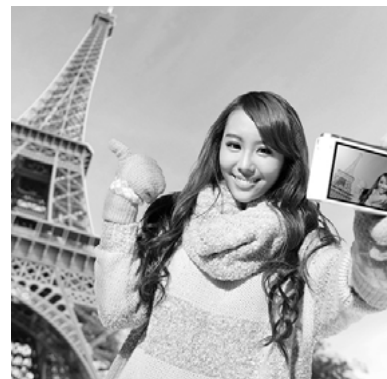


YWS *Design*

The \$264b Dragon Baby: Your Next Most Important Customer Understanding the Chinese Millennial Leisure Traveler

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CONTENTS

Entering the \$264b Dragon's Nest	3
<i>Exploring the Behaviors and Desires and Expectations of Chinese Millennials</i>	
Dissecting the Social Milieu of China's Balinghou Generation	10
<i>Case Studies: WeChat, Karaoke, TeaHouses & Hai Di Lao</i>	
Tapping Into the Chinese Millennial Mindset	15
<i>Fun. Don't Leave It Too Late</i>	

Entering the \$264b Dragon's Nest

It was a classic humid June night in downtown Cleveland, but the scene was anything but typical. The clock had struck midnight at about the same time streams of mostly ecstatic Cavs fans began pouring out of “The Q” (Quicken Loans Arena). Native son LeBron James had just put the finishing touches on a brilliant performance that had propelled Cleveland to a 2-games-to-1 lead in the NBA Finals.

The many indoor-outdoor bars that surround the arena quickly swelled beyond capacity, while seemingly endless waves of millennials adorned in Cleveland Cavaliers gear, just kept coming. There was singing and dancing in the streets – much of it influenced by approachable inebriation. For a city beaten down by decades of hard times, the guarded optimism hanging in the air was as blissful as it was distinctly foreign.

For those not inclined to partake in what had the potential to slip into a display of marked public lunacy, but were also not quite ready to call it a night, there was only one other obvious available option: the Horseshoe Casino, located just across the street from the arena.



Horseshoe Cleveland's Skybridge

The Cavs are owned by magnate Dan Gilbert, who made much of his \$5b fortune via his ownership of Quicken Loans. Gilbert's entrepreneurial success with that not-so-sexy form of commerce, allowed him the opportunity to get into two comparatively flashy entertainment businesses vis-à-vis sports and gambling. In Cleveland, Gilbert's two flagship businesses are his NBA franchise, The Cavaliers, and the Horseshoe Casino, which is physically connected, by “sky-bridge” walkway, to Quicken Loans Arena.

On that unusual night one group of attendees, making their way from the arena to the casino, particularly stuck out. They appeared to be in their early 30s and only a few of them were wearing NBA apparel – of the visiting Golden State Warriors. Amidst a backdrop whereby the crowd and the increasingly rowdy atmosphere was markedly

Midwest-American-White, the other distinguishing characteristic of the group was even more distinctive: they were ethnically Chinese.

The casino floor, like the surrounding streets outside, was jam-packed with a mix of mostly voyeuristic curiosity seekers coming from the arena, casual gamblers and traditional slot players who may have forgotten about the big game that night and were now dealing with the consequences.

Perhaps surprisingly to some, the Horseshoe Cleveland has baccarat tables. It will come as a surprise to few that this group of Chinese guests, had found them. As they saddled up to positions 1-2-3-5-6, one of the women in the group reached into her purse, pulled out a stack of money and pushed it across the table toward the dealer to exchange for playing chips.

In Baccarat there is usually no position 4, because that number is homophonous with “death” in Chinese; the nuances of superstition and luck within the mindset of the Asian gambler are seemingly endless.

Several octaves below the ambient crowd noise, slot machine clamor and John Mellencamp’s “Hurts So Good”, the young Chinese woman tapped her cash and rather firmly said to the dealer, “liǎng wàn” (\$20,000). In short order a casino host, also of Asian descent, appeared and engaged the group in some light Chinese banter. It was just another Tuesday night in Cleveland, Ohio.

