DUTY FREE & TRAVEL RETAIL RESEARCH

2007

PROJECT GREAT WALL III

CHINESE OUTBOUND TRAVELLERS' TRAVEL RETAIL BEHAVIOUR

nielsen

BY THE TRADE FOR THE TRADE TFWA

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INTRODUCTION

China's outbound travel market has been acknowledged as one of the world's very few key emerging outbound travel markets. There are several key factors which have lead to the dramatic increase in the number of Chinese outbound travellers and the amount they spend on shopping while travelling.

Firstly greater discretionary income and interest in overseas travel have enabled Chinese travellers to make more outbound trips.

Secondly reduced travel restrictions, Chinese currency appreciation, and high Chinese import duties and consumption taxes imposed on luxury goods have motivated Chinese travellers to shop even more than before when travelling overseas.

TFWA commissioned Nielsen China to conduct two consecutive waves of research on understanding and profiling Chinese outbound travellers in 2005 and 2006. The research findings have provided an overall profile of Chinese outbound travellers and their shopping habits.

Feedback from a member survey conducted in October 2006 indicated that the majority of members (86%) found the previous reports provided new and relevant information. Moreover, there is a strong need for research particularly focusing on understanding Chinese travellers' travel retail behaviour and and choices of specific product categories. Members consider that it is crucial to further understand Chinese travellers' travel retail behavior and reasons underlying their choices of different product categories.

In 2007, TFWA commissioned Nielsen China to conduct the Great Wall III project to investigate Chinese outbound travellers' travel retail behaviour, and shopping behaviour on specific product categories in particular.

The last two consecutive waves of studies provided comprehensive information on an overall profile of Chinese outbound travellers and their shopping habits. One of the significant evolutions from previous research studies is that the current study, i.e. Project Great Wall III, has its specific focus on the Chinese travellers' travel retail behaviour, and it aims to understand this behaviour, analysing not only what they buy, but also why and how they buy.

The other significant evolution is the expansion of the geographic coverage of the study from Beijing, Shanghai and Guangzhou to northern, eastern and southern regions, covering 85% of the China outbound travel market (based on the statistics provided by the China National Tourist Administration, CNTA). Consequently, the total sample size has increased from the previous study of 800 in 2006 to the current study of 1,799.

The increase in sample size also provides the possibility of conducting destination analysis, investigating the breakdown of spending at various destination regions, i.e. Europe, Australasia / America / Africa, Hong Kong / Macau, and other Asian countries.

In addition, each specific product category was analysed across various regions of China, i.e. Beijing, Shanghai, Guangzhou, Northeast, East, South and Southwest regions of China, to determine whether there is a variation in spend per category depending on region of origin.

OBJECTIVES OF THE CURRENT RESEARCH

The overall objective is to provide new and relevant insights into the shopping behaviour of Chinese outbound travellers so that TFWA members can tailor their offer and communicate more effectively to capture a greater proportion of the Chinese outbound travel market.

THE DETAILED OBJECTIVES OF THE RESEARCH ARE:

- to identify the motives and intentions of buying luxury and premium brands in duty free shops;
- to profile Chinese travellers' travel retail behaviour, their product and brand preferences and expectations;
- to explore and understand the relationship between Chinese travellers' travel retail behaviour and their choices of specific product categories across destinations;
- to investigate different market segments' shopping behaviour when purchasing luxury and premium brands.

METHODOLOGY

THE PROJECT WAS CONDUCTED IN TWO PHASES:

PHASE 1: EXPLORATORY PHASE

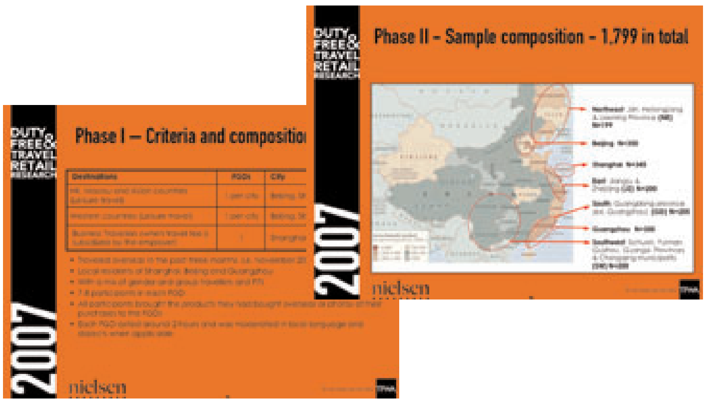
This phase was conducted to have an in-depth understanding of Chinese travellers' travel retail behaviour, in the format of focus group discussions (FGDs). Two FGDs with outbound leisure travellers were conducted in each city of Beijing, Shanghai and Guangzhou, and one FGD of business travellers was conducted in Shanghai in January and February 2007.

