Understanding the Chinese consumers in the 21st Century: Key attitudes and trends

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Objectives

During this presentation we will:

• Provide an overview of the historical context of consumerism in China
• Outline some key trends - which sectors, products and brands are winning and why?
• Explore some of the attitudes of the 21st-century Chinese consumer
• Suggest some future considerations and key take-outs for Western brands
Historical Context
‘Opening up’ to consumerism

• Consumerism, as we speak of it now, most sensibly analysed from 1978 onwards in China

• 1978 – Deng Xiao-ping brought in the ‘opening up’ reforms – SEZs (tax incentives, export oriented, market forces), move away from SOEs, (only 45% by 2013, compared to 80% in 1978 with the other 20% ‘collectively owned’)

• Deng said ‘to get rich is glorious’ and many workers left their ‘work units’ and decided to ‘leap into the sea’
Key Trends
The Chinese economy is less export-driven now than in previous years so the emphasis is on domestic consumption (consumption accounted for 71% of GDP growth in the first three quarters of 2016)

- Golden week holidays have been created to encourage spending (internal migration to coastal cities results)
- Welfare measures have been introduced to mitigate against extreme saving
- The government is keen to promote the ‘xiaokang’ (middle class)

The middle class is growing; the younger generations have much less conservative attitudes towards spending; and the array of products and services available continues to grow at an astounding pace…
Chinese consumers are buying leisure

Shift from products to services and experiences…

• Especially the young, are huge consumers of leisure
• 50% surge in box-office receipts in the past year*
• Spending on food and beverages for home consumption is stagnating – restaurants and bars are booming
• Convenience food on the rise (due to eating at home not being seen so much as a form of leisure). KFC is massive.
• Chains such as ktv karaoke bars have become stalwart brands

*Source: McKinsey 2016, The Modernization of the Chinese Consumer (10,000 in-person interviews with people aged 18 to 56 across 44 cities)
Chinese consumers are buying travel

Travel outside of China is a huge growth area...

- More than 70 million Chinese travelled overseas in 2015, making 1.5 trips on average*, and shopping is integral to this experience
- 80% of consumers have made overseas purchases, and nearly 30% actually base their choice of a travel destination on shopping opportunities*
- Even travel to Tibet has increased as a more affordable and local way of experiencing places other than China

*Source: McKinsey 2016, *The Modernization of the Chinese Consumer* (10,000 in-person interviews with people aged 18 to 56 across 44 cities)
Chinese consumers are buying luxury

There is a shift from mass to premium product sectors, with premium products seeing the biggest growth...

- 50% of consumers now seek the best and most expensive offering, a significant increase over previous years*
- Foreign brands still lead in the premium market, Chinese brands have not gained much traction (unlike in the mass sector)
- Chinese consumers are becoming loyal to a decreasing number of single brands. The number of consumers willing to switch to a brand outside their ‘short list’ has dropped*
- Luxury products doing particularly well are…
  - Wine and whiskey
  - Cosmetics
  - Clothes and handbags
  - Watches

*Source: McKinsey 2016, *The Modernization of the Chinese Consumer* (10,000 in-person interviews with people aged 18 to 56 across 44 cities)
Chinese consumers are buying smartphones

Smartphones have across-the-board appeal in China, with young and old, rural and urban consumers keen...

- Smartphone sales increased by almost 9% in 2016, driven by consumer demand for apps
- Apps are used widely – one of the most popular is a farming app that says where the cheapest fertiliser can be bought
- This demand is also in smaller cities and some rural areas; linked to some extent to the demand to be online without having to afford a computer
- Chinese phone manufacturers gained market share - oppo, huawei, vivo and xiaomi — gained a combined share of 57% in 2016, up from 46% in 2015*
- Apple, ranked 4th, continues to struggle in china (not least due to xiaomi’s similar but cheaper offering)

*IDC stats: https://www.idc.com/getdoc.jsp?containerId=prCHE41886016
Chinese consumers are buying cars