For some regional casinos, a few observed baccarat tables and a handful of Chinese speaking staff may currently suffice. But for businesses located within geographic zones containing larger numbers of Asian residents and those situated in destination markets, this type of customer – specifically the Chinese millennial leisure traveler – will soon become increasingly important.

Chinese outbound tourists are already the world’s most numerous and most high-volume spenders. In 2014 a record 109 million Chinese outbound tourists spent \$164b. By 2019 these numbers are expected to balloon to 174 million people spending an incredible \$264b annually on



Baccarat

outbound tourism.¹ Nearly all of this growth in foreign travel has come over the past 10 years; in 2000 there were only 10 million Chinese outbound tourists.

“China-mania spread globally in the past few years, akin to when the Japanese started travelling some 30 years ago, when the world went into frenzy then, pandering to Japanese customers’ needs. In our view, this is going to be bigger and will last longer given China’s population of 1.3 billion vs. Japan’s population of 127 million.”

– Bank of America Merrill Lynch, Capital Market Outlook March 2015

The driving force behind this new wave of leisure travelers will be Chinese millennials - especially those between 25 and 34 years old, who are in many ways different from both their parents and their peer groups in Western nations. This group of Chinese, born between 1980 and 1989, comprise more than 200 million people, or about 17% of China’s 1.3 billion total population.



Chinese Millennials Love to Shop

With China’s economy being among the largest in the world, the income levels of many of its citizens are now high enough to be able to travel abroad. Unlike their American counterparts still mired by the aftereffects of the Great Recession, Chinese millennials have seen their incomes rise nearly 35% over the past three years.² In just the past year the number of Chinese outbound travelers has increased by an astonishing 20%. This has not gone unnoticed by hoteliers, with nearly 60% of U.S. and 80% of AsiaPac destination-market businesses noting discernible increases in visitation by Chinese millennial guests.³

90% of Chinese Millennials surveyed recently by Hotels.com’s *Chinese International Travel Monitor* stated that “leisure” was their main reason for international travel.

1 Bank of America Merrill Lynch, *Capital Market Outlook*, March 2015

2 CCTV News, *BizAsia*, June 2015

3 Hotels.com, *Chinese International Travel Monitor Survey*, 2015

Gambling overseas is also a very popular vacation activity for Chinese tourists. In the last five years, the number of Chinese nationals travelling to Las Vegas has jumped by 80%, according to the *Wall Street Journal*. In a recent survey of mainland Chinese millennials, Las Vegas was cited as the most popular outbound destination for a leisure travel experience.⁴



Gambling in China dates back to 2300 BC

Two of the gaming industry’s leading markets: Macau and Las Vegas are facing a similar challenge, whereby demographic trends in particular are disrupting traditional business models.

In the case of Macau – which has seen historic gambling revenue lows this year – there is a shift toward diversification, largely via government mandate⁵, away from a near total reliance on the VIP market and toward a broadening of amenities that have a better chance of appealing to China’s growing middle class, which *McKinsey China* forecasts will constitute 630 million people by 2022.

In Las Vegas, an aging population of slot players is being replaced by younger consumers, including Chinese millennials, who by-in-large have thus far shown a marked lack of interest in traditional casino games compared to generations past.



Queue at Louis Vuitton

Shopping is perhaps the most popular activity of Chinese outbound tourists. China’s import and consumption tax rates have resulted in luxury goods often costing several times more in Mainland China, compared to the same item sold in Western nations. There may also be a certain amount of perceived prestige attached to purchasing a luxury product in its home country (such as Switzerland, Italy or France). Much of the rabid consumption of luxury items by Chinese tourists is status driven. *Global Blue*, a retail-tourism company, found that 82%

4 Survey of 1,000 Chinese millennials, July 2015

5 During a December 2014 visit, Chinese President Xi Jinping encouraged Macanese leaders to expand beyond gambling and promote diversification.



