billion) in 2015. By comparison, the internet retailing channel in Australia is worth A\$16.96 billion (US\$13.2 billion) in 2015. Ventures that permit Australian small-to-medium businesses to reach Chinese consumers, such as Australia Post's virtual storefronts on Tmall and JD.com, are likely to generate considerable interest in both countries.

Beyond individuals importing through the so-called "luggage channel" or shopping online, from a top-level trade perspective the demand for imported fresh foods by Chinese consumers has been soaring. In the decade from 2005–2014, the trade value of imported food to China increased by a 17.6% CAGR, according to the General Administration of Quality Supervision, Inspection and Quarantine of China (AQSIQ). Imported fresh foods are seen as safer, of higher quality and nutritional value, and have become the new favourite of Chinese consumers.

Australia has benefitted from its reputation of high-quality products. The boom in online fresh food retailers and improvements to cold chain and delivery systems has also boosted growth, making the purchase of imported fresh foods more efficient for consumers.

China is Australia's largest agricultural export market, worth A\$9 billion in 2013–2014, and accounts for around 23% of Australia's total agricultural exports in 2014. The ChAFTA delivers significantly improved market access for agriculture and processed foods, with equal to or better access to China than any other FTA partner. As up to 95% of Australian goods imported into China will eventually be tariff-free, lower business costs means that lower prices can be charged across a range of categories for Australian-made products.

Chinese consumers have shown a preference for Australian products including beef, lobster, macadamia nuts and wine. There are an increasing number of Chinese consumers who want products that demonstrate quality, safety and ethical values, which Australian companies can provide. Businesses will exploit demand by using country-of-origin branding, featuring the iconic Australian-made, Australian-grown kangaroo logo. In addition to the high profile of Australian-made products, Australian producers of organic products can further tap into a lucrative market of higher value-add products.

However, growth for “Australian-made” will not be without its challenges. The growing market for high-end Australian produce, which has been renowned for safe, clean and green, has given rise to food counterfeiting. Counterfeit Australian honey, Tasmanian cherries and Barossa Valley wines have already made their way on to retail shelves in China. Food security will thus continue to be a key issue for the future, irrespective of the retail channel.



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THE CHANGING DEMANDS OF CHINESE TRAVELLERS



The year 2015 has been characterised by a struggling Chinese economy, with a falling stock market, cautious investors and tumbling commodity prices. It seems unlikely, however, that the downturn of the stock market will halt the appetite for outbound travel amongst Chinese consumers. Nevertheless, Chinese travel behaviour will undergo changes in the coming years. What are the future demands from Chinese travellers and the opportunities and challenges that lie ahead for companies attempting to cater to these demands?

Chinese show strong drive to travel

As is always the case with the travel industry, many different forces impact whether and where people are travelling. The recent economic downturn in China, terrorist attacks in European cities and the strong US dollar are just some of the factors influencing Chinese travel decisions. Despite these factors, travel is a resilient albeit turbulent industry, especially for China, where the drive to travel remains strong.

Euromonitor International Survey results provide an insight into this drive, with 37% of respondents questioned in 2013 indicating they would spend more on travel in the coming years, while only 18% expected their spending to decrease(*1). The willingness to spend more on travel is closely linked to a sharp increase in disposable incomes amongst Chinese households. The number of households with an annual disposable income over US\$35,000—the industry threshold for international travel—is set to increase from 34 million in 2015 to 121 million in 2030.

By 2030, it is expected that outbound trips by Chinese residents will almost double to 126 million, which makes China the largest outbound market, overtaking the USA, Germany and the UK. This growth is bolstered by the Chinese government's efforts to promote a 2.5 day weekend amongst employers, acknowledging the economic potential of the tourism industry, and by more efficient and affordable visa arrangements recently introduced by key destinations like the USA and European countries.

Get ready for changing demands

As travel becomes more commonplace in Chinese society, and outbound leisure travel becomes the “norm”, a number of developments will change the way Chinese consumers book and undertake travel over the coming years and decades.

Improving infrastructure means more travellers

The Chinese government is investing heavily in infrastructure improvements, announcing an investment plan worth US\$80 billion for 193 aviation projects mid-2015. The focus is on improving facilities in tier two and three cities with 82 new airports, and better high-speed rail links connecting airports. While at first this will predominantly boost intra-Asia travel, over time other destinations should also benefit from this. For destinations this means that offering services and products in Mandarin and Cantonese will become more important, as the visitors originating from smaller towns and cities are less likely to have been exposed to foreign languages.

