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Chinese tourists: Dispelling the myths

An in-depth look at China’s outbound tourist market

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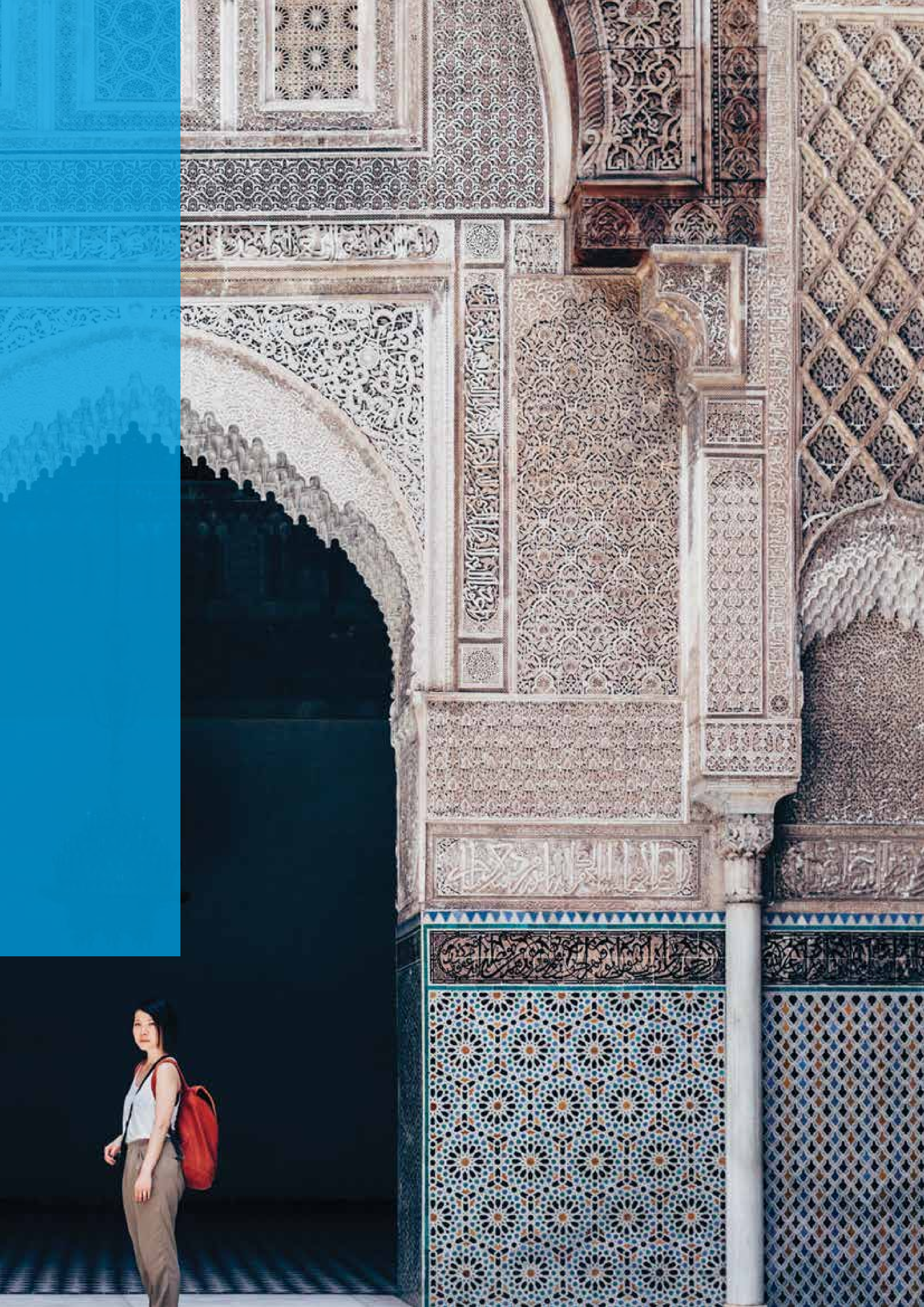
Chapter 1

CHINA'S OUTBOUND TOURIST MARKET IS GROWING FAST



Chinese outbound tourism has become the biggest tourist segment in the world. Where once tourists from China stayed close to home, they are now venturing farther afield thanks to more flexibility in international travel requirements (visas), an increasing interest in experiencing destinations outside of their comfort zones, and rising incomes.

Using findings from an in-depth quantitative survey of more than 2,000 Chinese tourists[1], we have uncovered new insights on China tourism trends, tourist behavior, and customer segments. The archetypes defined through this research will be of interest to travel agencies, retailers, and hotel brands as they try to capture a share of the growing Chinese outbound tourist market.

China is the world's largest outbound travel market when measured by trips and expenditures. As of 2015, Chinese tourists took 4 billion domestic tourism journeys and 117 million outbound trips; outbound trips are expected to reach 160 million by 2020.[2] In 2017, Chinese outbound tourists took approximately 131 million trips.[3] More than 70 percent of Chinese tourists travel with family and friends, and they exhibit the highest international spending per trip among global travelers. In addition, Chinese outbound tourism market expenditures are expected to grow by a compound annual growth rate (CAGR) of 5.4 percent, reaching more than $315 billion a year in 2020 (Exhibit 1).[4] The number of outbound trips from China more than doubled from 2010 to 2015, growing at a CAGR of 15 percent.[5]

Multiple factors have contributed to the continued strength of the Chinese outbound tourist market: higher income and more overseas experience, supported by access to travel information online and air connectivity and accessibility (Exhibit 2). In addition, as of early 2018, 66 countries and regions had altered their visa restrictions, making it much easier for Chinese outbound tourists to travel to these places.[6]

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[1] McKinsey 2017 China outbound traveler survey.

[2] "China tourism statistical bulletin 2017," Ministry of Culture and Tourism of the People's Republic of China, 2017, en.cnta.gov.cn; McKinsey analysis.

[3] "China tourism statistics of 2017," Ministry of Culture and Tourism of the People's Republic of China, 2017, en.cnta.gov.

[4] "China tourism statistical bulletin 2015," Ministry of Culture and Tourism of the People's Republic of China, 2015, en.cnta.gov.cn; World Tourism Organization (UNWTO), an agency of the United Nations; McKinsey analysis.

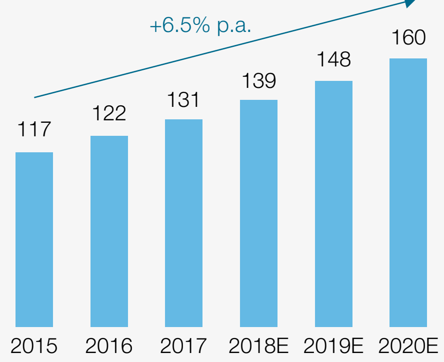
[5] UNWTO; McKinsey analysis.

[6] "Ctrip tracks record-breaking growth in Chinese outbound tourism," Travel Daily Media, April 9, 2018, traveldailymedia.com.

Exhibit 1

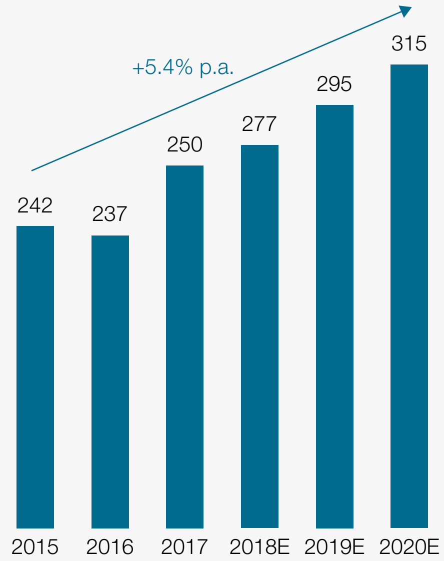
Average expenditure per trip is expected to slightly decline, resulting in outbound expenditure growing slower than the number of outbound trips.

