

## FORESIGHT

Issue 23 September 2005

FORESIGHT is a monthly commentary on significant issues within the tourism sector. Each month, "Market Focus" discusses economic, social and political factors that underlie demand for tourism now and in the future. In addition, there will be a spotlight focused on significant tourism issues. This month Market Focus covers two hugely important emerging markets - Russia and China. Issue of the Month considers the meaning, role and importance of Quality to both the tourism consumer and tourism industry in Britain and explores the steps being taken to ensure continued improvement.

### Market Focus – Russia and China

In 2004 there were 148,000 visits to the UK from Russia according to the International Passenger Survey<sup>1</sup>, worth £151m to the UK's visitor economy. This represents a 32% increase in volume and a 39% increase in value compared with 1999. Britain welcomed 95,000 visitors from China last year whose spending totalled £131m – increases on 1999 of 107% and 228% respectively. Combining figures for both markets reveals that they accounted for 0.8% of all inbound visits and 2.2% of all inbound visitor spend. These figures are testimony to the fact that visitors from both markets spend well above the average for an inbound visit – for Russia the figure is just over £1,000 per visit and for China it is almost £1,400 per visit.

The UK is not among the top ten destinations visited from either Russia or China – among the top five destinations from Russia, according to Global Insight, are China, Turkey and Italy, with the UK in 12<sup>th</sup> spot. Top outbound destinations from China remain Hong Kong and Macau, followed by Russia. Italy is the most visited "mature" destination in the top ten, with the UK currently in 16<sup>th</sup> place. Nevertheless, the UK is gaining ground rapidly, with early indications that 2005 will see continued healthy growth in visits from both markets.

### A demographic dichotomy

Russia's population is declining at an accelerating rate, with the UN forecasting a decline of a third by 2050. At present there are around 144 million people living in Russia according to the US Census Bureau, with their prediction for 2050 being 111 million. Placing this in a global context, Russia will go from being the world's 8<sup>th</sup> most populous country now to 15<sup>th</sup> most populous by 2050. Male life expectancy is now below 60 according to the Russian statistics agency and the World Health Organisation note that many deaths in Russia are life-style related, they say that alcoholism and unsafe driving are two areas that should be addressed immediately. We can see from the table based on data from the US Census Bureau that females increasingly outnumber males in Russia among those aged over 45.

	Male	Female
0-19	51%	49%
20-44	50%	50%
45-64	45%	55%
65+	32%	68%

The Chinese government do not have to worry about declining population numbers; here the problem centres on containing growth. Latest estimates are that there are 1.31 billion Chinese citizens, with the population expected to peak at 1.46 billion early in the 2030s. In China there are very similar numbers of males and females in all age groups, but the most recent Census reveals that the current sex-ratio at birth is 117 males to every 100 females.

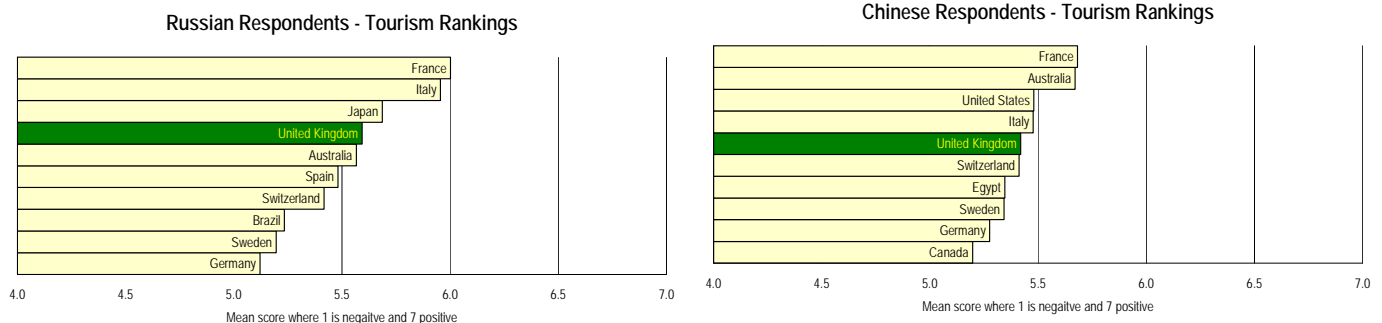
Rural to urban migration is becoming an increasing problem in China. In theory people need to get authorisation to move from the countryside into the cities this is not always adhered to, placing enormous strain on city infrastructure and resources, ranging from health provision through to the availability of water.

