February 5, 2020 (BRIEF #2)

CORONAVIRUS: MOVING BEYOND MONITORING – AN ACTION PLAN TO MITIGATE THE LOSS OF THE CHINESE OUTBOUND MARKET

OVERVIEW

This weekend saw further developments in the Chinese Coronavirus outbreak, with the first deaths recorded outside of mainland China and the announcement that the outbreak had already cost an estimated 1 trillion yuan (US$143 billion) to China's economy in the first week of the Chinese New Year.

There are now no flights into or out of China apart from those by a select few regional operators. Furthermore, there seems little prospect that these flights will be reinstated in the next 30-60 days. With thousands of flights cancelled, this means that international travel for most Chinese is now almost impossible in the short term.

However, we can expect Chinese international outbound travel to be in decline even after flights resume. The global, but more specifically, the Chinese economy is taking a substantial hit from the current outbreak, which is compounding an already below-trend level of growth. We know that there is a direct correlation between consumer sentiment and travel – broadly, if the economy does well then Chinese consumers will look to travel; in more uncertain times they may well defer their travel plans. Adding in the safety and security concerns caused by the outbreak suggests that if they travel at all, they will look domestically and regionally (e.g., Southeast Asia) instead of contemplating long-haul trips (e.g., to Canada, Australia or the Middle East).

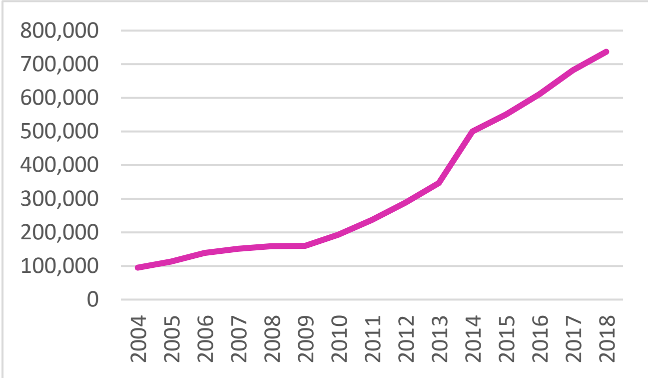
In addition, destinations should anticipate a strong response from regional competitors in Asia Pacific. Once flights resume, it is likely that Thailand and Japan, in particular, will seek to boost Chinese demand through incentive pricing and targeted marketing campaigns. This will put pressure on long-haul destinations outside the region like Canada and the UAE. Already, a number of DMOs are taking real steps to postpone marketing in China and pivot to other markets.

CASE STUDY: CANADA

Since the SARS outbreak in 2003, Chinese travel to Canada has grown seven-fold from fewer than 100,000 visitors to a peak of 737,000 visitors in 2018. Already, November 2019 year-to-date saw a significant drop in visitors from China. The outlook for 2020 will be even bleaker.

China remains a very important overseas source market for many destinations in terms of arrivals and spend. With anticipated growth in flights and overall growth of outbound Chinese travellers, China will remain an important market in the long term.

Chinese Travel to Canada: 2004 to 2018



LESSONS FROM SARS

In 2003, during the SARS epidemic, tourism in Canada suffered. It lost an enormous percentage of its visitors and took a long time to recover.

It lost 2.5 million visitors, or about 13% of the total market. Canada would not recover from its peak in 2002 for almost a decade. In 2004, one-year post SARS, though Canada recovered 1.6 million of the 2.5 million visitors lost during SARS, it took another hit: the US imposed stricter measures to "thicken" the border requiring passports for American travellers to Canada. This was compounded by the global recession in 2008 and 2009.

Globally, tourism during SARS dropped by less than 2% and recovered to its highest year ever in 2004, and climbed every year (until the recession in 2009) from there. For the US, it took only two years to recover.

THE EXISTENTIAL CHALLENGE

DMOs in Canada are experiencing some cancellations from Chinese travellers but with no decisions yet on summer travel (in some areas such as the Middle East and Asia, DMOs are already citing substantial declines from China). With travel from China already in significant decline in 2019 relative to the peak travel year of 2018, destinations like Canada are at risk of losing up to 100,000 travellers who have traditionally visited Canada between February and April.

The greater risk for destinations, hotels and attractions, however, may be the travellers who visit in the peak summer months between May and September (375,000 in Canada alone). Now is the traditional time when Chinese travellers start planning their trips.

Global Tourism Arrivals (L) vs. Total Arrivals to Canada (R)

RELIANCE ON THE CHINESE TRAVELLER

Most destinations have become heavily reliant on the high spending Chinese traveller. Destinations have built hotels, attractions and itineraries that reflect their specific needs. For a decade, this has been a smart investment. A few facts about Chinese outbound travel:

- China accounts for one fifth of the world's total tourism spending. For many countries more than 50% of their revenue is reliant on visitors from China.
- China spends more on outbound travel than the next two countries combined (the US and Germany). China's global outbound spend is $277 billion compared to $144 billion for the US and $94 billion for Germany.
- In 2017, 10% of China's 1.4 billion people travelled internationally. The UNWTO suggests the number of passport holders will double by 2027 to 300 million or 20% of the total population.

With a destination portfolio so reliant on a single source market, the risk is significant. Can Chinese outbound travel be counted on as the glue that holds the key to destination profitability? For many international destinations, particularly those currently in their peak seasons, the answer is mixed.

WHAT CAN WE LEARN FROM GLOBAL NTOS CURRENTLY FACING THIS CRISIS?

Our destination partners from the Middle East to South Asia, currently in their high seasons are experiencing cancellations en masse. Hotels normally at capacity are running at under 50%. The outcome on these destinations will be devastating.

What are our global NTO and DMO partners doing to respond to the capacity gap left by the Chinese traveller?

1 **Research**

- Re-evaluating their destination exposure to a single Chinese market and a risk-averse Asian market to consider a reprofiling of their marketing investments
- Determining source markets and target market segments who have a high propensity to respond to a tourism message

2 **Leadership**

- Working closely with hotel, airlines, attractions, and receptive and international tour operators to develop attractive packages to stimulate travel from these source markets and target customers – including at conferences like ITB and ATM

3 **Marketing Campaigns**

- Making incremental investments in marketing these packages now, starting with short-haul and regional markets and then onto tried and true longer-haul and international markets

It is highly likely that competitor destinations, facing many of the same issues, will be already formulating plans to switch their focus to short-haul.

First-mover advantage is critical here – the destinations that can move fast to switch focus stand the best chance of riding out the crisis.

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