

Outbound China (PRC), India and the Middle East in a Nutshell

THE PROJECTED growth in outbound travel from China (PRC), India and the Middle East is expected to lead to a fundamental change in the way receiving countries in the PATA region do business.

Along with the strategies and content of marketing and promotion campaigns, airlines, hotels and tour operators will have to reshape and retool their mechanisms, products and abilities to deal with a vast number of customers with different habits and preferences.

Many of these changes were flagged at a series of three seminars organised by PATA at PATA Travel Mart 2004 in Bangkok in September. This edition of *Issues & Trends* compiles the highlights of these seminars.

CHINA (PRC)

Speakers: Dr Clint R Laurent, Executive Director, Asian Demographics; Dr Grace Pan, Lecturer, Griffith University, Gold Coast Campus, Australia; and Mr Min Fan, Executive Vice President, Ctrip.com

Market Demographics

The Chinese economy is projected to grow at an average annual rate of 7% from 2004-2015. In 2003, the average per capita GDP grew by 6.5% to more than US\$1,000.

Ten years ago, the Chinese population was young. The highest growth segment of the last decade was the householder. In 2004, 224 million people are aged 60+ (109 million in 1994); 624 million are in the 30-59 age group (417 million in 1994); and 464 million are younger than 29 years old (672 million in 1994). Tomorrow's growth segment will be the mature householder.

"Working Age Empty Nesters" is the sweet spot. Growth in numbers is projected at 8.6% per annum to 2008 and 6% every year through to 2023. In value, they are growing at over 10% per year. No other lifecycle stage offers the same growth potential in

China (PRC) over the next two decades.

Mature householders' children have left home, giving them a higher per capita income and increased discretionary funds. They are the first wave of educated adults and already have most of the home durables. Significantly, for travel and tourism, the Chinese mature householder is developing new interests and is now often looking for experiences rather than things.

The new labour force is also an opportunity. The population engaged in white collar (office and service) occupations is projected to increase from 320 million now to 383 million in 2023. In value, this segment is projected to grow by 5.5% per annum to 2013.

The upper middle-class household is another high-growth segment. Between 2004 and 2013, the number of urban households earning CNY40,000-80,000 (US\$4,800-US\$9,600) is forecast to grow by 10.2% per year; and CNY80,000 (US\$9,600) or more by 16.1% annually. Targeting just the 18% of the population living in provincial capitals reaches nearly half the affluent market of China (PRC).

Outbound Travel Situation

Although one nation, geographical and cultural differences create huge variations in demand profiles. In 2003, the top 10 destinations for Chinese travellers were: Hong Kong SAR, Macau SAR, Japan, Russia, Vietnam, Korea (ROK), Thailand, the USA, Singapore and Malaysia. Island destinations such as the Maldives are also popular.

The total number of overseas trips amounted to 20.22 million in 2003, up 21.8%, including official and business travel (5.41 million) and private travel (14.81 million). The rest comprised package tours and other forms of travel.

By 2010, China (PRC) is projected to be the fourth largest outbound country, generating an estimated 50 million travellers, according to the World Tourism Organization.

Chinese outbound is dominated by increasing market competition. Authorised outbound travel services have increased from 68 to 528 (2002). As a result, there are price wars, more emphasis on brand, the growing standardisation of internal business practises and a demand for capital.

It is becoming much easier for China (PRC) citizens to travel. Approved Destination Status (ADS) licenses had been given to a total of 54 destinations as of September 2004, including many European destinations. Passports are being issued in five working days, down from 20. And there are fewer situations in which registration with the Tourism Authority is required before one can travel. This liberalisation, along with external influences such as the Internet and the media, has strengthened the tendency for Chinese to travel at short notice and individually.

While access to travel has become easier, it has also become more politically sensitive. Travel advisories may become an issue. There is concern about the impact of politics and terrorism and diseases such as SARS and bird flu, which is raising the demand for "safe and sanitary" destinations. There is also a high degree of sensitivity to discrimination against Chinese travellers, especially in terms of visas. The message is: Don't hurt national pride.

Chinese consumers are becoming better at defending their rights. They are also becoming conscious of excessive competition and a decline in service quality. This can impair the image of destinations. There is lower tolerance for package tours that may appear to be cheap but which are laden with optional extras and shopping commission schemes.

Market Trend

Private travel will soon become part of the Chinese mainstream. Customers are already shifting from package tours to FIT holidays. Online reservations are growing as knowledge of foreign languages increase, visas become easier, income grows and customer choice becomes more westernised.

There are also discernible shifts from sightseeing to leisure and culture; from multi-country to single- or dual-country holidays. There is also a lot of repeat travel with flexible timing, largely as a result of increased leisure time, due to the three Golden Week holidays and flexible paid holidays.

