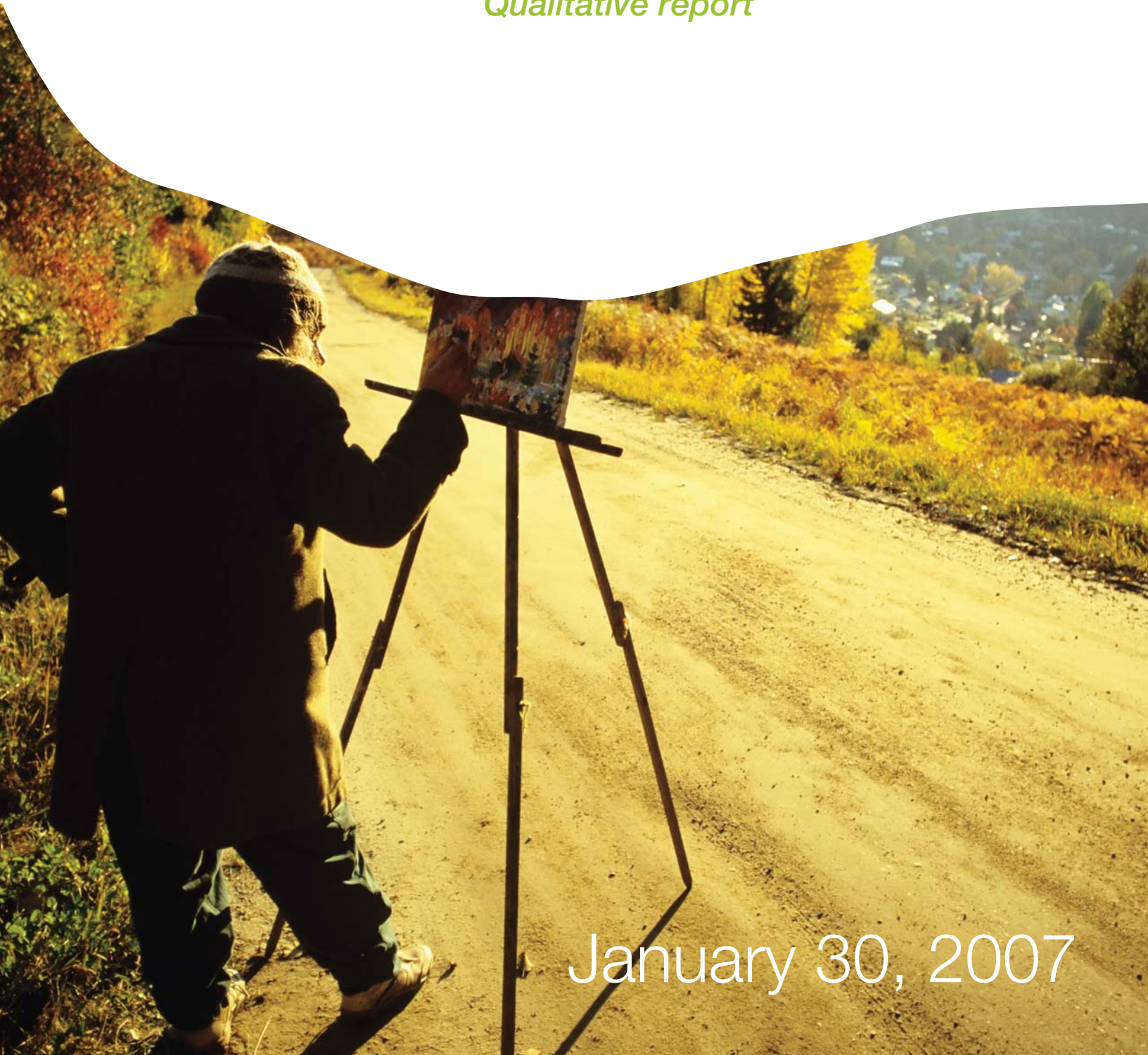


Travel Trade Research in China

Qualitative report



January 30, 2007

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The Canadian Tourism Commission (CTC)

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1. INTRODUCTION

“Let China sleep for when she awakes, she will shake the world”
Napoleon Bonaparte

Background and Objectives

The Chinese outbound travel market has witnessed explosive growth over the last three years, expanding at an average rate of 34% per year. In 2004, close to 29 million Chinese travelled overseas, with growth expected to hit 40 million this year. This is equivalent to every man, woman and child in Canada taking at least one international trip every year. It is no wonder that virtually every destination marketing organization, from Las Vegas to Kenya, has targeted this market in the hopes of sharing in the travel boom.

For Canada, China represents an untapped market with huge potential. In 2003, Canada had only a 0.4% share of the Chinese outbound market and a 3.4% share of total long-haul tourism. With Canada on the verge of obtaining ADS status, this will soon change. For example, Australia saw a significant 30% per annum boost in Chinese arrivals in the years following its ADS approval, and travel to ADS countries in Europe has picked up substantially.

In view of the imminent opening of the Chinese market, the Canadian tourism industry needs to be prepared to aggressively woo this market. With many destinations gaining ADS status ahead of Canada, competition will be intense. Canada and the regions need to ascertain how they are perceived in the marketplace, where the opportunities are, how to position themselves going in, how to do business in this market and how to work with the Chinese travel trade.

The Consumer and Travel Trade Research in China is being commissioned by the Canadian Tourism Commission (CTC) and a partnership group consisting of Alberta, British Columbia and Ontario. The study is intended to obtain market intelligence that will assist the Canadian tourism industry in developing appropriate marketing initiatives for the Chinese market in 2006 and beyond.

The research in China consisted of a quantitative component and a qualitative component:

- **Quantitative Research.** This consisted of a telephone survey of Chinese citizens to determine the incidence of long-haul travel in China and the potential for Canada, as well as an in-person survey of Chinese long-haul pleasure travellers to examine travel characteristics, motivations, interests and perceptions of Canada.
- **Qualitative Research.** This consisted of 30 executive interviews with the Chinese travel trade to obtain their views on opportunities for Canada and how Canada can work with the travel industry to develop the market in China.

This report covers the results of the qualitative research. The results of the quantitative component will be released under separate cover.

Methodology

A series of face-to-face interviews were conducted with 30 representatives of the Chinese travel trade to obtain their views on Canada as a potential vacation destination, opportunities and barriers for Canada, and product development and marketing strategies.

Respondents were key players in the Chinese travel industry, including leading travel agencies, airlines and tourism authorities. Travel agencies were selected on the basis of having operated tours to destinations outside of Asia, or having a serious interest in selling Canada (as identified by the CTC). Interviews were conducted with senior executives in the firm responsible for the development or marketing/sales of long-haul travel products.

The annual revenues of the participating travel agencies ranged from 20 million RMB to several billion RMB. The majority were in the range of 100 to 400 million RMB (CDN\$14 to \$57 million).

For the purposes of this study, long-haul travel was defined as travel by Chinese citizens to destinations outside of China, Hong Kong and Macau. This definition is consistent with the way that the CTC has defined long-haul travel in previous studies in China and the Asia-Pacific region.

Using this definition, the responding travel agencies reported that, on average, 56% of their total revenues was derived from long-haul travel and close to 30% was derived from travel to destinations outside Asia.

The executive interviews were also supplemented with a comprehensive literature scan that examined previously published reports, market profiles and articles in order to provide an overview of the Chinese outbound market and basic travel trends.

Organization of the Report

The results of the literature scan are provided in Sections 3 to 5 and give background information on the Chinese outbound travel market as a whole. The results of the executive interviews are covered in Sections 6 to 9 and focus on the long-haul market and travel outside of Asia. More specifically, the report is organized as follows:

- **Section 2** highlights the key findings from the qualitative research.
- **Section 3** presents an overview of the Chinese outbound travel market, including the external environment, growth characteristics and market outlook, based primarily on the results of the literature scan;
- **Section 4** summarizes the general characteristics of Chinese outbound travel and the trends that are currently shaping the marketplace;
- **Section 5** provides an overview of the Chinese travel industry, including general structure and key trends;
- **Section 6** examines the long-haul market and travel outside Asia, including emerging trends, key destinations, and challenges in developing the market, based on the in-depth interviews with the Chinese travel trade;
- **Section 7** focuses on product development and marketing considerations for long-haul destinations;
- **Section 8** looks at the potential of the Chinese market for Canada, including perceptions of Canada and the regions, Canada's strengths and weaknesses, and an assessment of product potential; and
- **Section 9** focuses on recommendations for Canada.

Note

Caution should be used in interpreting the results of the research with the travel trade as they are based on a qualitative methodology. In other words, they are the views and opinions of the specific interviewees, and not necessarily of the industry as a whole.

2. KEY FINDINGS

- **Since the leisure travel market first opened up in the early 1990s, outbound travel from China has seen explosive growth.** Between 1994 and 2004, outbound travel grew at a healthy clip of 24% per year, fuelled by the government’s increasing liberalization of outbound travel, a burgeoning economy and the growing affluence of Chinese citizens. By 2020, China is expected to be one of the world’s largest origin markets for tourists, with over 115 million departures each year.
- **The Chinese long-haul pleasure travel market is still in its infancy and tends to be dominated by large groups of Chinese travelling on package tours.** However, some of the characteristics of more mature markets are starting to emerge – FIT, special interest travel, luxury travel and “deep” travel to absorb the culture and lifestyles of a destination. These trends are expected to hit the mainstream in 3 to 5 years.
- **The top competitors for Canada in the long-haul market are Australia and Europe.** Australia is a relatively mature destination in the Chinese market, with strong nature products at a competitive price. More recently opened, Europe appeals to the Chinese on the basis of its deep history and culture, and the opportunity to visit many countries on a single trip. Canada will require strong marketing programs backed by heavy investment to compete with these well-entrenched destinations.
- **Once it opens, the US will likely be the strongest competitor for Canada.** The US benefits from greater social awareness in China, is perceived as offering more to do, and is seen as having more modern and trendy cities. At the moment, however, Canada has the upper hand, being the first to gain ADS.

MARKET CHALLENGES

- **The Chinese market has some unique characteristics that, taken together, can make market development a challenge.** These include the need for balanced visa regulations, a cut-throat retail environment, a lack of quality standards for travel products, severe shortages in air capacity, and cultural differences such as short vacations and last-minute bookings.
- **An effective visa policy is a must for any new ADS destination, including Canada.** According to the trade, destinations that have lower rejection rates, process visas faster, have streamlined

processes and are more service-oriented are more likely to win their attention and the interest of consumers. At the same time, visa regulations need to be stringent enough to prevent illegal immigration or overstays. Striking a proper balance is a must.

- **The Chinese travel trade recommends that new destinations be opened slowly, through a selective partnership with the larger, more reputable Chinese travel agencies.** This will help to minimize both illegal stays and product quality issues in the absence of industry standards.
- **The Chinese airline industry has not kept pace with the rapid expansion of the market, leading to severe shortages in flight capacity.** This is exacerbated by the fact that much of the outbound travel from China occurs during the three Golden Weeks, leading to huge peaks and valleys in market demand. Ensuring sufficient direct flights will be a necessity for Canada given its distance from China and the short vacations that are characteristic of this market.

PRODUCT DEVELOPMENT AND MARKETING CONSIDERATIONS

- **The three most important criteria for Chinese consumers in choosing a long-haul travel product are price, price and price.** The penchant for shopping aside, this market is an extremely price-sensitive one, with many travellers choosing products solely on the basis of lowest cost. Most do not yet understand the concept of value for money, preferring to pay for bare bones products with as few extras as possible.
- **Careful attention needs to be paid to the special needs and demanding nature of Chinese travellers when developing travel products for this market.** Destination tourism bureaus, receptive operators, local guides and other suppliers will all require special training programs to help them understand the cultural differences, quality standards and special requirements of Chinese travellers.
- **When developing long-haul products, the Chinese travel trade relies primarily on the websites and staff of destination tourism bureaus, receptive operators and other local suppliers.** Websites targeted at the trade need to contain sufficiently detailed information, be updated on an ongoing basis, provide an avenue for inquiries, and of course, be in Chinese.
- **In terms of local receptives, 84% the trade prefers to partner with market leaders** who have the critical mass to negotiate the lowest prices for hotels and transportation. They also seek partners

who can speak their language and understand their culture, interests and special needs.

- **Many of the marketing success stories in China (e.g., Australia, Singapore, Thailand) have used some combination of TV and newspaper advertising, travelogues and newspaper articles when targeting consumers, supported by regular road shows, FAM tours and exhibitions for the trade.** Taken together, these activities demonstrate that a destination values Chinese tourism and welcomes China's travellers to its shores.
- **The personal touch is important when marketing travel products in China,** with mass media initiatives usually supported by more personalized approaches such as customer promotions, direct mail, street and mall intercepts, and group or in-home presentations by agency sales teams.

PERCEPTIONS OF CANADA

- **Along with the US, Canada is perceived by the Chinese as being the epitome of a rich, well-developed nation.** The trade views Canada as a desirable place to live, with good quality of life and a large Chinese community. It is also seen as a vast and beautiful country, with wide-open spaces and extraordinary scenery. The image of the maple leaf stands out clearly in the minds of the trade, and is the icon most closely associated with Canada.
- **As a tourism destination, Canada is seen as having rich scenery and nature,** with both autumn and winter imagery predominating. Linked to this imagery is a feeling of peace and relaxation, which is felt to make Canada an ideal holiday destination for the Chinese.
- **These images are juxtaposed with those of Canada's modern cities, with Toronto, Vancouver and Ottawa all being top-of-mind destinations.** In fact, it is this juxtaposition of natural beauty and high-tech metropolises that lies at the heart of Canada's strength in this market.
- **Virtually all of the trade representatives are aware of the Toronto-Niagara Falls-Ottawa region to some degree and it is considered a must-see.** The Vancouver-Victoria region also enjoys high awareness, with Vancouver seen as having parallels to cities in China. The Calgary-Edmonton region is perhaps the least familiar and suffers from some serious misperceptions due to lack of awareness.

POTENTIAL FOR CANADA

- **The potential for Canada post-ADS is felt to be very good to excellent**, driven by a strong curiosity factor and the desire of the Chinese to see its modern cities and western culture first-hand. Sustaining the market, however, will depend on the strength of Canada's marketing programs and how it handles the all-important visa and air capacity issues.
- **Touring and sightseeing offer the best immediate potential for Canada** as Chinese visitors to a new destination inevitably want an overview of the country. The Chinese are still very generalized travellers who enjoy variety in their sightseeing, so tour products should incorporate a good combination of nature and cities, along with a taste of history and culture.
- **Longer-term, Canada's strength in China, as in most international markets, lies in its nature and scenery products.** Canada is felt to have superior scenery to the US and more unique nature than Australia, allowing it to compete successfully in China, as well as on the world stage.
- **Skiing and golf are high-end products that appeal to more affluent Chinese, and both are felt to offer some future potential for Canada.** At this point, however, the market for specialized products is still very small, and Canada will need to develop special marketing and sales channels if it wishes to reach these market niches.
- **A challenge that must be addressed almost immediately is lack of awareness in the marketplace.** The Chinese travel industry knows very little about Canada's tourism attributes, and consumers even less. The trade strongly recommends that Canada start ramping up its marketing activities now, particularly those that will help the trade get up to speed.
- **Canada needs to develop a strong brand image in China, as the Chinese are deeply influenced by a destination's "character."** Canada also needs to start building the reputation and cachet of its cities and attractions as the Chinese are drawn to "famous" places. Canada should also highlight its distinctive regional variations to appeal to the Chinese sensibilities of visiting several different "countries" on a single trip.

3. OVERVIEW OF THE OUTBOUND MARKET

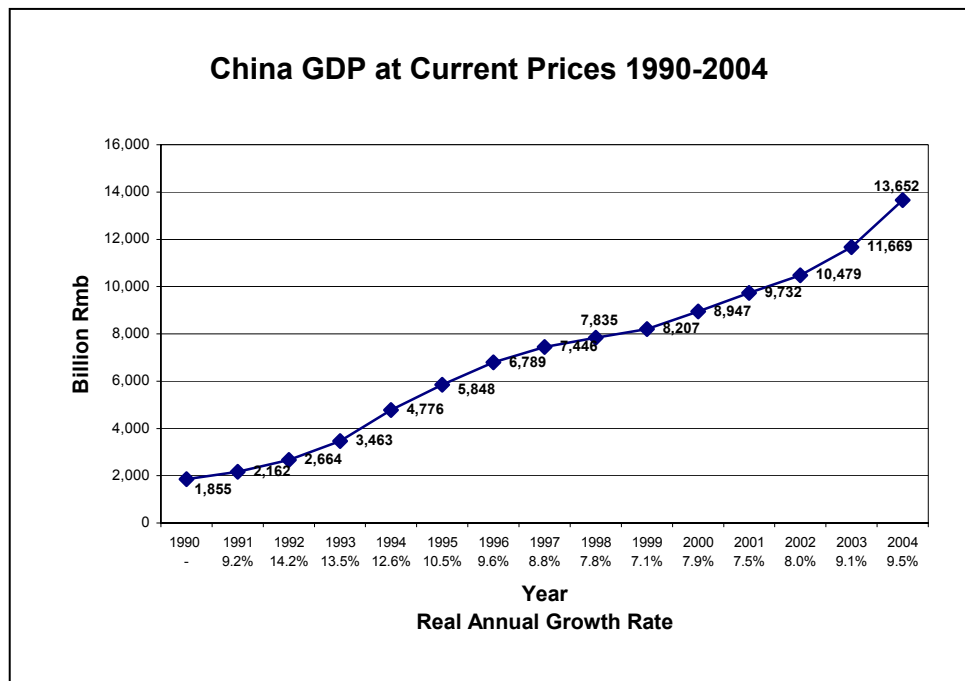
This section presents a brief overview of the Chinese outbound travel market, including the external environment, growth characteristics and future outlook.

External Environment

To fully understand the Chinese travel market, its characteristics, and its driving factors, it is important to have an understanding of the external environment, including the economic situation and social landscape.

Economic Situation

Economic performance. China has achieved and sustained a remarkable rate of economic growth – its annual GDP has averaged more than 8% over the last 25 years, and it now has the fastest-growing economy in the world. The economy quadrupled between 1980 and 2000, and the Chinese government intends to quadruple it again by 2020. In 2003, GDP grew by a record-breaking 9.1% despite the outbreak of SARS. The economy continued to strengthen in 2004, growing by 9.5%, with 2005 also looking to finish up strongly at 9.4%.



*Source: National Bureau of Statistics, China Statistical Yearbook 2004.

China's stellar economic performance has been driven primarily by fixed-asset investments and exports. In the first nine months of 2005, exports grew at a rate of 31%, while imports increased by 16%, resulting in a trade surplus of US\$68 billion. This is projected to reach US\$94 billion by the end of the year.

