



Lifting Spirits

What the Return of Mainland Chinese Tourists Means for Hong Kong's Consumer Sectors

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1. Executive Summary

On January 8, 2023, quarantine-free travel between Mainland China and the rest of the world resumed. With early signs of recovery promising, now is the time for retailers to take a fresh look at what today's Chinese tourist consumer will be looking for. In this study, we break down by sector the challenges and opportunities for businesses in Hong Kong—the largest market for Mainland Chinese tourists.

Before COVID-19 hit in 2020, Mainland Chinese outbound tourists were the largest tourist segment in the world, fueling much of the global retail growth, especially in Asia. In 2019, 155 million Chinese outbound tourists spent a combined US\$255 billion¹ globally, much higher than US\$184 billion spent by about 100 million American outbound tourists in 2019². Innovative business models and tactics naturally rose to service this demand—until the pandemic brought Chinese tourism to a rude halt.

Nowhere was the loss of Mainland Chinese tourists more obvious than in Hong Kong. In 2018, Mainland Chinese visitors contributed around 78% of all visitors to the territory, many of whom view Hong Kong as an excursion destination—“single-stay, short-break”. Their largest spend was in shopping, where they spent most in Beauty, Food, Clothes and Footwear, and Luxury Products, such as Jewelry & Watches, Leather Handbags. Mainland visitor numbers to Hong Kong were first dented by the 2019 social unrest, and then virtually wiped out by the pandemic.

1 UN World Tourism Organization.

2 World Travel & Tourism Council.

Today, as Mainland China opens up once again, retailers worldwide keenly anticipate a new wave of Chinese tourist-fueled growth, which could bolster sales as they head into a likely economic downturn. Yet, retailers must recognize that today's Chinese consumer is different from the consumer of 2018. The historical appeal of international shopping for Chinese tourists—from lower prices to more diverse brand and product ranges—has been eroded over the past four years.

Key changes in recent years include:

- Seeking to shift the domestic economy to be more consumption-based, the Chinese government has **reduced VAT and import tariffs** and established the new Hainan Free Trade Port, thus narrowing the price difference of products sold in Mainland China and abroad.
- **International brands' expanded presence in Mainland China**, as well as increased e-commerce penetration, has reduced the need for cross-border shopping.
- **The renminbi's strong performance** against the US dollar during the pandemic further reduced relative product prices in Mainland China.
- **Consumers' preference for local brands** has grown, as domestic brands have grown over time in scale and sophistication to deliver value propositions that appeal to customers, especially younger Mainland Chinese customers.
- A fundamental shift in the demographic of outbound tourists from Mainland China, with more tourists arriving from tier 3 and 4 mainland cities for shorter visits, and likely to be **younger, single, and more price sensitive**.

Taking these changes into account, we have modeled the likely growth trajectories for each of the main Hong Kong sectors serving Mainland Chinese tourists and make specific suggestions for how businesses can best prepare for their new Mainland Chinese clientele.

Overall, **we expect a full recovery of Hong Kong's tourist numbers to pre-COVID levels by 2025** or earlier, but for sales volumes growth to vary by sector. By 2025, we forecast:

- In **Beauty**, 70% to 100% of 2018 sales levels; with 35% to 60% in Personal Care, where Hong Kong continues to offer both lower prices and wide assortments—though low prices on e-commerce platforms on the mainland (especially during discount periods) have eroded this appeal.

- In **Food, Alcohol & Tobacco**, 60% to 80% of 2018 sales levels, as Hong Kong's diverse food offering and better premium liquor availability remains attractive.
- In **Luxury Products**, 65% to 90% of 2018 sales levels in Jewelry & Watches and Leather Handbags, as Hong Kong remains competitive over similarly positioned tax-free regions (for example, Hainan).
- In **Clothes and Footwear**, 40% to 60% of 2018 sales levels, as product ranges on the mainland have largely caught up with those in Hong Kong, and price differentials are now virtually non-existent—in many cases, products are now even cheaper on the mainland.
- In **Electronics**, weak recovery to 35% to 45% of 2018 sales levels, as demand for electronics on the mainland has shifted towards local brands and is largely satisfied domestically.

In **Services**, we anticipate a quick rebound in demand for hotel rooms, which should reach 2018 occupancy levels during 2023—potentially with a shortage of rooms in the near term. Consumer food service providers (for example, restaurants, bars, cafes), which have an established local clientele, have already recovered (or even surpassed) 2018 sales levels. Restaurants which were tourist-focused have fared worse but can expect to benefit from the full recovery of tourist numbers by 2025.

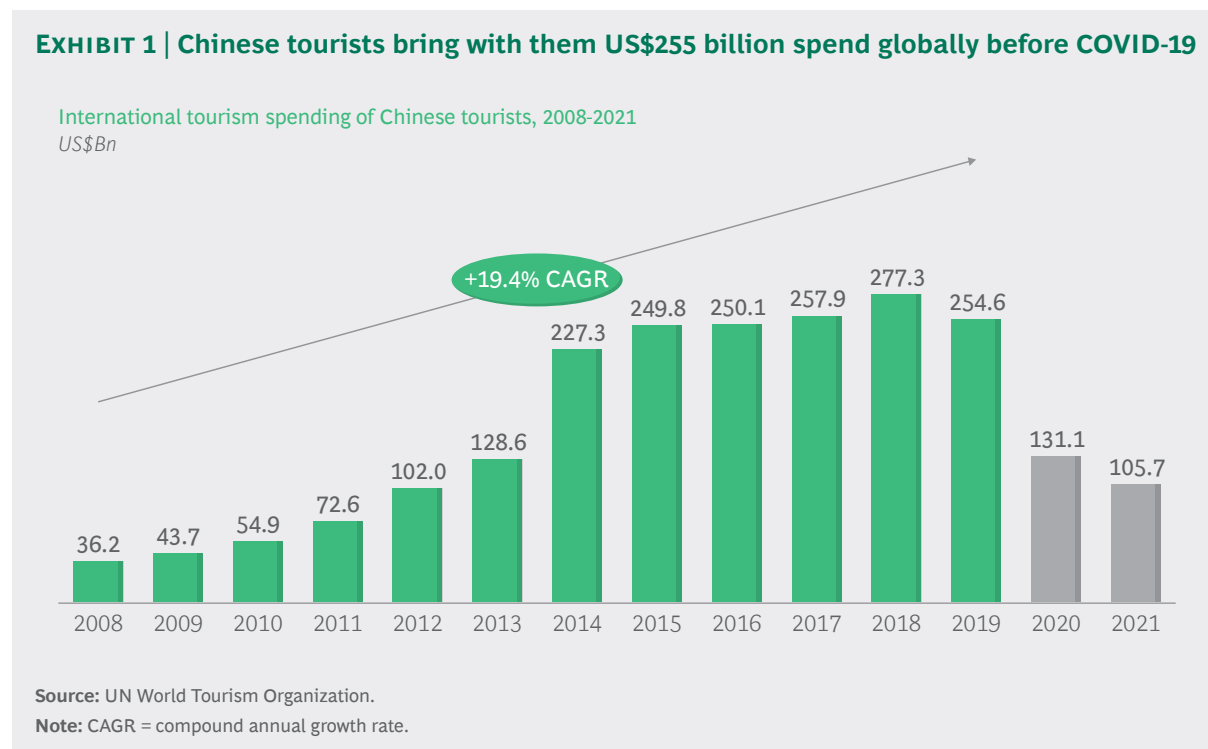
Our thoughts on how best to prepare for the return of the new Mainland Chinese tourists are as follows:

- Re-orient brick-and-mortar stores to provide experiences, rather than merely a place to buy products, to differentiate them from e-commerce options.
- Enhance precision marketing in Mainland China, through a multi-pronged approach of working with mainland partners and combining online and offline touchpoints, while leveraging to the fullest extent various platforms and media formats.
- Invest in capabilities which would enable a holistic understanding of each individual customer, for example, through investing in robust Customer Relationship Management (CRM) systems for a consistent customer experience across geographies.
- Build a nuanced understanding of different tourist hotspots, strengthening presence and tailoring in-store assortment, layout, and brand selection according to segment needs.