## Brand

Britain performs strongly as an aspirational tourism destination for both Chinese and Russian citizens (within the NBI “tourism” refers to “aspiration to visit” rather than direct “experience” of a visit). Britain comes 5<sup>th</sup> as a tourism destination for those in China and 4<sup>th</sup> for those in Russia. We can see from the following charts that France tops the table in both countries.

VisitBritain subscribes to the Anholt-GMI Nation Brands Index (NBI). The NBI is the first quarterly analytical ranking of the world's nation brands. A thousand consumers in each of 18 countries take part in an on-line panel, measuring the power and appeal of 25 nations “brand image” across six dimensions; exports, governance, investment, culture, people and tourism.

Chinese respondents who had previously visited the UK were more positive in terms of aspiration to visit than those who had never visited – a similar pattern emerged for Russia, but the sample size for those who had previously visited was too small for this finding to be definite. This is good news, as it highlights the strength of Britain as a destination able to attract repeat visits.



When asked to choose from a list of adjectives to describe the perceived experience of visiting the UK “exciting” was the most frequently chosen among Chinese respondents whereas among Russians “predictable” was the most cited adjective.

## China's economy

Superlatives abound when discussing China's economic performance in the past decade. China has become the world's biggest consumer of coal, steel and grain for example. The Chinese Bureau of Statistics recently announced that economic growth in the first six months of this year was 9.5%, despite government attempts to put the brakes on. Indeed, the Bureau says that over the past 27 years the average economic growth rate has been 9.4%. All this economic growth has resulted in a rapid expansion in the purchase of consumer goods among China's growing middle class. Latest estimates are that retail sales of consumer goods grew 13.5% in the year to May, on a par with figures for most recent months. Within fifteen years

China will have the second largest economy on the planet according to Global Insight - by the middle of this century the Chinese economy will be larger than that of even the USA.

Along with the expansion in production of consumer goods China has to produce more and more energy, and with limited natural oil and gas supplies this is primarily in the form of coal. In 2004 6,000 of China's 2 million coalminers lost their lives, underscoring the poor state of mine safety, and cost of fuelling breakneck economic growth. With such heavy dependence on coal China is home to many of the worlds most polluted cities according to [www.bbc.co.uk/news](http://www.bbc.co.uk/news) but the authorities recognise the importance of improving environmental conditions and plans to produce 10% of power through renewable sources by 2010.

There is very much an urban/rural split when it comes to levels of disposable income in China. Figures from China's National Bureau of Statistics show that in May 2005 the average monthly disposable income per capita across urban centres in China was 818 Yuan, equivalent to £53. However, residents of Shanghai enjoyed a monthly disposable income of Y1490 (£97) and Beijing Y1430 (£93). Contrast this with more rural provinces in central and western China such as Qinghai where monthly disposable income was Y659 (£40).

When we last covered China in Foresight at the start of 2004 it was observed that the US was calling for the Yuan to be un-pegged from the US Dollar but that the Chinese authorities were in no hurry to change the status quo. Nearly two years on and finally there has been movement in the value of the Yuan. The Chinese authorities have announced that the Yuan is to be revalued by around 2%, and will now be pegged to a basket of currencies rather than just the US Dollar. Many analysts, including Oxford Economic Forecasting, reckon that China may allow some further Yuan appreciation within the next eighteen months.