However, a cooling trend is anticipated in 2006 due to slowing export growth. Decreased overseas demand is expected due to the appreciation of the renminbi (RMB) and a slowing of the economy for key trading partners such as the US and Japan. China is also striving to rebalance its economic growth towards domestic drivers, especially consumer consumption, to reduce its reliance on investments and exports, and stifle criticism of its growing trade surplus. According to the Chinese Academy of Social Sciences (CASS), GDP growth will slide to 8.9% in 2006, while the International Monetary Fund's forecast is somewhat more pessimistic at 8.2%.

Retail sales. China's consumers are transitioning from a development phase to an enjoyment phase, with the purchase of houses, cars and entertainment consumption on the rise. Retail sales of consumer goods have been growing at a rapid clip, supported by growth in disposable incomes and government policies to stimulate consumption (including consumption credits and longer holidays). Retail sales increased by 13% in 2004 and by 12% in the first nine months of 2005.

Exchange rate. In July of 2005, China restructured its exchange rate regime, freeing the RMB from its peg to the US dollar, and putting it into a trade-weighted basket of currencies. The RMB is now allowed to fluctuate within a band of 0.3% around the central parity, which has been reset at RMB 8.11 to the US dollar. However, there are some who feel that China is manipulating the exchange rate and that the RMB is currently under-valued by close to 40%.

Unemployment. The modernization of China's economy and the opening of its markets have brought wealth for some, but at the cost of rising unemployment. Over the last decade, the government has been restructuring the state-owned business sector, resulting in a massive loss of jobs, lay-offs and forced early retirements. Competition for jobs in cities such as Shanghai has intensified, and many older people lack the technical skills that are in demand today. To make matters worse, the unemployment benefits system has broken down in many parts of the country, with laid-off workers not being paid the benefits owed to them.

The urban unemployment rate was officially cited at 4.2% at the end of 2004, but analysts feel that the actual figure is closer to the 10% mark. In addition, there are more than 150 million rural residents without work that may migrate to the cities over the next few years, adding to urban employment pressures.

Social Landscape

Population growth. China's population reached a remarkable 1.3 billion in January of 2005, making it the most populous country in the world. Put simply, this means that one out of every five people on earth lives in China. To forestall its rapid population growth, China implemented a stringent one-child birth control policy in the early 70s, which reduced the average birth rate from 5.4 children per woman in 1971 to 1.7 in 2004. This has kept its population growth in check.

Aging population. China is also facing a rapidly aging population. Both Beijing and Shanghai now have more people aged 60 plus than children under 15, and this same pattern will soon emerge in other cities. By 2010, there will be close to 175 million seniors in China.

The elderly boom will bring with it increasing economic and social stresses since the current infrastructure will not support the projected demand. Cities such as Shanghai are now racing to put more social benefit policies in place and open up more retirement housing over the next decade. Many seniors are at least partly supported by family members, particularly in the rural areas. In some families, one child faces the burden of financially supporting two parents and four grandparents in addition to their own families (commonly referred to as the "4-2-1 equation").

Urbanization. China is facing increasing urbanization, with the proportion of the population living in urban areas increasing from under 30% in the early 1990s to over 40% today. This is projected to increase to 70% by 2035. In fact, the migration of people from the countryside to the city, and particularly to the cities of the eastern coastal region, has led to a growing "floating population" that does not officially have permanent residence in the receiving cities and towns. These migrants still officially live in the rural areas, but are often away from home for several years at a time to work in the city and support their families.

Rising middle class. The Chinese population is becoming increasingly affluent, primarily in the urban areas, but also in some rural pockets where recent increases in food prices and the lowering of agricultural taxes have resulted in more affluent farmers. As a result, there is a

growing middle class throughout China. Although the middle stratum represents less than 5% of the population today, this figure is predicted to rise to 40% or 45% by 2020.

Wealth gap. The wealth disparity between urban China and the rural areas is among the largest in the world. Currently, the top fifth of the population earns about 50% of the total income, while the bottom fifth earns less than 5%. On average, those living in the cities earn three times what their rural counterparts do.

Among the wealthiest Chinese are private business owners and high-ranking government officials. In 2004, there were 236,000 reported millionaires in China (measured in US dollars), representing an increase of 12% in a mere two-year period. The consumption habits of the affluent segment (e.g., cars, brand name apparel, computers, cell phones, luxury items) have helped to make China the third largest importing nation in the world.

On the other hand, there are over 90 million people in China living in absolute poverty, making less than 865 RMB (CDN\$124) per year. The widening income gap has led to growing public discontent and social unrest, with more than 70,000 mass protests in 2004 over issues such as poverty, unemployment, corruption and land-grabs, as well as pollution and health care.

Social reforms. As part of its newly developing social security legislation, some Chinese citizens now have access to unemployment insurance, medical insurance, workers' compensation insurance, maternity benefits and individual pensions. However, China's social security umbrella is still very small – for example, only about a quarter of China's workers currently have pension plans.

Other Factors

Environmental degradation. A downside of the economic boom has been severe environmental degradation, and sustainable development will be a key challenge for China in the future. Air pollution has resulted from the continued reliance on coal-based fuels (which supply close to two-thirds of the country's energy demand), and more than 40% of the water in China's seven major river systems are unfit for human or livestock consumption due to untreated wastes. It is also telling that over half of the world's ten most polluted cities are in China.

Health care. As China's economy boomed, its health care system has deteriorated. The gradual withdrawal of the state from the health care

system over the last two decades has resulted in the privatization of most health care facilities, including hospitals and clinics. While wealthy Chinese now have access to the newest pharmaceuticals and western-style health care, health services have become unattainable for those in the rural areas. Child mortality has risen in some rural areas and there has been a resurgence of infectious diseases. The crumbling health care system was almost certainly a major contributor to the government's slow response to the recent SARS epidemic.

Corruption. Corruption continues to be prevalent at all levels of government, including bribery, embezzlement and other economic crimes. A Ministry of Commerce report notes that more than 4,000 Chinese officials have fled the country in recent years taking with them over US\$50 billion in stolen funds. Although China's President, Hu Jintao, has made the fight against corruption a priority, it will be many years before this deeply-rooted behaviour is fully eliminated.

The Rise of Chinese Outbound Travel

The leisure travel market first opened up in the early 1990s, when Chinese residents were permitted to take leisure tours to Malaysia, Singapore and Thailand for the first time. Prior to this, outbound travel was permitted only for government business and visiting relatives overseas. Throughout the 1990s, outbound travel was gradually liberalized, with an increase in the number of government approved leisure travel destinations, reduced private passport waiting times, and increased foreign exchange limits.

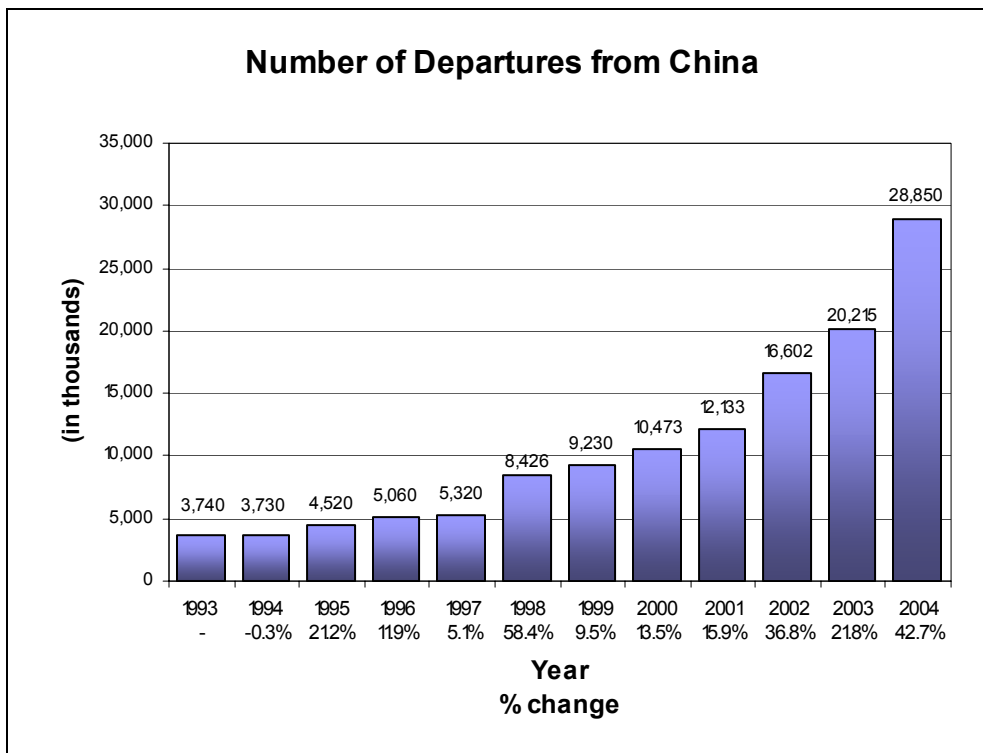
Market Growth

With the relaxation of travel restrictions, outbound travel has seen explosive growth. Between 1993 and 2003, outbound travel grew at an average rate of close to 20% per year. Although the outbreak of SARS dampened outbound travel in the first half of 2003, market growth was still a remarkable 22% that year. However, travel to many long-haul destinations, including Canada and the US, did see dramatic SARS-related declines. The market recovered fully in 2004, with a 43% increase in departures, although some of this growth was due to simplified visa procedures to Hong Kong and Macau.

The first half of 2005 saw a 9.6% increase in outbound travel over the same period in 2004. Although healthy by any other standard, this represents a slow-down for the Chinese market. This was primarily attributable to the Asian tsunami at the end of 2004, which curtailed

travel to much of Southeast Asia, a perennial favourite for Chinese holidays.

Travel to Hong Kong and Macau currently accounts for about 70% of total departures, with another 19% to other Asian countries. Travel outside Asia represents only 11% of the market, with Europe having a 7% market share, the Americas holding a 3% share and Oceania capturing about 1%.



Note: Includes trips to Hong Kong and Macau

As further evidence of this market's incredible growth, China was ranked 40th in terms of international tourism spending in 1995, but had catapulted into 7th place by 2004. According to the Economist Intelligence Unit (EIU), Chinese overseas tourists spent US\$25 billion in 2004, and this is expected to rise to US\$30 billion by 2008. With travel expenditures growing at a rate that is double the global average, the World Travel and Tourism Council (WTTC) predicts that China will be in second spot by 2015, behind the US, but ahead of Japan.

In some markets, the average trip expenditures of Chinese visitors are already the highest of any market in the world. The high spending power of Chinese tourists, combined with the sheer size of this market, has made China the focus of the travel industry world-wide.

Growth Drivers

The foremost driver of market growth has been the gradual liberalization of outbound travel by the Chinese government. In 2001, just 15 countries had Approved Destination Status (ADS) in China, permitting Chinese travel agencies to market group leisure tours to these destinations and simplifying exit procedures for travellers wishing to visit.

ADS Destinations					
Date	Country	Date	Country	Date	Country
1983	Hong Kong		Sri Lanka	Dec 2004	Ethiopia
	Macau	Apr 2004	N. Marianas Is.		Jordan
1988	Thailand	Sep 2004	Austria		Kenya
1990	Malaysia		Belgium		Mauritius
	Singapore		Cyprus		Seychelles
1992	Philippines		Czech Republic		Tanzania
1998	South Korea		Denmark		Tunisia
1999	Australia		Estonia		Zambia
	New Zealand		Finland		Zimbabwe
2000	Brunei		France	Apr 2005	Guam
	Cambodia		Greece		Tonga
	Japan		Holland		Uganda
	Myanmar		Iceland	May 2005	Cook Islands
	Vietnam		Ireland		Fiji
	Russia		Italy		Vanuatu
2002	Egypt		Latvia	Jul 2005	Chile
	Indonesia		Liechtenstein		Jamaica
	Malta		Lithuania		UK
	Nepal		Luxembourg	Sep 2005	Antigua & Barbuda
	Turkey		Norway		Argentina
2003	Croatia		Poland		Barbados
	Cuba		Portugal		Brazil
	Germany	Sep 2004	Romania		Laos
	Hungary		Slovakia		Mexico
	India		Slovenia		Peru
	Maldives		Spain		
	Pakistan		Sweden		
	South Africa		Switzerland		

The market has opened up considerably since then, with over 80 countries who currently have ADS agreements with China. In particular, the addition of a host of European countries to the ADS list in 2004

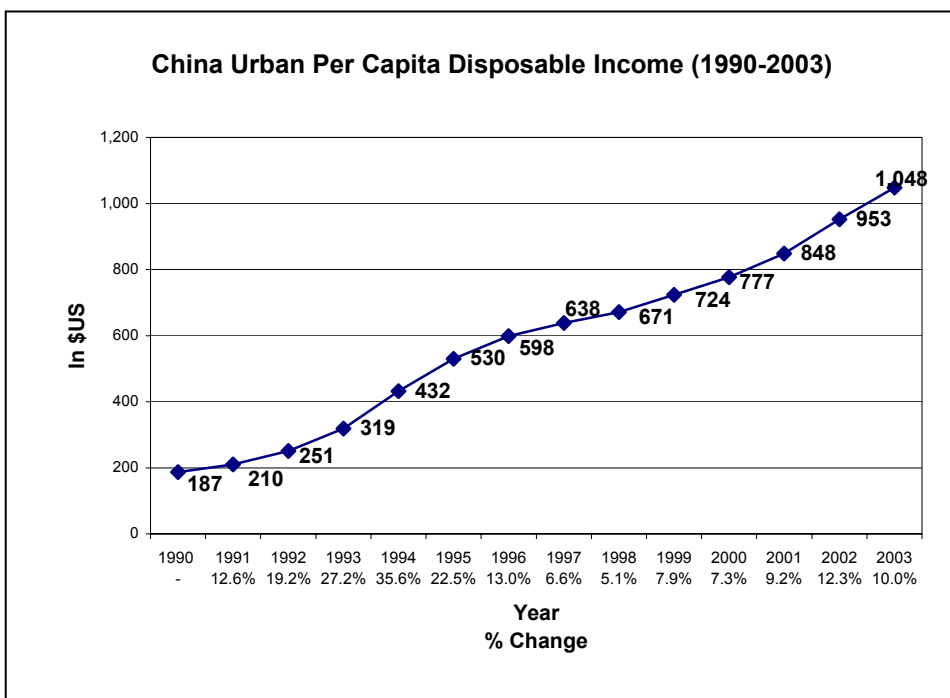
marked a strategic transition for China's tourism sector, signalling the government's willingness to open doors to the west.

For a destination, the impact of gaining ADS on travel flows from China can be substantial. For example, Chinese visitation to Australia more than doubled (from 93,000 to 190,000 arrivals) within three years of obtaining ADS, while arrivals to New Zealand tripled. Similarly, Japan saw a 75% increase in visitation over four years.

Other growth drivers in this market include the following:

Rise of the middle class. China's nascent, but growing, middle class is another key driver of market growth. For many Chinese, holiday packages have become affordable for the first time, creating a whole new segment of first-time international travellers.

Increasing disposable incomes. Urban citizens have enjoyed sustained growth in disposable incomes for the past 15 years, which has led to better standards of living and increased leisure spending. Among the top 10% of urban households, disposable income was around US\$7,000 in 2003.



More leisure time. In 1999, the government declared three “Golden Weeks” or seven-day holiday periods with the intention of boosting consumer consumption and domestic travel – the Spring Festival

(Chinese New Year), International Labour Day (May 1) and National Day (October 1). However, the Golden Weeks have encouraged outbound, as well as domestic travel, particularly during the Spring Festival. In addition, the concept of paid holidays is becoming more commonplace (mainly among foreign-invested firms), permitting workers to take more frequent and extended holidays.

Increased desire for outbound travel. Increasingly, the Chinese media abounds with exotic images of foreign countries and lifestyles that have stirred the curiosity of the Chinese. For those who can afford it, foreign travel is seen as a highly desirable way to enrich one's life. In fact, travel is viewed as a status symbol among upscale Chinese, along with owning a house and an imported car.

Market Outlook

According to CLSA Asia-Pacific, the outbound market will continue its explosive growth, quadrupling to 115 million departures by 2020. This exceeds the World Tourism Organization (WTO)'s forecast of 100 million by the same year. Regardless of the exact figures, it is widely anticipated that China will become one of the world's largest source of tourists by 2020. Some of the short to medium-term drivers of this growth are discussed below.

Room to grow. Only 4% of China's urban population base has travelled overseas, leaving huge potential for expansion.

Opening up of Europe. The recent approval of the U.K. and other European countries as ADS destinations will be a major catalyst for a new wave in long-haul travel. Europe has long been a dream destination for the Chinese, and the opening up of this market will appeal to more sophisticated travellers looking for new experiences.

Continued economic growth. The Chinese economy is expected to continue its meteoric growth, expanding by an average rate of 7% per year between 2006 and 2015. The buoyant economy will provide a strong underlying base for consumption, including overseas travel.

Increasing prosperity. Chinese citizens will continue to become more prosperous, with a disproportionate amount being spent on leisure activities. Over the next ten years, travel spend is anticipated to be the second fastest growing expenditure segment behind education spend.

Stronger RMB. The RMB is expected to appreciate relative to foreign currencies such as the Euro, which will make travel to these destinations more affordable and give Chinese citizens greater spending power overseas.

Improved international air access. The aviation sector in China is seeing tremendous growth. New routes are opening up to the U.K., Europe, the US and other destinations, and there have been capacity increases on many traditional routes. International air access is also improving from the interior, all of which will help to make overseas travel more convenient and accessible.

Introduction of paid holidays. China is currently considering the introduction of paid holidays in all workplaces to replace the three Golden Weeks. This would help to smooth out travel demand and alleviate the growing frustration of Chinese travellers with overcrowding at airports, lack of flight capacity and inflated tour prices during the peak periods. Ultimately, such a move would encourage more people to travel.

Housing privatization. In 2001, mortgages were made widely available to Chinese consumers, leading to a growth spurt in private home ownership. As a result, there are now many Chinese with tangible assets and the potential for increased wealth down the road as their houses appreciate in value. As perceptions of wealth increase, people will become more willing to increase their spending and tap into their savings for big-ticket purchases.

Advent of credit cards. China is ushering in the credit card era, with approximately 5 million credit cards currently in use in the country. Growth is expected to explode over the next 5 to 10 years as foreign players begin to enter the market. According to MasterCard, the number of credit cards that can be used internationally will increase from 3 million at present to 75 million by 2010. Greater access to credit will be a key driver of increased spending, although the market remains cautious for the moment.

On the other hand, there are a number of constraints that could affect market growth in the short-term:

External threats. Like Japanese travellers, Chinese travellers are extremely safety-conscious. Following the Asian tsunami in December 2004, Chinese arrivals to Thailand were down 75%, compared to a 22% drop for Europeans and 8% for Americans. Given that terrorism, war, epidemic diseases and natural disasters have been increasing in

frequency, there is a risk that such events could significantly hinder market development in the future.