More travel experience results in less group travel

2012 Survey results show that 27% of Chinese respondents had never travelled internationally, and a further 18% had not undertaken an outbound trip in the past 5 years (*2). Because international travel is a new phenomenon to many, Chinese tourists tend to travel in groups. As Chinese travellers become more accustomed to travelling, however, they will search for more independence. As the physical infrastructure—as well as the online booking infrastructure—improves, foreign independent tours and autonomous bookings will rise.

Lower spending priority for lodging and shopping

Chinese travellers spending on in-destination lodging is below the global average. It can be expected that lodging remains a low priority for Chinese travellers, as middle class travellers will be conscious of their spending and opt for budget accommodation. In contrast, shopping, and particularly luxury shopping, is very important to Chinese travellers, but this is expected to slowly change. European cities such as Paris, Milan and London, known for their luxury brand offerings, will particularly feel the effects of this. Destinations will need to change their marketing offering over the coming decade, to move away from a strong emphasis on luxury shopping.

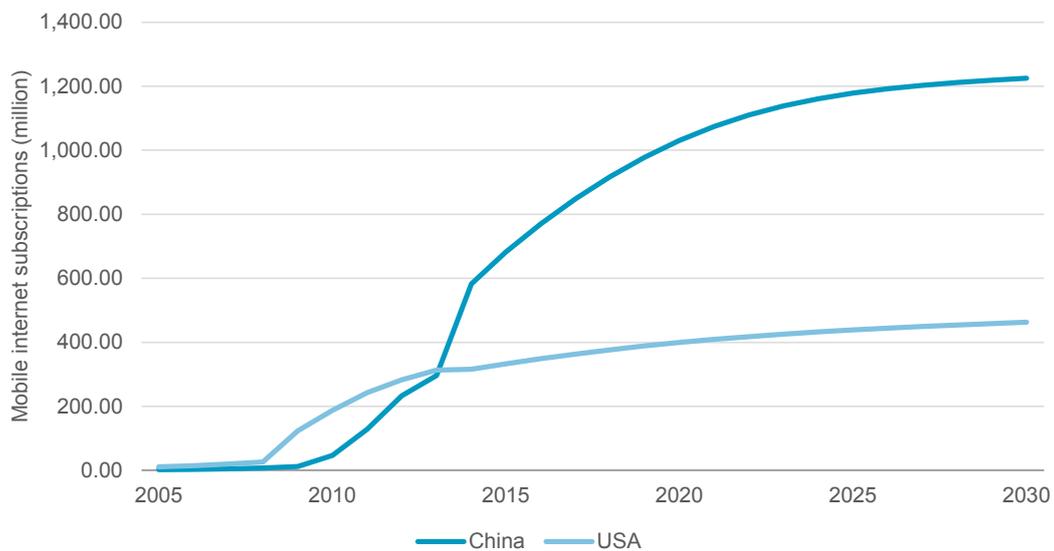
Focus on future opportunities

The changes in demand and expectations will provide future opportunities to companies and destinations.

Mobile is everything

China is seeing a recent surge in the uptake of smartphones and mobile internet which will continue in coming years. Chinese tourists will increasingly expect mobile connectivity, availability of online payment facilities including the highly popular Alipay, integration with messaging services like WeChat and personalised push notifications customised to their language requirements and preferences.

Number of Mobile Internet Subscriptions in China and USA 2005–2030



Source: Euromonitor International

Sharing going mainstream

Sharing economy players are in a good position to be strong beneficiaries of Chinese travellers. Peer-to-peer platforms like Airbnb offer value-for-money properties in city destinations, which will appeal to Chinese tourists. As Chinese become more savvy spenders and experienced travellers, they will look at sharing brands to offer authentic and economical experiences. Trust, and particularly trusting peers, is a main barrier to success, and companies will need to ensure that their brand and service is viewed as reliable. Offering a local service with Chinese-speaking operators and a Chinese website is a start, but ultimately Chinese consumers will need to be convinced through satisfactory experiences.

Sustainability as an attraction

When asked what features they look for in a travel destination, 43% of respondents to Euromonitor International Survey (*3) selected sustainable travel. Sustainability is not readily associated with China, as the country struggles with environmental pollution and poor air quality. For this reason, however, sustainability is an important aspect of outbound travel, as Chinese tourists are looking for destinations which offer clean air. This offers opportunities for destinations to market their environmental sustainability to the Chinese outbound market, but it also means that sustainability and corporate social responsibility policies will become increasingly important when dealing with Chinese tourists.