Number of outbound trips
Million



Average expenditure per trip
Thousand, $

Outbound trip expenditure total
Billion, $



- Outbound expenditure is expected to grow at a compound annual growth rate of 5.4%, slightly lower than that of outbound trips[1]
- Average expenditure will decrease by 0.3% due to increase of travelers from Tier 3 and Tier 4 cities

[1] To calculate the expected numbers from 2018 to 2020, we used the average exchange rate of dollars against yuan from January 2018 to August 2018 to calculate the market size in dollars. The compound annual growth rate in yuan from 2015 to 2020 is 6.1% per annum due to the fluctuation of the exchange rate.

Source: China Tourism Statistical Bulletin 2017; McKinsey analysis

Exhibit 2

Number of China outbound trips more than doubled from 2010 to 2015 and is expected to reach 160 million in 2020.

Drivers of China's outbound tourist market remain strong

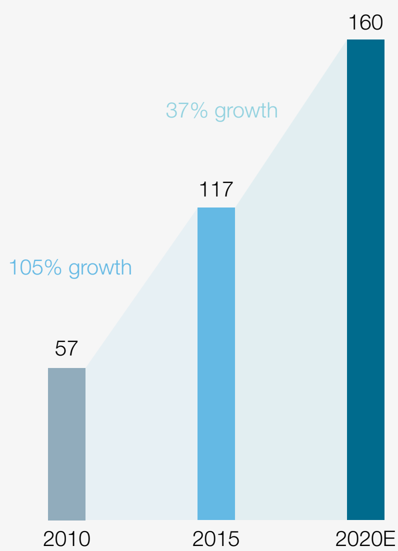
Internal factors

- Higher income
- More overseas experience

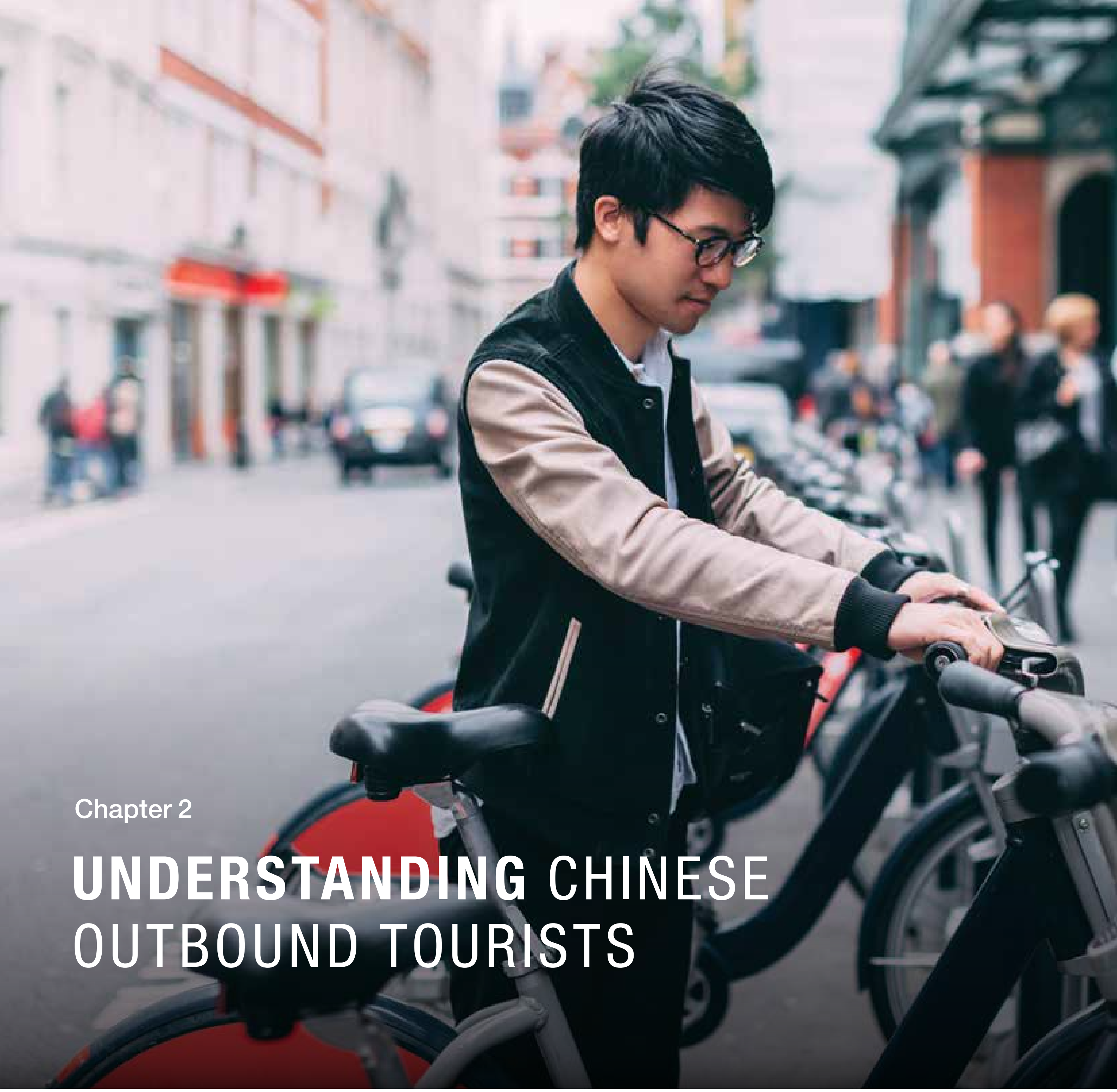
External factors

- Access to online travel information
- Friendlier visa policy
- Air connectivity and accessibility

Number of China's outbound trips
Million



Source: The World Tourism Organization (UNWTO); McKinsey analysis



Chapter 2

UNDERSTANDING CHINESE OUTBOUND TOURISTS

As their numbers continue to grow, Chinese outbound tourists are undergoing significant changes in travel preferences, behaviors, and spending patterns. However, numerous myths and outdated impressions of Chinese tourists persist in the tourism industry. Our survey detected eight myths in particular that travel agencies and other players should challenge to better serve this valuable traveler segment (Exhibit 3).

For example, the assumption that Chinese tourists mainly travel to shop is not true; they prefer experience-based travel. Chinese travelers also have a palate that extends beyond their local cuisine, and fine dining is becoming more highly valued among certain traveler groups as well.

Chinese travelers also have a palate that extends beyond their local cuisine.

Exhibit 3

Industry players should rethink their assumptions about Chinese outbound tourists.

What they like to do	Myth	Reality
1	Shop! Shop! Shop!	Experience matters more
2	Exclusively visit iconic landmarks	Diverse travel needs
How to accommodate them		
3	Short length of stay	Longer length of stay
4	As travelers gain experience, decline in package tours	Package tours on the rise
5	Only have taste for Chinese cuisine	Fine dining highly valued
6	Cash transactions only	Alipay/WeChat is a must
How to attract them		
7	Rely on traditional travel agencies	Friends and family play pivotal role
8	Travel apps are more important than websites	Apps not used extensively

2.1 EXPERIENCE MATTERS MORE

Chinese tourists have a diverse appetite for outbound trips, dispelling the myth that this group prefers to take a trip only to partake in shopping. According to our research, when planning a trip, Chinese outbound tourists desire places that offer natural scenery (for 65 percent of respondents), high value for money, and family-friendly locales, though the importance of these factors varies by destination.

