

# Preparing for China

# THINC



***“China’s growing appetite for travel as a result of the accumulation of wealth on the mainland will be one of the biggest game-changers for the aviation industry in the coming years. Just 15 million outbound trips are made from the mainland every year now, that figure will grow to 200 million by 2030.”***  
**John Slosar, Chief Executive at Cathay Pacific**

China’s middle class is currently estimated to be anywhere from 300 million to 400 million people. The upper-middle class segment – seen as the main driver of future economic growth – is growing rapidly, with a recent McKinsey report predicting that it will account for circa 54 percent of urban households by 2022, up from just 14 percent in 2012.

The emergence of a rapidly growing upper middle-class with aspirations to travel, record levels of urbanisation, and continued growth in business and trade activity is creating a pressing need for better aviation infrastructure across China and presents major opportunities for international airport operators.

Whilst ‘luxury’ European cities typically top the most desirable destinations list for Chinese travellers, Australia is also a major draw. Its relative proximity to China and a weakening dollar mean that it is becoming increasingly attractive.

This emerging trend is supported by Deloitte’s recent Australian Tourism and Hotel Market Outlook, which shows that international visitor arrivals grew 4.9% over the year to March, largely led by the emerging Asian economies and in particular China, which accounted for more than a third of total growth in visitor arrival. The report also predicts that more than two thirds of growth in the next three years will come from Asia, mostly from China.

## The Chinese Five-Year Plan

The Chinese government has recognised this trend and within its twelfth Five-Year Plan has made a commitment to further developing core international hub airports, with trunk routes and secondary regional airports across the country. In total, China’s Civil Aviation Authority is expected to commit around \$4.25 trillion within this Five-Year Plan, an increase of 50% compared with the previous one.

However, as we approach the mid-point of the current Five-Year Plan, relatively little of this development has taken place. This means that over the next three years, there needs to be a significant acceleration in terms of developing new airports if the government wishes to deliver on the vision it set out within the manifesto.



*“By 2015, barring unforeseen events, more than one-third of the money spent around the world on high-end bags, shoes, watches, jewellery, and ready-to-wear clothing will come from Chinese consumers.”*  
Mckinsey & Company (2013).

### The Australian response

As the Chinese Government starts to ramp up its aviation capacity, Australian airport operators also need to act quickly to prepare for the likely increase in Chinese travellers and ensure their airports are attractive propositions for Chinese airlines and travellers alike.

We recommend that operators focus on the following key areas to enable them to capitalise on the significant growth opportunities:

#### 1 Develop a relationship with a second or even third tier city airport

Following the explosive growth of China’s ‘tier one’ cities over the last decade or so, the new growth areas are the major cities in China’s west and north, the so called ‘second and third tier’ cities like Chongqing and Chengdu. These cities are still massive on a global scale, for example the population of Chongqing is circa 30 million, comfortably more than the entire population of Australia.

McKinsey’s recent research highlights the shifting wealth from the tier one cities: *“In 2002, 40 percent of China’s relatively small urban middle class lived in the four Tier-one cities: Beijing, Shanghai, Guangzhou, and Shenzhen. By 2022, the share of those megacities will probably fall to about 16 percent.”*

These second and third cities typically have major airports, rising demand for air travel and a regional airline. We recommend that Australian airport operators quickly seek to partner with a regional Chinese airport (or airports) to take advantage of the predicted economic growth and associated growth in air travel.

These relationships should also help Australian firms access and feel more comfortable dealing with some of the lesser known markets in China,

as there increasingly business opportunities with these cities. For example, we understand that Nanning in the Guanxi province is increasingly looking to trade in metals, mining and minerals with some of Australia’s biggest businesses.

#### 2 Collaborate effectively with airlines

Once a successful alliance has been agreed with a growth airport, significant time and resource should be invested in developing an effective working relationship with the airport’s respective airline. We have seen the rapid growth of China Southern in recent times and this is likely to be replicated with other Chinese airlines.

In an excellent article, Teo Chin Leong, Assistant Vice President at Changi Airports International, recently identified the top things that airlines want from airports, which operators have a strong influence over. These were considered to be:

- Security and safety
- Network planning support – business case, planning support etc.
- Reasonable airport-related operating costs
- Support to lobby governments for sufficient traffic rights to fly economically viable services

This last point is crucially important and will require significant effort from operators. Sydney Airport faces major challenges around its curfew for example.

#### 3 Know your customer

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Optimising the retail mix to meet the growing demand for luxury products amongst China’s middle class is now key. It might sound obvious but understanding what makes Chinese consumers tick before you design and build or redevelop an asset, is crucial.