- Learn and re-learn the intricacies of the Chinese market, and tailor assortments to Mainland Chinese visitors, instead of directly transplanting experience from other markets.
- Build resilient supply chains to ensure the right products are in the right place, in the right quantity and at the right time.
- Bring back experienced customer service personnel who understand and will cater to the needs of the Mainland Chinese consumer.

2. Introduction

Over the last four decades, the stellar growth of the Mainland Chinese economy raised citizens' disposable incomes across the board. The result was that, by 2019, China was the source of more tourists (155 million outbound trips per year) and tourist retail spend (US\$255 billion in 2019) than any other country. (See Exhibit 1.)



A key focus of Mainland Chinese tourists has traditionally been shopping for products from international brands, particularly in Clothes and Footwear, Beauty, and Luxury Products, such as Jewelry & Watches, Leather Handbags. This was due to lack of availability and additional taxes in Mainland China.

As countries closed their borders in 2020, brands worldwide saw a drastic drop in their sales across retail categories. Though this improved as international travel largely resumed, China's delay in reopening has meant retailers have yet to see a full recovery to pre-COVID sales levels.

Within China, brands strove to retain their market presence by expanding their e-commerce offerings and undertaking innovative marketing strategies. For instance, in luxury, where brick-and-mortar stores have remained the channel of choice, offline sales abroad were substituted with offline store sales in China—with the result that offline stores become an

even more important channel³. Heightened geopolitical tensions also helped drive a sharp rise in sales of local brands.

As China reopens, retailers face a very different consumer demographic. Heavy-spending tourists will still dominate, but the new cohort of younger consumers are more experience-focused and price sensitive. Retailers must grasp what cross-border retail means to today's Mainland Chinese consumers and adapt their strategies accordingly.

³ BCG x Tencent Marketing Insight Report on Digital Trends of China's Luxury Market 2022.

3. The China that Is Reopening Is a Very Different China

Many retailers assume that China's reopening will bring a return to pre-COVID business as usual, with Mainland Chinese tourists ready to once again throng premium stores and splurge at outlets around the world.

The reality is that the China reopening now differs from the China pre-2020 in ways that will materially affect how Chinese consumers shop when traveling abroad—especially in the luxury goods sector.

Traditionally, many factors made it appealing for Mainland Chinese customers to shop abroad: higher tariffs (both VAT and import duties) made international brands' more expensive within the mainland; many brands had limited presence in Mainland China, especially outside Shanghai, Beijing, and Shenzhen; buying international brands (particularly luxury) became part of the experience of traveling abroad, with itineraries tailored accordingly. All these factors, powered by rapidly rising wealth levels, is what catapulted Mainland Chinese tourists into pole spending position in the world's largest shopping destinations. Many of these underlying drivers have changed significantly since 2019.

1) Tax cuts in pursuit of a consumption-based economy

As part of its attempt to shift to a more consumption-based economy, in 2018 and 2019, the Chinese government cut indirect taxes significantly. On some product categories, such as apparel (clothing), import duties were halved from 15.9% to 7.1%⁴, while VAT across the board was cut from 16% to 13% in 2019. (See Exhibit 2.)

EXHIBIT 2 | Import tariffs more than halved on average across major retail categories

Category	Average import tariff before 2018 cut	Average import tariff after 2018 cut
Apparel, footwear and headwear, sports gear	15.9%	7.1%
Processed food	15.2%	6.9%
Cosmetics & selected health products	8.4%	2.9%

Source: Official information from Hong Kong Trade Development Council.

⁴ Import tariffs (MFN duty) on luxury goods remained unchanged: 6-10% for Handbags, 8-15% for Jewelry & Watches.

2) New Free Trade Port in Hainan

The Hainan Free Trade Port, a long-term strategic plan spanning the next decade and beyond, is expected to become a new magnet for domestic tourism and a major powerhouse for retail. Qualified goods entering the mainland via the port will be exempt from import tariffs, VAT, and consumption tax, positioning it as a potent competitor to Hong Kong. The infrastructure for an island-wide independent customs operation will be in place by the end of 2023 and operational preparations completed by the end of 2024. By 2025, the provincial government aims to realize RMB 30 billion in annual duty-free sales.

Many luxury brands in Beauty (for example, Chanel, Dior, Estée Lauder), Jewelry & Watches (for example, Cartier, Van Cleef & Arpels), and Premium Spirits (for example, Rémy Martin, Martell), have opened stores in Hainan. US\$7.9 billion of duty-free sales were generated in Hainan in 2021, up 83% on 2020, as China raised the annual duty-free limit from RMB 30,000 to RMB 100,000.

Nevertheless, we are of the view that Hong Kong's traditional strengths will enable it to retain a competitive edge over Hainan:

- **Price.** Lower prices in Hong Kong compared with those on the mainland remain an attraction to mainland visitors. Our analysis shows that luxury products are in general priced 5% to 10% lower in Hong Kong than on the mainland, likely due to added VAT and import tariffs on products on the mainland.
- **Limit on duty-free purchases.** While many market liberalization policies have been implemented in Hainan, the limit on tax-free purchases (including a wide range of retailer goods originally subject to VAT and import tariffs) per head per year stands at RMB 100,000—a rather inadequate amount for luxury shoppers, about 40% of who spend more than this amount every year; while only liquor, tobacco, petrol, and alcohol are subject to duties in Hong Kong.
- **Connectivity.** Hong Kong boasts superior connectivity to Hainan, with the relatively low-cost option of land transport. The Guangzhou-Shenzhen-Hong Kong High Speed Railway, which saw 58,900 daily passengers on average in December 2018, significantly enhanced Hong Kong's ease of access from southern Chinese cities. By contrast, Hainan can only be reached by air and sea: both are more expensive options.

- **Overall tourist appeal.** Hong Kong offers a more diverse tourist experience which caters to a wider range of tourist needs from travel for sightseeing, shopping, and leisure to business. Hainan remains almost exclusively a tropical resort. Hong Kong's infrastructure is also more mature, meaning tourist hotspots have established retail presence.

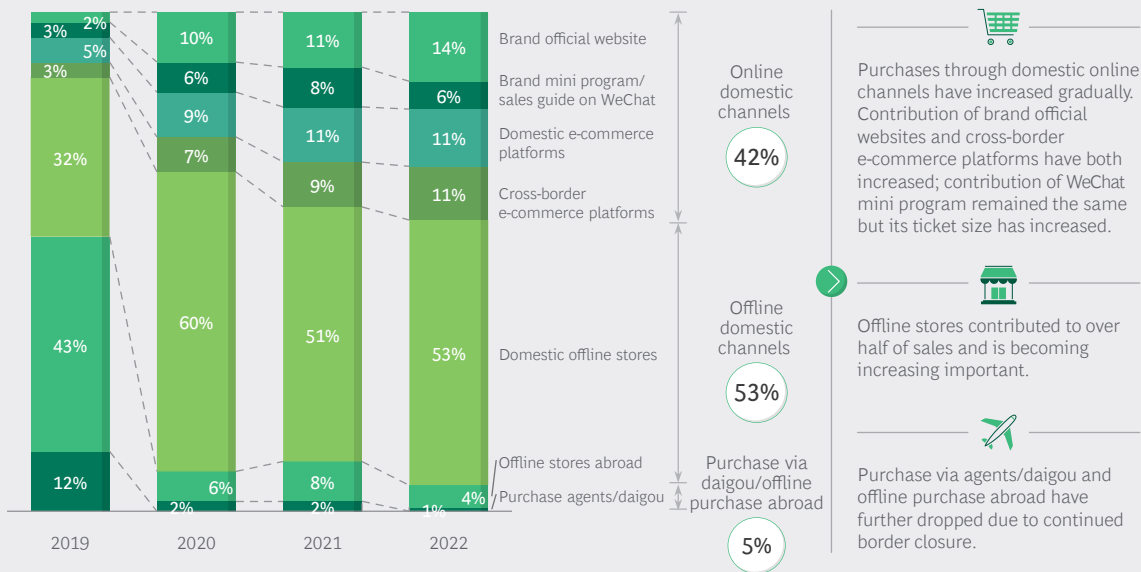
3) Altered channel mixes

Many brands have aggressively expanded their presence in China (for example, opening more stores, experimenting with new store formats like pop-ups, which allow rapid expansion into new neighborhoods). Meanwhile, some sectors (for example, Clothes and Footwear, Beauty Products & Personal Care) have been able, to varying extents, to re-orient consumers towards online channels, reducing the reliance on brick-and-mortar or cross-border sales.