Higher fuel prices. The rising cost of fuel could also be a dampening factor, with the Chinese government raising the price of jet fuel four times in 2005. As a result, Chinese airlines doubled the fuel surcharge fee on international routes in October of 2005. Because of the view that international passengers can afford to pay more, the higher costs have only been applied to overseas routes, with international passengers subsidizing domestic ones.

4. OUTBOUND MARKET CHARACTERISTICS AND TRENDS

This section of the report examines the characteristics of Chinese outbound travel and the trends that are shaping the marketplace. The focus is on providing background information that will assist in the understanding of the travel trade and consumer research results. Unless otherwise noted, information in this section was derived from the literature scan.

Key Outbound Travel Segments

Depending on the purpose, Chinese travellers are often categorized by type of travel, origin market or demographics.

Types of Travel

For official purposes, the Chinese government recognizes two major types of outbound travel – business travel and private travel. While a decade ago, almost all travel was paid for by the government or employers, private travel has been seeing massive growth, currently representing about 57% of the outbound market.

Business travel includes several major segments:

- **Official travel**, which is undertaken by government officials or employees of state-owned enterprises. This includes delegation visits, site inspections, technical visits, etc. Travel is usually initiated through an invitation from a foreign organization and is government-funded. Official travel is usually undertaken in small delegations of under 10 people. Often the business portion of the visit is minimal, with the trip mostly being for tourism purposes.
- **Company travel**, undertaken by business owners or those employed by private companies. This can include attending meetings, exhibitions, conferences or technical visits. As with official travel, leisure is often the primary reason for the trip.
- **Incentive travel**, where Chinese companies reward their employees, customers, agents or clients with overseas trips. This is rapidly growing in popularity to the point where many travel agencies have established incentive travel departments to deal with the rise in demand. Incentive travel is most common in

the IT, medical, automotive and insurance sectors, with groups ranging in size from a couple hundred to several thousand people. One company recently sent 1,000 sales agents to Europe, while another sent 7,000 clients to Thailand.

Private travel is solely for leisure purposes, including VFR and study. It includes both group travel, in which ADS-approved travel agencies organize a package tour and handle the visa application process for a group of travellers, and individual travel (FIT), in which individuals apply for the visa themselves from the destination embassy or consulate.

Origin Markets

For marketing purposes, it is important to recognize that China is a diverse market, with regional variations and differences in consumer preferences and lifestyles by geography. Below, we briefly profile the primary markets of interest to Canada.

Beijing. As the capital of China, and the country's political, cultural and scientific centre, Beijing is home to some of the most prestigious academic and research institutions in China, as well as numerous museums and galleries. Over the next few years, the city will be investing more than 280 billion RMB to over-haul its infrastructure (sports facilities, transportation, telecommunications, etc.) in preparation for hosting the 2008 Olympic Games.

Purchasing power in Beijing is very strong. It has a large population and is second only to Shanghai in terms of per capita disposable income. Being the seat of government, much of the travel from Beijing is official travel. Beijingers also tend to be older (almost a fifth are over 60) and have a deep-rooted sense of history and culture that influences their travel destination choices.

Shanghai. Located on the eastern coast at the mouth of the Yangtze River, Shanghai is a major port into the interior. Shanghai's location and standing as China's largest commercial and financial centre has earned it the nickname "the Dragon's Head." More than 300 of the Fortune 500 companies have set up shop in Shanghai, with many multi-nationals relocating their Asia-Pacific operations there from Hong Kong.

Shanghai is a prosperous and wealthy city, with the highest per capita disposable income in China. Shanghai consumers are cosmopolitan and trend-setters when it comes to lifestyle and fashion, with a strong international awareness. They are influenced to a large degree by the

advertising media, including television and magazines. They are also very price-sensitive and have high expectations of quality, making them very shrewd consumers.

Guangzhou and Shenzhen. Both cities are located in China's booming Guangdong province to the south. Guangdong's economy has been consistently out-performing that of the nation as a whole, with the highest GDP growth of any province in China. Remarkably, GDP growth has averaged over 14% per year for the last 25 years. This spectacular growth has been driven by strong foreign investment – Guangdong accounts for about a third of all direct foreign investment in China.

Guangzhou, the provincial capital, is a major commercial and trading centre in China, as well as having strengths in light manufacturing. Shenzhen is the bridge between the rest of China and Hong Kong, and is home to a burgeoning IT sector. Per capita GDP in the two cities are among the highest in the country.

Guangdong is home to some of the wealthiest consumers in China and is number one in the country for spending on travel and leisure, telecommunications and overseas education. Guangdong's consumers are very sophisticated and lead the way when it comes to fashion, cosmetics, imported food products and wine. Like Shanghai consumers, they are extremely price-sensitive, but are highly influenced by product quality, brand image and market trends. According to the travel trade, Guangdong travellers are more demanding than others – they require lots of options and are extremely picky when it comes to choosing travel products.

Together, Guangzhou and Shenzhen account for close to 80% of Guangdong province's total outbound travel to destinations beyond Hong Kong and Macau.

Demographic Segments

Today's outbound travellers are in the middle to upper social echelons, encompassing senior government officials, private enterprise owners, white-collar workers in foreign and joint-venture enterprises, professionals such as teachers, lawyers and engineers, and those in the media, sports and entertainment fields. However, within this privileged group, there are some demographic segments that are of particular interest to destination marketing organizations.

The young generation. The profile of the outbound traveller is gradually shifting from middle-aged businessmen to young, career-

driven professionals that travel to enjoy their new-found social and economic freedom. Young women, in particular, have started to travel together, much like the Office Ladies segment in Japan.

The younger generation is confident, ambitious and internationally aware. They are optimistic about their long-term earning potential and are more inclined to spend than their parents are. They look to travel as a reward for hard work and a means to broaden their horizons, seeking excitement and adventure in their destination choices.

Family travel. Since the introduction of the Golden Weeks, family travel has become vastly more popular, with some affluent families travelling overseas at least once or twice a year. In China, the child is king, and parents want their children to grow up with every advantage, including a high quality education and first-hand knowledge of the world. Destinations such as Hong Kong are repositioning themselves to capture a piece of this lucrative market, which is projected to grow as incomes continue to rise. Often the travel party is multi-generational, with both the child and the grand-parents coming along on the trip.

Empty nesters. Over the next 20 years, it is anticipated that working age empty nesters will be the fastest growing demographic and prime candidates for outbound travel. These travellers have greater discretionary income, more time to travel and an interest in new experiences at this stage of their lives. Older, more financially stable travellers are a good target for long-haul travel, as they have an affinity for destinations like Australia and Europe.

Seniors. Chinese workers enjoy retirement at a fairly early age (50 to 55 for women and 60 for men). As a result, China's retirees are healthy and mobile, with high levels of savings. They have a strong propensity for travel, and currently account for more than a fifth of all travellers in China. In fact, some seniors spend their entire time travelling around or visiting family (China's "floating elderly"), prompting the development of a host of new domestic vacation products aimed at this segment. In general, seniors tend to prefer the safety of travelling in groups and the relative quiet of off-peak periods.

Trip Characteristics

Destination Preferences

The general destination pattern for first-time Chinese travellers is to head for Hong Kong and Macau. There is a certain comfort level with these destinations as they are special administrative regions (SARs) of

China. Subsequent trips by Chinese travellers tend to be within Asia, for example, to bordering regions such as Russia or Vietnam, and then further afield to Southeast Asia.

However, Chinese tourists are now starting to expand their horizons beyond the traditionally preferred Southeast Asian countries to Australia, New Zealand and Europe. This has been driven by a combination of their growing confidence and experience as international travellers, the relaxation of outbound travel restrictions and the search for alternatives following the Asian tsunami in December, 2004.

The table on the following page shows the top destinations for Chinese outbound travel, as measured by arrivals at the destination country based on data provided by the WTO. Note that not all countries report to the WTO, so there may be some major destinations that are not represented on the list (e.g., France). Among the reporting destinations, Canada ranks 16th even in the absence of ADS status.

As shown in the table, **Hong Kong and Macau** are the most popular destinations, by far, for Chinese visitors. Hong Kong is a shopping mecca for younger, brand-conscious Chinese, while Macau is on its way to becoming Asia's premiere gambling and entertainment centre. Both destinations have built new attractions and hotels to actively woo the Chinese market, which some credit as having single-handedly revived the Hong Kong economy.

Southeast Asia courts Chinese travellers with exotic scenery, history, shopping, beach resorts, a sub-tropical climate for winter getaways, and a variety of low-priced packages on offer. Vietnam, Malaysia, Singapore and Thailand all rank among the top ten destinations for the Chinese market and have for many years. However, Chinese visitation to the region – particularly to Thailand and Phuket Island – stalled out following last year's tsunami, and the government has launched major recovery activities in order to jump-start visitor flows again.

Bordering on China to the North, **Russia** tends to appeal to older Chinese who enjoy its cultural and historical offerings. Vladivostok is especially popular, with its European-style architecture and museums. Russia recently abolished the need for visas for Chinese visitors when it gained ADS status, which should help to fuel Chinese tourism in the future.

Japan and Korea are among the hottest destinations in the Chinese market at the moment. In addition to its traditional image of mountains and cherry blossoms, Japanese pop culture is appealing to many youths

who want to experience it first-hand. Korea is seeing a similar trend, and is drawing Chinese travellers through its popular television shows, movies and music icons. In fact, some Korean TV shows are so popular in China that special tour routes have been developed around the shooting locales and production centres of these shows.

Top 20 Travel Destinations, 2003	
Destination	Arrivals (000s)
Hong Kong	5,692
Macau	1,431
Vietnam	693
Russian Federation	680
Thailand	624
Singapore	568
South Korea	513
Japan	449
Malaysia	351
Germany	268
Australia	176
US	157
Italy	126
Belgium	107
Mongolia	90
Canada	76
UK	68
New Zealand	66
Switzerland	62
Kazakhstan	57

Note: Arrivals data do not sum to total departures as multiple destinations visited on a single trip would be counted as an arrival at each country visited.

Source: WTO

Key destinations **outside of Asia** will be discussed in detail in the latter sections of this report.

Spending Patterns

Chinese travellers are already among the highest spenders in the world on travel abroad, with an average of US\$1,900 spent per person per trip (IPK World Travel Monitor, 2003). As shown in the table below, expenditures to certain long-haul destinations are even higher.

Destination	Average Trip Expenditures (per person)	Average Trip Expenditures (per person, CDN\$)
U.K.	1,250 pounds	\$2,500
Europe	US\$5,700	\$6,600
Hong Kong	US\$6,200	\$7,200
Australia	AUD\$3,500	\$3,000
New Zealand	NZ\$4,800	\$3,800
Canada	CDN\$1,800	\$1,800
US	US\$4,100	\$4,700
Hawaii	US\$4,700	\$5,400

Notes: Figures are not comparable as they are derived from different sources, including official country statistics and sample surveys. Figures converted to CDN dollars using January 2006 exchange rates.

These high expenditures are due largely to the Chinese predilection for shopping. According to Tax Free World Association (TFWA), Chinese travellers spend close to US\$1,000 per trip on shopping alone. This varies by destination – for example, spending levels are closer to US\$1,800 for trips to Europe. On average, shopping accounts for as much as 30% of the Chinese traveller’s total expenditures, making them the highest per capita shoppers of any source country.

Surveys indicate that the Chinese sometimes spend as much as 60% to 80% more on shopping than the already extravagant Japanese do (CLSA). But China is still an emerging travel market in which only the well-to-do can afford to travel overseas, so naturally, these wealthy mainlanders can also afford to shop. As travel spreads among the middle class, however, average shopping expenditures will likely drop within the range of the Japanese.

What these shopping statistics don't show is that the Chinese are actually quite price-sensitive when it comes to selecting travel products. They will often choose a less expensive package, with cheaper accommodations and budget-conscious dining in order to have more money available for shopping. Because their travel philosophy tends toward seeing and doing as much as possible at a destination, they are rarely in their hotel rooms. As a result, many are less concerned about amenities such as gourmet restaurants, pools and spas.

Because of this price-sensitivity, many destinations have been finding that the Chinese are not the boon that they expected to their local economies. Chinese tourists only stay for a couple of nights at any one city, prefer budget or mid-range hotels, visit a few major attractions and leave. In reality, it is only their extravagant shopping habits that help them to hold their own as big-spenders.

As the market matures, it is anticipated that the current preference for high-end shopping will be toned down, while spending on accommodations, food and consumables will be upgraded. Already a high-end segment with more extravagant tastes is starting to emerge.

Package Tours vs. FIT Travel

Most first-time travellers will travel as part of a tour group to ensure an easy and hassle-free trip, with everything taken care of. However, with more experience under their belts, some travellers have started to look beyond the tour group in favour of more individualized travel.

Those who prefer group tours tend to fit with the traditional image of the Chinese traveller who gravitates towards sightseeing and shopping, requires a Chinese-speaking tour guide, and looks for packages with multiple destinations and activities packed into a single trip. These tend to be mass-market, low-yield tourists. They are after deals that allow them to see as much as possible for the lowest price, making the Chinese package tour market a low margin business.

Although not officially sanctioned by the Chinese National Tourism Administration (CNTA), FIT travel is a growing segment of the outbound market. These are not truly independent travellers in the western sense, but rather, travellers that book flights and accommodations separately through a travel agency for a customized itinerary (rather than purchasing a pre-packaged tour). Many destinations are now actively targeting FIT travellers as they are typically higher yield. According to the South Pacific Tourism Organization (SPTO), 60% of Chinese

tourism to Australia is now FIT. Thailand and Singapore are also seeing a gradual shift to FIT travel.

Compared with package tour travellers, FIT travellers tend to be from China's wealthy elite. They are more sophisticated, experienced with overseas travel, and looking for unique outbound travel experiences. When travelling within China, or to Hong Kong and Macau where independent travel is freely permitted, they tend to make their own travel arrangements.

Other Trends

Trip duration. Trip durations are trending upwards, but are still relatively short compared with other international markets. This is primarily a result of being constrained to a seven-day trip within the Golden Weeks. However, some employers are starting to offer paid holidays, which are being used to extend a Golden Week trip to 10 or 14 days.

Off-season travel. There is a growing demand for off-season travel to overseas destinations when prices are typically 20% to 50% cheaper for the same tour. This trend is most notable among young, white-collar employees who have paid vacation leave and are not restricted to travelling during the public holidays.

Planning horizons. The Chinese market is notorious for making last minute travel decisions, particularly for domestic travel, but also for overseas trips. They are very diligent workers and will not schedule trips months in advance as something may come up at work.

Internet usage. The Internet scene in China is growing, and the number of users passed the 100 million mark in 2005. Although this represents a penetration rate of under 8%, China now has the second largest online population in the world after the US. For many, the Internet has become the preferred way to research and plan overseas trips, primarily among the young and affluent.

However, Chinese travellers are still turning to travel agencies to make their bookings. Currently, only 1% of travellers are booking their trips online, and this is mostly domestic or business travel. The growth of online bookings is currently being hampered by the lack of credit cards and payment systems, concerns about security, lack of trust in product quality, and the high value traditionally placed on in-person dealings and word-of-mouth recommendations.

Travel Motivations and Vacation Interests

Travel Motivations

With international travel a relatively new concept, the thrill of simply travelling outside the country and seeing something new and different is the primary travel motivation for most Chinese. To them, travel is seen as an exciting way to learn new things and satisfy their curiosity about the world. Other key motivations include the following:

- **A matter of respect.** For China's new middle class, travel is perceived as a key way of increasing their social status and enhancing their prestige. In essence, they travel to "bring back" – bring back experiences through photos and stories, and bring back purchases and gifts that will impress their family and friends.
- **Price above all.** Shopping aside, the Chinese are known for being thrifty, often selecting destinations and products based on price alone. Package differentiation is almost always on price rather than itineraries and inclusions, and consumer loyalty is virtually non-existent.
- **Safety first.** Like the Taiwanese and the Japanese, Chinese travellers are very safety-conscious, being easily deterred by the threat of war, terrorism, natural disasters and disease outbreaks. They cherish their life and their health and will opt for destinations that are safe and clean.
- **Luxury travel.** Traditionally a low yield market, a luxury travel segment has now begun to emerge. This segment likes to pamper themselves by staying in five-star hotels, taking cruises and enjoying gourmet dining, premium activities and authentic travel experiences.
- **Exotic escapes.** The younger generation looks to their holidays as a way to escape from the big city and their high-pressure work environment. They enjoy the exotic experience, beautiful scenery and total relaxation offered by island resorts like those on Phuket, Bali, Maldives and Saipan. Since the tsunami, however, attention has turned more towards domestic resorts such as Sanya.
- **Culture and history.** Many Chinese have a deep sense of history and culture. They enjoy going to cultural events such as exhibitions and festivals, experiencing local specialties and crafts, and seeing historical sites. However, the Chinese are not

impressed by destinations with a short history, as their own history is so long.

- **Back to nature.** Chinese cities are crowded and polluted, and many urban Chinese live in small apartments. Not surprisingly then, when they go on vacation, they want to experience beautiful scenery, undisturbed nature, fresh air and wide-open spaces.

Shopping

No discussion of trip motivations and vacation activities would be complete without touching on the subject of shopping. Already Chinese tourists have gained a world-wide reputation for being inveterate shoppers and big spenders to boot. According to a recent survey conducted by TFWA, virtually 100% of Chinese travellers will incorporate some sort of shopping activities into their holiday trips, with both men and women being avid shoppers.

There are several factors that contribute to this penchant for shopping:

- To the Chinese, luxury and brand-name goods (e.g., jewellery, watches, apparel, cosmetics, leather goods, footwear) are status symbols alongside car and home ownership. Because the full range of high-end products are not yet available in China, outbound trips offer unique opportunities to purchase such items;
- The prices of luxury commodities can be 20% to 30% lower in other destinations than at home due to high import tariffs and consumption taxes in China;
- The Chinese feel there is a certain cachet to purchasing brand-name products where they are made (e.g., Cartier watches in Paris) and that these are somehow more “authentic” than goods purchased domestically;
- It is traditional for Chinese travellers to bring gifts back home for friends and family – most often lower-priced branded products. In addition, offering expensive gifts is a standard business practice in China and a sign of respect to business colleagues;
- The Chinese believe in being thrifty and economizing at home, and have a very high savings rate compared with most countries. However, they also believe that vacations are the time to let loose, spend money and have a little fun;
- Official and business travellers represent a good proportion of the outbound travel market, and can be a lucrative shopping

segment as the brunt of their travel expenses are employer-paid, leaving them with money to spend.

However, the negative experience of many Chinese travellers with high pressure shopping tours to Southeast Asia could result in a shift in travel priorities in the future, with interest in attractions, culture and nature becoming more important and contributing to a more well-balanced trip than one focused so predominantly on shopping.

Other Vacation Activities and Interests

General sightseeing makes up a key part of every Chinese holiday itinerary. Chinese tourists enjoy seeing the famous landmarks, historical sites and attractions they have only read about or seen on television (e.g., Buckingham Palace, the Eiffel Tower, Sydney Opera House). While sightseeing, they expect to be informed about what they are seeing and told the stories, legends and history behind the buildings and attractions.