Queue at Chanel

of Chinese travelers felt shopping was a “crucial” part of their travel plans.

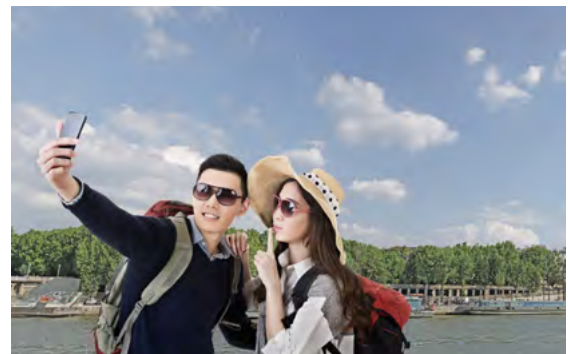
In England, Chinese tourists spent nearly \$3,000 per person per trip, three times the market average. Much of this expenditure is going toward shopping, which for many Chinese is prioritized above other travel items such as accommodations. According to an *Economist* article on the subject, “Chinese have no problem

buying Prada by day, but sleeping in two-star hotels by night.”⁶

For younger Chinese leisure travelers, there is less alignment with this type of sentiment.⁷ Chinese millennials are much more likely to consider (and pay for) lodging that is less “just a place to sleep” and more an integral part of their leisure experience. This presents incentives for forward-thinking hoteliers to target them with an experiential rationale to pay a premium for something their parents might consider ancillary.

Other popular activities among Chinese millennial leisure travelers include visiting important landmarks – though the younger generations are shunning group tours, whereby one might get off a bus to take a quick picture and then immediately get back on to go to the next stop, in favor of deeper cultural experiences.

Chinese millennials are the first generation to be born into the country’s one-child policy. As a result they have more spending power than prior generations. Though they are putting off marriage a couple of years, on average, later in life than their parents did, Chinese millennials are twice as likely to be married than their U.S. counterparts.⁸



Chinese millennials love to travel

6 The Economist, *China's Addiction to Luxury Goods*, April 2015
 7 Survey of 1,000 Chinese millennials, July 2015
 8 Survey of 1,000 Chinese millennials, July 2015

Marriage within this demographic sometimes includes planning for a unique and romantic honeymoon experience abroad, often financed by their parents. The city of Seattle appeals to many within this consideration set, in part because of the popularity of the movies “Sleepless in Seattle” and the Chinese version “Beijing Meets Seattle”, which grossed nearly \$100m in 2013 (in mainland China) and is credited in part with spiking a Chinese real estate boom in the Pacific Northwest municipality.⁹

A recent survey among Chinese millennials found that 65% travel with family and/or their significant others versus travelling with friends.¹⁰ This behavior obviously influences the types of experiences and activities they seek and may partially explain why nightclubs and other places that encourage “social collisions” are generally of less interest among this group of consumers; this is in direct contrast to what American millennials are typically seeking out in a leisure entertainment environment.¹¹



Chinese often travel with family

As is the case with their U.S. counterparts, younger Chinese consumers rely heavily on mobile technology, social media and peer reviews when making purchase decisions related to their trips abroad. According to a recent Hotels.com survey, nearly half of Chinese millennials rely on word-of-mouth and consumer reviews online, while 80% within this demographic used a desktop, laptop or mobile device to plan and book their travel in 2014 (compared to 53% the year before). It is not surprising then that, like younger Americans, Chinese millennials rank “free WiFi” as by far their most desirable amenity when traveling.

Unlike American millennials, who have transformed places like Las Vegas into a nightclub and dayclub mecca, Chinese younger consumers are generally disinterested in “clubbing” and the traditional, alcohol-fueled, bar scene. They also prefer indoor pools to outdoor, perhaps partially because of a desire to stay out of the sun due somewhat to perceived social stigmas pertaining to darker skin tones that are not uncommon in emerging countries.