Price is important but not dominant. Suppliers need to maintain quality while bringing down cost. Chinese customers are now more likely to choose a brand name as a promise-guarantee. Two-thirds of customers are choosing the products of reputed travel services. Fashionable products are in vogue.

Tips for Marketing Products in China (PRC)

- Establish a Chinese Web site
- Service travel agents
- Hire Mandarin-speaking staff and tour guides
- Establish a Chinese representative office
- Provide detailed itemised quotes
- Make creative proposals
- Add value for FIT or organised groups
- Maintain quality
- Prove your ability to handle a crisis
- Provide sales training and familiarisation trips.

DEVELOPING PARTNERSHIPS IN CHINA (PRC)

Dr Grace Pan, a Lecturer at Griffith University, Gold Coast Campus, Australia, recently studied business partnerships between Chinese authorised travel agents and Australian nominated inbound tour operators. The objective was to explore issues in the formation and management of Sino-Australian tourism partnerships.

She interviewed 11 experienced Australian ADS-nominated inbound tour operators based in Sydney, Brisbane, the Gold

Coast and Adelaide and 11 experienced Chinese travel agents based in Beijing and Shanghai. She identified six major lessons to be learnt:

Lesson No. 1 – Understand the existence of both mass and niche markets

Different strategies are required in order to establish strong partnerships with Chinese counterparts

ARRIVALS TO ASIA PACIFIC DESTINATIONS (TOP 5 BY VOLUME, 2003)

From China (PRC) to:	Year				
	1999	2000	2001	2002	2003
Hong Kong SAR	3,206,452	3,785,845	4,448,583	6,825,199	8,467,211
Macau SAR	1,645,193	2,274,713	3,005,722	4,240,446	5,742,036
Vietnam	484,102	626,476	672,846	724,385	693,423
Thailand	813,596	753,781	801,362	797,976	606,635
Singapore	372,881	434,335	497,398	670,098	568,497
From India to:	1999	2000	2001	2002	2003
Singapore	288,383	346,356	339,813	375,659	309,446
USA	228,072	274,202	269,674	257,271	272,161
Thailand	181,033	224,104	229,751	280,641	253,752
China (PRC)	84,203	120,930	159,361	213,611	219,097
Hong Kong SAR	107,370	131,368	161,752	193,705	178,130
From Saudi Arabia to:	1999	2000	2001	2002	2003
Indonesia	30,418	33,027	34,381	33,847	29,423
Malaysia	11,564	27,808	39,957	45,007	20,077
USA	72,891	75,320	69,755	25,588	18,727
India	14,424	9,851	8,663	9,961
Philippines	11,428	10,444	10,409	11,341	9,842

- VFR travellers – Longer stays, usually in the homes of the large Indian diaspora abroad
- MICE – India has a large number of dealers always on the move on incentive trips or for exhibitions.

THE MIDDLE EAST

Speakers: Mr Aji Kuriakose, Department Head-Outbound Tours, ANTA Holidays and Mr Anthony Wong, Managing Director, Asian Overland Services

Market Economics

According to research unveiled at the International Islamic Finance Forum in Istanbul, Turkey, September 27-29, conservative estimates of private wealth in the Arabian Gulf states stand at around US\$1.5 trillion.

Middle East News Online recently reported that Arab tourists from the Gulf States spend about US\$12 billion annually on their vacations. A *Saudi Gazette* article in August 2003 indicated that Saudis alone spend \$6.7 billion annually on external tourism, or 5% of the country's GDP. Major destinations are the "Far East", Middle East, Europe, Asia

Pacific and "New Destinations".

Asia Pacific destinations are reporting major increases in visitor arrivals from the Gulf region. The prime reasons for travelling abroad are extreme climates in their own country; lack of entertainment options in countries like Saudi Arabia; affordability of destinations; compulsory travel allowance by some government departments; and social reasons.

There are significant opportunities in the MICE market due to the presence of a number of multinational companies, the high rate of economic growth and increased spending capacity.

Promotional campaigns should focus on offering the right mix of products, services and promotions. However, word of mouth publicity is critical as families refer products and places to each other. These need to be supported by media campaigns and road shows.

While consolidators and wholesalers dominate the Middle East travel market, there are also major retail networks, backed up by the popularity of airline packages.

Characteristics of the Middle Eastern traveller:

- Middle East clients like to shop

INDIA

Speakers: Dr Clint R Laurent, Executive Director, Asian Demographics; Mr Rohit Kohli, Director-Operations, Creative Travel; and Mr SanJeet, Editor/Publisher, *Trav Talk* and India Representative of Macau SAR and Canada

Market Demographics

India is estimated to be the world's fourth largest industrial nation and the second fastest growing economy. The Indian middle class is estimated to be 400 million, more than the population of Europe. One fifth of the world's gold is sold in India. There are 8.5 million credit card users. For many Indians, foreign travel is a status symbol. Domestic tourists alone total 330 million.