For example, tourists searching for destinations that provide natural scenery opt to travel to Europe, North America, and Oceania. In contrast, outbound tourists who want to go shopping might travel to Hong Kong and Macau, due to lower barriers to visa applications and shared languages. However, for long-haul destinations, shopping does not always rank in the top three considerations when booking travel.

2.2 DIVERSE TRAVEL NEEDS

Just as the appetites for outbound trips are diverse, so too are the needs of tourists once they reach their destinations. Our survey findings reveal that visiting landmarks is no longer the number-one reason for traveling to a destination. Instead, our survey found that tourists have a more open mind and want local experiences (61 percent of respondents), whether it's taking in local culture and art or visiting niche destinations. The most popular reason for Chinese tourists to travel is to recharge (70 percent of respondents). Travelers going to Southeast Asia, for example, generally prioritize unplugging from stressful urban life and relaxing with family and friends.

Younger travelers in particular are more confident in venturing into new territories. Less-traveled destinations, such as Africa and the Middle East, are fitting choices for tourists seeking adventurous activities. Local experience matters more than perfunctory visits to iconic landmarks, which is why Chinese outbound tourists no longer view such destinations as priority stops during their travels.

2.3 LONGER STAYS AND FARTHER DESTINATIONS

Chinese tourists no longer only want to stay close to home. Although short-haul destinations such as Hong Kong and Macau are currently the most popular among Chinese tourists (due to proximity and shared languages), the destination mix is rapidly shifting to long-haul destinations, challenging the assumption that these travelers only require short-stay accommodations.

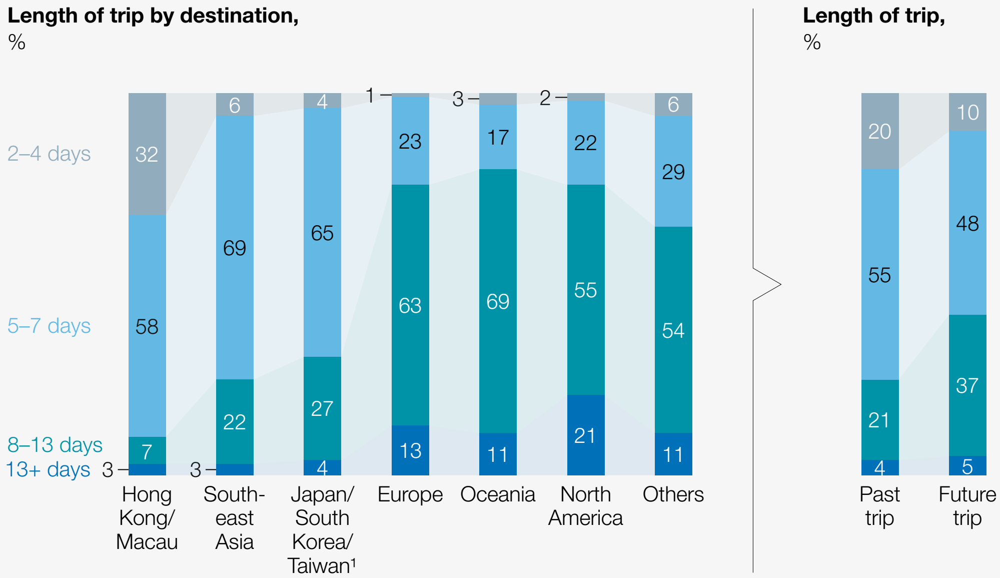
After travelers successfully complete one outbound trip, they often feel empowered to take another—and go farther. In the years to come, we predict long-haul destinations such as Australia, Europe, and the United States will take significant market share from destinations in greater China, eventually representing about half of the outbound travel market.

Less-traveled destinations such as Africa and the Middle East currently account for a small share of Chinese travelers, but that number is growing quickly. And as the number of long-haul trips increases, so will the length of each stay. For example, of the tourists traveling to North America, 21 percent stay for 13 days or more (Exhibit 4). As this report will discuss, the increased length of stay and growth in long-haul travel provides opportunities for hotels to attract Chinese tourists.

Exhibit 4

Chinese outbound travelers are making more long-haul trips, which means the length of stay will increase.

Travel facilities, especially those serving long-stay visitors, such as hotels and resorts, should be fully prepared to embrace the new influx of Chinese visitors.



[1] Regions are grouped by the similarity of tourists' travel patterns in each destination.

Source: McKinsey 2017 China Outbound Traveler Survey

Chinese tourists visiting the United States are **35** years old, on average

Based on our survey results, we found Chinese travelers make up much of the tourist share in several large travel markets and are younger compared with tourists from other countries. For example, Chinese tourists visiting the United States are 35 years old, on average, which is lower than the average reported for the more than 40 other destinations analyzed for this report. In the United Kingdom, more than half of Chinese visitors were aged 16 to 34 years old, which is younger than most visitors to all the other destinations analyzed. In Japan and South Korea, 63 and 70 percent of outbound Chinese travelers, respectively, are less than 40 years of age.[7]

Young travelers provide more value to the travel industry as they have a longer lifetime of travel ahead of them and more time to increase their income.[8] Most important, the younger generation of travelers will have more diversified needs for customized destinations and products.

2.4 PACKAGE TOURS ON THE RISE

As Chinese outbound tourists travel more extensively and farther from home, many industry leaders assume that package tours will be less popular. However, semiself-guided and high-end package tours are on the rise as seasoned travelers demand a customized and

[7] Data are drawn from government statistics from countries including Australia, Japan, the United Kingdom, and the United States.

[8] Young travelers in this report are defined as aged 35 or younger.

flexible travel experience.[9] This group has more travel experience and therefore higher expectations for travel. Indeed, our research shows that age is a factor in the popularity of certain types of tours. Self-guided tours, for example, are favored by 44 percent of travelers aged 20 to 24, and that number drops to 27 percent for tourists more than 60 years of age.[10] Meanwhile, package tours of 10 to 20 people account for just 4 percent of the youngest cohort of tourists but become more popular with older demographics, representing 30 percent of tours for the oldest tourists, who are more than 60 years of age (Exhibit 5).

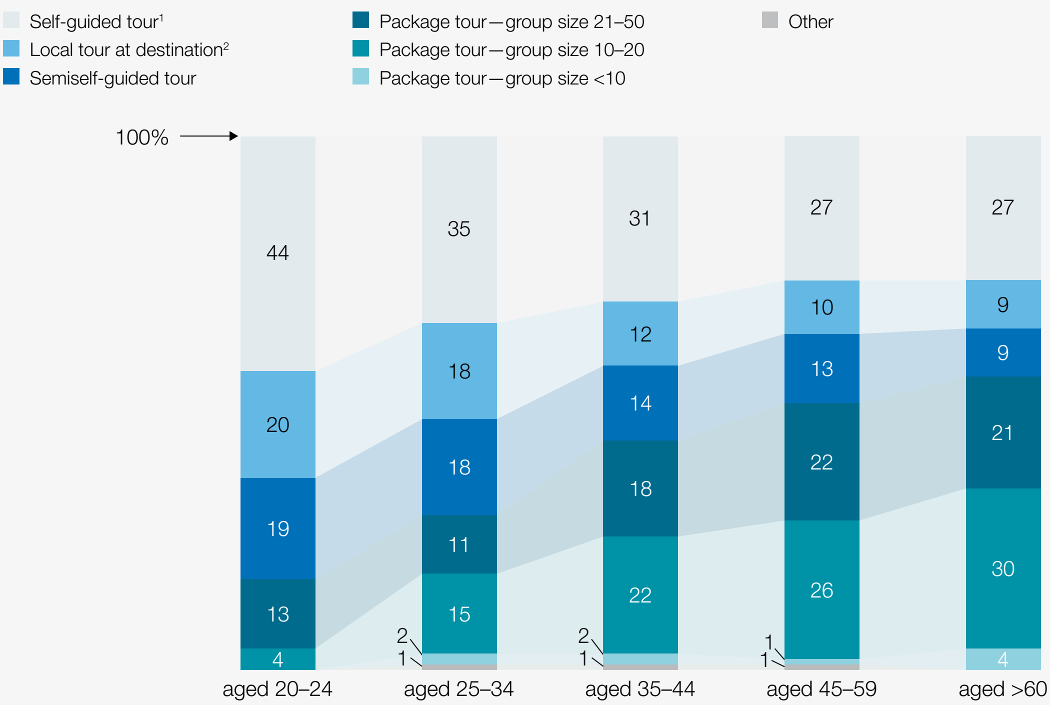
In addition, the popularity of self-guided tours will decline as travelers continue to move toward long-haul destinations where language and cultural barriers can make it a challenge to participate in tours without a translator (Exhibit 6).