The Chinese are also fascinated by famous people in history and literature, as well as by celebrities in the sports and entertainment world. They enjoy finding out more about these people, including seeing where they live or work. The U.K. has taken advantage of this interest and developed some highly successful theme tours for the Chinese market around William Shakespeare and Harry Potter.

Given that outbound travel has really only emerged over the last decade, the market for vacation activities and interests beyond general touring, sightseeing and shopping is still extremely small. However, below are some of the key activities and interests that *could* emerge as key travel niches over the long-term. The quantitative component of this study will also provide more information on the prevalence of different types of vacation activities on Chinese long-haul trips.

Gambling. A deep-rooted belief in luck has helped to make gambling a fundamental part of the Asian culture, and the Chinese are no different. With casinos illegal in China, gambling is a must for many travellers on their out-of-country trips, with Macau, Malaysia and Australia being popular destinations. Las Vegas is obviously high on the list for serious gamblers, and it is estimated that about 85% of the high-rollers in Las Vegas are from China, Taiwan or Japan. Chinese visitors are willing to gamble excessive amounts – some reports indicate that individual losses at Las Vegas casinos can reach upwards of US\$10 million in a span of eight months.

Golf. Twenty years ago, golf was totally unknown in China, however, this activity has grown steadily as the economy boomed. There are currently 250 golf courses in China, and another 50 under development. The emphasis now is on quality, with the newest venues being country clubs that incorporate bar and health club facilities. Wealthy Chinese golfers will go to Thailand, Australia or Japan to try their hand on international courses. Scotland is also targeting the lucrative Chinese golf market, with complete golf packages, including Mandarin-speaking tour guides.

Backpacking and trekking. Backpacking is a growing trend in China as young, urban Chinese, looking to escape the city, head to the mountains, deserts and plateaus of central and western China on the weekends. Trekking is seen as a good way to relax and get away from it all, and appeals to those who want freedom, independence and flexibility on their getaways rather than the constraints of package tours. Already some Chinese backpackers have taken their interests further afield to Singapore, Thailand and Europe.

Skiing. Skiing is booming in China, with well-to-do youths flocking to China's 200 plus ski resorts, including indoor facilities in Shanghai and Beijing. It is estimated that almost 2 million Chinese went downhill skiing in 2004, and this is expected to increase by 20% to 30% each year. Within five years, it is anticipated that China will have the world's largest ski industry. Avid ski enthusiasts have begun to pursue the sport overseas, heading to destinations like Japan, South Korea, Switzerland, Norway and France. However, skiing is still a "luxury sport" and the majority of Chinese skiers are novices who require lessons and do not own their own ski equipment or clothing.

Winter tourism. Interest in other winter activities is also strong, as witnessed by China's own efforts to develop more winter tourism attractions. For example, Shenyang has built an Ice and Snow Amusement Park, while Harbin has The Ice and Snow Festival, a 45-day winter gala featuring ice sculptures by world-class artists, a film festival and sports such as women's hockey, snow soccer and winter swimming. Interest in winter sports is expected to grow in view of the fact that Changchun will play host to the 2007 Asian Winter Games as well as the world's largest cross-country skiing competition for the next 10 years.

Extreme sports. Since the mid-1990s, the market for extreme sports has been gaining steam among China's twenty and thirty year olds. Activities include rock climbing, mountaineering, off-road biking, mountain biking, bungee jumping, skateboarding, go-karting, hot air ballooning, sky-diving and paragliding. Shanghai's X Games in 2001

drew 20,000 fans, and marked the official recognition of extreme sports in China, and today, China actually has a Minister of Extreme Sports. Some enthusiasts have started to head to other destinations to pursue these activities, for example, climbing Mount Everest in Nepal. However, this is still very much a niche market.

Health and wellness. With their new-found wealth has come an awareness of health and wellness. Spas are becoming big business in China, fuelled by an influx of foreign businesses into China, and fitness facilities are opening up across the country. The outbreak of SARS and Bird Flu, and preparations for the 2008 Olympics, have also contributed to enhanced awareness of health and wellness and spawned a growing interest in spa travel and health/medical tours. While still in its infancy, this segment has potential to grow as the market matures.

5. THE CHINESE TRAVEL INDUSTRY

Like many other industry sectors in China, the travel industry is transitioning from a strictly controlled environment to a free market mechanism. As such, the industry is very complex. This section presents an overview of the industry in China, including general structure and key trends.

Industry Structure

Government Organizations

Despite the gradual liberalization of the travel market, the Chinese government still maintains a high degree of control over outbound travel by its citizens. As described below, various government organizations regulate and manage outbound travel in China:

- **The China National Tourism Authority (CNTA)** is China's national tourism organization (NTO). It governs the Chinese tourism industry, promotes both inbound and domestic travel in China, and handles foreign dealings, including the establishment of ADS agreements and foreign travel services in China. Although CNTA is financed by the government, it does not have the full status of a Ministry.
- **Local Tourism Bureaus.** The CNTA has local branches that implement CNTA policy in the provinces and cities. Because their budgets come from the local government rather than CNTA head office, it is crucial to develop a good relationship with the local bodies as well as the NTO.
- **The Civil Aviation Authority of China (CAAC)** oversees the aviation sector and the distribution of domestic and international airline tickets.
- **The Ministry of Commerce** is responsible for business and official travel arrangements.
- **The Public Security Bureau (PBS)** is responsible for the issuance of passports to Chinese citizens.
- **The State Administration of Foreign Exchange (SAFE)** is responsible for approving the purchase of foreign currency in China. As of August 2005, Chinese citizens are permitted to take a maximum of US\$8,000 when travelling overseas for more

than six months and US\$5,000 for those who will be away less than six months.

Travel Agencies

In China, there is no clear distinction between tour operators and travel agencies. Travel agencies can handle both functions, developing tour routes as well as marketing and selling tour products to retail customers. Some of the larger outbound travel agencies will accept bookings from other agencies who do not serve the traditional ADS regions or who do not have sufficient customer volumes to develop their own tours. These are known as “wholesalers” in China, but they do not function as wholesalers in the traditional sense.

There are two types of travel agencies in China – domestic travel agencies who can only organize domestic travel, and international travel agencies, who can organize both inbound and domestic travel. Select international agencies are also licensed to handle outbound travel, and only they are permitted to make payments in foreign currencies with the approval of SAFE.

With the increasing liberalization of outbound travel, travel agencies have grown in both size and number. In 1999, there were 7,300 travel agencies in China with approximately 65 that were licensed to provide international travel services to Chinese citizens. By 2005, this had more than doubled to 15,300 travel agencies, with 672 that are permitted to handle outbound travel. The latter represents a ten-fold increase in outbound agencies in a mere six years.

As mentioned, only certified ADS agencies are able to organize tour groups and promote tour products to consumers for ADS destinations. This includes handling group visa applications for their clients and payment to foreign partners. One purpose of ADS is as a control mechanism to ensure that Chinese tourists return to China. If a tour member does not return, the local travel agency is held responsible and may be removed from the ADS list. As a result, agencies usually require a deposit of around US\$6,000 from each customer to ensure their return.

Some of the key players in terms of outbound travel are listed below. Each of these firms has numerous branches in various cities that operate fairly autonomously from each other, rather than as a national brand.

- China International Travel Service (CITS);
- China Travel Service (CTS);
- China Youth Travel Service (CYTS);
- China Comfort Travel Service; and
- China Merchants International Travel.

Despite China's new open-door policy towards the tourism business, the travel agency sector has still not opened up fully to foreign investment. Joint-venture travel agencies such as CITS-AE (jointly established by CITS and American Express) and wholly-owned foreign travel services (such as Jalpak and Gulliver's Travel) were only recently permitted to set up shop in China. However, the turnover requirements are very high – US\$40 million for joint ventures and US\$500 million for wholly-owned enterprises. As a result, there were only 13 joint venture operations and five fully foreign-owned travel agencies in China by the end of 2004.

Foreign-funded agencies are permitted to handle inbound and domestic tourism, but not outbound travel services. This picture is expected to change by the end of 2007, as part of China's commitment to the World Trade Organization, when more direct foreign access to Chinese travellers will be permitted.

Unfortunately, the exceptional growth of the Chinese market has led to some questionable practices from agencies that are eager to cash in on the trend. A grey area has emerged in the industry, with an entire network of travel agencies that operate beneath the authorized agencies. Smaller agencies will often use the license of the certified agencies for the payment of a management fee, and international agencies will often resell part of their outbound quota to smaller agencies on a commission basis. Outbound consulting companies have also emerged in the marketplace. While not strictly permitted to handle ADS leisure tours, they do play an important role in the student and business-cum-leisure sectors.

Airlines

With the lead-up to the 2008 Beijing Olympics and the meteoric growth in travel demand, China's aviation sector is literally sky-rocketing. Air China anticipates 12% to 15% annual growth in the aviation industry over the next three to five years. Beijing is currently building the world's largest airport, and plans are underway to double the capacity of Shanghai's two international airports by 2008.

Consistent with global trends, significant deregulation has occurred in China's airline industry over the last few years. These reforms have

been spurred by the need to meet new World Trade Organization rules governing open aviation by 2006 and the need to prepare for the Olympics. New regulations that took effect in 2005 now allow for the entry of private airlines with up to 25% foreign ownership.

Air China, China Eastern Airlines and China Southern Airlines are the “Big Three,” operating most of China’s external flights. However, new second tier carriers have begun to emerge in China in response to airline reforms (e.g., Shanghai Airlines), primarily serving the golden triangle linking Beijing, Guangzhou and Shanghai.

China has also been granting access to its skies to airlines across the globe. British Airways, Virgin Atlantic, Lufthansa, Qantas and several US carriers have all been permitted to operate flights into China. A landmark agreement with the US will increase the frequency of flights from 54 currently to 249 per week over the next six years. The CAAC is clearly moving towards open skies – one such agreement has already been signed with Thailand, and talks are ongoing with the EU. As a result, the next few years should see a major influx of foreign carriers.

In anticipation of increased competition, the Big Three are rapidly expanding their international routes. For example, Eastern Airlines recently added ten new routes from Dalian to places in Europe, the US, Canada, Australia, India and Southeast Asia, as well as seven new routes from Chonqing. Chinese airlines have also begun to join alliances to sustain themselves internationally – for example, China Southern recently joined Skyteam.

Industry Trends

Not surprisingly, given the unbridled growth of travel demand, the Chinese travel industry is evolving rapidly. Below are some of the notable industry trends:

- Not surprisingly, foreign companies are scrambling to get a foothold in this lucrative market. For example, French hotel brand Accors Sofitel launched its first economy hotel in China in 2004. The firm plans to increase its hotel network to 36 hotels by 2006 in the hopes of tapping into the domestic and inbound markets, as well as raising the profile of its brand for Chinese overseas travellers.
- With competitive pressures mounting from foreign entities, China’s domestic travel agencies have begun to form mergers and partnerships. For example, in 2004, China Beijing

Quanjude Group and Beijing New Yansha Group, two major travel agencies, merged to form the Beijing Tourism Group.

- Product branding is not highly developed in China, with products looking much the same no matter where they are purchased. However, as the market becomes more sophisticated, it is likely that travel agencies will start to diversify their products through branding.
- Online travel consolidators have started to emerge in China. Ctrip.com and eLong are two of the leading consolidators of hotel accommodations and airline tickets in China. They primarily target business travellers and the growing, but under-served, FIT market. Both offer hotels, flights and travel packages to a variety of domestic and international destinations, including the US. CYTS Tours has also entered the online marketplace through a joint venture with Cendant Travel Distribution Services, launching their new online travel brand aoyou.com (“travel freely”).
- Ctrip has recently begun to handle credit card transactions. Online bookings now account for about 30% of its total transactions, with the remainder going through its call centre. Ctrip has been successful on this front as it has created a brand that Chinese consumers trust. In addition, eLong has just announced a partnership with Visa International to facilitate online purchases from its website through an enhanced security service.
- Low-cost airlines are starting to make inroads into China. 2005 saw the arrival of Spring International and Okay Airways, the first low-cost carriers in China. They are also significant for being the first privately-operated airlines in the country. However, coverage is currently limited to secondary domestic routes, and high fuel costs and airport charges are making it challenging to offer discount fares. According to *China Business Daily*, it will be at least five years before a true low-cost offering can make a go of it in China.
- Airline loyalty programs are beginning to emerge in China, with Air China recently joining Asia Miles, Asia’s leading travel rewards program. Members can earn and redeem points to over 900 destinations worldwide.
- In line with global trends, the Chinese airline industry is working towards the adoption of e-ticketing in China. China Southern

was the first airline to offer e-ticketing for domestic travel (in 2000) and has seen this channel grow to over \$2 billion RMB per year. China Airlines recently announced an e-ticket service to a number of destinations across the Asia-Pacific region, including Australia. It is estimated that around 10% of air travellers currently use e-ticketing.

6. THE LONG-HAUL TRAVEL MARKET

The remainder of this report focuses on the results of the in-depth interviews with the Chinese travel trade.

This section examines the Chinese long-haul travel market with a particular focus on travel outside of Asia. It presents the trade's views on emerging long-haul trends, top travel destinations and key challenges in developing the long-haul market.

Top Long-Haul Travel Trends

The Chinese travel trade was asked to identify the top trends that they are currently seeing in the long-haul travel market. Many of these echoed the results from the literature scan.

The rise of “deep travel.” While the whirlwind tour of multiple destinations is expected to remain popular for several more years, more experienced travellers are starting to opt for “deep travel” to one or two destinations. “Deep” travel typically combines sightseeing with “hands-on” experiences that enable travellers to fully absorb the culture, lifestyles and customs of a destination.

Deep travel is becoming especially notable in Europe. While first-time travellers will still lean towards the multi-country package tour, their return trip is likely to be spent in a single country or city (e.g., Paris) that they want to explore more fully. This trend is also being driven by a desire for greater relaxation while on vacation, with travellers eschewing the stressful and tiring itineraries of standard group tours for a more leisurely paced experience.

“The standard tour spends only 3 or 4 hours in the Louvre Museum, which is far from enough. People want to spend one or two days there. They want to see what they missed the first time.”

“Travellers are different now. They don't want to visit attractions roughly. Now they want to understand the history, culture and unique character of a destination.”

Increasing FIT. More experienced long-haul travellers are finding package tours too restrictive for their tastes, and are increasingly turning to FIT (or “self-help travel”). For FIT, the travel agency takes on more of

a supporting role, assisting customers to design their own itineraries, helping to book air and hotels, dispensing travel advice, supplying emergency contact numbers, etc. FIT has become fairly common for travel to Southeast Asia, Australia, and more recently for parts of Europe.

The FIT trend is being driven, in part, by the entry of younger, more adventurous Chinese into the long-haul market. It also appeals to well-educated and affluent customers who prefer more freedom on their trips and a better quality product. However, FIT travel is still in its infancy and is developing slowly due to higher costs and difficulties obtaining visas for individual travel. The trade expects it will take at least 3 to 5 years before it hits the mainstream.

As mentioned, FIT travel is not condoned by the Chinese government, but they will turn a blind eye if an individual succeeds in securing a visa for individual travel from a foreign embassy. This is because the responsibility for ensuring that tourist's return is shouldered by the embassy rather than the Chinese government.

“Once you have an individual visa, the government will not forbid you to go. However, we still encourage group tours as it is safer.”

Emergence of middle and high-end products. The long-haul travel market is witnessing the emergence of several product tiers, with middle and high-end products joining the well-established base of economy products. While economy or low-end packages include cheap itineraries, three-star hotels and average food, high-end products are targeted at a more affluent segment, who are looking for a better quality product, with five-star hotels, good food and top-flight entertainment.

Special interest travel. Although demand is currently very limited, special interest travel is expected to take off over the next few years as frequent travellers begin to pursue specific interests on their long-haul holidays. This trend is also being fuelled by travel agencies who are developing themed or specialty products to differentiate themselves within an increasingly competitive landscape.

According to the trade, some of the specific products that their customers have expressed interest in include:

- Recreational activities such as fishing, golf or skiing;
- Photography tours;
- Architecture or castle tours;
- Museum or gallery tours;

- Island resort packages;
- Historical and archaeological sites in Egypt;
- Nature tours in South Africa;
- Classical music concerts in Vienna;
- Following Napoleon's itinerary through Europe;
- Palace tours in Italy;
- Bullfights in Spain;
- Diving in the Maldives;
- Surfing in Australia;
- *Lord of the Rings* tours to New Zealand; and
- Sports events packages such as Formula 1 and World Cup.

Business-pleasure travel. Since China's entry into the World Trade Organization, the travel industry has seen a marked increase in business travel, particularly trips to assess business potential and partnerships, cultural exchange tours, and trips to attend international conferences, exhibitions and trade shows. This is expected to continue as China develops economically and forges stronger international ties. Business travellers almost always want to travel for leisure on these trips, preferring to pay a little more for higher-end products and more unique experiences.

“Many long-haul trips are taken in the name of business, though in fact, business is irrelevant.”

Some of the larger Chinese companies have also started to host important meetings or conferences overseas, as these are perceived by employees and clients as being more impressive. Incentive travel to overseas destinations is booming for the same reason.

Study tours. The trade reports that they are increasingly being asked by parents to organize study tours to visit prospective universities for their children who are planning to study abroad. These trips are usually taken together with the family during school holidays and incorporate some family activities. Other student-related products that are growing in popularity are trips to learn a foreign language and overseas summer camps.

Top Travel Destinations Outside Asia

Europe

According to the trade, Europe is currently the best-selling destination outside of Asia. Recently opened, Europe has long been the dream destination of many Chinese because of its long history, diverse cultures, romantic cities, well-known attractions, historic buildings, castles, and unique architecture. It is also an attractive shopping destination, being the home to many fashionable shops and world-famous brands.

Europe is seen as offering good value for money because of the opportunity to see multiple countries with different cultures on a single trip, often on a single visa. Most do a whirlwind tour of 10 to 15 days, spending just a single day in each country.

“People like to travel to over 10 countries at the same price as visiting 3 countries in other places. They think there is more value when they can go to more places for the same cost.”

Although European tours were quite expensive when the market first opened up, prices have come down substantially. In addition, travel agencies are now starting to offer more cost-effective options, for example, 4 or 5 countries instead of the standard 10-country tour. Two-country products such as the France-Italy or France-Spain routes are also proving extremely popular for those who prefer a quicker and more inexpensive trip. Moreover, travellers who have already done the 10-country tour are returning to spend quality time at their favourite destinations or to pursue a specific activity (e.g., skiing in Switzerland, fashion shows in Italy, concerts in Vienna).

Within Europe, France, Germany and Italy are among the most popular individual countries.