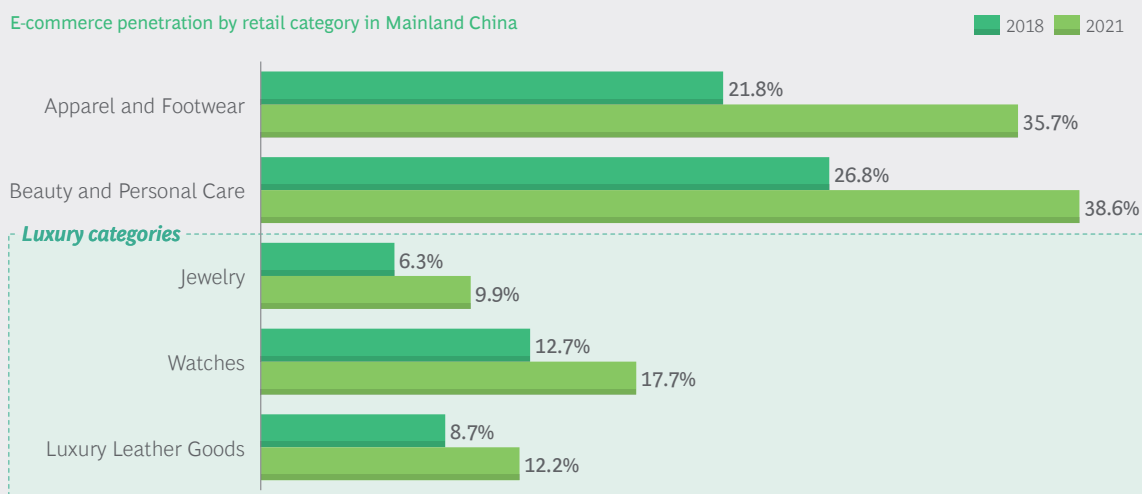
Luxury sectors have also seen a modest increase in e-commerce penetration, although consumers who purchased luxury goods from offline stores on the mainland almost doubled, substituting much of the lost demand for offline stores abroad. (See Exhibits 3 & 4.)

EXHIBIT 3 | Contribution of both online and offline domestic channels have increased at the expense of offline purchase abroad

Purchase channel choice, based on last luxury purchase



Source: BCG x Tencent Marketing Insight Report on Digital Trends of China's Luxury Market 2022.

EXHIBIT 4 | E-commerce penetration increased across sectors, but remains low in luxury categories, showing customer preference of curated in-store experience


Source: Euromonitor International.

- Estée Lauder recorded double-digit growth in China in 2022 in Skin Care and Fragrance and became the number one flagship beauty store on JD.com within a year of launch.⁵
- Prada recorded a staggering 77% growth in Chinese sales in 2021 compared with 2019, thanks in part to innovative marketing campaigns.⁶

4) Strong renminbi driving domestic prices down

The appreciation of the renminbi against the US dollar from the middle of 2020 to the middle of 2022 made imported products even cheaper for Mainland Chinese customers. While the constant stream of COVID-19 outbreaks since have resulted in depreciation of the renminbi, China's reopening, bringing the revival of its growth outlook and investment, should result in the currency returning to its recent highs over the next few quarters, which will help keep the prices of imported consumer products lower for customers shopping in China.

⁵ Expanding coverage: Estée Lauder preparing to increase presence across all China retail channels <https://www.cosmeticsdesign-asia.com/Article/2022/02/16/estee-lauder-china-preparing-to-increase-presence-across-all-retail-channels>

⁶ Vegetables with Prada, luxurious branding at a Shanghai wet market go viral <https://www.globaltimes.cn/page/202110/1235984.shtml>

5) **Growing consumer preference for local Chinese brands**

During the three years of COVID-19 restrictions, consumers have more and more come to appreciate local brands, driven by improvements in quality, the rise of livestream e-commerce, and increased geopolitical tensions. Domestic players Anta and Li Ning saw respective sales growth of 38.9% and 67% in 2021; while Florasis (Huaxizi), a local cosmetics brand that incorporates Chinese cultural elements into its marketing to better resonate with customers, went from launch to US\$600 million of revenue in just four years⁷. If the trend of customers preferring domestic brands and local products continues, Chinese brands could potentially penetrate customer segments and rapidly gain wallet share. This Chinese-brand growth would eat directly into the demand that was traditionally met by global brands—both demand from offline stores and online channels inside Mainland China and from Mainland Chinese tourists shopping abroad.

6) **Fundamental shift in visitor demographics**

The tourists that will step out of a reopened Mainland China are more likely to be younger, single, and less confident about their spending power than the previous generation. Importantly, they are more driven to travel for self-rewarding experiences rather than for shopping. China's post-95s generation has grown to represent over 50% of new consumers entering the luxury market, with another 18% being post-00s; in Beauty Products, those under 30 years old represent nearly half of the entire market⁸. At the same time, low luxury spenders are spending less while medium and heavy luxury spenders are spending more. Looking ahead, retailers need to adapt to this trend of divergence, and create offerings that will retain market share with existing customer segments while also appealing to the needs of new and growing customer segments.

⁷ The Rise of Chinese Domestic Consumer Brands <https://www.melchers-china.com/posts/the-rise-of-chinese-domestic-consumer-brands/>

⁸ BCG x Tencent Marketing Insight Report on Digital Trends of China's Luxury Market 2022.

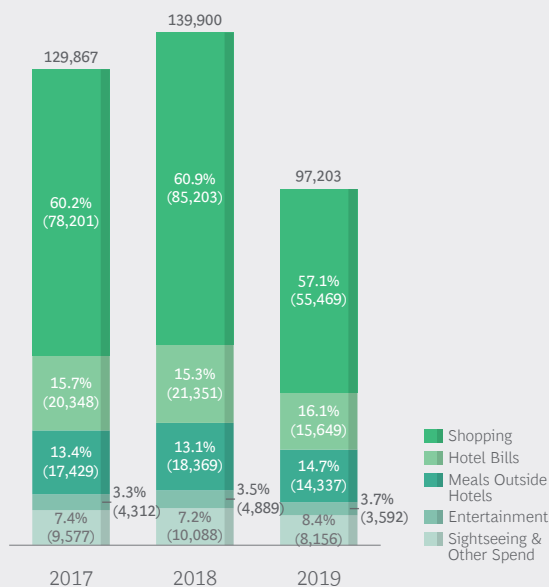
4. Return to Hong Kong: the Outlook

Since the beginning of the Individual Visit Scheme in 2003, the share of Mainland Chinese visitors⁹ to Hong Kong grew from 6.8 million in 2002 (41.2% of all visitors to Hong Kong) to 51 million in 2018 (78.3% of all visitors to Hong Kong). They have been the dominant force behind Hong Kong's retail sector, injecting HK\$152 billion into the Hong Kong retail market in 2018 alone.

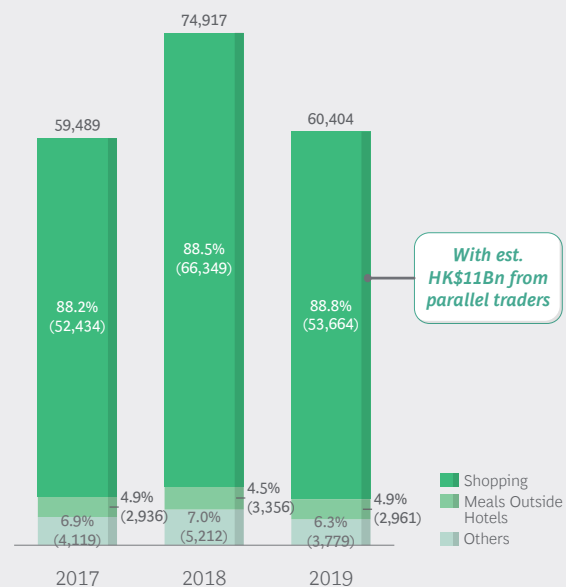
The profile of Mainland Chinese visitors to Hong Kong has evolved considerably since 2003, however. Dominated by families on guided tours in the early years, it has evolved to have more single travelers, with a growing proportion of housewives traveling without children. Guided tours now make up less than 5% of mainland tourist visits. Many mainland visitors see Hong Kong as a “single-stay, short-break” destination, while an increasing number of return visitors prefer spending their day shopping rather than sightseeing. Mainland tourists are also on average younger than those from other places: 35 years old on average in 2018, compared with 40 to 44 years old from other places. (See Exhibit 5.)