### **Approved Destination Status**

Signed in January Approved Destination Status marked a great leap forward for prospects in attracting the rapidly expanding outbound Chinese market to Britain, but what exactly is ADS? The Chinese Government still controls the overseas travel of the vast majority of its citizens. Overseas travel is generally only permitted on a one-trip visa granted either for family, study or business related reasons. This travel is usually undertaken in groups who get round the problem of not being able to travel for leisure by spending a couple of days undertaking the purpose of the trip and the remaining days sightseeing.

Travel for pure leisure purposes is only allowed to destinations that have entered into ADS agreements with China. For these destinations, a one-trip visa is issued and Chinese nationals have to travel as part of an organised group, consisting of at least five people, arranged through approved tour operators both in China and in the destination country. Even with an ADS agreement in place, independent travel is not permitted.

Apart from allowing Chinese nationals to travel for leisure to certain countries, gaining ADS status has the considerable advantage of allowing the destination country to open a tourism office in China and promote travel to their country, and VisitBritain is taking advantage of the new agreement by expanding our operations in China – indeed VisitBritain will spearhead the largest-ever UK travel trade mission to Beijing and Shanghai in November. ADS became operational from late July with the first tour group visiting many of the nation's top attractions.

In parallel with ADS enabling greater outbound travel to Britain we are witnessing rapid progress in expanding the number of direct flights with both BA and Virgin Atlantic increasing capacity, for example BA started serving London from Shanghai in June. Nor should we forget Hong Kong as a gateway for those in southeast China – BA, Virgin Atlantic, Qantas and Cathay Pacific all offer service and Cathay Pacific adds a fourth daily flight to Heathrow later this year. ADS will facilitate growth in the inbound leisure market from China but other segments are still worth attention, for example the study market remains strong with latest UCAS data showing 6,324 Chinese students were accepted for entry into UK Universities in 2004. The Foreign and Commonwealth Office estimate that overall there are fifty thousand Chinese students now studying in the UK. Turning to business visits, UK-China trade has doubled in the last five years according to the FCO, growing at a faster rate than trade with any other G8 nation.

## Russia

According to Merrill Lynch the number of US\$ millionaires in Russia increased by four thousand last year to stand at 88,000 – that's equivalent to the entire population of Burnley. However, not all economic indicators are quite as favourable, according to the Central Bank of Russia the annual rate of inflation remains high at 13% pa with unemployment at 9%. Those in work continue to drive Russian consumer spending, for example PricewaterhouseCoopers calculate that in the first six months of this year 225,000 foreign made cars were imported into Russia.

Renationalisation is gaining momentum within the very lucrative energy sector, following the eventual dismantling of the Yukos by the Kremlin. Energy resources really are a vital component of the Russian economy, indeed, Russia now exports as much oil as Saudi Arabia and has benefited greatly from the recent surge in oil prices.

The benchmark stock market index in Russia, the RTS, has climbed sharply in recent months, buoyed by the high oil revenues streaming into the country. As is evident from the chart, there has been a near fourfold increase in the index during the last few five years.



Risks abound in Russia, however, and a recent OECD report suggested that Russia had to tackle bureaucracy and corruption head on if it wished to become "an effective state".

## Challenges

Recent increases in the cost of UK visas places us at a cost disadvantage compared to key competitors, a situation exacerbated by Chinese and Russian visitors being able to visit all Schengen countries (Switzerland plans to join the Schengen Agreement) on a single visa - a desire to include the UK as part of a European trip requires the purchase of a separate visa.

We have seen that the UK has a healthy "tourism brand" in both markets, but far from being complacent the Nation Brand Index analysis highlights that key competitors such as France and Italy are seen as more aspirational destinations than Britain.

VisitBritain expects that by the end of this decade the number of Chinese visitors to the UK will have increased to 200,000 a year, worth £200m, and by 2020 the Chinese market could be

worth £500m per annum, with half a million annual visits. Total outbound travel from Russia is expected to grow by 2 million visits a year by 2009 according to Global Insight, worth an additional £50m to Britain providing we can maintain, and preferably grow, market share.