The young-adult segment of the population (aged 20-29) is projected to grow at 1.14% per annum to 2023, adding 47 million to the population. Virtually every household has at least one child in it.

Although India is still very much an agriculture-based economy, the number of persons engaged in white collar (office and service) occupations will increase from 36.7 million now, to 53.6 million in 2023. Such persons are better educated and more affluent.

There are significant differences in household income. Only one third of urban households and 16% of rural ones earn over US\$3,000 per annum. However, in absolute numbers there are as many affluent rural households as there are urban.

The total size of the employed labour force will continue to grow and with improved education so will productivity per worker. The number of urban households meeting either the US\$3,000 or the US\$5,000 hurdle is expected to double in the next decade. An estimated 346,000 households will earn more than US\$20,000 in 2004. This is projected to reach 694,000 by 2013, if the economy grows at 4.9% per annum.

It is very much a young family market. The younger middle-class household segment is emerging and growing and represents the first wave of the educated elite. This segment is still acquiring household durables, which compete with the travel market for consumer spending. As such, pricing will be a critical issue.

The New-Age Indian

Indians are well aware of global events and trends. India has 11 24/7 television news channels. New Delhi, the political capital, has 28 mainline daily newspapers. The languages spoken in North, South, East and West India are totally different, thus English is one of the languages that bind Indians together.

"Generation X" in India is "totally in sync" with the world outside. Indians love brands, glitz, gizmos and gadgets. They

enjoy a vibrant nightlife.

The last six years have seen a surge in foreign travel, which has a snob value; an elitist activity driven by the charm of seeing new destinations and, in some cases, beating the heat.

India has a parallel economy of black money. Indians are reluctant to disclose their real income for tax purposes, however they are big spenders. According to the Malaysian Tourism Board, Indian visitors spend about 25% of their travel budgets on shopping. Singapore maintains that Indians are the top spenders per capita, more than Americans and Japanese.

As of September 2004, 49 international airlines were serving India with many more coming in the future. Destinations that already have tourism representation in India include:

Asia Pacific:

Australia, China (PRC), Chinese Taipei, Hong Kong SAR, Macau SAR, Malaysia, Mauritius, New Zealand, the Seychelles, Singapore, Sri Lanka and Thailand

Europe:

Austria, France, Italy, Switzerland and the United Kingdom

Others:

Canada, Dubai and South Africa.

A Complex Market

India is a highly complex market, due to its large size and myriad of target segments. The average length of stay on vacation is 12-15 days. Most Indian travellers prefer Indian and vegetarian cuisine. Some group tours even have their own cooks. The average Indian pursues family-oriented holidays; enjoys fun and activity; and likes to explore new destinations, with shopping, nightlife and theme/amusement parks for kids.

No licence is required to set up a travel agency in India and hype and gut-instinct are still the benchmarks for taking business decisions. Indian consumers are very price sensitive, yet most Indians will still use travel agents for their requirements, despite high Internet penetration. Booking patterns are late and most decisions are taken by the family together.

Types of Indian traveller:

- First-time travellers – Look for cheap destinations, special deals and travel in organised groups
- Family travellers – Include children and often two families travelling together
- Honeymooners – This holiday is usually paid for by the family
- Business travellers – Mix business with pleasure

Lesson No. 2 – Be aware that decisions/actions will most likely be communicated in the marketplace

Positive word-of-mouth brings in business.

"Our inbound travel business circle is very small. We (Chinese travel agents) always communicate to exchange information. If one Australian operator did not handle the group well, we will all know about this immediately."

A Chinese travel agent

"Although I do not do business with some Chinese travel agents, it seems that they know me, particularly with regard to the quality way I handle this business. They therefore would come to approach us to handle some of their VIP groups."

An Australian inbound tour operator

Lesson No. 3 – Be culturally sensitive

Never assume that you are the "same" as mainland Chinese. "Chinese travel agents would like to have us on call 24/7. However, we are the operator in Australia, and we have our business hours, but the Chinese travel agents do not care. They even complained to us about not responding to them promptly."

An Australian inbound tour operator

"Although all of us speak Mandarin, they (Chinese from Hong Kong SAR and Chinese Taipei) use different wording and expressions. The way Chinese talk has some differences between people in mainland China and people in Hong Kong SAR and Chinese Taipei. Although all of us are Chinese, we don't have much in common. Moreover, we have some communication barriers in contacting each other. Although people from Chinese Taipei and Hong Kong SAR speak Mandarin, I don't understand them well."