EXHIBIT 5 | Shopping is the largest spend category for Mainland Chinese tourists

Spending of multi-day visitors from Mainland China
HK\$M, Current Prices (nominal)



Spending of same-day visitors from Mainland China
HK\$M, Current Prices (nominal)



Source: Hong Kong Tourism Board / Census & Statistics Department.

⁹ “Visitors” are defined as non-Hong Kong residents who pass through Hong Kong immigration.

Mainland visitors to Hong Kong can be divided into two categories: multi-day and same-day. In the past, multi-day visitors tended to come from the Greater Bay Area—typically for business, shopping, or a meal—and bought Clothes and Footwear, Luxury, and Beauty products. Same-day visitors comprised about 60%, and typically purchased more Food, Personal Care, and Beauty products.

Since the cuts in import tariffs and VAT on the mainland in 2018, however, shifts have emerged in mainland tourists' spending patterns in Hong Kong. Wallet shares of Electronics & Photography products and Jewelry & Watches declined, while milder drops were seen in Garments and Fabrics, and Leather and Synthetic Goods. Mainland visitors instead spent a larger share in Beauty, Skin Care and Perfume, and Personal Care products. (See Exhibits 6 & 7.)

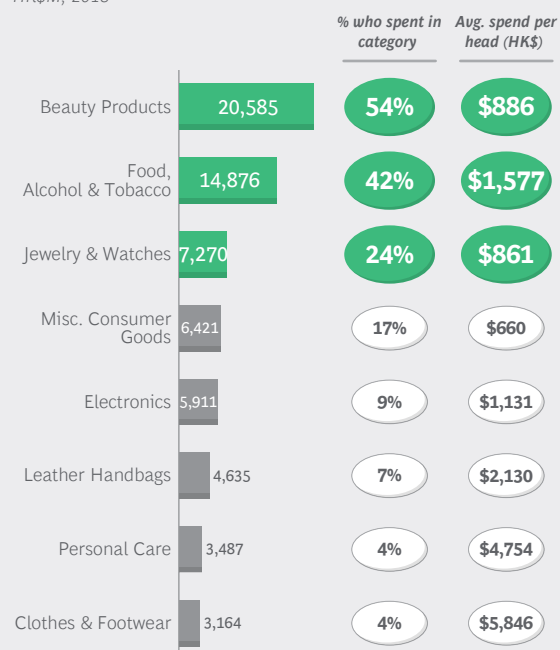
EXHIBIT 6 | Mainland visitors more likely to spend in Cosmetics and Foodstuff

Largest spend per head in Jewelry and Watches, with same-day visitors having smaller basket sizes in most categories

Total shopping spending by multi-day visitors from Mainland China
HK\$, 2018



Total shopping spending by same-day visitors from Mainland China
HK\$, 2018

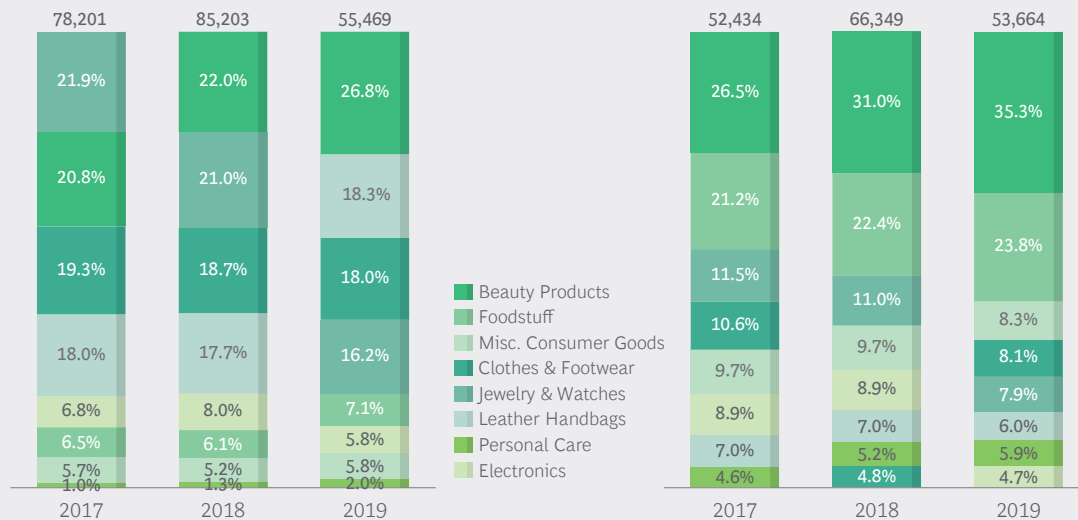


Source: Hong Kong Tourism Board / Census & Statistics Department; BCG analysis.

EXHIBIT 7 | Multi-day visitors spend most in Cosmetics, Jewelry and Clothes, while same-day visitors spend most in Cosmetics and Foodstuff

Total shopping spending by multi-day visitors from Mainland China
HK\$M, Current Prices (Nominal)

Total shopping spending by same-day visitors from Mainland China
HK\$M, Current Prices (Nominal)



Source: Hong Kong Tourism Board / Census & Statistics Department.

Parallel traders were one of the major drivers of sales in Beauty and Personal Care, Health Supplements, Baby Products, Alcohol and Tobacco, and Jewelry & Watches—especially the sales of retailers with a significant presence near the Hong Kong-Shenzhen border. This arbitrage-driven trade involved middlemen who would purchase goods from various Hong Kong stores near the border, and traders would then transport those goods onto the mainland, where these products were either not available or in short supply, and resell them to specialist retailers there.

Parallel trading resulted in shortage of certain products in Hong Kong, especially in areas near the border. At the same time, it was a way to evade customs duties on these products. To check these ill effects, the Guangdong and Hong Kong governments have jointly taken action to combat the problem. In March 2013, the Hong Kong government restricted the export of baby formula to only two cans per adult crossing the border. In April 2015, the Guangdong government stopped issuing same-day multiple-entry visas to Shenzhen residents traveling to Hong Kong¹⁰. These measures had a considerable effect in stymying parallel trading, but the problem nevertheless persisted: **we estimate that about HK\$30 million worth of parallel-traded goods crossed the Hong Kong-Shenzhen border daily in 2018.** With both the Hong Kong and Guangdong governments vowing to stop the

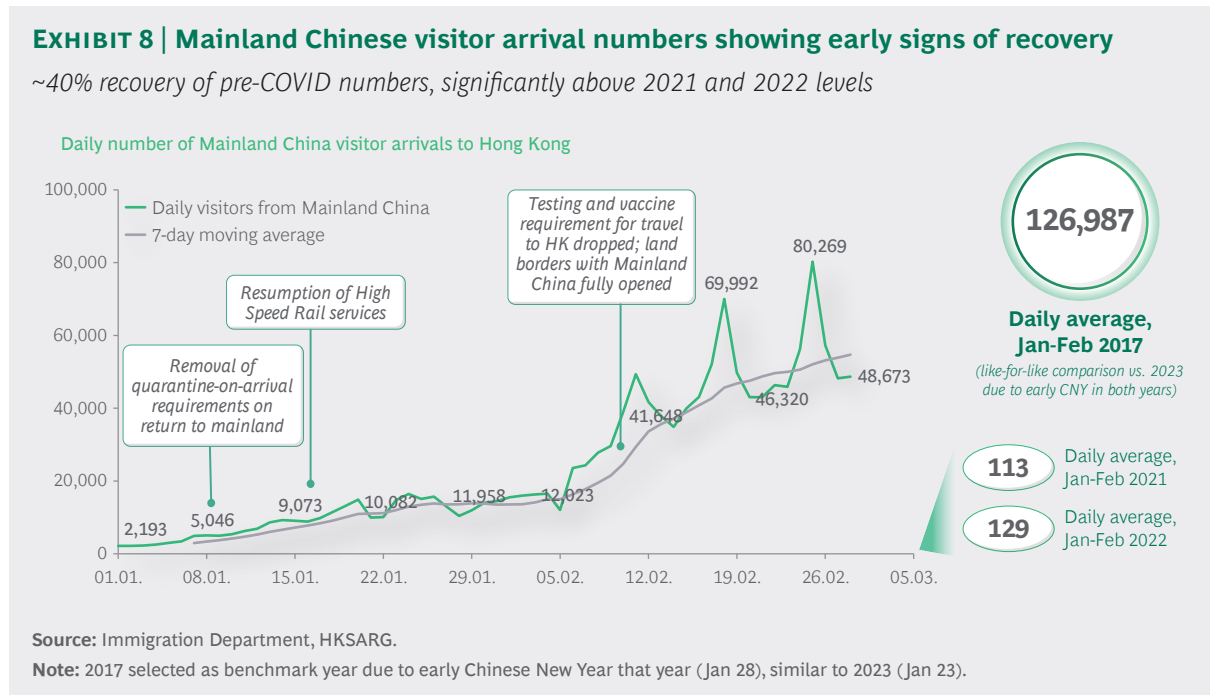
¹⁰ The challenge of parallel trading in HK https://www.chinadaily.com.cn/opinion/2015-04/16/content_20445002.htm