## Issue of the Month – Quality

Every visitor, be they inbound or domestic, wants to end their trip having had their expectations met. These expectations can range from the things they had hoped to see and do, the nature of the accommodation in which they stay and even the food and drink they will consume. A common thread throughout these various elements of a visit is “quality”, often misconstrued within the tourism context as “top end”, but more akin to the dictionary definition “distinguishing characteristic, property or attribute”. Hence there are multiple layers of quality, and what is vital is that the visitor feels well enough informed to choose the quality “layer” that suits both their taste and budget, and that the product or service delivers what the visitor is expecting it to.

### Common Standards

There is now in place an historic agreement between VisitBritain, VisitScotland, Wales Tourist Board, AA and RAC (the RAC plans to withdraw from accommodation assessment in the near future) that represents very good news for the British tourism industry, but more importantly for the tourism consumer in Britain. Progressively introduced from next January the quality schemes operated by each of the organisations will follow common standards for both the assessment and rating of serviced accommodation across Britain.



### Symbols

Based on extensive consumer research there will be three broad types of serviced accommodation recognised within the grading schemes:

- **Hotels** (formal accommodation with full service)
- **Guest Accommodation** (informal accommodation with limited service)
- **Budget Hotels** (standardised, chain accommodation with limited services)

There will be a number of sub-categories, or “designators” used within each type of accommodation, so for example “Hotels” will include sub-categories such as Country House Hotel and “Guest Accommodation” will include sub-categories such as Farmhouse and B&B.

Hotels and Guest Accommodation will be rated using stars. This reflects the fact that stars are clear and easily understood and will empower the visitor to make an informed decision about the type of accommodation that best suits their needs and budget. Star ratings will be energetically marketed by all of the common standards organisations to ensure that consumers quickly become familiar with what to expect from each rating. Signage on assessed properties will show the assessing body, the star rating and the appropriate “designator” (Budget Hotels will be assessed but not given a star rating).



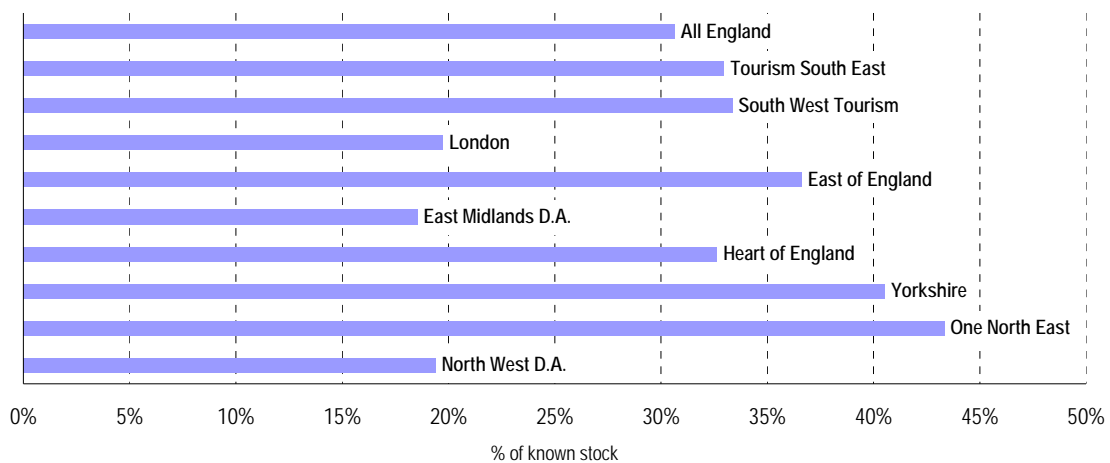
### Statistics and Targets

By 2010 80% of known serviced accommodation stock should be Quality Assessed under the Common Standards schemes. This is a challenging but realistic target. It is not a target for the