[9] Semiself-guided tours are when travelers purchase their own flights and hotels but hire a local tour guide to arrange and lead activities.

[10] Self-guided tours are when travelers are responsible for buying their own airline tickets and hotels and arranging all their activities.

Exhibit 5

Self-guided and semiself-guided tours are more favored by the younger population.



[1] Planned the entire itinerary by yourself, including flight, accommodation, and all activities.
[2] Self-guided or semiself-guided tours.

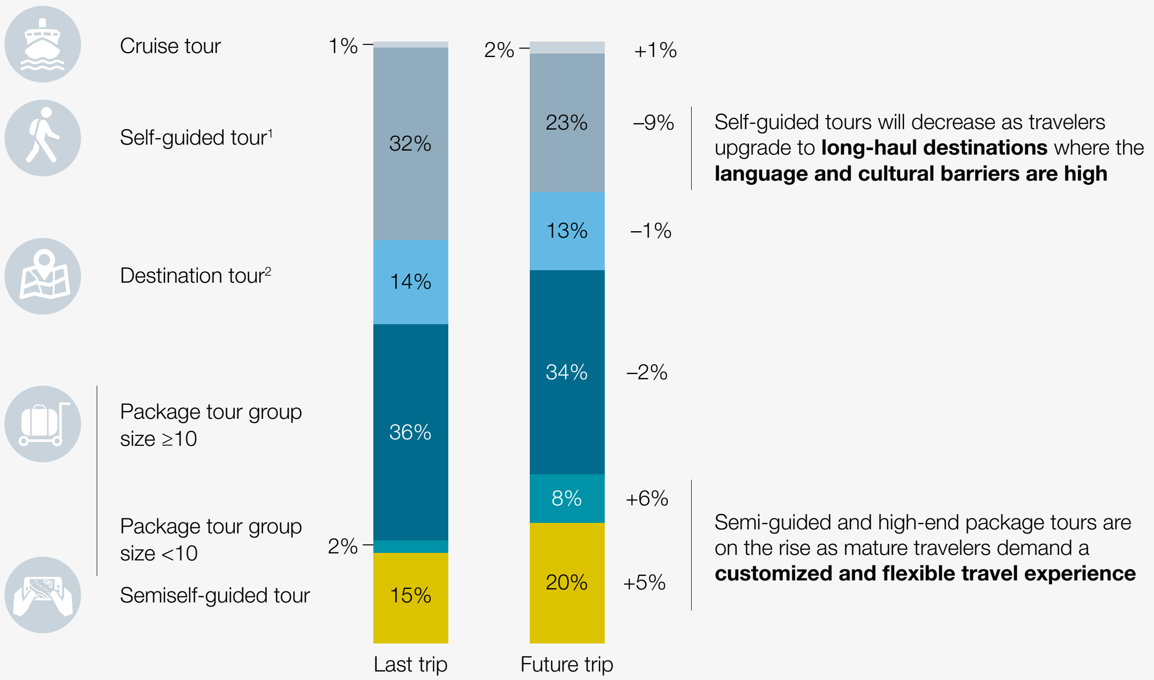
Source: McKinsey 2017 China Outbound Traveler Survey

The highest number of package trips are booked to Southeast Asia and Europe despite the difference in distance for Chinese tourists and the average spending associated with such destinations. While Southeast Asia is usually the first destination for Chinese travelers when they opt for farther destinations, the language barrier is more substantial when compared with destinations such as Hong Kong, Macau, and Taiwan. Thus, travelers are more inclined to seek out self-guided tours rather than organize the trip on their own.

A trip to Europe can also provide a language barrier, which is why a travel agency can help mitigate confusion, especially for travelers who want to visit multiple destinations. In contrast, destinations such as North America and Oceania have lower package tour bookings because these regions are more familiar to Chinese travelers, who often make the trip to sightsee or visit family (Exhibit 7).

Exhibit 6

Semiself-guided tours and package tours of small groups will see significant growth in the future, while self-guided tours will decline.



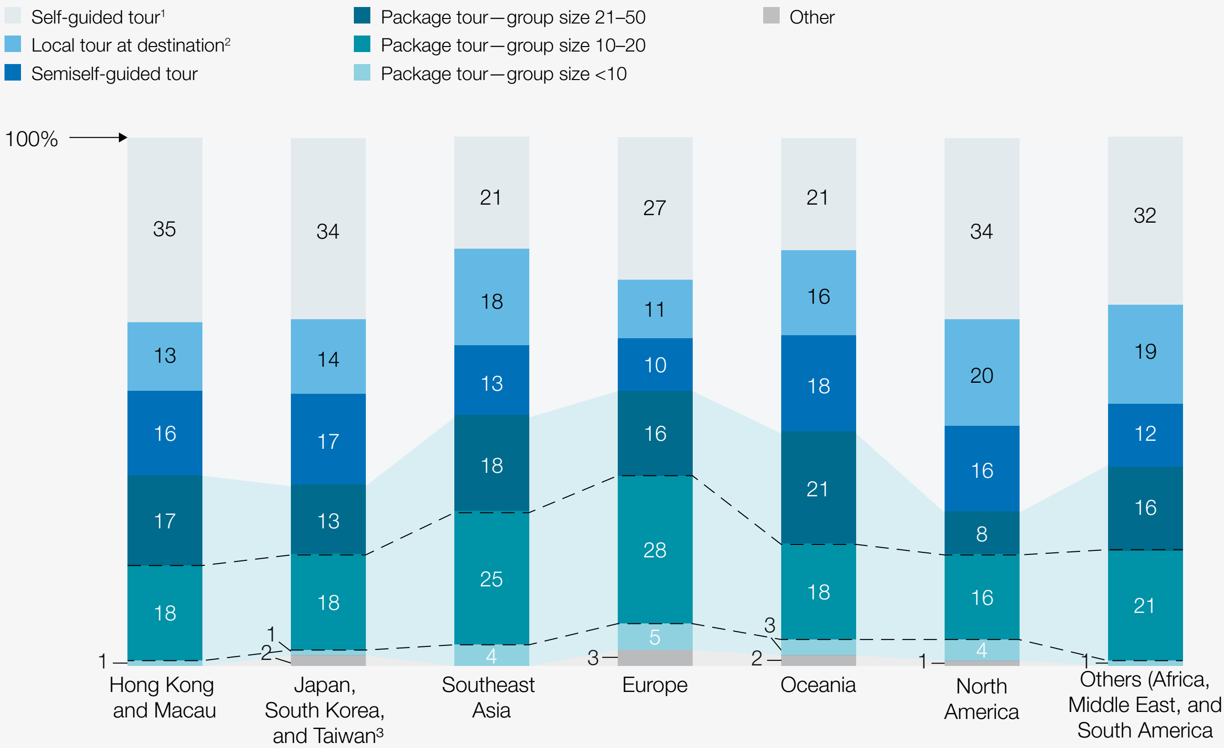
[1] Planned the entire itinerary by yourself, including flight, accommodation, and all activities.
[2] Self-guided or semiself-guided.