- **France** is a gateway to Europe because of the many direct flights into Paris from China. It is regarded as a “must-see” for visitors to Europe because of numerous landmarks that are well known in China (e.g., the Louvre Museum, the Eiffel Tower, the Triumphal Arch and the Champs Elysees).
- **Germany** is also very familiar to the Chinese. It is a popular business destination, as there is considerable admiration in China for German engineering and precision. Germany is also

known for its beautiful landscapes and famous buildings such as the Cologne Cathedral and Brandenburg Gate.

- **Italy's** long history and ancient civilizations are of interest to the Chinese. Italy is also seen as offering good shopping and tends to be somewhat more cost competitive than many other destinations in Europe.

Market Outlook

With heavy marketing efforts underway by European destinations, major improvements in air access, a recent drop in tour prices, and an anticipated appreciation of the RMB against the Euro, the trade believes that Europe is poised for strong growth over the next five years. Europe is also well-positioned for repeat travel due to the sheer variety of its product, and the growth of FIT to countries like Germany will open up new possibilities. However, the trade feels that visa issues and illegal stays have the potential to constrain growth if not properly dealt with.

Australia and New Zealand

Australia and New Zealand closely follow Europe in terms of the top destinations booked outside Asia.

Australia offers an exciting combination of nature and wildlife, beaches, shopping and entertainment – all products that the Chinese love. The Sydney Opera House (a famous icon in China), the Great Barrier Reef and the beaches of the Gold Coast are some of the main attractions. Australia is also the closest commonwealth country for Chinese yearning to experience western culture. At the same time, Australia's aboriginal culture is a unique drawing factor. The comfortable climate, stable politics and wide-open spaces are other key selling points.

VFR is a strong draw, with many Chinese who have relatives or friends that have immigrated or are studying in Australia. This has also resulted in a large Chinese population that makes visitors feel at ease. Being in the southern hemisphere, Australia is also a popular winter escape for citizens from northern China, while the island environment appeals to travellers from the interior. Australia is also rapidly gaining popularity as a honeymoon destination.

Australia enjoys a strong reputation in China and excellent word-of-mouth, which according to the trade is an important factor in Chinese decision-making. Another factor that should not be under-estimated is

that the trade likes to sell Australia – it is a mature and stable destination with a good tourism infrastructure, good air capacity, and easy visa approvals. It is also a relatively easy sell, as the trade are familiar with it, and it is closer and less expensive than Europe and North America. The downside, however, is that it does not tend to attract repeat visitation.

New Zealand is usually visited in conjunction with Australia and appeals to travellers seeking a more unique experience. The influence of the *Lord of the Rings* has extended even to China and has greatly heightened interest in seeing the beautiful scenery of this destination.

Market Outlook

Australia is a relatively mature destination with a stable market outlook. Although it has been feeling strong competition since Europe opened up, recent price drops, strong marketing by the Australia tourism bureau and the active development of new tourism products will shore up its market share in the near-term.

Southern and Middle Africa

After visiting Europe and Australia, many Chinese travellers will turn to Africa next. Africa offers travellers a long history, a culture that is truly different than their own, and unique scenery and nature. Chinese typically go there in search of something different, whether this is ancient forests and jungles, wildlife safaris or aboriginal people.

South Africa enjoys strong word-of-mouth and is particularly popular with high-end consumers who favour the coast for luxury travel. **Zimbabwe** and **Kenya** are other key destinations in this area. Generally, however, the trade feels that Africa still requires considerable development as a tourism destination before it can achieve mainstream popularity.

North Africa and the Middle East

Egypt, Turkey and other destinations in the Middle East also enjoy a good measure of popularity for leisure travel. The mysticism, ancient cultures and unique attractions (e.g., pyramids, the Sphinx, gardens) of **Egypt** are appealing to the Chinese, who also see parallels with China in terms of its long history. **Turkey** is famous for its architecture, while **Dubai** is growing in popularity as a business destination, fuelled by the strengthening economic ties between China and the Middle East.

Market Outlook

Africa is a developing destination that will continue to grow as the market evolves and consumers begin to seek more unique travel products. The outlook for the Middle East is uncertain, however, due to ongoing safety issues that will likely lead to continued ups and downs in the marketplace.

The US

Due to the lack of ADS, the trade currently views the US primarily as a business destination, although VFR and study trips are also popular. They currently send a lot of high-end business groups to the US for exhibitions, conferences, site visits, government tours, cultural exchanges, etc.

The Chinese are drawn to the US by its ultra-modern cities, advanced technology, well-developed economy and western lifestyle. Within the US, travellers are generally interested in seeing famous cities such as New York, Washington, Los Angeles and San Francisco. Las Vegas is also on the must-see list as travellers want to experience American “decadence” first-hand, but more than this, it is seen as one of the most technologically advanced cities in the country. Attractions such as the Grand Canyon and theme parks are also of interest, but are really secondary to the primary motivation of seeing what a superpower looks like first-hand.

“Everybody wants to visit North America – it’s really attractive.”

“The Chinese have been waiting for the opening of this market for many years. When it opens, the business will be good.”

“America is the dream of the Chinese – everybody wants to go there and see what a developed country it is.”

Despite its high appeal and interest levels, the lack of ADS status and difficulty in obtaining visas for FIT travel currently dissuade most potential visitors.

“Many people want to visit the US. However, considering the harsh conditions in meeting its visa requirements, most of us give up.”

Market Outlook

Business travel to the US will continue to increase due to the boom in Sino-US trade. Although interest in leisure travel is unparalleled, the immediate outlook is limited until the US receives ADS approval. When the market eventually opens up, the demand will be overwhelming, although the stringent visa restrictions could block it from reaching its full potential.

Canada

Canada is discussed in detail in the following chapter.

Challenges in Developing the Long-Haul Market

The Chinese travel industry faces a number of major challenges in developing the long-haul market. The three most pressing issues, by far, are related to visa regulations, the tough competitive environment and the lack of quality standards in the industry.

Visa Issues

For some destinations, obtaining a travel visa is a “painful process,” with lengthy application forms, complicated procedures, and numerous supporting documents that have to be supplied by the traveller (e.g., bank deposit certificates, real estate certificates, income certificates, resident identity certificates, detailed background information on the entire family). For destinations like the US, it also involves fingerprinting, photographs and personal interviews. A deposit of 100,000 RMB (around CDN\$14,000) is also required as a guarantee that the traveller will return to China. Not surprisingly, these stringent requirements are often a major deterrent for travellers, and the travel agencies that are applying for visas on their behalf. More alarmingly, complicated procedures are taken as a sign that the Chinese are not welcome at the destination.

“Our customer received three A4 application forms when they applied to visit America, asking for all kinds of information on 18 generations of family. The customer lost interest when he saw it.”

“Chinese do not have long-term plans for travel, and want a clear answer in a short time. They are told it will take a month and they give up”

In addition, visa success rates vary widely. According to the trade, Southeast Asia and Australia are seen as particularly easy for obtaining visas, while Canada, the US and the U.K. are seen as particularly difficult. Often the pass or reject decision is not made until a day or two before the flight leaves, which can make planning difficult for travellers and trade alike.

“Sometimes the whole group will be rejected, which affects our business and revenues.”

The trade notes that the visa issue is probably the most significant barrier to developing new long-haul markets as it can be difficult to find a middle ground. Too restrictive, and the visa becomes a barrier to market development. Too lax, and it can lead to illegal stays, which is also a barrier to market development.

Europe was often cited as an example of how the visa issue was poorly handled. Upon gaining ADS, Europe opened up completely to every agency at once. However, some of the smaller agencies didn't enforce strict standards on accepting travellers, which led to some illegal stays. One industry representative estimates that the number of overstays in Europe may be as high as 10,000 people.

The entire travel industry is now feeling the backlash as Europe tightens up its visa standards, with pass rates dropping from 80% to 50%. The number of travel agencies that can apply for visas to Europe has also been cut back, with problem agencies being removed from the list. The trade reports that these actions have severely affected their level of business to Europe.

Many commented that the Australian model worked better. Australia limited visa application rights to some of the larger agencies in the major cities and let the agencies help the embassy to screen out problem applications and control the quality of their customers. Once the market was more mature, they opened it up to some smaller cities and agencies. The Japanese model is also felt to work well – Japan screens Chinese travel agencies every year, choosing a limited number to handle their visa applications and weeding out any problem agencies.

“You can see that the national policy is very important in affecting the development of the travel market.”

Competitive Environment

Along with visa issues, many of the travel trade representatives cite the fierce competition as their greatest challenge. The number of travel agencies handling long-haul travel has skyrocketed over the last few years, with the entry of many new and smaller players. The strategy of the smaller agencies has been to under-cut the larger ones, which has sparked a price war and led to lower profit margins for all concerned. For example, prices for European tours have been cut by a third to a half since the market first opened up.

The fact that Chinese products are fairly homogeneous, with the same routes and quality, has not helped matters. Due to the lack of product differentiation, the only way to compete is to lower the price, which has contributed to the price erosion. There is a strong need for specialization and diversification of travel products in the industry, which has not happened yet.

The impending opening of the travel industry to foreign agencies is also weighing heavily on respondents' minds. Although they are not yet permitted to sell outbound travel, several of the larger foreign agencies are already well established in China. These powerful players have good access to hotels and discount flights, which will make it difficult for Chinese agencies to compete. The general feeling among the trade is that the competitive situation will go from bad to worse.

Lack of Quality Standards

Because most Chinese travellers are fairly naïve when it comes to assessing and comparing travel products, they will typically make decisions based on price alone. Consequently, some of the smaller travel agencies have begun to engage in low-priced tour operations using sub-standard accommodations and travel services, but positioning them as higher-end products to the consumer.

Other agencies will operate at cost or less than cost, making their profits from shopping commissions instead. This has led to some very low cost packages that are little more than the cost of airfare. Although most prevalent in Southeast Asia, this practice has been spreading to the Australian and European markets.

In the absence of industry regulation and quality standards, these questionable practices have led to visitor satisfaction issues and reports of being defrauded or cheated by returning travellers. This has prompted the CNTA to develop a pamphlet to protect consumers,

containing guidelines on what they should expect to pay for packages to specific outbound destinations.

Other Challenges

Lack of familiarity with long-haul destinations. The trade feels that the industry lacks professionals with the qualifications and expertise required to sell and develop long-haul products. This makes them over-reliant on receptive tour operators for product development, often resulting in quality or satisfaction issues for their customers. Lack of familiarity can also make it challenging for the front-line staff to sell a destination and address questions from customers with confidence.

Airline capacity. The demand for long-haul travel has far out-stripped the supply in terms of air capacity, particularly for popular destinations like Europe during the peak travel periods. According to the trade, direct flights are a must for long-haul travel given the short vacations of the Chinese. However, these are severely lacking for some destinations, making them a challenge to develop.

“If flight capacity doesn’t meet the demand, the route development will be limited, no matter how hot the route is.”

Lack of understanding of the Chinese market. The trade feels that some of the local NTOs and receptive operators are not ready to handle the Chinese travel boom. They lack a good understanding of Chinese consumers, culture and habits, which can result in tours that do not suit the taste of Chinese travellers. They also do not have a good grasp on how to work with the industry and how to choose the proper partners going in.

A last-minute market. The last-minute nature of this market creates many challenges for the Chinese travel trade, as well as for local suppliers, as travellers expect tour arrangements to be made on very short notice. Visa approvals also factor into this as travellers will often be rejected after bookings have already been made. Among other things, this makes it difficult for airlines to ensure that outbound flights are full.

Market peaks and valleys. Because of the tendency to travel during the three Golden Weeks, there are huge peaks and valleys in market demand that are challenging to deal with, particularly for the airlines. The industry is unable to meet demand during the peak season, while in other months, there is almost no outbound business. This has become

such a serious issue that the government is currently examining alternatives to smooth out market demand.

7. PRODUCT DEVELOPMENT AND MARKETING

This section of the report examines consumer product preferences and product development and marketing considerations, based on the insights of the Chinese travel trade.

Product Preferences

Product Selection Criteria

According to Chinese travel agencies, the top considerations for their clients in choosing a long-haul holiday product (in descending order of importance) are as follows:

- **Price.** Price is without question the top consideration for most Chinese. This is a deeply engrained part of their culture and will likely never change, with comparison shopping being the norm across all social classes.

“Travellers don’t pay enough attention to services when they choose. Our services are very good, but consumers won’t notice that. For Chinese, price is the key thing they consider.”

“Whenever and wherever, the Chinese choose on price.”

“Even if the price is just 1 RMB cheaper, they will choose the cheaper one.”

“Rich or poor, Chinese will consider price first.”

“Chinese know nothing of travel destinations. They read some newspaper advertisements and pick one where the price is acceptable.”

- **Appealing itinerary.** Chinese will look at the itinerary next. They prefer a compact itinerary, with as many famous cities and tourist attractions as possible. Although a small component of the market is starting to shift toward deep travel, the mainstream culture is still to pack as many destinations as possible in a single trip.

“If you have one product at 10,000 RMB that visits one country, and another product at 10,000 RMB that visits several countries, consumers think the latter is better because it includes many places. This concept is still very solid in Chinese travellers’ minds.”

- **Quality and reputation of the travel agency.** Given the inexperience of most Chinese travellers, the quality of the travel agency is of primary importance. Travellers look for large and reputable agencies, with high quality products and good relationships with local suppliers.
- **Ease of obtaining visas.** Chinese consumers will choose destinations where visa approvals are easy to get and turnaround is quick. They have limited time and patience to deal with complicated application procedures, and don’t want to take the risk of being turned down at the last minute.

“Some consumers faced with the difficulty of visa procedures will change their mind and choose other countries instead.”

- **Quality of accommodations.** Also of importance is the quality of the hotels (e.g., number of stars, brand name), as well as their location and convenience.
- **Destination appeal.** The destination has to have some intrinsic appeal to the Chinese. For example, Europe is seen as romantic and exotic so people want to go even though it is far away. The overall attractiveness of the destination is also important in terms of having nice scenery and great views.

Beyond these, all other product selection criteria are secondary:

- **Convenience of flights.** Given their limited vacation time, the length of the flight is a key selection factor. Direct flights are a must for long-haul travel, particularly for older tourists.
- **Length of trip.** According to the trade, 7 or 8 days is the ideal length for long-haul products targeted at the Chinese market. If trips are too short, they are perceived as not offering value; if they are too long, travellers can’t afford the time or cost.

- **Good food.** Type of food (e.g., Chinese vs. western) is important, although the Chinese are difficult to please in this regard.

“It is difficult to satisfy them. Sometimes you arrange Chinese food and they tell you they want western food. You offer western food, they tell you that they want Chinese food.”

- **Reputation of the airline.** Chinese will consider the safety, comfort and reputation of the airline.
- **Safety of the destination.** War, terrorism and disease can have a “fatal impact” on destination choice, with a lingering psychological effect long after the event is over.
- **Shopping opportunities.** Opportunities to shop are obviously important to Chinese travellers.

“Chinese will be very unhappy if you don’t take them shopping.”

“Some will not even consider going if you don’t take them to buy watches in Switzerland.”

- **Unique itinerary.** In some instances, routes with unique itineraries will attract greater interest, for example, following the *Lord of the Rings* production team’s path through New Zealand, rather than a standard itinerary.
- **Social considerations.** In choosing a travel product, Chinese travellers will ask about the other people in the tour group, preferring to travel with others of the same social status. Obviously, having the same language (i.e., dialect of Chinese) is important as well.

Perceptions of Product Value

Being relatively new to long-haul travel, Chinese travellers are still quite naïve when it comes to assessing the value of travel products. Most Chinese still judge the value of a package by its price. Moreover, in making pricing comparisons, the majority will not consider the quality and content of the package, but look at the cheapest dollar value. As a result, offering them a small discount on the package price is one of the best ways to enhance perceptions of its value.

“Most Chinese still equate value to price. Only a small proportion will think deeply and look at the value of the itinerary and quality of service.”

“Chinese don’t have very good judgment when it comes to value. For example we have several different 9-day trips to Australia. One is the standard itinerary, one adds a visit to the Great Barrier Reef, and one adds a visit to Dolphin Island.” However, travellers don’t ask why their prices are different and what benefits they can get from each one – they will only select the cheapest.”

“Inexperienced travellers don’t care about the quality of the overall package. They don’t care about the location of hotels or food. They only care about price. If the price is low, they will go.”

More experienced travellers are shrewder, however, and will take product quality and service levels into account, using the criteria mentioned above. They will visit different travel agencies to compare various offers and validate hotel quality on the Internet.

In general, the Chinese market does not see add-ons as adding value if they have to pay for it, and bare bones packages (e.g., just airfare and hotels) are often the most attractive offering. In fact, this line of thinking is helping to fuel the growing FIT market. FIT appeals to Chinese sensibilities as they only have to pay for the specific services they want. For these travellers, travel agency assistance with the FIT visa application process is often the best way of adding value.

“Customers don’t want to see any add-ons unless they are free-of-charge. This gives us the most headaches.”

There are some small extras that would be perceived as adding value to travel products, as long as it is clear to travellers that they are free of charge:

- Free airport pick-up, even for FIT travellers;
- A complimentary dinner or special reception;
- A free day excursion, including meals;
- Admission tickets or discount coupons to major attractions;
- A free show or entertainment;
- Complimentary upgrade from a 3-star to 4-star hotel; or
- A small gift or memento.

Special Requirements of Chinese Travellers

Destinations the world over have come to recognize that Chinese travellers have special requirements when travelling abroad. In fact, Chinese travellers have already developed a reputation as being difficult to please, wanting premium experiences and VIP service for budget prices. Knowing how to service these demanding travellers and develop products that meet their needs is critical to sustaining market growth.

In the past, Chinese travellers didn't really care about the type of **accommodations** used on their trips, with three-star hotels being considered appropriate. However, this is starting to change, with four-star hotels being ideal, and five-star hotels preferred by higher-end travellers.

Accommodations

- 3-star is minimum, but 4-star is preferable;
- High-end and business travellers require 5-star hotels;
- Offer well-known brand names that are recognized in China (e.g., Hilton);
- Ensure hotels are in a good location, e.g., downtown or close to shopping areas (i.e., not in the suburbs);
- Hotels should be located in safe and clean areas of the city;
- Hotels should be modern and not too old – appearance is important;
- Some younger travellers prefer youth hostels;
- Provide more smoking rooms since many travellers smoke;
- Rooms should contain tea kettles or water heaters for making hot beverages;
- Chinese television or newspapers in the room are a nice touch;
- Hotel receptionists should speak fluent Chinese.

Careful attention needs to be paid to the type of **food** incorporated into tour packages. Most Chinese do not enjoy other cuisines, so the majority of the meals should consist of Chinese food. However, it is important to have several meals that reflect local specialties to sate their curiosity about local flavours.

Food

- Provide authentic Chinese food that reflects the region travellers are from (e.g., Guangdongese food for Guangdongese travellers);
- Portions should be large as Chinese tend to eat a lot;
- Meals should be served with chopsticks rather than forks and knives;
- Restaurants and restrooms should be clean;
- Chinese menus should be provided, especially to older guests;
- Wait staff that speak Chinese are appreciated;
- Chinese should never be kept waiting for their meals.