- Although car ownership in China remains low by developed country standards, it is rising quickly…
- Short car trips to get out of the city at the weekend are gaining popularity
- Those Chinese consumers who cannot afford expensive cars, spend money on products—such as cushions, gadgets, and tinted window films—to improve their car’s appearance
- Best-selling car brands are 1) Volkswagen, 2) Toyota, 3) Buick, 4) Hyundai
- China also has a huge automotive industry of its own (largest in the world since 2008), e.g. Beijing Automotive Group, Brilliance Automotive, Dongfeng Motor, SAIC Motor
- Most Chinese cars are sold within China, but exports reached 814,300 units in 2011
Key attitudes of Chinese consumers
The Chinese consumer

China’s middle class is expanding...

- Incomes are rising (per capita income in China has been increasing at an 11% annual pace since 2010)
- By 2020, 81% of consumption growth will come from households whose annual income is more than $24,000*
- Government policies are supporting the rise of this middle class

With rising incomes comes optimism and confidence...

- Despite decreased growth and some economic uncertainty, overall, standards of living continue to increase in China
- Plus, macro economic trends have so-far had minimal influence on consumer sentiment and behaviour. (Only 7% of Chinese consumers feel stock market trends would influence their decision to spend more or less; just 8% cite housing-market trends; 35% cite rising incomes as being influential on their spending.*)

Consumerism is something many Chinese are now born into..

- A whole generation has been born into China’s burgeoning consumer society; they do not heed the less commercial attitudes of many of their parents
- It is their attitudes and buying habits that are shaping China’s development
- Consumers 35 or younger will account for 65% of growth by 2020*

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(*) Boston Consulting Group and AliResearch
BCG Center for Customer Insight survey, 2016 (2000 respondents)
Self-actualisation

- The younger generation of consumers are all about proving their individuality – their personal freedom to choose
- Being part of a ‘cause’ (e.g. environmental) is popular amongst urban, educated young people
- Choosing brands is part of this idea of freedom and choice
- Some brands have tapped into this very successfully, e.g. Landrover
- Landrover used an ‘explorer’ archetype to brand itself in China
- It is so popular it can almost do no wrong; in 2016 Landrover sold more units in China than anywhere else in the world
Shanzhai (copycat culture)

- Shanzhai is huge in China; it is not seen as copying, but as admiring and improving upon.
- It can be obvious attempts to play on existing brands - as in Dolce and Banana.
- It can be copying of whole places - around the outskirts of Beijing there are whole copycat towns, e.g. ‘Thamestown’
- Or it can be more subtle copying of successful styles – e.g. Xiaomi smartphones.
- Xiaomi copies iPhone designs for much lower prices; it also plays upon the idea of many small people making for success (xiaomi is the Chinese word for “millet” – linked to the Buddhist concept that a single grain of rice is as great as a mountain - value comes from small things).
Future considerations
Potential impacts on future development of consumerism

Potential increased trade friction with the United States, with tariffs raised on specific product categories (such as steel and some agricultural goods) could lead to economic nationalism.

The on-going backdrop of food and energy security, and social stability – most commonly triggered by unemployment - may cause some consumers to be more cautious.

The huge increase in the importance of e-commerce will effect how brands need to engage with Chinese consumers. (e-commerce currently drives 42% of total consumption growth, 90% of that growth coming from mobile e-commerce*).

High-speed growth occurring in upper-income brackets and among the younger generation, but decelerating among lower-income and older-generation consumers may cause a polarisation of the consumer market.

*Boston Consulting Group and AliResearch
Key take-outs for Western brands in China

- Have ‘experience’ on your radar, even if you don’t sell experiences, build them into your product, e.g. via retailtainment or partnering with entertainment brands

- Even if you’re not a ‘luxury’ brand, recognise that providing a sense of ‘quality’ is important

- Attaching your brand to bigger ideals, such as ‘freedom’, ‘happiness’, ‘trust’ is a strong strategy (but get good cultural advisors!)

- Under no circumstances ignore e-commerce; you must have a presence and be accessible online via smartphones

- Don’t concentrate only on the coastal cities, especially if you’re trying to break in to China; provincial capitals may prove fertile ground
Thank you