⁹ The Guardian, *Seattle property boom sparked by Chinese romantic comedy*, September 2014

¹⁰ Survey of 1,000 Chinese millennials, July 2015

¹¹ YWS Design & Architecture, *Is Your Casino Optimized for Millennials?* February 2015

The United States is among the nations most visited by Chinese millennial tourists outside of Asia, along with France and Australia. Within these places, and beyond, this block of consumer is increasingly looking for something special and personalized, which they can share with friends via their social networks. When studying the Chinese millennial, one finds that this notion of prioritizing the individual-self is a recurring theme; and it is also one which hints at ways to reach and retain them as customers.



Chinese rank Paris as a desirable destination

With free WiFi as a baseline expectation, forward thinking leisure industry companies can look to engage Chinese millennials in ways that tap into their desire for something custom-made, such as leveraging the power of dominant social networks like WeChat to communicate with them in interesting and sharable ways.¹²

It is vitally important for businesses within hospitality, retail, restaurant and entertainment verticals to understand the behaviors and drivers of the Chinese millennial – a different set of consumers poised to transform these industries for years to come.

¹² Survey of 1,000 Chinese millennials, July 2015, showed that 91% of respondents were active users

Dissecting the Social Milieu of China’s Balinghou Generation

Chinese born in the 1980s – also referred to within China as the “Balinghou” generation – are distinctively different. Since the death of Mao Zedong, rapid change has occurred in China, which has paved the way for new prospects and challenges that are far different from what their parents experienced at the same age. Radical disparities exist between Chinese youth and older generations.

“The generation gap is smaller for Western millennials, who were born into a world only somewhat different from the world their parents grew up in, than for Chinese millennials, who were born into a world that is vastly different from the world their parents grew up in .. China experienced a massive and abrupt change of direction in the 1980s, shifting from a planned economy, to a market economy, from high fertility to very low fertility, from autarky to globalization and from reserving secondary and tertiary education for a small minority to expanding adult education programs that made them available to most who want it.”

– Vanessa Fong, Professor of Anthropology at Amherst College

Simultaneous with China’s swift economic growth has been a global explosion of new technology, bringing unique methods of communication and amplified exposure to other cultures. Increased prosperity, freedom and exposure to new ideas have also led Chinese millennials to socialize in new ways.



WeChat has 450 million users in China

WeChat (called “Weixin”, literally translated as “micro-message”, in China) is one of China’s most popular social networks. It’s part WhatsApp and part Facebook; since its debut in 2011 *WeChat* now boasts 450 million users in China. The mobile app’s core users are urban youths, many of whom default to the platform over exchanging phone numbers as a preferred way to keep in touch with their friends.

Similar to Twitter in that feeds are created to allow users to receive information as it is pushed out by chosen channels, *WeChat* is primarily a text and audio service between private users or small privately invited groups of up to 100 people. Users can extend their reach by posting “moments” which are streams of images, text messages and links available only within their network of contacts in a way that is more streamlined than Facebook’s “Wall”.

WeChat has made itself a potent tool for marketers looking to tap into tightly knit groups – such as Chinese millennial travelers. Marketing, sales of physical products and/or booking of services are all available on the platform to companies registered in China. As Chinese consumers tend to be even more influenced by their peers than Westerners, the size, scope and functionality of the app presents a potent mix for businesses to contemplate tapping into.



WeChat screenshot



WeChat users are highly engaged

WeChat for Business (in China) allows B2C payments in areas for consumables such as plane tickets, hotel reservations and taxi fares. Payments are made by scanning an offline or QR code or via a payment processing platform contained within the app that links to the user’s bank account. *WeChat* users average more than 40 minutes per day using the app. With more than 55% of users indicating they open the app at least 10 times per day. The Chinese-language version of *WeChat* has many additional features that

make it much deeper than just a messaging platform. It is also has mobile news, blogging, online storefront, mobile wallet, “people nearby” and even job hunting uses. *University of Pennsylvania* researcher Jiaqi Wu makes the argument that the uniqueness of how the app works and who is using it (Chinese Millennials) transcends beyond the virtual and into the physical world of networking, relationships and social interaction.¹³