1. *Euromonitor International Global Consumer Trends Survey, 1709 Chinese respondents between 15 and 65 years old.
2. *Euromonitor International Out and About Survey, 503 Chinese respondents between 15 and 65 years old.
3. *Euromonitor International Out and About Survey, 503 Chinese respondents between 15 and 65 years old.



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CONCLUSION



Euromonitor International expects 90 million outbound trips of over 24 hours by Chinese residents for leisure or business purposes in 2020, which represents an impressive average growth rate of 13% per annum over the past two decades. In absolute terms, this is an increase of over 76 million outbound trips since 2001, and takes the country to the fourth largest travel source market in the world, behind Germany, the United State and the United Kingdom.

While this growth is impressive in itself, a more interesting factor is the spending patterns emerging in tandem with this increase in outbound travel and addressing the issue of why.

As highlighted throughout the white paper, cost is a significant motivator for Chinese travellers to shop abroad, for personal spending and commercial potential alike. The high sales tax on luxury goods in China is prohibitive with luxury goods more affordable abroad. Countries such as Japan have granted duty-free status to Chinese visitors encouraging more shopping. The Euro-Yuan exchange rate has also helped destinations such as Europe become a favourite shopping hotspot. However, China experienced its biggest currency devaluation of the past 20 years in 2015 and the full consequences of this move have yet to be fully felt globally.

Local analysts nonetheless argue that any potential economic downturn is unlikely to have a significant impact on Chinese travel rates as outbound tourism is anticipated to continue to register healthy growth in the future. This is due to increases in Chinese consumers disposable income coupled with government support by way of improving infrastructure in second- and third-tier cities, added flight capacity to international destinations and the recent incentives for state-owned and privately-held companies to promote a 2.5-day-weekend for workers.

However, the exchange isn't necessarily one-way, and simplified visa regimes across the board have helped to facilitate outbound travel. To encourage Chinese travellers, some destinations have removed many visa and travel restrictions for Chinese visitors, such as the US, France and the UK, which have all taken steps to simplify access for visitors from China. Within Asia Pacific, Thailand offers Chinese travellers excellent air and transport links with China, with 12 airports as access points.

Destinations such as France, the US, Japan, Thailand and Australia have targeted the Chinese traveller as a strategic priority specifically for shopping tourism. Europe plays on its heritage and being home to many designer brands in iconic fashion hubs such as Paris and Milan. France, iconic fashion hubs and promotes its "Made in France" brand, alongside Japan and Australia, whom also employ this strategy to differentiate their products and reinforce the idea of quality, uniqueness and authenticity. Countries like Australia have also noted a shift from group travel to so-called "free independent travellers" (FIT), and shopping trends have mirrored this move towards a more authentic experience, rather than the coercive shopping that had previously characterised tour group travel.

In neighbouring countries like Japan, Chinese visitors purchase a variety of everyday goods and products across the FMCG spectrum—cosmetics, appliances, food and drink, consumer health—that helps offset weak domestic demand and offers a boon for Japanese manufacturers in a range of categories. In Australia, Chinese demand for infant formula due to concerns about domestically manufactured milk formula products has led to a shortage of certain brands in local supermarkets.

Retailers keen to tap into Chinese demand should adopt any of a number of measures to target Chinese visitors. The provision of Mandarin-speaking staff, for instance, is key to ensure language barriers don't impede the Chinese visitor's experience. Accepting China UnionPay credit cards is a must, and has been adopted by department stores and retailers around the world to facilitate payment. Developing targeted marketing campaigns around national holidays, such as the Chinese New Year, and developing new product ranges for the Chinese market are effective ways of boosting sales. Visibility on Chinese online shopping portals, such as Tmall Global and JD.com, is essential, both from the perspective of keeping a certain brand top-of-mind for travellers, but also in terms of expanding a brand's footprint within the Chinese market. Particularly for food, beverage and consumer health products, where offshore sourcing is a primary consideration for quality assurance, buying direct from the overseas suppliers could even resonate more than the so-called "luggage channel" in the future, especially when sales are intended for e-commerce on-selling rather than personal use.



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ABOUT EUROMONITOR INTERNATIONAL



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