In terms of **transportation**, the specific airline and type of coach used is important to Chinese travellers, with safety being a key consideration.

Transportation

- Direct flights are preferred for long-haul travel;
- Large planes are perceived as being safer;
- Many prefer Air China due to cost, language and level of service;
- Chinese signage or Chinese-speaking guides should be placed at arrival points;
- Coaches should be large, comfortable, modern and air-conditioned;
- Coaches should not be shared with other groups;
- Coaches should contain extra room (e.g., 15 seats for 10 people) so that travellers don't feel crowded;
- High-end customers don't enjoy walking so coaches should be close by;
- Long distances between cities should be covered by plane to avoid long drives by coach;
- Coach drivers should assist travellers with their luggage;
- Train or boat can be used between destinations for variety;
- Include unique local transportation where applicable, e.g., horse-drawn carriage or high-speed rail.

The most critical point to remember when developing **tour itineraries** is to pack as many famous cities, attractions and landmarks into the itinerary as possible. Western-style itineraries almost always have to be compacted for the Chinese market. A tour manager that stays with the group for the entire trip is required, as well as professional and knowledgeable local guides.

Tour Itineraries

- Local immigrants should be engaged to assist with itineraries as they understand Chinese culture;
- Itineraries should be compact, with minimal travel time between destinations and attractions;
- Sufficient time should be spent at the major attractions (i.e., travellers should not feel rushed);
- A menu of optional day trips should be offered;
- Include something novel or unique that tourists wouldn't normally see.

Tour Guides

- Tour manager should be available to travellers after-hours;
- Local guides should be knowledgeable about the history, geography and culture of a destination;
- Guides are expected to tell stories and add colour to local attractions, and not “just read from a book;”
- Guides should not only speak Chinese, but understand Chinese lifestyles and culture;
- Attitude is important – guides should be polite, respectful, deferential and service oriented;
- Guides should be matched to the dialect of the tour group.

Chinese travellers enjoy having **entertainment** at night. If included in the package, several options should be presented as everyone has different interests. More preferably, entertainment should be left to travellers' own devices, with decisions made according to group preferences and the recommendations of local guides.

Entertainment

- Shows, nightclubs and karaoke bars are popular for evening entertainment;
- Offer experiences that are not available in China;
- Provide entertainment that reflects the destination and culture (e.g., Moulin Rouge in Paris, luaus in Hawaii, shows in Vegas, opera or classical music concerts in Europe);
- Chinese enjoy going to casinos, although this is not encouraged by the CNTA;
- Cost is a factor – Chinese do not want to pay a lot for entertainment.

Shopping is an important part of virtually every long-haul trip. In the past, shopping was built into the itinerary, but some Chinese now prefer to shop freely on their own as they feel the tour guides are getting commissions or kick-backs from the stores.

Shopping

- Shops should provide Chinese-speaking sales staff;
- Personalized service in stores is important;
- Shopping for luxury goods is preferred (e.g., jewellery and watches);
- Provide duty-free shopping opportunities;
- Provide exclusive shopping opportunities, such as private soirees in brand-name stores;
- Small shops that reflect the local character and culture are equally important;
- Selected shops should have lower prices than in China.

In terms of **pre-trip planning information**, most of the larger agencies will hold meetings with the tour group before they set forth from China to brief them on the itinerary, provide practical information they will need and answer any questions before they set out.

Pre-Trip Planning Information

- Itinerary details, including optional activities;
- Dining, shopping and entertainment options;
- Weather and type of clothing to wear;
- Time differences;
- Areas of large cities that are unsafe and should be avoided;
- Unique local customs and traditions;
- Things they should and should not do at the destination;
- Tax policies;
- Airline regulations such as weight limits; and
- Emergency contact numbers.

Product Development and Marketing Considerations

Resources Used in Learning About New Destinations

According to the Chinese travel trade, **NTO and destination websites** are one of the most useful information sources for learning about a new destination and assessing its potential for travel products. Websites targeted at the industry should give the trade an overall sense of the destination and provide detailed information on the local tourism infrastructure. They should also provide an avenue for the trade to ask questions. It goes without saying that websites should be in Chinese, as English language websites are not considered useful.

Websites should also contain non-travel-related information, such as the business and political environment, economic information, and history and social development to provide a better flavour of the destination. Both the trade and tourists alike are interested in this type of information.

After the Internet, the next most useful information sources for learning about new destinations are **daily newspapers, travel magazines and trade magazines**. Some of the newspapers that are felt to have particularly good travel sections are shown below, along with some of the key trade and travel magazines consulted.

Daily Newspapers

- Shenzhen Economic Daily;
- Shenzhen Special Zone Daily;
- Beijing Youth Daily;
- Beijing Evening News;
- Shanghai Morning Post;
- Shanghai Times;
- Guangzhou Daily;
- Yangcheng Evening News.

Trade Press / Travel Magazines

- Traveler;
- Trend Travel;
- National Geographic Traveler;
- Travel China;
- Travel Weekly;
- China Tourism News;
- Travel Times;
- Tourism Tribune.

The trade also emphasized the importance of personnel at the NTOs and destination **tourism bureaus** as information sources, as well as NTO in-market and embassy staff. The information packages and materials prepared by these organizations are focused squarely on what the trade needs to know and are deemed to be extremely helpful. In addition, the **road shows** organized by the tourism bureaus are felt to be an excellent forum for the trade to learn about the destination and ask questions to tourism bureau staff. In China, the personal approach always works best.

FAM tours or “investigation tours” are felt to be one of the best ways to get to know a destination (“seeing is believing”). These provide a valuable opportunity for travel agencies to talk to receptive tour operators and local suppliers directly. Some of the trade representatives feel it is disrespectful to their customers to sell something they are not personally familiar with, hence the popularity of the tours. In fact, one agency mentioned that they will return to the same destination every couple of years to ensure that it still meets their standards.

The best time of year to hold FAM tours for the trade is obviously the low season. The three Golden Weeks and the weeks leading up to these periods should obviously be avoided. Immediately after the Golden Weeks is good as there is usually a lull in business, particularly after the Chinese New Year. However, for Canada and other countries in the North, the trade prefers the non-winter months, e.g., May to October.

Virtually all of the travel trade participates in **trade shows and travel marketplaces**, both in China and internationally. The China International Travel Mart (CITM) that switches between Shanghai and Kunming in alternate years is widely regarded as the most important trade show in China and is the one most frequently mentioned by interviewees.

Trade Shows and Travel Fairs

- China International Travel Mart (CITM);
- Shanghai international Tourism Fair;
- Guangzhou International Travel Fair (GITF);
- World Travel Fair (WTF) in Shanghai;
- Beijing International Trade and Tourism Market (BITTM);
- ITB (Berlin);
- Hong Kong trade shows;
- Major trade fairs hosted by destination countries (e.g., Australia, South Africa, Singapore).

TV travel programs and consumer feedback are other key information sources used by the trade to learn about new travel destinations. Many agencies make a point of talking with returning customers to assess satisfaction and issues with their trips.

Resources Used in Developing New Products

In terms of product development, the most useful resources, by far, are the receptive tour operators and destination tourism bureaus. While their websites are the primary source of information, the trade also requires an open line of communications to these organizations to provide further details and answer questions.

The trade relies to a large degree on the recommendations provided by the **NTO or destination tourism bureaus**, whom they view as a trusted and official information source on the must-see attractions, the leading hotels and the best local operators to partner with. While their websites are obviously important for product planning, so are the road shows, FAM tours and exhibitions that they organize.

The trade also stressed the importance of ongoing communications and regular updates after the initial product launch. For example, road shows should be done every year (a standard set by Australia) to update the trade, present new products and assist in improving existing routes.

The trade did have some concerns about destination websites in general. Specifically, they are neither up-to-date nor detailed enough to permit them to plan itineraries. For instance, the trade notes that details such as hotel prices and hours of operation for attractions are not typically updated.

“Official websites are most useful in the beginning when we design an itinerary. After we are familiar with the

routes, the usefulness of the official website decreases because the information is sometimes completely out of date.”

“The Switzerland tourism bureau’s website is very good. They provide updates on conferences and special festivals for next year. They email information to me regularly and in advance. And they often update the information on their website.”

Receptive tour operators are equally important resources in the product development process. The trade relies on them to provide specific recommendations on suitable itineraries, activities, attractions, hotels and transportation options, as well as pricing information. For pricing, they prefer a consolidated pricing list with as much detail as possible. Again, the trade stressed the need to keep websites up-to-date and to apprise them of upcoming events, promotions, pricing changes, etc.

The **websites of other suppliers** such as hotels, airlines and shops are consulted primarily for pricing and scheduling information.

In-market staff are viewed as a bridge between the trade and the local tourism bureaus. They can be helpful to assist with visa issues and emergencies, and to keep the trade informed about changes to the overall travel environment.

Below is a list of the key information that the Chinese travel industry expects to be available on destination, receptive operator and supplier websites to assist with product development.

Desired Website Information

- Overview of the country;
- Geography and maps;
- Overall history and culture;
- Information on the economy, political situation, population, etc.;
- Weather and time zone information;
- Local laws, customs and traditions;
- Travel tips;
- Travel-related news (updated every day);
- Timing of peak and low seasons;

Desired Website Information (Cont'd)

- Flight information (availability and cost);
- Tour itineraries and detailed pricing;
- Key tourism attractions, their hours/seasons of operation and admission prices;
- Profiles of key cities;
- Distances and travel times between key cities;
- Hotel information and pricing;
- Transit times between hotels and attractions;
- Shopping opportunities and store listings;
- Food specialties;
- Restaurant listings;
- Up to date listings of local festivals, exhibitions, sporting events;
- Listings of conventions, conferences and trade shows;
- Museum descriptions;
- Entertainment options;
- Information on potential suppliers and partners for the trade;
- Listings of local travel organizations;
- Recommendations for local guides;
- Good photographs of the destination and attractions;
- Feedback from travellers and articles by reporters; and
- Visa application procedures and timelines.

Criteria for Receptive Tour Operators

The Chinese travel trade was asked to indicate what they look for when choosing receptive tour operators to work with in a long-haul market. Aside from the obvious – i.e., **low prices** and **high quality products**, which were mentioned by nearly everyone – the trade's key criteria for local receptives are described below.

Major players. The trade prefers to work with the largest, most powerful tour operators at a destination. It is felt that these players have the critical mass to negotiate the best prices for hotels and transportation, as well as having access to the top hotels, suppliers and guides. In addition, receptives that have a strong brand and a good industry reputation will help to give the trade the level of comfort they need in a partner.

Chinese-speaking staff. Chinese travel agencies obviously prefer to work with receptives that have Chinese-speaking employees, and who can provide Chinese-speaking guides as well as information and promotional materials in Chinese.

Understanding of Chinese culture. Perhaps just as important as language is having an in-depth understanding of Chinese culture and the unique requirements of Chinese travellers. Chinese consumers do not think in the same way as westerners and the products and activities that will appeal to them are different. The most ideal scenario is for suppliers to have a specialized Chinese team who understands the culture and background.

“Only Chinese employees can really understand what Chinese consumers want.”

“Receptives need to work from a Chinese perspective rather than a local perspective.”

Service-oriented attitude. Receptives must be able to work quickly, provide quotes at the last minute, be responsive when asked for information, resolve any problems immediately, and be available after hours (“around the clock”) as per the Chinese custom. Flexibility is a must as Chinese often change their plans at the last minute and expect suppliers to accommodate them. After-sales service and adequate follow-up to obtain feedback is also critical.

“It is difficult for western travel agencies to succeed in the Chinese market. The business environment is totally different. It is hard for them to satisfy our requirements on flexibility and responsiveness. Now two-thirds of the receptive agencies in Europe are run by Chinese.”

“They must be highly flexible to serve us. Unlike European tourists who do not change their plans, something unexpected always happens at the last minute for Chinese travellers. For example, the trip could be booked for 15 people and 10 people will show up.”

“They need to provide services from the heart.”

Proven track record. Most prefer to deal with receptives who are officially authorized or recommended by the destination tourism bureau. They expect receptives to have appropriate industry certificates and to be well-established in the industry (i.e., no start-ups).

“The agency needs to be recommended by the local tourism commission. This will guarantee the quality.”

Variety of products. Receptives should have a good variety of products from which they can choose, including unique products that no one else has.

Lead Time For Product Development

The lead time for product development varies widely depending on the agency, the product and whether it is a new itinerary or a totally new destination. Responses ranged from two or three weeks to two or three months, with one to two months being the most common response.

If the destination is totally new and unfamiliar, however, it can take anywhere from three to six months to develop a new product because of the need for FAM tours, market research, feasibility analysis, resolution of visa procedures, etc. Following the initial launch, it usually takes another three to six months for a new product to mature.

Product Marketing

The trade was asked to provide an overview of how long-haul travel products are marketed to consumers in China. Some of the key ways are discussed below.

Mass media. The media is very influential in China so a sizeable part of any destination's marketing budget should be dedicated to consumer advertising.

Newspaper advertising is the most common way of reaching travellers, as most affluent Chinese rely on this source for news. Newspaper advertising often includes a response mechanism (e.g., agency phone number or website address) for consumers seeking further information. The trade cited the Shanghai Times, Shanghai Morning Post, Beijing Evening News, Beijing Daily, Beijing Times and Guangzhou Daily as some of the specific papers where they usually place ads for travel products.

Television advertising is also sometimes used as part of the marketing mix, as it is a powerful vehicle to present the imagery of a destination. In China, television stations are state-owned, and advertising costs are extremely expensive. As a result, only a handful of long-haul destinations have made use of television advertising, but those who have tried it have found it to be highly effective.

These activities are often accompanied by softer advertising such as articles about the destination in newspapers or magazines, or features on a TV travel show.

Direct marketing. Direct marketing is one of the most important ways of introducing new travel products to Chinese consumers, with direct mail, email and face-to-face selling being the key channels used. Many travel agencies have a database of existing or VIP customers to which they will send brochures or newsletters to let them know about new products and special promotions.

Most of the larger agencies also have a sales team in-house. This team will conduct road shows for large companies, clubs and other groups of potential travellers. They will also make in-home presentations to VIP customers that they feel are likely to be early adopters of a new product.

Intercepts are another common way of marketing directly to Chinese consumers. Sales staff will go to busy street corners downtown and in shopping malls to talk to people and introduce products to them face-to-face. Again, this shows the importance of the personal touch when marketing in China.

Internet. Most travel agencies have their own website on which they will advertise new products using special banners or special areas of the site. Some will place ads on other websites or set up BBS's or forums around new destinations.

Consumer exhibitions. These are typically used to promote mid- to high-end products or for new product launches. One travel agency is currently working with Italy's tourism bureau on an exhibition that will involve some of the country's most famous movie stars.

Distribution of marketing collateral. The trade obviously requires marketing materials in support of its sales efforts. Brochures and catalogues are considered essential. These should have attention-grabbing photos and information to pique the customer's interest. The trade also requires VCDs, which are more commonly used in China than CDs or DVDs. VCDs are used for presentations to large groups, retail counter displays and hand-outs to interested customers. VCDs should be vivid, lively and show some of the local scenery and colour.

Cooperative marketing. Chinese travel agencies will often engage in cooperative consumer marketing ventures with other agencies, either through a third party such as a tourism bureau, or on their own. Often a new product will be placed at other agencies to give it greater exposure

and reach through a larger number of retail outlets. Sometimes products are developed jointly and the costs of marketing are shared, for example, to achieve critical mass for a unique destination or route where there are not that many potential customers. Occasionally, the trade will also engage in joint marketing initiatives with non-travel related companies such as major banks.

In addition, airlines will often engage in joint promotions with travel agencies or with a tourism bureau, where they provide low ticket prices in exchange for having their name attached to special promotions or advertising.

Successful Long-Haul Marketing Strategies

The Australian Model. According to the trade, Australia has implemented one of the most successful post-ADS marketing programs in China. Virtually everyone interviewed praised the efforts of the Australian tourism bureau as a model of how a market should be opened up and developed. A key reason for Australia's success is that it invests heavily in this market – in 2005, it stepped up its marketing in China by a remarkable 68%, with a total budget of A\$5.7 million (CDN\$4.9 million). As a result, its marketing is more visible than most of its competitors.

“The Australian government has done a good job. They attach great importance to the Chinese market. Not only the national tourism bureau, but also the state tourism bureaus – they are always arranging promotions and training staff in China.”

“I think highly of the Australian tourism bureau.”

“We have a great relationship with the Australia Tourism Commission and sell their products together. They do sufficient advertising, which is why they succeed.”

“Their marketing efforts signal to all that they welcome Chinese visitors.”

According to the trade, these are some of the key factors behind Australia's marketing successes in China:

- Began marketing initiatives six or seven years before attaining ADS to start building market and industry awareness;

- Invested heavily in market research, including the conduct of a major Chinese traveller survey, around which they built their marketing plans;
- Initially opened to larger agencies in a few markets – Beijing, Shanghai and Guangzhou – expanding to other cities only after these markets matured. This permitted better control over visa issues and illegal stays;
- Obtained the full cooperation of their consulates in regards to visa authorizations;
- Developed unique branding based around nature and wildlife;
- Focused heavily on television advertising, which made a deep impact on travellers;
- Also used frequent print, outdoors and online campaigns;
- Developed a special website for Chinese consumers;
- Developed television programming that showcased Australian wildlife and aboriginal culture;
- Implemented Australia specialist training programs for Chinese travel agents. Agencies with more certified specialists on staff benefit from easier visa approvals and more government support;
- Trained and provided work visas to Chinese tour guides;
- Continues to actively develop and invest in new tourist attractions and tour routes;
- Routinely collects feedback from the Chinese travel trade on all new routes and products;
- Engages in numerous joint marketing ventures with Chinese travel agencies and media groups;
- Holds FAM tours on an annual basis for Chinese travel agencies and media;
- Organizes annual road shows in China, with a large contingent of attraction, hotel and tour operator representatives being sent to China each year to update the trade on new products and attractions;
- Each state in Australia also does their own FAM tours and road shows;
- State tourism organizations are extremely pro-active in communicating with the large Chinese travel agencies through monthly newsletters, email announcements, etc.

The trade also pointed to a number of specific marketing initiatives that they feel have worked particularly well for other long-haul destinations:

- **New Zealand** has invested heavily in the Chinese market. It recently launched a strong brand-building television campaign (100% Pure) that hit the mark with the Chinese. The campaign touted the country's pure and natural environment.
- **The U.K.** sponsored a contest for a free trip to the U.K., including a special dinner with Prince William. This trip garnered extensive coverage by the Chinese media.
- **France** recently launched a cultural exchange program with China, in which the Cultural Year of France was celebrated in China through special activities throughout the year;
- **Singapore** has mounted several high-profile television campaigns in China using famous Chinese stars to help promote the destination;
- **Korea** has leveraged the hallyu (Korean Wave) fever that has been sweeping China, developing special hallyu packages and events, supported by heavy advertising featuring popular Korean movie, television and pop stars;

“Korea is not an attractive destination, but it is famous.”