¹³ Jiaqi Wu, *How WeChat, the Most Popular Social Network in China, Cultivates Wellbeing*, University of Pennsylvania, Scholarly Commons

In many Western countries, young people socialize at cafés, bars or clubs. Although these types of venues can also be found throughout China, Chinese millennials normally favor different types of social environments. Perhaps no more universal example exists, in China and throughout Southeast Asia, than karaoke (or “KTV” short for Karaoke Television) which is a wildly popular leisure activity across generations, including millennials.



Karaoke is very popular throughout Asia

In a nation such as China, where consumption of alcohol is less prevalent than it is in the West, karaoke provides a livelier alternative to other types of non-alcohol related activities such as going to the movies. Guests pay hourly rates for private rooms with padded walls and sort through catalogues that often contain thousands of songs to choose from. Venues range from small and cheap to vast and ostentatious. Many have interactive gaming tables and expansive food offerings.

It is a serious affair for Chinese participants, unlike in the U.S. where bad singing is part of the fun. Karaoke also represents one of the best ways to peel back the veneers of one’s exterior facing persona and has a way of revealing what the true person underneath is really like. For this reason perhaps, karaoke remains an important deal making tool among business people throughout Southeast Asia, where relationship development is typically the most critical difference between success and failure. In places like China, getting to know the “real you” is a very important facet of personal and professional development.

Opportunities exist for Western businesses that may currently, or in the near future, seek to attract Chinese millennials by integrating both karaoke itself and also, perhaps more importantly, by extracting the compelling and applicable fragments of a karaoke experience into other business units.

Just as a Westerner travelling in China, perhaps being reluctant to embarrass himself in public and/or feel overwhelmed by the vast cultural differences, may change his tune (pun intended) and start



Upscale Karaoke Lounge

belting out verses when a Bon Jovi song is played – so too does the opportunity exist for Western businesses to spark a sense of nostalgia-for-home by incorporating singers such as Andy Lau into the mix, be it within a karaoke environment or beyond.

TeaHouses have traditionally been another very popular social activity in China and are often associated with relaxation, entertainment, interaction and a forum for sharing thoughts with friends and colleagues.

Consumption of tea in China dates back nearly 5,000 years. According to legend, it was accidentally discovered by Chinese Emperor Shen Nong one afternoon when a leaf from a nearby tea tree fell into his pot of boiling water. Tea itself is a very sophisticated enterprise in China, with many regional variants and a long history of refinement over the eons. In addition to green tea, popular selections can include oolong, pu'er, white, black and flower teas.



Starbucks in China

In recent years, Chinese millennials have shown a particular affinity for coffee consumption. Cafes such as Starbucks and Coffee Bean & Tea Leaf (“Xiangbinfei” in China) have become popular places for young people, influenced by Western culture, to hang out. The architecture in these cafes often combines historic and modern styles in ways that appeal to a demographic with one foot in each era.

For businesses attempting to court Chinese millennials, there may be opportunities to convert physical environments that are static at certain times, such as a bar or lounge in the early afternoon, into transformable modules that can be converted for different types of consumers throughout the day.

Wildly popular among Chinese millennials, hot pot chain Hai Di Lao competes in a very difficult space. The company describes its physical environment as an ideal place for social gatherings – for customers with some extra time to spare.

A “hot pot” style of eating basically involves dipping a seemingly endless variety of meats and vegetables in simmering broth. Although the cooking concept is simple and easy for competitors to replicate, Hai Di Lao has become one of China’s most successful “hot pot” brands largely by focusing on experiential components of the dining (and pre-

dining) environment. The restaurant chain has a strong reputation for customer and employee loyalty, which are both atypical for Chinese hospitality businesses.