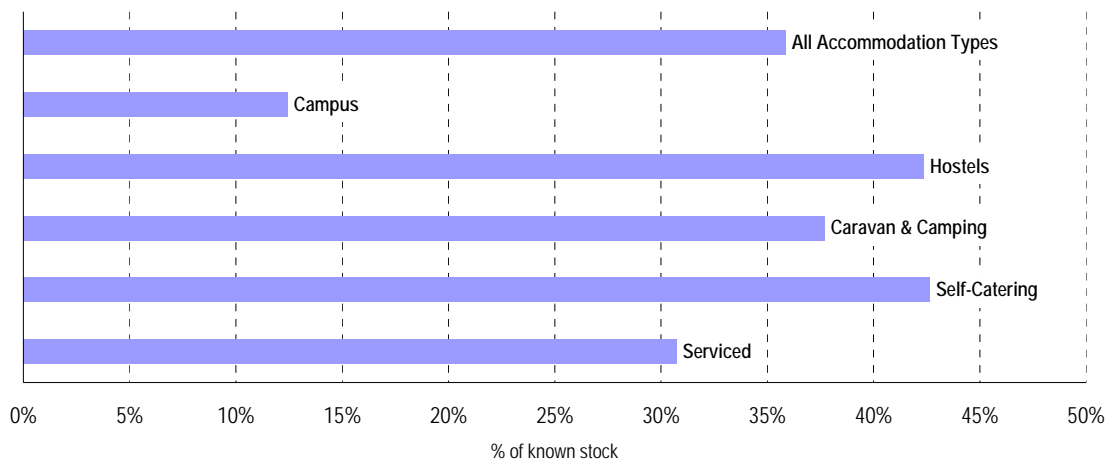
sake of having a target - the enormous benefits of having “common standards” can only be fully reaped through widespread adoption by accommodation suppliers across the country, thereby generating deep consumer understanding of the schemes and trust in accommodation ratings.

We can see from the chart that there is some way to go before we achieve these targets, with around one-third of serviced accommodation stock known to VisitBritain currently being part of the VisitBritain scheme. There are fairly wide regional variations, but as many of the major hotel chains are now ready to participate in quality accreditation schemes for the first time we can look forward to regions such as London and the North West starting to make rapid progress. The second chart highlights that it is not only serviced accommodation that is currently quality assessed by VisitBritain, with camping and caravan sites, self-catering establishments etc all participating in quality schemes.

**Serviced Stock In VisitBritain Quality Scheme (England, %)**



**Accommodation In VisitBritain Quality Scheme (England, %)**



**Quality, luxury and value for money...**

If expectations about the level of service, types of facilities and so on are met, then the visitor can feel that they have received the quality that they were hoping for, regardless of whether this was rated as 1-star or 5-star in nature. We should not think of “quality” as something that

applies simply to services at the “top end” of the market.

In constructing a quality ranking there are some things that prove impossible to quantify, one such area is the very subjective matter of “value for money”. This is inextricably linked to a consumers’ prior expectation of what they will be getting for their money and their degree of adherence to a set budget to cover expenditure on the item.

### **Quality of the human interaction with visitors**

“Quality” has in the past been restricted to considerations such as whether or not rooms are kept clean, whether tea and coffee making facilities are available etc – these issues may indeed be of importance, but having too narrow a grasp of what giving a visitor or guest a good “quality” experience consists of can undermine a business’s ability to deliver exactly that.

The need for businesses to build in top-notch customer service as an integral part of their “offer” sits comfortably alongside the Government’s commitment to improve skills within the tourism sector. In addition to improved customer satisfaction another tangible benefit for the tourism industry delivered through investing in staff training is a probable reduction in staff churn - employees feel greater loyalty to a business that is clearly committed to staff development.

### **Food and drink**

At present marketing awards for food, service and so on handed out by the various “common standards” organisations are not covered by “common standards”. Nevertheless, the quality of food served to visitors, be it in a hotel, restaurant or fish and chip shop plays a role in determining how satisfied a visitor is with the overall visit experience. It is not simply the quality of the ingredients, but of the presentation, manner of service and ambience that can influence how a consumer will rate “quality”.