<sup>1</sup> Mapping China’s middle class, McKinsey Quarterly, June 2013, Dominic Barton, Yougang Chen, and Amy Jin  
<sup>2</sup> Half yearly update, Tourism and Hotel Market Outlook, Deloitte, July 2013



A key first step is to identify who the key target consumer groups will be, and ensure they are placed at the heart of the asset development and asset management strategies. Any assumptions made around what those consumers want from a retail experience must also be underpinned by hard data that pinpoints what their key drivers are in terms of attracting them and convincing them to spend once there.

The importance of applying data-driven assumptions cannot be underestimated; these allow operators to limit conjecture and be more confident in their ability to maximise income streams. It also enables operators to make smarter decisions around tenant mix, asset design, marketing strategy and sales performance.

Securing access to the right type and quality of data can be a challenge as many of the usual indicators quickly become dated due to the pace of evolution.

However, if you know where to look there is still sufficient information available both within the wider market and the retail environment itself. The biggest challenge often comes in interpreting it correctly and building a strategy that can deliver a commercially successful asset.

If you get it right, the opportunities are significant in the micro-economies generated. London's Heathrow Airport, for example, grossed over €2 billion in sales for 2011, an 8.8% increase from the year before. During this same time, British high street shops revenue increased by only 1.3%.

#### **4** Address the communications challenge

Perhaps the most obvious but the most important issue to get right is to communicate effectively with Chinese consumers when they arrive and depart from terminals.

A recent study has shown that the biggest segment of the travel market in China will soon be self-organised travel, rather than tour groups. When this trend is combined with the fact that the level of English of travellers from Tier 2 and Tier 3 cities is typically slightly lower than people who live on the East Coast or Beijing, the need becomes even greater.

Signage, announcements, and adverts in Mandarin should all be considered. However, care is needed. The growth in the number of Chinese travellers to Europe over the last decade has shown that some typical phrases and terms do not translate directly into Mandarin. Unless operators successfully address this issue, it can only serve to increase the cultural gap even further.

We have already seen an increasing number of Chinese speaking retail assistants across the Australian airport network and this is a good initial step, but we predict operators will need to start working more closely with advertisers, airlines and retailers to get increasingly sophisticated to meet Chinese consumer communication needs.

#### **An exciting outlook**

Whether it's building a new airport or expanding an existing asset, operators need to have absolute clarity on the type of airport they need to create. This vision must be based on robust business planning that is anchored around concrete evidence on the flight mix and the type and volume of passengers the airport will serve.

Insight is crucial, as it impacts so many other elements of the airport's overall business strategy, including stakeholder modelling and the approach taken with regards to concessions, retail, airline mix, routes served and the future expansion strategy.

It is also vital to ensuring the asset can respond to predicted future growth. With increased numbers of travellers both in Australia and abroad, the demand being placed on all types of infrastructure will continue to rise. This is true in particular for new-build assets, which means optimising the design so that phased expansion can take place within a fully functioning asset as and when demand rises.

To get this right, operators need a long-term master-plan based on robust traffic forecasting that details when exactly interventions will be required and the flight type and profile of passenger that will need to be served.

The range of issues that are likely to play out within China's aviation sector over the next decade and their impact on international airport hubs, make it a fascinating arena. By proactively managing the development and expansion plans of Australian airports and acting on insight, there will be sufficient opportunity to capitalise on China's growing aviation needs. ■



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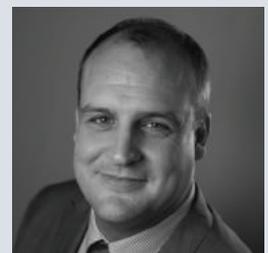


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David has over 16 years' industry experience planning and implementing complicated works including over seven years' specialising in the delivery of aviation infrastructure. He has worked closely with Brisbane Airport Corporation for a number of years, leading a team on its major infrastructure upgrade program. He is currently working with Virgin Australia on its lounge refurbishment program and is also leading the commission to redevelop the international terminal at Nadi Airport in Fiji.



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Caspar is a senior airport developer with over 23 years' experience in the industry, encompassing a range of projects from new build airport facilities, optimising existing facilities and operations as well as preparing airports for special events such as the Olympic Games. Educated as a professional architect his focus is on airport terminal facilities including master planning, sizing, facility space programs, processing and performance requirements. He currently leads EC Harris' aviation sector in Asia Pacific and has worked with clients including: Suvarnabhumi Airport Bangkok, Singapore's Changi Airport, Subang Airport Kuala Lumpur and Dubai International Airport.