A Chinese travel agent

Lesson No. 4 – Try to understand each other's perspective

"We used to have a Caucasian operator in Melbourne. He is a very nice guy, but he refused the way of doing business as we suggested. Therefore, our business relationship was terminated in the end. For example, we asked them to include the amount of tips in the total amount on the receipt, and he refused. Our clients would like to have some pocket money, and they would like to include the pocket money in the package amount, he refused again. He thought that it is ridiculous doing

things in this way, but he has to understand that some people in China (PRC) travel by using government or company money, and they would not like to pay anything. Hence, as you can see, we (Chinese and Caucasians) have different mindsets."

A Chinese travel agent

"I would not establish business relationships with operators originally from Shanghai if I can find an operator who is originally from Beijing."

A Chinese travel agent in Beijing

Lesson No. 5 – Be aware of the changing nature of state-owned enterprises (SOEs)

"We have totally different ways of doing business (from these operators originally from Chinese Taipei). We usually discuss the business during the day, and then perhaps have dinner. That is about it. However, those Chinese Taipei operators came to meet us around lunch time, then afternoon tea, then dinner, then dancing, whereas we are not in the habit of having afternoon tea. Okay, we will go with them, but we are really not used to the way they do things. From our point of view, business is business, and we separate it from social entertainment. I think that we are very different from Taiwanese in doing business on this matter."

A Chinese travel agent

Lesson No. 6 – Having *guanxi* (personal relationships) is no guarantee

"My Australian partner and I treat each other like brothers; however, we make it clear when settling the accounts."

A Chinese travel agent

Conclusion – Partnering relationships across cultures are complex but achievable

Once the relationship is well established, Chinese agents would prefer to stay with existing counterparts rather than use new agents. In order to identify, develop and sustain profitable partnerships in the complex business world of China (PRC):

- Ensure that you take time to understand cultural differences
- Have a portfolio of businesses with your Chinese counterparts
- Diversify your businesses with partners other than Chinese.

- Most Arab tourists prefer to visit religious sites with some links to Islam
- Greenery, waterfalls, and rain are popular, largely because it seldom rains in their own countries
- Theme parks, zoos, butterfly farms and bird farms are among their favourite attractions, particularly for families with children
- Families and honeymooners comprise a large segment
- Families prefer to cook while on holiday, and hence like to stay in apartments with either two or three bedrooms
- Families do not like to stay in hotels located in nightlife areas
- Middle East clients prefer either four- or five-star hotels, especially beach-side hotels and resorts.

Important highlights of the Middle East market:

- The major outbound season is during the school holidays, extending from June-September, but there are two other short religious holidays: to mark the end of the fasting month of Ramadan (*Eid al-Fitri*), and the end of the Hajj pilgrimage (*Eid al-Adha*). Other important periods are the marriage season and study tours during the school year
- The average length-of-stay of the Middle Eastern traveller is three weeks
- Almost 70% of Gulf States tourists are from Saudi Arabia, which has the highest population (about 20 million)
- Do not ever arrange a land transfer if it involves a journey of several hours; use flights, even if the destination is near
- Middle East travellers are last-minute bookers, so fast replies are a must.

Frequent mistakes made by tour operators:

- Client's voucher and the hotel's name are different
- Some bookings are duplicated
- Sending bookings to the hotel during close-out period
- Not understanding tour preferences: Most Arab travellers prefer private tours
- Overlooking transfers
- Problems of "sea-facing" and "sea-view" hotel rooms: Sea-facing means a partial view of the sea, and sea-view means a full view of the sea. Always book a sea-view room for Arab travellers
- Overlooking breakfasts when sending the booking to the hotels
- Clarify numbers: Often, Middle East tourists are families with many children. They may book two rooms and the

hotel will provide four breakfasts (two for each room), yet the number of family members could be more than four, leading to confusion.

- Extra beds: Clients often claim they paid for an extra bed to their agent, but there is no written proof in most cases.
- Connecting rooms: During the peak season, Middle East agents may issue vouchers stating that connecting rooms have been "Confirmed", despite being informed that they are subject to availability. This can lead to arguments.

Frequent mistakes made by the client:

- Asking for higher floors
- Extending their stay in some hotels and shortening their stay in others
- Some clients may book a private car, but upon arrival will ask for a van because they have more luggage than they had anticipated
- Changing flights
- Some clients extend their stay after their original itinerary ends and claim that their agent will cover the costs.

General complaints:

- No cooking facilities in some apartments, or they are subject to an additional charge for use
- Keeping the clients waiting in the lobby for a long time upon arrival
- Visa problems for clients who are not citizens of the Gulf States but who reside there. The duration of the tour package could be more than the number of days allowed by the visa.

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