problem from recurring¹¹, we anticipate parallel trading to be relatively subdued going forward.

Beginning in 2019, first the social unrest in Hong Kong and later the COVID-19 pandemic and associated travel restrictions significantly curbed Hong Kong tourist arrivals and associated retail sales. Three years on, as border control measures are progressively relaxed, Hong Kong retailers can anticipate a rebound in sales, albeit to different extents in different categories.

4.1 Post-COVID Outlook

In January 2023, mandatory quarantine between Hong Kong and the mainland was ended, subject to quotas on selected border crossings and a PCR-testing requirement. Early signs of recovery were promising: after only a week, daily Mainland Chinese visitor arrivals rose to ten times those of January 2021, and five times those of January 2022. Forty days into reopening, with land borders fully opened and removal of testing and vaccine requirements for entry into Hong Kong, Mainland Chinese visitor numbers have recovered some 37% of 2017 numbers. (See Exhibit 8.)



11 Hong Kong customs to meet Guangdong counterparts to discuss resurgence in parallel trading, vows crackdown <https://www.scmp.com/news/hong-kong/law-and-crime/article/3210836/hong-kong-customs-meet-guangdong-counterparts-discuss-resurgence-parallel-trading-vows-crackdown>

Deep Dive: Meetings, Conferences, and Event Travel

Hong Kong has traditionally been one of the largest centers for conferences, events, and meetings in Asia. In 2018, Hong Kong saw approximately 960,000 multi-day visitors from Mainland China attending conferences and events, which was the largest share (49%) of all multi-day visitors for this purpose to Hong Kong.

Post-COVID, it is anticipated that major events will return to Hong Kong. The territory's relative ease of access continues to make it a competitive location for major international events. In addition, the Hong Kong government has pledged HK\$1.4 billion over three years to subsidize recurring exhibitions, set up a Mega Arts and Cultural Events Fund with the aim to attract four such events to be held in Hong Kong annually, and laid down a new KPI to hold at least ten major international sporting events per year (dubbed "M Events").

Some anticipated events and their expected attendance in 2023 and beyond:

- Asia Financial Forum (January 11, 2023): 2,000 attending live, 3,000 attending online.
- RISE Conference, a major technology conference, to be held in person, which saw 16,000 participants in 2019, returning to Hong Kong in 2024.

- Hong Kong Book Fair¹, which attracts about 100,000 visitors each year (out of one million attendees).

Mega entertainment and sporting events have been regaining momentum since the start of 2023, with major international music stars such as Alan Walker and BLACKPINK holding concerts at AsiaWorld Arena in Hong Kong, and media reporting heightened enthusiasm among Mainland Chinese visitors for attending these shows.²

Other major arts and cultural events in the pipeline include Art Basel (which attracted 80,000 attendees in 2018) and Clockenflap (which attracted 60,000 attendees in 2017), as well as established sporting events such as the Hong Kong Rugby Sevens (attracting 120,000 spectators each year pre-COVID, with more than half from overseas, and an average stay of around eight days³, more than the average of three days across all overseas visitors).

¹ Hong Kong Book Fair <https://hkbookfair.hktdc.com/en/Press/Press-Releases/2018jul24.html>

² Mainland China music fans raring to see shows in city upon border reopening <https://www.scmp.com/news/hong-kong/hong-kong-economy/article/3205491/going-hong-kong-everyone-mainland-china-music-fans-raring-see-shows-city-such-blackpink-concert-upon>

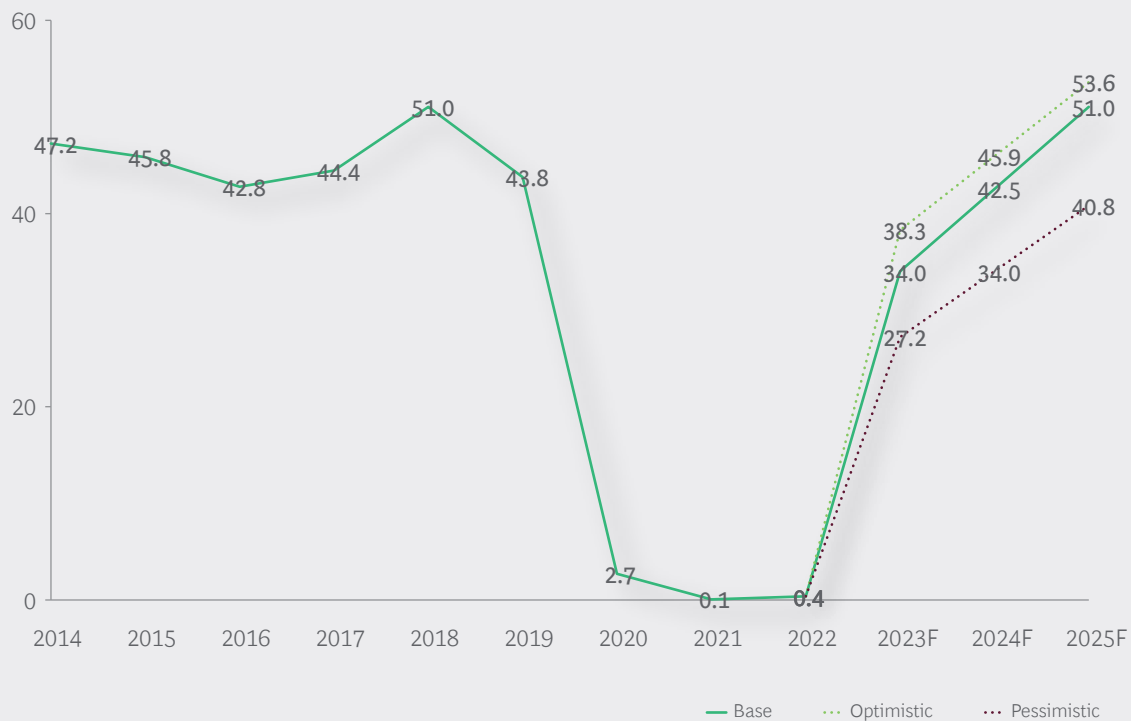
³ Hong Kong reaps HK\$380 million bonanza thanks to overseas visitors at Rugby Sevens <https://www.scmp.com/sport/rugby/hk-sevens/article/2140145/hong-kong-reaps-hk380-million-bonanza-thanks-overseas-visitors>

We expect border controls to be relaxed progressively over the first half of 2023—if not sooner. As mainland public health restrictions are also eased, tourist numbers will rebound strongly. Considering the recovery pattern of similar markets (for example, Japan and Singapore), **we expect a general recovery of visitor numbers by 2025 to 2018 levels** (that is pre-pandemic and pre-social unrest levels).

A general recovery in visitor numbers does not mean an equivalent recovery in retail sales, however. Instead, recovery would vary by sector. We estimated the impact of mainland visitors' return by looking at recent trends in the mainland market and their impact on likely visitor numbers, how many of those returning visitors would spend in each category, and how much they would spend. We also took into consideration three scenarios for visitor number recovery: an optimistic case where numbers recover fully in 2024; a base case where this is instead achieved in 2025; and a pessimistic case where visitors recover to only 80% of 2018 numbers. (See Exhibits 9 & 10.)