Source: McKinsey 2017 China Outbound Traveler Survey

Semiself-guided and high-end package tours are on the rise as mature travelers demand a customized and flexible travel experience.

Exhibit 7

Southeast Asia and Europe, despite the difference in distance and spending, have the highest volume of package trips.



Of the three tour types:

- Tours in Hong Kong and Macau; Japan, South Korea, and Taiwan are mostly self-guided and semiself-guided possibly due to distance.
- Tours in Southeast Asia and Europe each had ~50% of tourists choose package tours, perhaps because they were unfamiliar with these destinations.
- Tours in Oceania and North America fall in the middle.

Major reasons for low package tour participation in Hong Kong and Macau; Japan, South Korea, and Taiwan; and Oceania and North America may include:

- Familiarity: Hong Kong and Macau, and Japan, Korea, and Taiwan have similar cultures and languages; Oceania and North America include predominantly English-speaking destinations with a long history of Chinese immigration.
- Complexity: Travelers to Hong Kong and Macau, and Japan, South Korea, and Taiwan visit just the one destination per trip, whereas travelers to Europe and Southeast Asia visit two to three destinations per trip.

Note: Not all figures sum to 100 due to rounding.

[1] Planned the entire itinerary by yourself, including flight, accommodation, and all activities.
[2] Self-guided or semiself-guided.
[3] Regions are grouped by the similarity of tourists' travel patterns in each destination.

Source: McKinsey 2017 China Outbound Traveler Survey

2.5 FINE DINING IS HIGHLY VALUED

Our research shows that Chinese tourists are ready to expand their palates. Contrary to the myth that this tourist population prefers their own cuisine, travelers do go to certain destinations specifically to try food. For example, Japan, South Korea, and Taiwan are known for their cuisines and are also popular destinations for travelers looking to gain new dining experiences. Travel agencies working to sell packages or tickets to these areas can use food as a key attraction. Fine dining has also seen a slight increase in popularity among

While the average expenditure per trip is expected to slightly decline, the overall yearly growth in outbound tourism is expected to be 6.5 percent, which will increase total outbound expenditures.

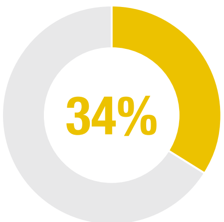
certain segments of Chinese outbound tourists; 34 percent of those surveyed chose fine dining as the most important factor when deciding where to travel.

Social sharing of dining experiences across platforms such as WeChat is responsible in part for the increased desire to experience new cuisines. Pictures and reviews help promote restaurants and encourage engagement.

2.6 DIGITAL TRANSACTION METHODS ARE A MUST

China is the largest outbound tourism market as measured by visitor spending, making it the main growth driver of the global outbound tourist market. While the average expenditure per trip is expected to slightly decline, the overall yearly growth in outbound tourism is expected to be 6.5 percent, which will increase total outbound expenditures.

Chinese travelers are the top spenders in most of the destinations they visit. In Japan, for example, Chinese tourists are the highest spenders, at $2,200 per capita.[11] In Australia, China is the second-largest source of inbound arrivals and the largest source of inbound tourist spending.[12] Further, China has also become the top source of inbound tourist spending in the United States after more than a decade of growth.[13] This rise in expenditure is valuable to industry operators, but only if they are able to capture it.



of those surveyed chose **fine dining** as the most important factor when deciding where to travel

One common assumption uncovered through our research is that Chinese outbound tourists only want to pay with cash. However, Chinese travelers are more inclined to use digital channels (mobile apps, online forums, and websites, among others) to get information and make bookings for lodging and activities. Indeed, businesses without digital apps and mobile payment options in place are likely missing out on tourist dollars. Chinese travelers going to Hong Kong, Macau, and Southeast Asia, for example, tend to prefer local, online resources to book trips (such as Ctrip and Mafengwo) compared with tourists to other destinations such as Europe, who are more likely to use foreign services (such as Expedia and TripAdvisor).

In general, the younger generation (aged 20 to 24) is more digitally savvy than older generations; travelers in this segment use mobile apps more often than older generations. This generation, however, does not exclusively use apps to book travel, they also use online trip planners and payment platforms.

[11] Tourism statistics, UNTWO, e-unwto.org.

[12] International visitor arrivals, Tourism Australia, March 2016, tourism.australia.com; "International tourism snapshot," Tourism Australia, September 30, 2016, tourism.australia.com.

[13] UNWTO.

Credit cards and cash have not become obsolete. Indeed, cash is used as frequently as credit cards when comparing payment methods across age groups. Cash is used by 71 percent of travelers even as mobile payment gains popularity, especially among the younger age group. In addition, platforms such as Alipay and WeChat Pay have become the norm for transactions among travelers less than 45 years of age, with an average usage rate of 43 percent.[14] Thus, based on the preferences among younger generations, the current payment methods offered by Apple Pay, UnionPay, and traditional cash transactions won't be sufficient in the coming years (Exhibit 8).

2.7 FRIENDS AND FAMILY PLAY PIVOTAL ROLE

In many instances travel agencies are being replaced by recommendations from family and friends, challenging the assumption that Chinese tourists make trip decisions mainly based on travel agency information. Our research found that 57 percent of Chinese outbound tourists turn to their families and friends for inspiration and information

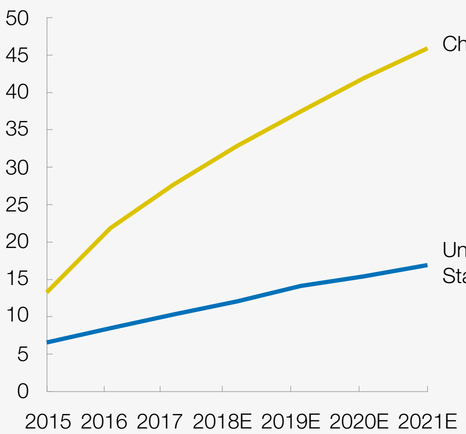
[14] PhocusWright; McKinsey analysis.

Exhibit 8

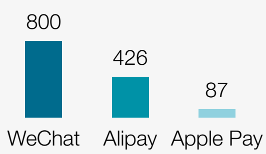
China leads in mobile payment penetration, particularly when compared with the United States.

Chinese mobile payments were more than 16 times greater than those in the United States in 2017

Mobile penetration for overall travel bookings,[1]
2015–21E,



Active payment app users, Q4 2017, million



Transaction value of 3rd party mobile payment, 2017
$ billion

[1] Leisure and unmanaged business travel players only, excluding corporate travel players that have travel policies dictating the channels, types of travel, suppliers or fares/rates used. Corporate online booking systems, such as SAP Consur and Sabre's GetThere network, are also excluded; 2018 market size in $ billion.

Source: Forrester; iReseach; Coney Dongre, "U.S. online travel overview seventeenth edition market sheet," PhocusWright, January 2018, phocuswright.com when deciding where to travel. Social media also plays a significant role in this decision-making journey.