Customers who wait on average 2-3 hours for a table at *Hai Di Lao*, while they patiently enjoy free WiFi and indulge in some other interesting free perks such as shoe shines, unlimited snacks, children’s toys, mobile phone repair and even manicures and hand massages. Many of the restaurants also have tables set up so that guests waiting for their table can play card games. Once seated, guests can order from iPads. There is entertainment as well in the form of the restaurant’s famous “Noodle Dance” put on by servers.



Click for VIDEO: Hai Dia Lao's "Noodle Dance"

“Wait lists for tables on weekends average 50 to 75 names in peak traffic times. Like many customers, Zhao Xiaoyi, a flight attendant in Beijing, is willing to wait for a full hour, playing chess and snacking on cherry tomatoes and animal crackers. “It’s absolutely worth the wait,” Ms. Zhao said.”¹⁴



Waiting Hai Dai Lao customer getting a manicure

The experiential element of Hai Di Lao undoubtedly plays an important role to the chain’s success. Customer satisfaction is actually increased while patrons are waiting (sometimes hours) for their tables because the restaurant has so many entertainment and leisure options available. This type of creative queuing system opens many possibilities for other types of leisure and hospitality businesses to tap into the unique phases of a particular experience, beginning with the wait for the experience to begin.

American millennial views on the correlation between money and happiness overwhelmingly lean toward spending money on experiences over things. Chinese millennials seem to want both.

14 Wall Street Journal, *Chinese Hot Pot Chain* . May 2013

Tapping Into The Chinese Millennial Mindset

Over the course of the next several years, Chinese millennials will be the demographic force behind revenue growth for businesses in leisure verticals.

The demands of this consumer set are complex and steeped in juxtaposition with their parents, thousands of years of history and the outside world they are so eager to explore. For global corporations doing business in China, there is added opportunity (and risk) in attempting to woo Chinese millennials.

Two years ago the Volkswagen Group, a German multinational, made interesting strides in tapping into the unique attributes of younger Chinese consumers as part of a print and television ad campaign. China is Volkswagen's most important sales region; the company sold nearly 3.3 million cars there in 2013 alone, more than double VW's sales in Germany. Porsche and Bentley, both owned by Volkswagen, also point to China as their top sales market.

Volkswagen's "Fun. Don't leave it too late" Beetle campaign of 2013 was squarely aimed at Chinese millennials. The advertisement is set against a backdrop of elders having fun in their attempts to recapture their youth in various ways (such as raving, skateboarding and tagging the side of a building with spray paint) that are clearly beyond the rational limits of their physical ability.

The unconventional approach to the ad's backstory sets out to present Volkswagen's globally established laid-back-hipster brand messaging to a younger Chinese audience in a way that reinforces an iconic automobile that is also innovative, modern and enjoyable to drive. The goal is to make a connection with younger Chinese consumers who want to have fun now, before opportunities to let loose pass them by.¹⁵

Attracting Chinese millennials to a physical product, or a physical space, requires an acknowledgement that what has worked in the past will likely not work with them. It would be a significant miscalculation, for example, to assume they will respond to what (and how) their parents consume.

¹⁵ BrandChannel, VW Appeals to Chinese Millennials with Beetle Campaign, October 2013

Chinese millennials definitely want material things. But they also want to express themselves in ways they are comfortable with, which appeal to their desire to really know who they are hanging out with in their quest for deep and meaningful relationships with other people.

Investment in a consumer insights study geared toward the specific goals of a development project that seeks to attract Chinese millennials, would be a worthwhile investment for any business looking to tap into this enormous potential revenue stream.

For leisure and interconnected businesses this means developing beyond a small singular localized element within a designated environment. The larger experience-driven by a desire for something different, unique and genuine – should also be contemplated in ways that reflect and even encourage the blurring of cultural lines to that place where discovery of something “new” is likely always the experience for someone in the room.



Click for VIDEO: Fun. Don't Leave It Too Late
(Volkswagen ad in China)

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