EXHIBIT 9 | Return to pre-pandemic visitor numbers expected by 2025

Number of Mainland Chinese visitors to Hong Kong
Millions



Source: Hong Kong Tourism Board (historicals); BCG analysis (forecast).

EXHIBIT 10 | Most economies anticipate a full recovery at least 2024 or later

Expected time to full recovery from day of border reopening, by country



Source: UN World Tourism Organization; national government estimates; news reports.

4.2 Retail Outlook by Sector

• Beauty & Personal Care

Beauty Products remained a large-spend category for Mainland Chinese consumers even during the pandemic. Beauty and Personal Care shopping does not dictate trip itineraries, but unique or interesting offers can drive impulse purchases. We observed that average Beauty product purchase habits did not change during the pandemic, with heavy Beauty spenders¹² particularly showing stronger consumption resilience. Prestige Perfume saw trading up, while average spend per head in Prestige Skin Care and Prestige Color Cosmetics were resilient and relatively consistent. As economic growth returns to Mainland China, we expect these spending patterns to persist, while young people and residents of tier 3 cities and below will make up more of the market.

Brand trustworthiness and value for money will be the two most important considerations for Chinese customers in Beauty purchases. Hong Kong stands to benefit from preference for international beauty brands in the mainland market, as it continues to

¹² “Heavy Beauty spenders” are those who spend more than RMB 8,500 per year on Skin Care products, more than RMB 6,000 per year on Color Cosmetics, or more than RMB 6,000 per year on Perfume.

offer wide assortments, better in-store availability, and lower prices for international brands. Yet, international brands have also aggressively expanded their presence on the mainland, including via digital channels, thus partially eroding Hong Kong's appeal. Furthermore, while lower prices in Hong Kong were a major part of the territory's appeal, import tariff and VAT cuts on the mainland have narrowed this price advantage. Nevertheless, there are still brands that release new products earlier in Hong Kong than on the mainland, potentially maintaining some of Hong Kong's appeal for shoppers seeking new releases. As such, we expect mainland tourists' spend on Beauty and Personal Care in Hong Kong to make up 4.5% of the overall mainland market size by 2025, down from 8% in 2018, while total Mainland Chinese visitor spend in 2025 is expected to be HK\$32 billion to HK\$40 billion in Beauty and Personal Care, with full recovery to 2018 sales levels (approximately HK\$44 billion) by 2026 or later.

- **Food, Alcohol and Tobacco**

With Hong Kong's diverse food product offering, this category is expected to continue to be resilient to external shocks. The lower prices of premium liquor in Hong Kong relative to the mainland, together with the abundance of tax-free stores, have further boosted sales in this category. China's imposition of duties of 116% to 218% on Australian wine imports in 2020¹³ has slashed Australian brands' sales on the mainland—Rawson's Retreat retail value in China dropped by almost 40% between 2020 and 2021¹⁴, for example, and caused the brand to substitute wines imported into China with those from South Africa¹⁵. Those looking for lower prices for Australian wines will likely look to Hong Kong.

We expect mainland visitors' spend in this category to rebound strongly, reaching HK\$12 billion to HK\$16 billion by 2025, on track to eventually recover 2018 spend of HK\$20 billion. Premium wines are expected to drive this rebound, with lower-segment wines recovering more slowly.

- **Luxury Products (Jewelry & Watches and Leather Handbags)**

Long lines in front of luxury stores on Canton Road have often symbolized the tourist trade in the Hong Kong news media. The luxury market was yet another hard-hit

13 China's Tariffs on Australian Wine to Last 5 Years as Ties Sour <https://www.bloomberg.com/news/articles/2021-03-26/china-s-tariffs-on-australian-wine-to-last-5-years-as-ties-sour>

14 Euromonitor International data.

15 Jancis Robinson on quirky new-wave Australian wines <https://www.ft.com/content/d212c25a-bda0-4030-a760-516f5ea4c707>

sector during the pandemic, with top brands, such as Louis Vuitton, Chow Tai Fook, Tiffany, Hermès, Chanel, and Gucci, losing as much as 50% of sales in Hong Kong compared with 2018¹⁶.

During the pandemic, luxury brands relied on personalized channels, such as direct instant messages from sales representatives, to protect their brand presence in consumers' minds. Heavy luxury spenders continued looking for exclusivity and a sense of self-fulfillment—and thus valued personalized brand communication and services. This is also reflected in the sector's relatively low e-commerce penetration: just 10% to 20% across luxury categories by the end of 2021, with customers preferring an in-store experience.

Handbags and Jewelry & Watches are the largest segments for luxury shoppers, with heavy spenders possessing high incomes and wealth levels dominating the market. One reason for this is that consumers often view these products as investment pieces, able to preserve their value over time. With the recent economic downturn in China, this income segment will look to diversify their asset base, hence we expect more travel from this group of Mainland Chinese visitors to Hong Kong, and growing ticket sizes and purchase frequency among these products, as buyers seek to preserve value in assets outside the mainland.

Hong Kong's traditional strengths (for example, brand availability and price advantage) will enable a strong rebound in Luxury Goods sales. Mainland visitors' spend in Jewelry & Watches in Hong Kong is expected to make up about 3% of the overall Chinese market over the coming three years—down from 6% in 2018. In Leather Handbags, however, we anticipate a drastic drop from 30% in 2018 to just 8% in 2025, primarily due to strong growth in the mainland market size (21.4% CAGR expected, 2018-2025) outpacing that of Hong Kong (0.7% CAGR expected, 2018-2025). Mainland visitors' total spend in Jewelry & Watches in 2025 is expected to amount to HK\$16 billion to HK\$21 billion, still below the HK\$25 billion figure for 2018, while spend in Leather Handbags is expected to be HK\$13 billion to HK\$17 billion, also below the HK\$20 billion figure for 2018. Yet, spend in both categories is on track to recover to 2018 levels by 2026-2027.

- **Clothes & Footwear**

Major international players (for example, Nike, Adidas, Skechers) dominate Hong Kong's Clothes & Footwear market via their specialist stores, multi-brand outlets, and

¹⁶ Euromonitor International data.

other informal trade in Hong Kong¹⁷. Lower prices were once a main draw for tourists, but this appeal began eroding from 2018, when mainland import tariffs on clothing were more than halved. A strong renminbi further reduced Hong Kong's price advantage. Mainland price points are now generally lower than those in Hong Kong, and available product ranges have increased since 2019. These factors, combined with the rise of local brands, mean a considerable share of Mainland Chinese visitors' spend in Hong Kong in Clothes & Footwear will not return. By 2025, we expect to see mainland visitors' spend in Clothes & Footwear reach HK\$8 billion to HK\$11 billion, markedly lower than the HK\$19 billion attained in 2018. This would mean spend in Hong Kong would represent just 0.2% of the overall mainland market.

- **Electronics**

Electronics did not occupy a large share of mainland visitors' wallets even before the pandemic, at less than 10% in 2018. Mainland consumers' preference for local brands (for example, Huawei, OPPO, Xiaomi) over international ones (for example, Japanese and American brands), and the ability of local brands to offer good value-for-money smartphones, wearables and audio devices have minimized Hong Kong's attraction as a destination to shop for electronics. Mainland e-commerce platforms have appeared more attractive to consumers, with products sold at much lower prices, easy access, and wider product offerings. Consumers have grown more accustomed to e-commerce as their preferred channel during the pandemic. This tendency means that Electronics in Hong Kong no longer holds appeal to visitors.

We therefore expect mainland visitors' spend in electronics to be around HK\$4 billion to HK\$6 billion by 2025, remaining low compared to HK\$13 billion in 2018. (See Exhibits 11 & 12.)

¹⁷ Euromonitor International data.

EXHIBIT 11 | Strongest 2025 recovery expected in Beauty, Foodstuff and Apparel & Footwear

Mainland visitors' spend by retail category
HK\$Bn approx.