2.8 APPS NOT USED EXTENSIVELY

Apps are generally considered to be the platform of choice for Chinese outbound tourists when researching or booking travel, but in reality they are not as popular as businesses may think. Even though the younger generation of Chinese outbound tourists heavily use mobile apps, online travel agency (OTA) websites are the top choice overall for making trip preparations. Fifty-two percent of those surveyed selected OTAs as their top choice for travel information, while only 15 percent of respondents selected OTA booking apps and 3 percent use international booking apps.

Chapter 3

SEGMENTING CHINESE **OUTBOUND TOURISTS**

Each year we segment Chinese outbound travelers to analyze their different behaviors, customer decision journeys (CDJs), and spending patterns. In 2015, we identified three archetypes, but for this year's report, we found that travelers and their behaviors have become more diversified. Thus, the segmentation expanded

to eight archetypes, which are defined based on respondents' attitudes and beliefs (Exhibit 9).

Exhibit 9

Chinese outbound tourists are not homogeneous; there are eight archetypes with drastically different preferences and behaviors.

Value-seeking Sightseer
- Mothers and fathers, low to middle income[1]
- Travel is important to get away from the hustle and bustle of life and to enjoy quality family time
- Value-oriented, prefers basic sightseeing with a laid-back schedule
- Not a big shopper and more willing to spend on comfortable hotels and transportation

Shopper
- Married couples, aged 30–40
- Prefer a shopping-oriented travel experience and basic sightseeing
- Highly influenced by social media and plans meticulously to seek the best-value deal
- Conservative spending on items unrelated to shopping

Individualist
- Aged 20–30, white collar with high income
- Strong self-awareness
- Desires a personalized and customized trip experience
- Wants to be the first to see adventurous, niche, and unique places
- Enjoys influencing friends
- Seeks high-quality accommodations and food experiences

Backpacker
- Low- to middle-income workers aged 20–30
- Enjoys outdoor activities and experiencing local culture, such as going to farmers markets or visiting mountains and destinations unknown to most visitors
- Price sensitive but willing to spend money on entertainment and local activities

Aspirant
- Low income from Tier 1 or Tier 2 city
- Wants modern, metropolitan life, even when stretched financially
- Puts emphasis on family and friends; seeks high-status recognition from friends
- Willing to exceed budget

Sophisticated Traveler
- Middle-aged, high income
- Enjoys designing own unique travel experience
- Prefers to immerse in local culture
- Places emphasis on quality (especially dining experiences)
- Less price sensitive

Unplugged
- Single, middle income
- Feels tired, either from stress at work or being uninspired by current life
- Doesn't have specific needs but wants to escape from daily hassles and burdens
- Price sensitive

Novice Traveler
- Middle income
- Not very active, influenced by peers
- Prefers Chinese-speaking tour service due to high language barrier
- Favors going on tours and visiting iconic landmarks

[1] Low income refers to a monthly household income of 11,999 yuan or less ($1,776, based on the average exchange rate in 2017); middle income refers to a monthly household income of 12,000 to 24,999 yuan ($1,776 to $3,700); and high income refers to a monthly household income of 25,000 yuan or more ($3,700).

Source: McKinsey 2017 China Outbound Traveler Survey

3.1 NOT ALL GROUPS SPEND MONEY THE SAME WAY

Our research revealed several insights into each archetype. For example, Aspirant travelers are often willing to exceed their set budgets while on vacation and income level is not always a deterrent to total spending.

Travelers are not confined to their segment for life; as their financial status shifts over time, they may transition from their current segment into another. For example, an Aspirant may evolve into a Sophisticated Traveler, as both archetypes appreciate quality. Backpackers may evolve into Individualists, since these archetypes prefer niche and adventurous travel experiences.

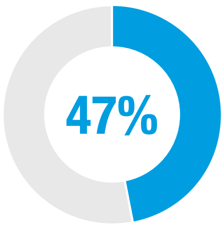
In addition, an archetype's spending habits can also influence travel location; Hong Kong and Macau are both top destinations especially for the Backpacker and Value-seeking Sightseer, possibly due to their low spending threshold.

3.2 TOUR PREFERENCE DIFFERS BY ARCHETYPE

Each archetype also has different tour preferences. For example, self-guided travel is more preferred by the Backpacker and Sophisticated Traveler segments, because while the two types differ in income levels, they are both willing to spend money on immersive experiences that highlight local culture and activities. In contrast, the Shopper and Novice Traveler are less likely to pay for self-guided tours because they are conservative when spending money on nonshopping activities (Shopper) and desire tours that eliminate language barriers (Novice Traveler). A package tour is more likely to be chosen by Aspirant, Novice Traveler, Shopper, and Unplugged archetypes to avoid the hassle of complex planning.

3.3 SHOPPING IS JUST ONE OF MANY ACTIVITIES

Our research found that 47 percent of Chinese outbound travelers consider shopping an essential part of their outbound trip. While tourists will not travel solely to shop, certain travelers are unlikely to go on a trip without including shopping in their itineraries. This behavior is more prominent for the Individualist, Shopper, and Sophisticated Traveler segments as well as travelers bound for destinations such as Japan, South Korea, or Taiwan; continents such as Africa, Europe, and North and South America; and regions such as the Middle East.



of Chinese outbound **travelers consider shopping an essential part** of their outbound trip

Indeed, 36 percent of these tourists will compile a shopping list before their trip, 35 percent will buy products only from well-known brands, and 62 percent will purchase products not available locally. For example, the Aspirant, Backpacker, Novice Traveler, and Unplugged archetypes buy products only from well-known brands when they travel, especially in destinations such as Japan, South Korea, and Taiwan; continents such as Africa and South America; and regions such as the Middle East; and South America. Chinese tourists in regions such as Europe, Oceania, Southeast Asia, and destinations such as Japan, South Korea, and Taiwan tend to buy products not available locally; for the Shopper, Sophisticated Traveler, and Novice Traveler archetypes this behavior is particularly apparent.

Aspirants and Individualists tend to have shopping lists prepared before traveling, especially for such destinations as Africa, Japan, the Middle East, South America, South Korea, and Taiwan.

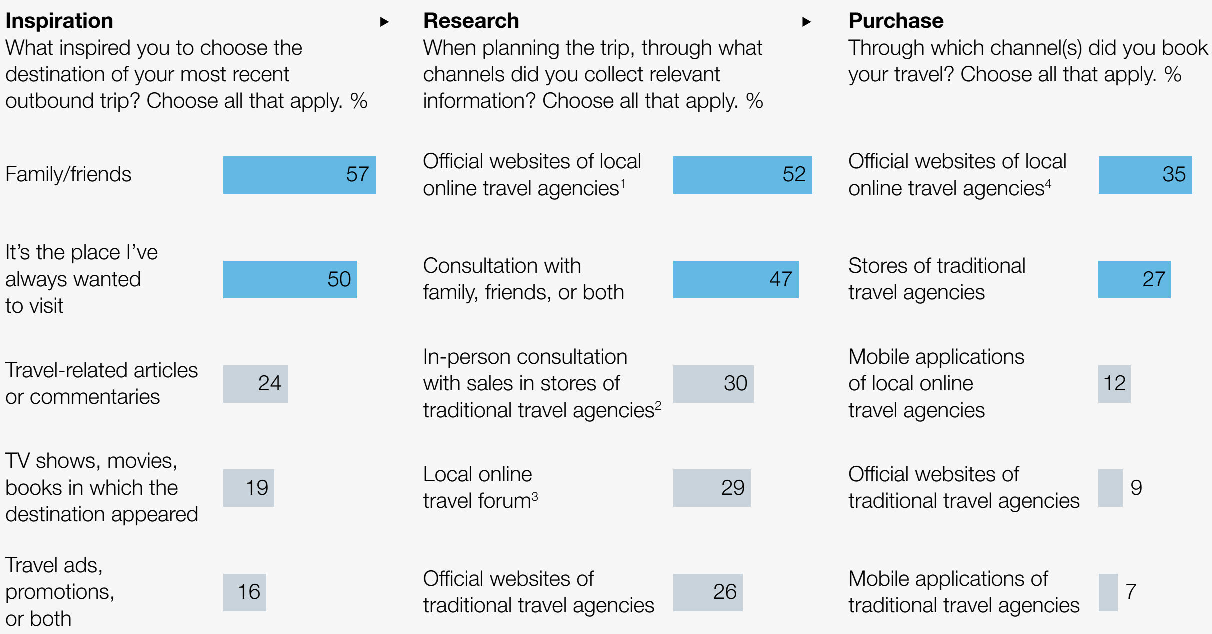
3.4 FAMILY AND FRIENDS INSPIRE CONSUMER DECISIONS