All respondents were local residents of Shanghai, Beijing and Guangzhou with a mix of gender as well as group travellers and fully independent travellers (FITs).

PHASE 2: QUANTIFICATION & PROFILING PHASE

The second phase was carried out to quantify and profile Chinese travellers' travel retail behaviour on specific product categories. Interviews were conducted online through the Nielsen YourVoice Panel.

1,799 valid respondents from Beijing, Shanghai, Guangzhou, Northeast, East, South and Southwest regions of China were recruited for the study. All respondents had outbound travel experiences in the past 12 months (including HK/Macau/Taiwan).



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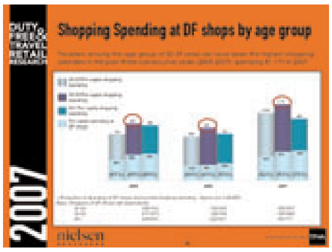
KEY FINDINGS

The report provides insights and trends of Chinese outbound travellers' travel retail behaviour and their attitudes towards shopping at various countries and regions.

THE REPORT REVEALS THAT CHINESE OUTBOUND TRAVELLERS TEND TO BE:



- Young (20-39 years old)
- Well educated (with tertiary education)
- With higher income (monthly household income above 485)
- Working professionals and semi-professionals
- Tech-savvy and fashionable (interested in cutting-edge gadgets and latest fashions)

Moreover, Chinese outbound travellers have a strong desire to purchase branded goods and are spending more year on year with an average shopping expenditure up nearly 50% from €725 in 2006 to €1,081 in 2007.

By gender, male and female outbound travellers spend similar amounts overall (exc. fragrances / perfumes / cosmetics, which female shoppers appear to spend more on).

By category, fragrances / perfumes / cosmetics and jewellery / watches attract the highest spend.

By location, downtown DF shops are the most popular place to purchase DF goods.

Detailed recommendations and proposed actions are outlined in the report, in order to help TFWA members tap this market more effectively.

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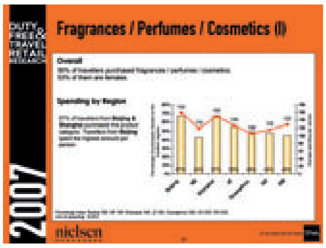
EXECUTIVE INSIGHTS

- The average shopping spending of Chinese travellers has increased to €1,081* per person per trip, nearly 50% increase from that of 2006 (€725).
- Chinese travellers have become frequent travellers. Travellers from Guangzhou are the most frequent travellers, while travellers from Northeast and Southwest China travel least frequently.
- Chinese outbound travellers spent at least 25% more than they did in 2006 on shopping across all destinations. The highest growth in spending has been among Chinese travellers to Hong Kong / Macau / Taiwan (up 65% over 2006). Travellers to Europe take the lead, spending €1,734.
- Hong Kong remains the most popular destination for Chinese travellers.
- 50% of Chinese outbound travellers have taken both leisure and business trips outside China.
- Chinese travellers tend to be young travellers, aged between 20-39, mostly well-educated with tertiary education, with household monthly income (HHI) above €485*, working as professionals or semi-professionals.
- Chinese travellers aged between 25-29 have been noted as an emerging outbound travel market segment, accounting for 39% of total respondents. They may not earn as much as those in their 30s, but their will to spend is just as strong.
- Among different types of DF shops, downtown DF shops are the most popular place to shop.
- Fragrances / perfumes / cosmetics and jewellery / watches are the lead categories in DF shops across all destinations.
- Chinese are shopaholics. In addition to shopping for self use, Chinese travellers spend considerable amount on behalf of family and friends (esp. fragrances / perfumes / cosmetics and fine gifts).
- Chinese travellers are very knowledgeable and know where to shop and what to buy. Most travellers plan their purchasing items before the trips.
- There has been strong growth in purchases of luxury or branded goods across product categories.
- Male and female outbound travellers spend similar amounts overall (exc. fragrances / perfumes / cosmetics, which female shoppers appear to spend more on).



*The exchange rate in this report is based on   1=RMB10.3