“They did so good a promotion that everyone wants to go there.”

- **Hawaii** has also done a good job in establishing an initial presence in China, despite the US's lack of ADS. Hawaii has already opened an office in China and has been actively organizing FAM trips for Chinese agents. It participates in most of the major travel trade shows in China, and is launching Hawaii Week at the Shanghai Tourism Festival in 2006.

8. POTENTIAL FOR CANADA

This section examines the potential for Canada in the Chinese market, including perceptions of Canada as a tourism destination, key strengths and competitive advantages, and major challenges or obstacles to growth.

Potential for Canada

About half of the trade representatives interviewed feel that **the potential for Canada is very good to excellent** once it obtains ADS approval. Social awareness of Canada is very high as it has close ties with the US, and the Chinese tend to think of the two countries together. Moreover, the relationship between the Chinese and Canadian governments is strong, which is conducive to market development and growth.

High-end travellers looking beyond Australia and Europe will be the early adopters for Canada. Several interviewees commented that because Canada attracts the same affluent segment that Europe does, its potential should be just as strong.

“It has great potential – it may become as popular as Europe.”

Like the US, Canada is seen as being modern and having a highly developed economy. Together, Canada and the US are the epitome of the western culture and there is interest in “seeing how the other half lives.” In the beginning, this curiosity will likely be a greater driver of travel than specific attractions and tourism offerings.

“Canada is famous in Chinese peoples’ minds.”

“Canada is as famous as America.”

“The Chinese prefer going to developed countries to learn more about their society, and Canada is one of them.”

“Canada is a curiosity.”

As a new ADS destination, the near-term potential for Canada is obviously bright. However, the challenge will be to sustain tourism past the curiosity phase. The trade also cautions that fulfilling Canada’s potential is contingent upon easing current visa restrictions.

“In the beginning, its business will be good because it is the first to open the North American market. But how to maintain the business is a difficulty.”

Perceptions of Canada

Top of Mind Impressions of Canada as a Country

The single most striking thing about Canada in the minds of the Chinese travel trade is its size and its breadth. They describe Canada as being “vast,” “wide,” and a place where one can “drive for hours.” Associated with this is the feeling that it is sparsely populated, leaving an impression of wide, open spaces.

It comes as no surprise that Canada is seen as very beautiful, with extraordinary scenery and nature. The image of the red maple leaf stands out clearly and is one of the most predominant icons of Canada in the minds of the trade.

“Canada is a country of maple leaves.”

Like the US, Canada is viewed as being a rich and well-developed country, with abundant natural resources, a strong economy, modern cities and advanced technology. It is also seen as being a “good place to live,” with a high quality of life, a good health care system and excellent educational institutions. Although its culture is intrinsically western, the trade also perceives it as having an interesting European influence. Also top of mind, is the fact that there are many Chinese who have immigrated there.

Interestingly, only one respondent mentioned “the famous doctor who helped China during World War II.” This demonstrates that perceptions of Canada as a country do go deeper than Norman Bethune.

Top of Mind Impressions of Canada as a Tourism Destination

As a tourism destination, impressions of Canada revolve around its rich nature, winter imagery, relaxing environment and modern cities.

Rich nature. Top of mind is Canada’s natural beauty, incredible scenery and great views. Canada is envisioned as being lush and green, covered in “ancient forests,” with abundant lakes and rivers, all in a pristine state – in other words, unpolluted, uncrowded and undisturbed.

Autumn imagery is also front and centre in the minds of the trade, with colourful trees and red maple leaves specifically mentioned. Although few could name them by name, the images of Niagara Falls (“magnificent waterfall”) and the national parks in the west also stand out.

“Canada has rich tourism resources. Its natural scenery is appealing to the Chinese.”

“Canada’s scenery is very beautiful. Many people want to go there.”

Winter imagery. Canada’s winter imagery and cold weather is very predominant in the minds of some of the trade. To them, Canada is pictured as a frozen wonderland, covered in snow and ice, with numerous snow-topped mountains and glaciers. Naturally then, skiing is also top of mind when thinking of Canada.

“Canada has only two seasons, winter and summer. Winter is longer.”

“Most of the time, there is snow in Canada”

“In winter, you can see nothing but white.”

“It is a world of ice and snow.”

“Canada is a ski resort. It has the best snow-covered mountains in the world which is why people go there.”

Peaceful and relaxing. Canada is seen as being peaceful, quiet and relaxing, with a slow rhythm of life and a laidback lifestyle. In the eyes of the trade, these qualities make it an ideal holiday destination for those seeking relaxation.

Modern cities. There is good recognition of Canada’s modern cities and well-developed infrastructure, with Toronto, Vancouver and Ottawa viewed as being “world-famous.”

Awareness and Perceptions of the Regions

Members of the travel trade were also asked for their perceptions of specific regions within Canada and to identify key products that might be of interest to the Chinese. It is worth noting that many of the trade found this difficult due to their lack of in-depth familiarity with the regions.

Ontario. Virtually everyone interviewed was familiar to some degree with the Toronto-Ottawa-Niagara Falls region. This region is perceived as being the financial and economic centre of Canada and a must-see on any Chinese travel itinerary. Many honed in on **Niagara Falls** as one of the top waterfalls in the world, and the single most famous tourist attraction in Canada. The fact that it is a natural attraction, rather than a man-made one, is especially appealing to the Chinese.

“I believe most Chinese are familiar with Ontario. When Canada opens, the first destination is Ontario because Chinese know about it.”

“Everyone wants to see it”

“People associate Ontario with Niagara Falls.”

As mentioned, both Toronto and Ottawa are well-known in China. **Toronto** is seen as a large, prosperous city, with a sizeable Chinese community. **Ottawa** is recognized as the political centre of the country and is viewed as having rich cultural attractions.

“We put Toronto in our itinerary because everybody knows it.”

Ontario Products of Interest to the Chinese

- Niagara Falls;
- Wedding and honeymoon packages;
- Toronto and Ottawa;
- Beautiful scenery;
- Maple leaves and fall colours;
- Wineries, ice wine.

British Columbia. The Vancouver-Victoria region also enjoys a fairly high profile among the trade. **Vancouver** is seen as the gateway to Asia. It is a popular immigration destination, and many Chinese have relatives there. As such, it is more familiar than some of the other destinations in Canada. In fact, the trade feels Vancouver is similar in many respects to cities in China, and is a place where Chinese will feel at home.

“It’s just like Shanghai and Beijing.”

“Vancouver is rather like Guangzhou – it has a big number of Chinese and the standard of living is better than other places.”

Vancouver is seen as a large, modern city and a great place to live, offering good quality of life, a mild climate, lots of parks and trees, and beautiful scenery in the surrounding areas. It is also perceived to be historic and rich in culture. The predominant image of **Victoria**, on the other hand, is as a smaller “seaside” town – quaint, scenic and relaxing.

Awareness of **Whistler** is generally quite low among the trade. Some recognize it as a ski destination, but comment that they would bypass it on a standard sightseeing itinerary. Image-wise, it is seen as having beautiful snow-covered mountains and glaciers.

“This trip is for people who have enough time, good education and high taste.”

B.C. Products of Interest to the Chinese

- VFR in Vancouver;
- Chinatown and Chinese communities;
- Chinese restaurants;
- Business travel and trips to evaluate immigration potential;
- Island environment of Victoria;
- Butchart Gardens;
- Skiing at Whistler and other resorts;
- Nature and scenery;
- Whale-watching;
- Glaciers;
- Coastal scenery and beaches;
- Native people and culture (e.g., totems).

Alberta. Along with Whistler, the **Calgary-Edmonton** area is probably the least well known to the trade. Many said they don’t know anything about it, while others had serious misperceptions about the region. Calgary-Edmonton is primarily known for its industry (e.g., oil and gas), and is seen as being clean and modern. However, it is not felt to have any real tourism attributes.

“Most of Alberta is a glacier. Edmonton is a glacier.”

“I think Calgary and Edmonton are villages.”

“Calgary has 8 months of winter.”

The **Rocky Mountain** region is pictured as having high mountains that are covered with snow and glaciers year-round, ancient forests and wildlife preserves. While many feel that mountains are not all that attractive to Chinese tourists, others feel that this region is highly appealing, with unique scenery that cannot be seen in China.

“The Rockies are a good place for skiing. It will appeal to young people who want adventure.”

Alberta Products of Interest to the Chinese

- Lake Louise;
- Banff National Park;
- Golfing in Banff;
- Hot springs;
- Undisturbed nature and scenery;
- Glaciers and ice fields;
- Forest and parks;
- Wildlife viewing;
- Luxury train through the Rockies;
- Skiing in the Rockies;
- Snowmobiling (“snow cars”).
- Outdoors activities;
- Deep travel;
- Native culture;
- Calgary Stampede (“cowboy festival”).

Quebec. Awareness of the Montreal-Quebec region among the trade is not as good as for Ontario and British Columbia, but is better than that of Alberta. With its French culture and European influences, Quebec is seen as being totally unique from the rest of Canada. The small towns and villages, historical and heritage sites, unique architecture and romantic atmosphere all help to set it apart, but like the rest of Canada, it is felt to have nice scenery. **Montreal** is viewed as a wealthy city and one of Canada’s major financial centres. As such, it attracts a lot of Chinese businessmen and investors.

“It’s really interesting and distinguished from other areas of Canada.”

Quebec Products of Interest to the Chinese

- French culture and heritage;
- Architecture, “castles”;
- Cultural attractions;
- Old cities with long history;
- Heritage sites;
- Olympic stadium in Montreal;
- Business travel to Montreal;
- Old forests;
- Maple leaves and fall colours;
- Ice hotel.

Strengths and Opportunities for Canada

Canada’s Strengths and Competitive Advantages

Due to lack of in-depth familiarity, the trade was hard-pressed to come up with strengths and competitive advantages for Canada, re-echoing most of the points already discussed.

Interestingly, Canada’s fundamental strengths revolve around two seemingly opposing features: its undisturbed nature and scenery, and its highly-developed, modern environment. According to the trade, it is the combination of nature, juxtaposed with modern cities, that will make Canada a strong contender.

Nature and scenery are definitely a strong part of Canada’s appeal, with some major draws in the form of Niagara Falls, the Rockies and Banff. Moreover, Canada’s scenery is felt to be varied enough across the country as to not be boring. Another plus is that its nature is viewed as being totally different from that of Australia, offering something unique that the Chinese have never seen before.

“Although both have mountains, the Rocky Mountains are different from the Swiss Alps. You can see bears in the Rockies, but not in the Alps.”

“You will never feel bored, even if you spend six days in Banff.”

As mentioned, Canada and the US have long been a source of curiosity for the Chinese. These countries hold a sense of mystery for travellers who have been to Europe and Australia, but not to North America. With the US still closed for travel, it is Canada that will finally give them the opportunity to see a rich, well-developed nation and experience the **modern cities** and **western culture** for themselves.

There will be a considerable focus on Toronto and Vancouver when the market first opens up as these are seen as the biggest cities with the strongest economies. Moreover, both are viewed as being more modern than anything Asia, Europe or Australia have to offer. Canada will also attract many Chinese who want to see the country from a business and educational standpoint.

“The feeling of modernization is very important to Chinese customers. It is the current trend.”

“Chinese travellers prefer countries that are more developed than China.”

“For Chinese, mystery is a selling feature.”

Another strength for Canada is its **strong ties with China**. Canada has a good relationship with the Chinese government, which will be a boon to tourism.

There is also a **strong immigration and study connection**. Starting about five years ago, Canada became a popular immigration destination for people from Hong Kong, Macao and Guangdong province. There are also many Chinese students studying there. Once Canada opens up and the proper infrastructure is in place, Canada will be able to more fully tap into this VFR market. But more than this, the presence of a large Chinese community will give potential travellers a sense of comfort and cast Canada with a warm and welcoming image.

Assessment of Product Potential

The Chinese travel trade was asked to provide their assessment of the potential for some key Canadian tourism products.

Touring. All of the trade representatives agreed that touring and sightseeing offer the best immediate potential for Canada. Chinese visitors to a new destination will inevitably start with a touring product to get an overview of the place.

The Chinese are still very generalized travellers, and enjoy doing a bit of everything on their trips. Consequently, tours should incorporate both cities and nature, as well as a taste of local culture and history. The market for more specialized travel products will not open up until the market is considerably more mature.

“When a new area is open, travellers usually choose sightseeing tours.”

“Chinese mainly go abroad for touring.”

“The more varied the products are, the better.”

“The ideal product is 3 days on nature, 2 days on cities, and 1 day for special activities.”

“What Chinese want is to eat well, live well, see scenery, know a little about the culture and history of the country, taste the typical food, and relax.”

Nature/scenery. As mentioned already, Canada’s nature and scenery products have excellent potential in China as the Chinese hold them in high regard. Beyond Niagara Falls, the national parks, and mountains, lakes and rivers, the trade considers unique wildlife, the Arctic, the Northern Lights and coastal scenery as having good potential in China.

“Canada is well known for its nature so that has the most potential.”

Famous Cities. Having visited famous places is a symbol of status in China, so cities like Vancouver, Toronto, and to a lesser extent, Ottawa, are a must to make the itinerary seem desirable. Although Canada’s cities are not as impressive as those of the US, they are seen as being cleaner and more beautiful. Again, city trips alone will not work in this market, but in combination with nature, will exert a powerful draw.

“Some of us want to show off. People will admire you if you have been to famous places like Vancouver, Toronto or Ottawa. It is not worthwhile to spend 5 days in Banff because people don’t know it.”

“The most attractive tourism product will connect city with scenery.”

“The combination of cities and natural scenery is the most appealing product to Chinese travellers.”

History/Culture. The trade does not foresee much potential for Canada’s history and culture products in China. Because Canada does not have a long history relative to that of China, it does not impress the Chinese. For history they would go to places like Egypt or Italy; for culture, it would be Europe. They do want a taste of Canada’s history and culture, but it should be incorporated as part of an overall tour.

“There’s no special culture or history in Canada.”

“Canada doesn’t have culture and history – only sightseeing.”

Resorts. The trade also does not foresee any potential for Canada’s resorts in the near future. Canada is too far and too expensive, and there are many nice resorts that are much closer to home.

Skiing. The trade was divided on the potential for skiing. Currently, skiing is a high-end product, popular only among a select group of wealthy, young Chinese. While Canada offers certain advantages for skiing – high latitudes, beautiful mountain scenery and a long winter season – there are many closer and less expensive places for Chinese skiers, such as Korea and Japan. In addition, Europe opened up first and has already established itself as *the* place to go for winter activities abroad. This means there will be tough competition for China’s small ski population.

Still, some of the trade feels that skiing offers good potential for Canada as interest in the sport grows. However, they note that skiing will need to be combined with sightseeing and other activities to appeal to Chinese sensibilities. Even ski trips to Korea include sightseeing and touring, with skiing as only one activity.

“Skiing in Canada in the winter is very exciting to the Chinese.”

Golf. Golf is another high-end product that is felt to have some potential for Canada. Golf is becoming very popular among Chinese business executives, who enjoy the challenge of trying new courses. With many people flocking to Japan, Thailand, Malaysia, Australia, New Zealand and Hawaii to play golf, there is good potential for Canada as well.

“Canada is a good place for playing golf.”

Outdoors activities. Beyond skiing and golf, the market potential for other outdoors activities is currently very small. According to the trade, the long-haul market currently has a singular focus on touring. The opportunity for more specialized products such as outdoors activities will only emerge after the long-haul market matures, i.e., in about 5 to 10 years time.

“No one in China travels only for that.”

Many of the trade mentioned that Chinese are generally not partial to outdoors activities. The majority of their customers do not engage in these activities at home, much less abroad. Moreover, many Chinese feel these activities are “dangerous” or “unsafe” and are concerned about injuries. Some agencies said they would not handle such “high risk” activities as they would be held responsible if anything went wrong, even if liability waivers were to be signed by their customers.

“First, outdoors is strange to us. Second, it’s dangerous. Third, it’s expensive.”

“Shanghaiense do not like outdoors products like hiking. Such products are a hard sell – we tried this year, but the response was not good.”

“Chinese pay more attention to their safety.”

“Agencies will not develop dangerous products.”

“Insurance is another problem. Some outdoors activities are dangerous, and agencies do not want to pay compensation if something happens.”

The trade notes that there are some people who currently go to Southeast Asia for outdoors pursuits, but their numbers are small. They feel the number who would go even further afield (e.g., to Canada) is minute. However, the trade acknowledges that there may be some developmental potential down the road as standards of living increase and people take a greater interest in their health. Like skiing, it is the younger and wealthier Chinese that will lead the way.

“Chinese people are paying more attention to their health and many people want to get more exercise.”

“There is good development potential – as people become wealthier, more and more will enjoy outdoors activities.”

Because these are the smallest of niches, Canada will need to build up special sales channels if it eventually wishes to target these markets (e.g., through activity clubs). There may also be some potential to include outdoors activities as an optional component of a touring product. However, a key issue is that these activities take a lot of time and would be difficult to accommodate within a 7 or 10-day trip.

“It does not fit a short trip. It is for people who stay in Canada longer.”

In terms of specific activities, hiking and climbing are felt to be too strenuous for the Chinese. Biking is used to get around at home, and is not something they would want to do on vacation. Boating, fishing, and riding are better possibilities, but again, as part of an overall touring product. Generally, however, the trade feels these activities are not considered special and that Canada should focus instead on uniquely Canadian offerings such as dog sledding, horse drawn sleigh rides and wildlife viewing in natural habitats.

Potential for MC&IT

The trade was asked to assess the potential for Canada as an MC&IT destination. While many feel that Canada offers some attractive features for MC&IT, there are also some strong negatives that could limit its potential in the short-term.

In terms of positives, Canada is perceived as having a modern environment, a well-developed economy, high living standards, good hotels, excellent meeting facilities and good entertainment potential, all of which are desirable for a **meeting or conference** destination. On top of this, Canada also provides a quiet and relaxing environment, with outstanding scenery.

However, the main limitation is the distance and the cost – Canada is too far and too expensive for holding meetings and conferences, especially when there are equally suitable places within Asia. However, the trade feels there may be some potential down the road if the costs come down.

The potential for **incentive travel** is felt to be better. This has already spread from Southeast Asia to Australia and Europe (e.g., Amway sends some very large groups to Paris), so the trade feels there is some potential for Canada as the next logical step. However, Canada would likely only be used as a top tier reward due to the cost.

“For incentive travel, Canada would be the top tier. If they do a good job, they could go to Japan. If they do a very good job, they could go to Europe. And if they did an excellent job, they could go to Canada.”

The trade feels that, as the gateway to Asia, Vancouver offers the greatest potential as an MC&IT destination. Vancouver is more convenient in terms of flight access and distance, and its temperate climate is more suited for Chinese incentive trips.