Chinese outbound tourists typically move through three phases when planning a trip: inspiration, research, and purchase. Inspiration generally comes from family and friends, or social media; while researching and purchase decision making are influenced by travel agency websites. Friends, family, and the traveler's personal interest are the biggest determinants of the destination of choice, regardless of segment (Exhibit 10).

Sophisticated Travelers and Individualists tend to serve as key opinion leaders by sharing their experiences on social media and are more likely to influence their followers than other

Exhibit 10

Inspiration behind consumer decision journeys usually comes from family and friends or oneself and researching and purchasing usually from online travel agency websites.



Inspiration: Family and friends have the highest influence, followed by one's own desire. **This outcome suggests that key opinion leaders can be an important source of influence or referrals.**

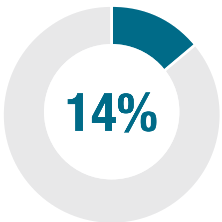
Research: Online travel agency website is the most favored channel, followed by family/friends (~50%); however, apps are not in the top five for consideration because they usually provide fragmented information about attractions, public transport, and restaurants. Instead, people in the research phase tend to collect information from more comprehensive sources such as OTAs.

Purchase: Online travel agency website is the top choice followed by traditional travel store. Mobile apps are the third most popular purchase channel (12%).

[1] Eg, Ctrip, Lvmama, Tuniu.
[2] Eg, China International Travel Service, China Cyts Tours.
[3] Eg, QiongYou, Mafengwo.
[4] Eg, Ctrip, Tuniu, Qunar, Feizhu.

archetypes. Aspirant, Backpacker, Individualist, and Novice Travelers are more easily influenced by others (such as key opinion leaders) because they want to have similar experiences to those viewed on social-media channels. Meanwhile, the Backpacker and Unplugged archetypes are the most disconnected from social sharing and would prefer to find their own adventures and experiences away from crowds and high-volume tourist areas.

Once travelers commit to taking a trip, the research and purchase approaches become fragmented across archetypes. For example, some groups use top research channels, including travel agency websites such as Expedia, while groups such as the Value-seeking Sightseers and Shoppers prefer brick-and-mortar travel agencies.



of tourists use **OTA and international apps for booking**

OTAs are ranked in the top three channels across archetypes for completing purchases and the buyer journey. Individualists are more likely than any other segment to complete their trip purchase on mobile apps because their generation uses phones for most of their general purchasing and decision making.

Overall, mobile apps are not the most popular channel for trip preparation and booking. Only 15 percent of survey respondents reported using OTA apps as a source of travel information. When completing a booking, OTA apps were used by only 12 percent of tourists; and international booking apps were used by only 2 percent of respondents. Industry leaders looking to invest in apps for their digital strategies should conduct careful evaluations as they play a limited role in moving customers along their decision journey.

Chapter 4

MARKET OPPORTUNITIES

The outbound travel market is growing, tourist expenditures are increasing, and traveler preferences and behaviors are evolving. By applying the findings from this year's survey, certain industries can pinpoint opportunities to attract specific traveler segments.

4.1 TRAVEL AGENCIES

Outbound tourism will be the primary factor affecting the travel agency and high-end tourism markets and will outpace overall outbound market growth. Our research reveals two categories of competition that will be important for travel agencies to note as leading players consolidate across the value chain:

Competition based on customer source. Baidu, Alibaba, and Tencent (BAT) and Ctrip have major access to tourist sources through their extensive network of online channels, leaving small OTAs or traditional brick-and-mortar retailers behind. The smaller outfits simply don't have the resources to invest in a larger online presence or customer acquisition efforts. Thus, BAT and Ctrip can dominate the online retail market share by using their expansive digital presence to capture large volumes of tourists.

Competition based on travel product. Four types of players (large traditional, small emerging, OTAs, and regional agencies) are involved in product-based competition, which has allowed "the small and focused emerging travel agencies" to achieve the fastest growth in the outbound travel market. There is, however, a limited amount of time for companies to build more market share.

UTour, for example, is one company taking advantage of the current opportunity window by building capabilities in resource integration, product development, and sales. The company has been carefully cultivating an overseas, outbound travel business, garnering fast income growth. From 2011 to 2015, Utour reported an approximately 45 percent increase in income. In addition, Utour is focusing on centralizing the purchasing of different resources, integrating them into products based on customer needs, and closing sales through as many channels as possible.

Overall, the offline retail market is highly fragmented with the potential for further consolidation. In the travel agency space, multinational travel operators have underperformed due to a lack of strategic emphasis on the China market.

Applying customer segments to marketing. The ideal target audience for package tours is individuals inspired by friends and family or research via an OTA. These travelers prefer hassle-free products and are value driven. In general, the target audiences for high-end or low-end package tours have similar perspectives on what counts as "hassle free" and "value driven." However, high-end travelers prefer to "let things take their own course" while low-end targets care more about shopping.

Travel agencies can use insights on the different traveler segments to inform how they approach marketing or to help identify which groups are the most likely customers. For example, the Unplugged and Novice Traveler archetypes prefer package tours with large groups, as they are price sensitive and enjoy seeing tourist landmarks while enjoying a more relaxed experience.

Aspirant travelers **value quality above price**

Aspirant travelers are more likely to choose high-end package tours as they value quality above price. The Sophisticated and Individualist traveler segments seek unique and high-quality travel experiences, such as customized activities, end coach tours, and semiplanned

To better attract high-end travelers, travel agencies should have expertise in providing unique and customized services.

trips. Meanwhile, Backpackers are drawn to local culture and active outdoor activities and could provide more opportunity for travel agencies as their spending potential grows alongside their income.

Capturing the high-income segment. High-income consumers are increasing their outbound travel spending, which means more potential income for travel agencies ready to capture the opportunities. This group prefers customized, exclusive, and private experiences and often identifies a clear purpose or theme for trips, such as wine tasting or architecture. Further, these travelers desire adventures in less-traveled destinations, such as Africa or the South Pole, and they are most likely to use online channels to purchase the trip.

To better attract high-end travelers, travel agencies should have expertise in providing unique and customized services. Agencies looking to develop or maintain a strong brand should curate offerings by finding and applying customer insights, possessing scarce resources at destinations, and acquiring access to high-end customers.