### **Attractions and beyond...**

At present the Visitor Attraction Quality Assurance Service is an England only scheme (now adopted in Wales) that issues a “designator” to qualifying attractions based on an assessment of facilities and service within the attraction. There are no “star ratings” used within the scheme at present. Other areas being considered for inclusion within appropriate quality accreditation schemes range from Spas through to “Green Ratings” and even business tourism.

### **“Destination” quality**

We have touched on the various pieces of the jigsaw that will determine whether or not a visitor returns home with the feeling that they have had a “quality” experience – and of course whether they will tell their friends and relatives “you must go there!” Viral marketing is a powerful tool in persuading visitors to go to a particular destination and the adoption of common standards for assessment and rating, plus the usage of stars rather than a medley of symbols represents an enormous stride in the right direction to achieve this. In the future we might be able to look forward to growing cooperation between the many elements of the tourism industry to facilitate the development of a rating system for “destinations” rather than just accommodation, attractions and so on, thereby driving up the quality of the holistic visitor experience as destinations strive to achieve a higher rating.

## Momentum

We have seen that common standards will be in situ from next January and that tough targets have been set for the level of scheme participation by 2010. These might be industry targets, but in the end the goal is to benefit the tourism consumer, thereby making it more likely that he or she will be a loyal and repeat customer for the British tourism industry.

Delivering on expectation is of central importance if visitors are to feel that they have received a good quality of service. In recognition of just how important quality is, and following the successful adoption of common standards, VisitBritain will, from next January, progressively introduce an “assessed-only” policy in its promotional work. All organisations signed-up to the new scheme will redouble their efforts to market the quality scheme to the consumer, and the Quality Rose will be an integral part of marketing activity for England conducted by VisitBritain. The bottom-line, however, is that any marketing “promise” in relation to quality will be worthless unless consumer expectations based upon this promise are fully delivered on the ground.

## Index to earlier Issues of Foresight

		<b>Market Focus</b>	<b>Issue of the Month</b>
Issue 1	November 2003	USA, Canada and Mexico	Implications of an ageing population in Britain
Issue 2	December 2003	France, Italy, Portugal and Spain	Airport capacity in Britain
Issue 3	January 2004	Poland, Russia, China and South Korea	Visits to Britain by British Nationals living overseas
Issue 4	February 2004	Britain	School holidays and their impact on seasonal spread
Issue 5	March 2004	Australia and New Zealand	West Nile Virus
Issue 6	April 2004	The EU Accession States	
Issue 7	May 2004	South Africa, Nigeria, Kenya and Ghana	The Internet Part 1: Consumers
Issue 8	June 2004	India and Pakistan	The Internet Part 2: Businesses
Issue 9	July 2004	Belgium, Netherlands, Luxembourg and Ireland	Trends in Cross-Channel Travel Behaviour
Issue 10	August 2004	Japan, Hong Kong, Philippines and Taiwan	Cost of visiting Britain compared with other destinations
Issue 11	September 2004	Brazil, Argentina, Chile and Venezuela	What might climate change mean for tourism in Britain
Issue 12	October 2004	Norway, Sweden, Denmark and Finland	London's Olympic Bid – implications for British Tourism
Issue 13	November 2004	Britain	Smoking in public places
Issue 14	December 2004	UAE, Saudi Arabia, Kuwait and Iran	Outlook for inbound tourism to Britain in 2005
Issue 15	January 2005	Germany, Austria and Switzerland	Inbound tourism and the value of Sterling
Issue 16	February 2005	Malaysia, Thailand and Singapore	Britain's ethnic diversity
Issue 17	March 2005	Greece, Romania, Bulgaria and Croatia	Britain's transport infrastructure
Issue 18	April 2005	Israel, Egypt and Turkey	Foreign Direct Investment & inbound business tourism
Issue 19	May 2005	Poland, Czech Republic and Hungary	Inbound study visits
Issue 20	June 2005	USA, Canada and Mexico	Low-cost Airlines
Issue 21	July 2005	France, Italy, Spain and Portugal	Weddings, Stag Weekends and Hen Weekends
Issue 22	August 2005	Latvia, Lithuania, Estonia, Ukraine and Belarus	The Day Visit Market

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