Category	Total mainland visitors' spend in 2018	Estimated total mainland visitors' spend in 2025 (range ¹)	2025 spend as % of 2018 (range ²)	Major trends observed
Beauty Products	39.3	~33 (30–37)	~85% (75–95%)	<ul style="list-style-type: none"> Hong Kong's traditional appeal in Beauty products (wider range and lower prices) will continue to attract Mainland Chinese visitors
Personal Care	4.6	~3 (2–3)	~50% (45–60%)	<ul style="list-style-type: none"> However, expanded brand presences on the mainland and the rise of e-commerce have also eroded Hong Kong's appeal
Food, Alcohol & Tobacco	20.0	~14 (12–16)	~70% (60–80%)	<ul style="list-style-type: none"> Wide food product offerings, lower premium liquor prices and Hong Kong's tax-free status will enable fast recovery in Food and Alcohol
Jewelry & Watches	25.2	~19 (16–21)	~75% (65–85%)	<ul style="list-style-type: none"> Low e-commerce penetration on the mainland, even after the pandemic, shows consumers' preference of a personalized in-store experience
Leather Handbags	19.7	~15 (13–17)	~75% (65–85%)	<ul style="list-style-type: none"> Hong Kong's traditional strengths will continue to attract Mainland Chinese visitors
Clothes & Footwear	19.1	~9 (8–11)	~50% (40–55%)	<ul style="list-style-type: none"> Import tariff and VAT slashes in this category have rendered prices the same as Hong Kong (or even cheaper) on the mainland Product range available on the mainland has significantly improved, further detracting from Hong Kong's appeal
Electronics	12.7	~5 (4–6)	40% (35–45%)	<ul style="list-style-type: none"> A weak category even in 2018, due to wide availability of good value-for-money Chinese brands and consumers' preference to buy local

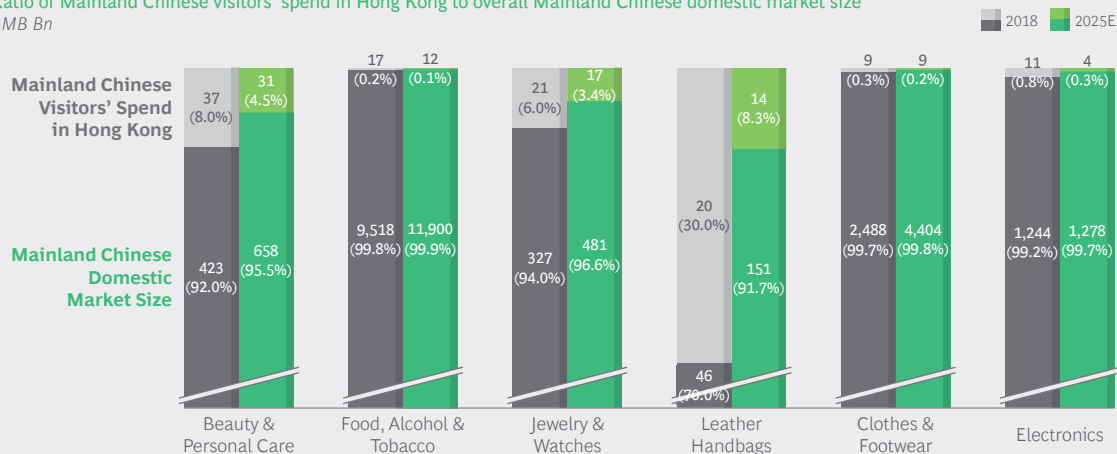
Source: Hong Kong Tourism Board; BCG analysis.

¹Range of estimates based on most optimistic scenario (full recovery of 2018 tourist numbers by 2024) and most pessimistic scenario (80% recovery of 2018 tourist numbers by 2025).

EXHIBIT 12 | Mainland Chinese tourists' spend in Hong Kong shrinking across categories when compared with total Mainland Chinese market size

Ratio of Mainland Chinese visitors' spend in Hong Kong to overall Mainland Chinese domestic market size

RMB Bn



Source: Euromonitor International; Hong Kong Tourism Board / Census & Statistics Department; BCG analysis.

Note: 1 RMB = 1.2 HKD

4.3 Services Outlook by Sector

- **Hotels¹⁸**

Mainland Chinese visitors constituted 68% (19.9 million) of all multi-day visitors (29.3 million) in 2018. At the peak of tourist numbers in 2018, hotel occupancy rates¹⁹ regularly stood at 90%; this figure dropped to 59% towards the end of the 2019 social unrest (January 2020) and fell further to 29% in February 2020 as the pandemic spread. Occupancy rates improved as hotels pivoted towards offering “staycation” packages marketed to locals, who embraced the change as a substitute for overseas travel.

When border restrictions for international and Taiwan arrivals were lifted in September 2022, there was an immediate drop in occupancy rates as locals rushed to travel abroad. The industry partially recovered over the next two months, as international and Taiwan arrival numbers picked up, but occupancy rates were only at 65% by year end—still **27% below December 2018 levels**. This implies approximately 24,000 empty rooms per night that could be filled by returning mainland visitors.

Hotel operators can expect the rebound in Mainland Chinese visitor numbers to easily fill this gap. Based on our estimation above, the daily number of mainland visitors could potentially reach 70,000 to 105,000 by middle of 2023, and 84,000 to 120,000 by the end of 2023, driving **an additional demand of approximately 30,000 to 44,000 hotel rooms per night compared with January 2023 levels by the end of 2023²⁰**. This may result in a short-term supply shortage, allowing hotels to increase prices while room supply gradually catches up with demand. Once the organic growth of hotel rooms returns to the rate of approximately 2,600 rooms per year seen before the pandemic, prices may stabilize. We do not expect construction activity to return to pre-COVID rates soon, however, given the financial stress most hotel companies suffered from over the past three years. (See Exhibit 13.)

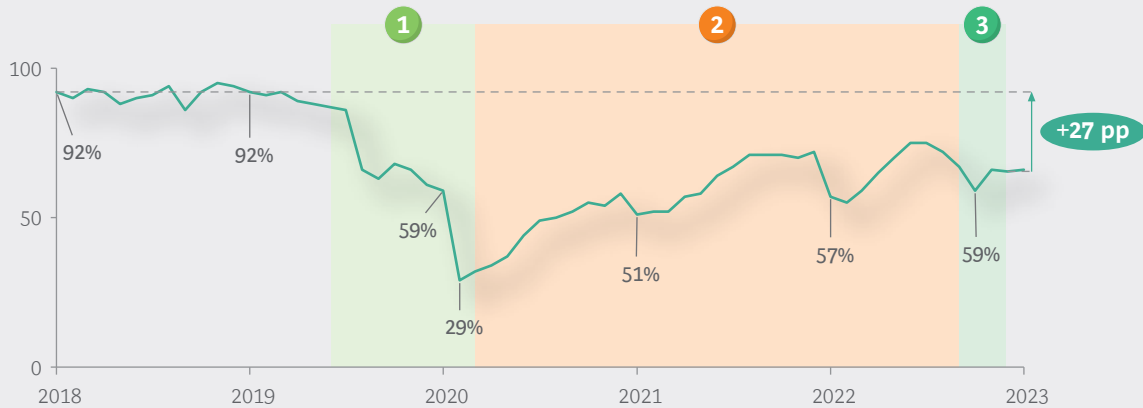
¹⁸ Excludes guesthouses.

¹⁹ Occupancy rate is calculated as daily occupied hotel rooms divided by daily available hotel rooms.

²⁰ 73% of Mainland Chinese visitors stay at commercial accommodation (2018); average hotel room size approximately two occupants.

EXHIBIT 13 | 27 percentage points occupancy rate gap to regain from Mainland Chinese visitors

Hong Kong Monthly Hotel Occupancy Rate (%), 2018-2022



1 2019 social unrest caused a decline in Mainland Chinese visitor numbers

2 Quarantine-on-arrival imposed on all returning Hong Kong residents; non-residents barred from entering Hong Kong

3 Quarantine requirements lifted for international and Taiwan arrivals; all arrivals subject to "0+3" regime¹

Source: government press releases; Hong Kong Tourism Board.

¹No quarantine on arrival, 3 days of self-administered medical surveillance.

- **Consumer food service (restaurants, bars, cafes)**

In 2018, mainland visitors spent a total of HK\$21.7 billion on meals outside of hotels, representing 16.8% of the overall consumer food service market in Hong Kong. During the pandemic, tourist-oriented restaurant chains experienced large drops in food service value, resulting in high-profile closures²¹. Meanwhile, chains with an established local clientele recovered quickly once social-distancing measures were relaxed, with some chains even enjoying significant growth²².