4.2 RETAIL INDUSTRY

Travel retail suppliers are uniting and increasing their negotiating power. Brands have also significantly consolidated, with the top four players in each category accounting for more than 50 percent of annual retail sales.[15] Consolidation of the airport retail market doubled in the past ten years, which allows retailers to offer a broader array of services and channels to customers with a consistent experience. For retailers to earn tourist dollars and remain competitive in today's retail ecosystem, they must focus on building partnerships with key brands and the top duty-free companies in China.

Indeed, in the airport retail market, vendors are already establishing partnerships with brands to grab hold of potential value propositions derived from scale and outreach. Players are entering vertical retail, especially in high-margin categories. Given the importance of airports as locations to improve a destination's image and awareness, brands are increasingly going direct.

Overall, travel retail is consolidating but at a slower pace than airport travel retail. Of the top ten airport retailers, nine are also in the top ten in overall travel retail, and in 2015, the top three airport retailers brought in $13 billion in total revenue. Consumers' preferences for duty-free products are also changing: beauty and fashion retailers are increasing their share of duty-free sales, while tobacco and liquor are decreasing. The momentum

[15] The top four players vary depending on which category is being assessed; McKinsey analysis.

Customer behaviors and competitive offers are evolving along the travel journey, resulting in a shift in wallet share.

for this shift is due to a combination of evolving consumer behavior and a changing macroenvironment. For example, Chinese consumers are more and more conscious of health and wellness, while the Chinese government's anticorruption movement subdued consumer spending on expensive tobacco and liquor.

The emergence of cross-border e-tailing also influenced the evolution of duty-free shopping. Consumers can now shop on a website in the comfort of their homes and have purchases delivered to their doors. Shopping at the airport is no longer the only option for obtaining duty-free products. Faced with limited market opportunities, the leading international travel retailers are adopting various development models to break the deadlock. Policy breakthroughs, for example, are one way to address the constraints faced by local players because they can alleviate the restrictions on duty-free allowances through political lobbying. Multichannel traffic generation is another option for retailers, whereby they can expand and cultivate their internet and digital presence to connect with domestic and international tourists. Understanding customer needs and segments is key to successfully executing this approach.

Capturing customer segments. The retail target includes three customer archetypes: Individualist, Shopper, and Sophisticated Traveler. These tourists tend to vacation more than once a year, and (planned) shopping is an essential component of these trips. The Shopper archetype, for example, is price sensitive, will meticulously plan trips, and has high expectations for accommodations and experiences. However, once their needs are met, they have high spending potential.

Customer behaviors and competitive offers are evolving along the travel journey, resulting in a shift in wallet share. As Chinese travelers become more price savvy, they will accept a lower price premium for purchase in mainland China.

Further, the Chinese CDJ is becoming more omnichannel, which is why a multichannel traffic approach is important. In China, customers plan shopping even before they reach their destination, mainly through digital recommendations, research, and word of mouth. Chinese tourists also install duty-free apps on their mobile phones in advance of travel, and regularly update their information so retailers can access data that is generally up to date. Once Chinese customers reach their destination, they consistently search for shopping information and receive retailer-push notifications. The retail target CDJ includes more online platforms (such as websites and mobile) for research and purchase decisions, similar to the general population.

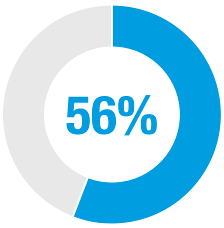
4.3 HOTEL INDUSTRY

Since 2011, China's domestic hotel market has exploded. As many as 3.4 million rooms were built from 2011 to 2016, which is equivalent to the entire Japanese hotel market.[16] Hotel brands, aware of the growing number of Chinese tourists, are trying to entice this growing population by establishing more overseas presence and building loyalty among Chinese tourists in China, hoping that loyalty will extend to outbound trips. The golden era of hotels has ignited fierce competition among four types of hotels—global hotel groups, local brands, nonstandard boutiques, and nonstandard hospitality platforms—fueling innovations and reshuffling market positions. So what does this competition mean in practice?

Global hotel groups (such as Hilton and Hyatt) are focusing on innovating and enriching product lines for customers through strategic M&A, which also allows hotels to acquire more high-end customers as well as meet diverse customer needs. For example, in 2017 Hyatt acquired Miraval, the wellness resort and spa group, to attract more health tourism visitors.[17] Hotel groups are also developing sub-brands to cater to specific traveler segments and markets. Club Med, for example, launched a new brand in China—Joyview—which offers unique products to target the growing middle-class demand for inner-city travel with flexible pricing.

Local hotel brands, eager to capitalize on Chinese customers' desires to trade up, are quickly rolling out product upgrades in local markets by introducing mid-high-end and lifestyle-focused brands that target segments with unique profiles. Boutique hotels are also carving out market space and showcasing value propositions by displaying deep understanding of local culture, integrating themselves into cities, and providing exclusive experience offerings. All of these strategic efforts will better prepare brands for successful future international expansions.

While hotels are focused on expanding offerings and remaining competitive, they should not ignore the growing presence of the sharing economy. Players such as Airbnb, which promotes unique experiences and a variety of accommodation selections, are widely accepted in China and in outbound destinations and appeal to a variety of tourists, including high-end travelers.[18]



of travelers across all archetypes choose **midrange hotels**

Capturing customer segments. Our research finds that 56 percent of travelers across all archetypes choose midrange hotels. The rest of the respondents express a variety of hotel preferences. For example, 21 percent of Aspirants are more likely to select high-end hotels for quality, such as Hilton or Sheraton, and are influenced by key opinion leaders and social media. Of the Individualist segment, 21 percent are likely to choose a high-end hotel to have a unique traveling experience that can be shared through social networks. Because lodging is not as important to the Unplugged archetype, 31 percent of the travelers in this segment will choose an economy or budget hotel (such as Super 8 or Best Western).

Destination preferences are also influenced by different factors across segments.

[16] *National Star Hotel statistics report* 2011–2017; UNTWO; McKinsey analysis.

[17] Danny King, "Hyatt adds wellness resort brand with Miraval acquisition," Travel Weekly, January 18, 2017, travelweekly.com.

[18] *New look at bespoke travel: The Chinese Luxury Traveller,* Hurun Report, 2017, res.hurun.net; McKinsey analysis.

Tourists traveling to Hong Kong and Macau, for example, are price sensitive, and a convenient location is critical. More than 80 percent of travelers to these destinations stay in economy or midrange hotels.[19]

Outbound tourists going to Japan, South Korea, and Taiwan also care about value for money and location, so travel agencies play a role in their decision making. However, unlike travelers to Hong Kong or Macau, these tourists favor a high-end hotel (Four Seasons) or a bed-and-breakfast experience offered by sharing platforms such as Airbnb.

For travelers going to Europe, hotel brands are more important, as they are less price sensitive, while travelers to Southeast Asia care about amenities that aid relaxation. Both groups of travelers have a higher percentage staying in luxury and high-end hotels.

In addition, travelers to locations such as the Arctic Circle, Oceania, and other long-haul destinations rank hotel quality as the most important factor when booking. Key attributes of this ranking include hotel brand, service, and facility. As discussed earlier in this report, the length of stay abroad is increasing for Chinese tourists as more of them embrace long-haul travel; industry leaders should be prepared to welcome this influx of Chinese outbound tourists.

The Chinese outbound tourist market offers many opportunities for travel industry players who are quick enough to act. While the income and needs of outbound tourists may continue to evolve, the volume of travelers will only grow. Industries that fail to adjust to changing market trends and the needs of specific tourist segments will find themselves crowded out by hotel brands, tour operators, and top retailers. Companies should be thoughtful about their key areas of investment to secure their future stake in this lucrative tourist market.

[19] McKinsey 2017 China Outbound Traveler Survey.

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