However, there is a practical barrier to positioning Canada for incentive travel. In China, travellers can only apply for visas in the region where they live (e.g., someone from Kunming could not apply for a visa in Shanghai). Since corporate staff for an incentive trip would be located across the country, Canada would need to be fully open to permit all awarded staff to obtain visas. Moreover, visa regulations would also have to be relaxed so that all qualified staff would be approved. Companies are not likely to choose a destination where only some staff are permitted to go.

Challenges for Canada

The trade identified a number of potential challenges for Canada in developing the Chinese market post-ADS. Chief among these are visa-related issues, competition from more established destinations, poor consumer awareness, poor air access, high costs and distance from China.

Visa-Related Issues

The trade cited a number of visa-related issues that could seriously hinder market development for Canada, including low pass rates, slow processing times and the unnecessary complexity of the entire visa process. The trade feels that unless these issues are dealt with, Canada could open itself up to poor word-of-mouth in the marketplace. They point to the U.K. as an example of a destination where visa issues have constrained market growth post-ADS.

Low pass rates. The trade notes that visa pass rates are currently much lower for Canada and the US than for many other long-haul destinations. According to the trade, customers interested in Canada will be discouraged by the low pass rates and choose alternate destinations to avoid having their trip cancelled at the last minute.

For Canada to be a viable travel destination, the visa pass rate should be at least comparable to that of Europe. This would greatly enhance the acceptability of the destination in the marketplace.

Destination	Approximate Pass Rate*
Southeast Asia	Virtually 100%
Australia	80% to 90%
Europe	60% to 80%
U.K.	Under 50%
US and Canada	Under 50%

*Note: based on impressions of the Chinese travel trade.

The trade also notes that there doesn't seem to be any consistent criteria for the acceptance or rejection of applicants. They feel that Canada should develop a clear visa policy with specific guidelines to assist the trade in pre-screening candidates.

“It’s really annoying to get visas from Canada – it seems more difficult than the US.”

“90% of our pre-qualified travellers will pass in the US, but only 80% of the same group will pass in Canada.”

“I tried my best to organize a 10 person trip, but only 5 people got visas.”

“Their criteria are weird – I don’t know what they are. It appears to be at the whim of the visa officers.”

”The unpredictability is really an issue.”

Processing times. The trade notes that processing times are comparatively longer in Canada than in many other destinations. The wait is typically 10 to 20 days, or sometimes as long as a couple of months. Given the last-minute nature of this market, the trade feels this is “intolerable” and that the turnaround time should be no more than a week or two. Moreover, the trade feels that Canada needs to establish and abide by a set of delivery standards, so that waiting times are more predictable and consistent.

Destination	Processing Time* (business days)
Australia	3 to 5 days
Europe	5 to 10 days
US	10 days
Canada	10 to 20 days

*Note: based on impressions of the Chinese travel trade.

“Customer have to wait for an uncertain result for a long time. They feel upset if they can’t go. So the Canada itinerary is not hot.”

“The Chinese always say ‘More dreams in a longer night’ – Canada will lose customers if there are uncertainties.”

“They promise it within 5 working days, but the final approval was 10 days. This uncertainty in the timeline is unacceptable.”

“Australia and Europe approve it within 5 days and they always deliver on time.”

“They all require the same documents, but the difference is the time. The waiting time is too long – sometimes 10 to 20 days.”

Application procedures. The trade also notes that application forms are too complex and the process too tedious. Like the US, Canada often requires a personal interview, and travellers must go to Beijing or Hong Kong for this. Another issue is that Canada requires original documents, while many countries, including the US, do not.

“Even primary school information is required, and I think this is unnecessary.”

“Even I feel the procedures are troublesome, let alone consumers.”

Competition from Other ADS Destinations

Canada will need to consider the fact that there are over 80 ADS destinations that have already been marketing themselves in China – some for several years. According to the trade, Australia and Europe currently offer the strongest competition for Canada in the long-haul

market. In some cases, customers simply won't think of visiting Canada until after they have seen these destinations first.

“It seems like every country is now promoting itself in China.”

Like Canada, **Australia** is seen to have strong nature products, but at a much lower cost (e.g., 10,000 RMB vs. 20,000 to 30,000 for Canada). Visa approvals are easier and there is ample flight capacity. As described earlier, Australia invests heavily in the Chinese market and has been actively marketing itself for over a decade.

Canada's Advantages Over Australia

- More advanced economically and technologically;
- Cities are more modern;
- Ties to the US.

Europe offers deeper history and culture and has a cost advantage over Canada, with prices getting progressively cheaper. Moreover, Europe provides Chinese tourists with the ability to see many countries in a single trip, hence it is perceived as offering greater value. Not surprisingly, **Switzerland** is cited by the trade as being the most direct competitor for Canada in terms having similar products (e.g., skiing, winter sports and mountain scenery). However, Canada is at a distinct disadvantage to Switzerland in terms of distance, cost and ease of obtaining visas.

Canada's Advantages Over Europe

- More relaxing and friendly;
- Grander views and superior nature product;
- More developed country with better resources.

Many of the trade commented that Canada is at risk of being overshadowed by **the US** when the latter opens up. According to the trade, many consumers will only consider Canada as an add-on to a US trip (the same way they consider New Zealand as an adjunct to an Australia trip). Positioning Canada as a stand-alone destination could be a hard-sell for those that do not have friends or relatives there.

“In the eyes of many tourists, Canada is just an appendage of the US.”

“We never promote Canada as a separate route. If we did, we would lose some of our customers.”

“Only two in ten customers would consider going to Canada alone.”

“A popular product is 16 days in North America, with only one day spent in Canada.”

The US benefits from greater social awareness in China, and is also perceived as offering more to do (e.g., modern cities, theme parks, casinos). Its cities are seen as being more modern, trendy and fashionable than Canadian cities, and of greater appeal to the younger set. In addition, the cost of packages to the US tends to be lower.

Canada’s Advantages Over the US

- First to obtain ADS;
- More relaxing and laidback atmosphere;
- More unique nature products.

Other Issues and Challenges

Lack of awareness. Not surprisingly, the immediate challenge that Canada faces post-ADS will be lack of awareness among Chinese travellers. According to the trade, Chinese consumers are unfamiliar with Canada’s tourism attributes and the unique offerings of the country as a travel destination. Moreover, Canada suffers from the lack of a distinct image or brand in the marketplace.

“Lack of consumer knowledge is the utmost problem – there will be no demand if there is no knowledge.”

“Even our business customers don’t want to stay over for pleasure because they don’t think there are any interesting places to see in Canada.”

“Europe has culture. The US has its cities. But I don’t have a clear concept about Canada.”

Air access and flight capacity. The trade notes that there are currently very few direct flights between China and Canada and that it is all but impossible to obtain bookings in the peak season. Air capacity between China and Canada will need to be substantially improved once the market opens up. Most pressing is the need to increase the number

of direct flights between the two countries as the Chinese prefer not to use transfers for such long distances.

New routes will also need to be developed to provide direct departures from Chinese cities beyond Beijing and Shanghai, and arrivals to points in Canada other than Vancouver and Toronto. Guangdongese currently have to go to Hong Kong to take a direct flight to Canada, which is not very convenient.

High costs. High costs are also a potential barrier to growing this market. According to the trade, the cost to travel to Canada is higher than to Europe, due primarily to the steep cost of air. As a result, the trade feels that Canada's target market will largely be limited to affluent businessmen and youths. This makes destination development challenging as it will be difficult to attract large enough groups to drive tour prices down. The trade feels that the cost needs to be closer to 10,000 RMB for Canada to gain a critical mass of travellers.

“The price of airfare is unbelievable.”

“If the prices were lower, the market potential would be huge.”

Long distances. Given the penchant of this market for short vacations, the trade feels that the lengthy flight (at least 10 hours for a direct flight, and as high as 36 hours for a flight with transfers) could deter some potential travellers. This, coupled with Canada's great breadth, makes for a very long trip, with considerable time spent travelling rather than sightseeing. Moreover, the need to fly between disparate attractions to minimize the travel time will only serve to boost the cost of an already expensive travel product. Although “deep” travel may be more suitable for Canada given its size, this could limit the destination's overall appeal.

“The problem is that attractions are spread on the east and west coast, but transportation between is very expensive.”

Short travel season. Another frequently mentioned barrier is the short summer season in Canada, with winter perceived as being unfeasible for travel. There is a misperception among some of the trade that all of Canada experiences Arctic conditions in the winter – i.e., blizzards and white-out conditions, darkness 24 hours a day and snowmobiles required to get from place to place. It will be important for Canada to ensure that the trade has accurate perceptions of its climate and travel seasons.

“Just like Northern Europe, the sun sets at 3 pm and rises at 10 am. People will not pay 20,000 to 30,000 RMB to see a black world.”

“I wouldn’t choose Canada as a place for a holiday – it’s too cold”

“Generally, we wouldn’t recommend a cold place to our customers.”

Complaints About Canada From Returning Customers

Since most of the trade currently handles commercial travel, they have experienced little in the way of complaints from returning customers. The only negative comments are related to the quality of the tour guides and poor service while in Canada.

Quality of tour guides. Some returning customers complain about the quality of the local tour guides in Canada. The guides are felt to be unknowledgeable about the local attractions, unprofessional in their attitude and not sufficiently service-oriented. The trade feels there are two main issues responsible for the poorer than average guide quality – a limited travel season that leads to the use of temporary staff, and the need for trilingual language skills (English, French and Chinese), which prevents operators from hiring the guides with the most knowledge about the local area.

“The guide is the soul of the whole journey.”

Poor service. A number of agencies said they have received complaints from customers about the poor level of service in Canada across all sectors of the industry (e.g., airlines, restaurants and hotels). Staff are not felt to be accommodating, flexible, or willing to go out of their way to provide good service to guests. Rather, they are seen as disrespectful, impatient and indifferent to Chinese travellers’ needs.

9. RECOMMENDATIONS FOR CANADA

A golden opportunity lies before Canada. Opening up to Chinese tourists ahead of the US, it will draw the attention of many Chinese, curious to get their first glimpse of a powerful western nation. According to the trade, interest will be strong initially, but the challenge will be for Canada to sustain the market beyond curiosity-seeking and to build it into a flourishing and vibrant market in the coming years. The Chinese travel trade had a number of key suggestions and recommendations for the Canadian tourism industry in this regard.

Marketing Recommendations

Start now. A clear message from the trade is that Canada should begin its marketing activities prior to obtaining final ADS approval. The trade acknowledges that Canada has launched some activities, but feels these are “far from enough.” Although there is high social awareness of the country, consumers and industry alike know very little about its tourism attributes. Canada needs to start enhancing its overall profile in China, developing its “word-of-mouth reputation” as a tourism destination, and making Chinese aware that it is more than an adjunct to the US.

“The most important thing is to establish recognition and reputation. Consumer recognition is crucial.”

“Canada needs to start now. We don’t see any promotion activities.”

Use the web. One of the first steps should be to establish a consumer website in Chinese. This website should include very detailed information on Canada and be linked to popular consumer portals in China, such as Sina and Sohu. Sina has a travel section containing links and articles on long-haul travel. Sohu also has a travel section with information on a variety of different countries – Canada is not currently among them.

Engage the Chinese travel trade. Canada also needs to get the Chinese travel trade up to speed and on side. While most of the trade can name some of the key cities and sights in Canada, they have difficulty actualizing them due to lack of detail. They would like to start learning more about individual destinations within Canada, and what there is to do and see at each one. There is an immediate need for

materials such as VCDs, brochures, catalogues and directories so the trade can start to prepare.

As final ADS negotiations progress, Canada should begin doing large-scale road shows, FAM tours and product launch seminars for the Chinese trade and the media. This is considered the best way of introducing a new destination and establishing an initial working relationship with the trade.

Canada will also need to mobilize its outbound agent training programs to help the trade get up to speed on how to sell Canada. This is a must, as the trade will not sell destinations that they are not familiar with.

“The industry is the main force in popularizing travel to Canada.”

“Although Canada has started marketing activities now, it is far from enough. They need to do much more so that we become familiar with in a short amount of time.”

Harness the power of television. The trade was pretty well unanimous in recommending the use of television as the main platform for Canada’s consumer advertising. Although expensive, television is by far the most powerful and influential of the mass media. According to the trade, Australia, Singapore and Thailand have all launched successful TV campaigns that have made a deep and lasting impression on Chinese travellers. Television initiatives should be supported by newspaper advertising, which is also an effective way of reaching and influencing high-end consumers.

Developing travelogues or travel documentaries for Chinese television will also help to cultivate the interest of potential travellers. One way to do this is to invite Chinese reporters to travel across Canada and cover the trip through a travelogue. Africa did this quite successfully with its “Walk Into Africa” program.

“Advertising through television is most important.”

Use newspaper for depth. To support Canada’s television initiatives, the trade recommends the use of travel features and articles in the newspaper. Most affluent Chinese read the newspaper regularly and prefer written text to impart detail. Well-written travel articles will help to build depth in Chinese perceptions of Canada beyond what can be conveyed in television advertising.

Showcase famous places. In China, it is critical to understand the allure of “famous” places. A destination may not necessarily be that attractive, but as long as it is “famous,” it will hold some interest for the Chinese. Moreover, it is not sufficient for the trade to tell customers that a city or attraction is famous, travellers need to see it on television, in books and in the press to believe it. This is partly why the use of mass media is so critical.

According to the trade, Canada benefits from the fact that Toronto, Vancouver and Niagara Falls already qualify to some extent as “famous” among the Chinese. Canada’s marketing efforts should showcase these places, as well as build up the fame and cachet of other products such as Banff National Park.

Use celebrity endorsements. Some long-haul destinations have met with good success using well-known celebrities to promote them. One industry representative suggested that Canada use Dashan, one of the most famous Canadians in China, as a spokesperson. A cultural icon across the nation, he regularly appears on Chinese television. An endorsement by him or someone similar would carry significant weight in China.

Develop a strong brand image. According to the trade, Canada lacks a distinct and vivid image in the minds of Chinese consumers. Strong branding themes are a must for this market, not only for destinations, but also for individual products. Canada’s success in this market hinges on the creation of a unique brand image and a solid market positioning. The trade’s initial feelings are that this image should be built around scenery and nature on a grand scale, but this needs to be confirmed through consumer research. Naturally, a good slogan should be developed to convey to consumers the essence of travel to Canada.

“Chinese people choose destinations with a prominent character.”

“As long as Canada has its own character or unique positioning, it will do well.”

The trade recommends that Canada play up its four distinct seasons, with both the fall (e.g., fall colours, maple leaves) and winter imagery (e.g., snow-covered mountains, glaciers, skiing) being particularly appealing. Some suggested that the maple leaf be a focus of Canada’s marketing initiatives in China as it is such an attractive and unique icon.

“It is important to promote more season-branded imageries for Canada.”

The trade also suggests that Canada should convey a message of “tranquility” and “relaxation” to appeal to its target market of high-end consumers – in other words, a quiet, stress-free paradise in which to relax and unwind. This will be a particularly important angle when Canada eventually has to compete against the US.

Emphasize culture – and cultural differences. Nature alone will not sell Canada. Marketing initiatives also need to give consumers a sense of its unique culture and heritage and how this differs from what they can see in China. This is a must to build interest and intrigue for any destination in this market. Canada should showcase its modern cities and western lifestyles, the French influence in Quebec, and its indigenous cultures. Canada should also focus on its large Chinese communities, as travellers are very curious to see how their fellow Chinese live elsewhere in the world.

Play up regional variations. Although part of the same country, each of Canada’s regions has a distinctive flavour. According to the trade, this is a unique selling point for Canada, akin to seeing several different countries on a single European trip. Canada should play up the distinct characteristics, imagery and culture of each region in its marketing efforts. This will not only make Canada as a whole seem more appealing, but will also help to promote “deep” travel and repeat visits as the market matures.

“There are many things we could choose: the modernity and fashion of Toronto, Ottawa and Vancouver, the beauty and relaxing nature of Banff Park, and the special cultural flavour of Quebec.”

“Every region should have a unique selling point.”

Develop consumer promotions and events. One of the things that Canada can start doing almost immediately is holding special promotions and events to introduce Chinese consumers to the country. This could include the following:

- Consumer roadshows and exhibitions in ADS cities;
- A special Canada Travel Week or Canada festival to emphasize the country’s culture and heritage;
- Contests or lucky draws (like Switzerland does in conjunction with Visa);
- Cultural exchanges; and

- Events in conjunction with high-end clubs and special interest groups.

Other Recommendations

The trade also had a number of other recommendations for Canada.

Cultivate good political relationships with China. To a large degree, tourism flows to Canada depend on maintaining strong economic and political ties with China. Japan is a good example – although it has been open as a tourism destination for over five years, the market only heated up recently, after ties between the two governments had strengthened.

Resolve visa issues prior to opening. As discussed in detail throughout this report, visa issues have the potential to severely constrain market development. Canada will need to streamline its application procedures, develop clear acceptance/rejection policies, and speed up turnaround times.

Because Canada is a highly desirable immigration location for the Chinese – more so than Asia or Europe – the potential for illegal overstays is great. Consequently, the trade feels that Canada should open the market slowly in a limited number of cities (which it is doing) and authorize a few of the largest and most reputable travel agencies to apply for visas.

“A selective partnership is important.”

Agencies should be given partial responsibility for screening and ensuring the quality of their customers, using penalties (e.g., loss of ADS rights) in the case of failure. This would put the onus on agencies to be stringent in their recommendations and help to improve visa pass rates. According to the trade, Chinese agencies know many of their customers personally and can tell which ones are simply travelling for pleasure.

Improve air access and pricing. It goes without saying that Canada will need to increase air access and flight capacity (e.g., more direct flights, more departure and arrival points) to prepare for the anticipated influx of Chinese travellers. The trade also feels that Chinese airlines should be permitted to increase their routes into Canada (at the moment, the only direct flight offered by Air China is the Beijing-Vancouver route). Airfare discounts are also recommended when the

market first opens to jump-start travel flows and prevent the market from stalling out due to the high costs.

The trade also urged for greater flexibility in terms of booking air. Currently, Air Canada requires them to book and pay a deposit several months ahead of time. Chinese travellers simply refuse to book that far in advance, and moreover, visa rejections often come at the last minute. It is felt that Canada's airlines needs to develop a better working relationship with Chinese travel agencies and cater to the special needs of this market like the European airlines have done.

Train local staff on how to service the Chinese market. Canada should begin to prepare for the imminent market opening. This means adding Chinese signage to airports, hotels and attractions. More importantly, it means training local receptives, guides and service staff across all sectors to understand the Chinese mentality and culture, service and quality standards and how to handle the special requirements of Chinese travellers. These preparations should be started as soon as possible so that everything is in place for the first wave of travellers. This will help to avoid slow-downs in market growth through bad word-of-mouth from returning travellers.

Visa regulations, air capacity and the training of local staff appear to be fairly basic issues, but all have added complexities in the Chinese market that warrant special attention. If not handled deftly from the start, each has the potential to severely hinder market development. Played right, however, and Canada will be welcoming Chinese tourists for years to come.