The premium restaurant segment has the potential to grow by attracting younger clients, who are drawn by influencers sharing exquisite dining experiences on social media and are more willing to “splurge” on one or two high-end meals during their stay in Hong Kong.

²¹ Hui Lau Shan, a 60-year-old local dessert and tea chain, saw -85% CAGR over 2019-2021 (Euromonitor International data) and was forced to close permanently in 2021.

²² TamJai, a noodle chain, saw +18% CAGR over 2019-2021 (Euromonitor International data).

Overall, the rate of recovery of the consumer food service industry in Hong Kong will be a direct function of the recovery in tourist numbers. Established Food & Beverage outlets should nonetheless be mindful of the very different mainland visitor demographic expected from 2023: for instance, more visitors will be younger, and looking for a quintessentially “Hong Kong” experience, which is fun, unique, and memorable.

5. Preparing for the Return of Mainland Chinese Tourists

Today's Mainland Chinese consumer is fundamentally different to that of 2018. Retailers must shift their strategies accordingly if they are to harness the potential of returning mainland visitors. This means smarter use of online channels, informed tailoring of product offerings, understanding individual client preferences, and creating the client experiences sought by each customer segment.

- **Provide brand experiences, not just products.**

Consumers increasingly moving to e-commerce threatens retailers who rely on travel retail at their brick-and-mortar stores. Our experience shows that retailers able to clearly differentiate their in-store shopping experience from e-commerce are more likely to secure their right to win among customers. For example, by enriching in-store services to meet consumers' desires for an intimate, personalized experience, or by opening stores tailored to the tastes of the social media-savvy young, with a carefully curated shopping experience to encourage exploring new products.

We already see an uptick in experiential stores in Hong Kong. K11 MUSEA is an experience-driven shopping mall in downtown Tsim Sha Tsui, featuring multiple experiential stores: for example, the world's first Macallan Room which offers an immersive brand experience²³. Beautilicious is a collection of beauty brand stores that also offer beauty workshops and influencer events²⁴. In 2019, Decathlon opened its experiential store in Tseung Kwan O, a residential area, where shoppers could try their sports products firsthand on a 36,000-square-foot outdoor playground, while workshops and classes are routinely held in the indoor space of the same size²⁵.

Luxury shopping continues to be relationship driven and primarily offline. Online and offline interaction with sales representatives is what makes customers feel special. Luxury brands should invest more in ensuring this interaction remains central to the overall brand experience.

- **Enhance precision marketing in China, combining online and offline touchpoints.**

Mainland Chinese consumers take inspiration from influencers across social media platforms, such as TikTok (Douyin), Xiaohongshu, as well as the traditional super

²³ The Macallan Room @ K11 MUSEA <https://www.themacallan.com/en-hk/the-macallan-room-at-k11>

²⁴ Beautilicious <https://www.k11musea.com/visit/beautilicious/>

²⁵ Decathlon <https://www.weekendhk.com/香港好去處/迪卡儂-decathlon-將軍澳-運動-952775/>

app WeChat. Retailers should invest more in precision marketing on the mainland, particularly through engaging local partners (for example, travel websites and recommendation platforms), which would boost brand awareness even before Mainland Chinese visitors set foot in Hong Kong.

It is difficult to stimulate consumers' interest in a particular brand solely through online channels. However, we find that the most effective marketing strategy often entails a judicious blend of online social platforms and offline channels. For instance, retailers can first establish trust in their brands by leveraging social capital on the WeChat ecosystem (for example, mini program as a private domain site); brands can offer exclusive, limited-edition products through influencers and design specific marketing strategies around them. Virtual marketing, music, and short videos are also viable formats to cultivate brand affinity with young consumers. As a next step, online channels can then direct traffic to offline brand events, which have traditionally been a key means of enabling younger consumers to get to know a luxury brand²⁶.

- **Invest in understanding customers (for example, through CRM systems).**

As travel resumes and the same group of customers can once again visit stores around the world, global retailers need to ensure their customer relationship management (CRM) systems are set up to recognize the customers wherever they are—arming sales representatives with robust data on customers' preferences and previous buying behavior, in order to offer the most personalized experience possible. A good tech spine will ensure consistent service quality and products of choice for the same customer across different stores and geographies²⁷.

- **Enhance and nuance presence near tourist hotspots.**

Retailers should establish a nuanced understanding of tourist hotspots in the area and strengthen their presence accordingly. In-store product assortments can be adapted to each location and associated segment needs. For example, core Hong Kong tourist hotspots such as Tsim Sha Tsui, Mong Kok, and Causeway Bay stand to benefit more from multi-day visitors, while border hotspots such as Sheung Shui, Yuen Long, Tuen Mun, and Tung Chung will see more same-day visitors. Retailers should tailor their in-store product mix, layout, and even brand selection to the different spending patterns of these groups.

²⁶ BCG x Tencent Marketing Insight Report on Digital Trends in China's Luxury Market 2022.

²⁷ While ensuring compliance with personal data laws in each jurisdiction.

- **Offer product assortments tailored to Mainland Chinese visitors.**

Brands must recognize that the Chinese market is distinctive and adapt to the taste of Chinese consumers. In our experience, brands which merely “copy and paste” their strategies from elsewhere to China (for example, fashion brands entering the Chinese market with designs and sizes directly transplanted from the US) find themselves struggling to gain ground from competitors.

Post-pandemic, the taste of the Chinese consumer has changed fundamentally. Retailers would be well to consider themselves starting nearly from scratch as they re-learn the intricacies of the Chinese market. If the aim is to gain the highest sales boost from the Chinese consumer, this aspiration should be matched by a correspondingly large investment in the Chinese market.

- **Ensure resilient supply chains.**

While e-commerce has grown rapidly among all customer segments, customers who shop when visiting another country typically do not purchase online as they want immediate fulfillment of the purchase. Satisfying tourist demand, therefore, necessitates resilient supply chains: ensuring that the products desired by tourists are available at the right stores, at the right time, and in the right quantity. Retailers will have to stay abreast of demand patterns from visitors and ensure resilient supply chains if they are to offer visitors a positive experience. In luxury, for example, resilient supply chains are particularly critical when brands attempt to serve heavy spenders' preferences for limited-edition products and a more general preference to see wide in-store assortments.

- **Hire staff who understand Mainland Chinese visitors.**

Many experienced customer service staff were laid off due to store closures during the pandemic. As travel retail resumes, retailers should plan now how they will bring back personnel with experience in catering to the needs of Mainland Chinese tourists (for example, Mandarin-speaking staff with knowledge of mainland shopping and payment habits), so they are ready to meet the pent-up demand anticipated in the initial stages of recovery.

6. Conclusion

As cross-border travel from Mainland China begins in earnest again, retailers and businesses that previously benefited from Chinese tourists' high spending cannot assume a return to the business as usual of 2018. The intervening years have seen market changes at every level: geopolitical, national policy, population demographics, and consumer habits. These fundamental shifts mean that destinations which were reliant on the Mainland Chinese tourist trade must undertake real soul searching if they are to successfully renew their unique value proposition. Nowhere is this truer than Hong Kong.

First, retailers and others courting Mainland Chinese tourists need a clear-sighted understanding of where their competitive advantage has been eroded—be it reduced price differentials following tax cuts, geopolitical tensions pushing consumers to local brands, or increased availability of international brands in China. Where price or product assortments alone are no longer enough to attract mainland shoppers, retailers need to curate experiences that the mainland and e-commerce rivals do not offer.

Second, businesses need to recognize where the new opportunities lie: anticipating the shifts in preferences of the new, younger generation of tourists who will arrive. Brands can begin positioning themselves early, via online promotion and offline experiences. Through intelligent client management and understanding the type of customer in each location, retailers can curate senses of exclusivity and unique experiences that customers will value and want to share.

Ultimately, it will be the destinations that recognize how their potential customers' needs and preferences have changed, and adapt quickly, will survive and thrive as Chinese tourist numbers rebound. In all tourist destinations, but especially in Hong Kong, this will require local policymakers and the business community to engage in strategic initiatives laser-focused on creating uniqueness, if the destination is to stand out from the crowd.

About the Authors

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