Lecture 11.
Consumer Segments and Lifestyles in Urban China

The Evolution of Consumption Environment
消费环境的演变

- The evolution of policies 政策的改变
  - From emphasis on heavy industries and infrastructure to encouragement of consumption
  - To make domestic consumption play a greater role in the country’s economic growth
  - But many challenges lie ahead
- The evolution of infrastructure 基础设施的改变
  - From a limited retail outlets from many types of stores such as supermarket, shopping malls
  - From limited choices to many products and brands Pierre Cardin Moscow restaurant
- The evolution of media environment 媒体环境的改变
  - From state-controlled singular channels to a variety of media to reach consumers
Upgrade of Consumption
标志性消费的升级

- GNP per capita was $681 in 1996 and to nearly double in 2005 (now US$4250 in 2010), and $8000 on purchasing power parity basis
- The upgrade of consuming products, such as luxury products.消费品的升级，表现在选购品和奢侈品的消费量提升
  - Big ticket items
  - Housing, cars, tourism, and luxury items
- The upgrade of consuming motivations.消费动机的提升
  - Functional utilities, to symbolic and emotional values (brand and experience products)
- The change of consuming structure and consuming ability 消费结构和消费能力的变化 (discretionary income).

Examples of Consumption Upgrade
消费提升的几个表现

- Development of housing consumption
- Government vs. Commercial housing
- Development of automobile consumption
- 住房消费的发展轿车消费的跃升Pillar industry, environmental concerns
- Development of computer and popularity of internet
  - 电脑消费和上网的普及
- Increasing of mobile consumption手机消费的增长
  - Big market, multiple technologies, and different segments
  - Big box to gold-plated or diamond-studded ones,
  - Xiao ling tong!
Change of Consuming Structure

- The Engel Coefficient of Chinese residents has been falling since 1978.
- Engel’s index is a measure of the proportion of people’s income spent on necessities versus that spent on non-necessities or the discretionary items. A higher Engel’s index means that people spend a greater proportion on food and other necessities, i.e., like those in a subsistence economy and developing country. A lower Engel’s index that people spent less on necessities proportionately and thus more on other non-essential discretionary items such as entertainment and luxury products.
- Proportionately less on food, not in absolute amount.
- The decrease of the Engel Coefficient indicates that the residents’ consuming level and quality are significantly improved.
- The decrease of the Engel Coefficient indicates that the residents’ ways of consumption changed significantly.
- More on consumable products.
- Entertainment, and travel.
- Some people post their spendings on the Internet.
Difference in Consuming Abilities

- Besides Engel Coefficient, Gini Coefficient is another indicator of the changes of Chinese consuming structure. 除了恩格尔系数，基尼系数是反映中国消费结构变化的另一指标
  - Gini index is a measure of a country’s income disparity or the extent to which a nation’s wealth is concentrated on a smaller percentage of its population. A higher Gini index suggests that a nation’s wealth is concentrated on a smaller percentage of its population, and thus greater income disparity. Conversely speaking, a lower Gini index indicate that a larger percentage of people account for a greater proportion of a nation’s wealth, resulting in greater income equality.
- After the Reform and Opening, the Gini Coefficient of China increases significantly. 改革开放以后，基尼系数迅速增长
  - Increasing income disparity
  - Chinese Gini Coefficient probably will maintain over 0.4 for a long period, which means, in a certain period of time, there will be consumer groups with significant difference in income and consumption abilities. 从未来发展趋势看，中国的基尼系数可能长期维持在0.4以上，这意味着，中国将在较长时期内存在收入和消费能力有明显差异的消费群

Consuming Conception: Rationality and Nonrationality

- Before 1980’s, Chinese consumers inherited the habit of frugal consumption. 20世纪80年代以前，中国消费者秉承了一直以来的节俭消费习惯
- The blind demand in the late 1980’s.
- Further enthusiastic investing consumption in the early 1990’s. 80年代中后期，盲目需求，消费热潮席卷中国
- In the late 1990’s, Chinese consumers reexamined and changed the consumption behaviors. 90年代末，经历了盲目消费后，中国消费者重新审视并转变了消费行为
- In 2000s, market further fragmented with many different lifestyles and consumption patterns
- New focuses on stocks, real estate, luxury goods
  - Real estate -http://www.fanhaiguoji.com/
- High savings rate results in large bank deposits. Not enough suitable channels for investment.
- Temporary suspension of QDII: unreliable statistics and no accurate data
The E&Y report

- China’s Luxury Market
- The Chinese Luxury Goods Consumer
  - In 2004, China’s economy grew 9.5% to RMB13.7 trillion
  - (US$1.7 trillion) and it is expected to grow more than 9%
  - this year. China’s booming economy, coupled with a
    substantial
  - increase in the number of buyers of luxury goods, has
    fueled
  - the growth of the Chinese luxury market, which has
    enormous
  - potential for further growth.

The Advent of the Mighty Chinese Tourists

Due to rising affluence and a relaxation of visa restrictions
on Chinese travelers by the Chinese government, more than
28 million Chinese traveled overseas in 2004, according to
statistics from the China Academy of Social Sciences
(CASS). Chinese travel is expected to accelerate over the
next ten years. According to the Economist Intelligence
Unit (EIU), the number of Chinese travelers is expected
to rise to 49 million annually by 2008, to 60 million by 2010
and to 100 million by 2015. This is in line with estimates by
the World Travel Organization, which projects the number
of Chinese travelers will reach 100 million by 2020.
2.3 The Rise of Chinese Middle Class

中国中产阶层的崛起


- The Chinese dream (vs. the early China syndrome of foreign marketers): a nice flat in the city, a car for commuting and weekend trips, overseas trips
- Much attention has been given to the super rich in China, ignoring the vast opportunities among the emerging middle class.
- Middle class may be small now, its proportion will grow and its spending power will match that of Japan.
- The revolution of expectations – the Chinese optimism is contagious.
Spending power is on the rise

<table>
<thead>
<tr>
<th>Share of Chinese urban households, %</th>
<th>Share of total urban disposable income, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segments by annual income</td>
<td>100%, millions of urban households</td>
</tr>
<tr>
<td>Global affluent (≥200,000 renminbi)</td>
<td>66</td>
</tr>
<tr>
<td>Mass affluent (100,001–200,000 renminbi)</td>
<td>109</td>
</tr>
<tr>
<td>Upper middle class (40,001–100,000 renminbi)</td>
<td>911</td>
</tr>
<tr>
<td>Lower middle class (25,001–40,000 renminbi)</td>
<td>280</td>
</tr>
<tr>
<td>Poor (≤25,000 renminbi)</td>
<td>373</td>
</tr>
<tr>
<td>100%, millions of urban households</td>
<td>509</td>
</tr>
<tr>
<td>100%, billion renminbi</td>
<td>1,525</td>
</tr>
<tr>
<td></td>
<td>5,132</td>
</tr>
<tr>
<td></td>
<td>12,544</td>
</tr>
<tr>
<td></td>
<td>26,059</td>
</tr>
</tbody>
</table>

1 Some figures do not sum to 100%, because of rounding; disposable income = after-tax income, including savings, real renminbi. Base year = 2000; 1 renminbi = $0.12.
2 Base case forecast, 01 2006.
Source: National Bureau of Statistics of China; McKinsey Global Institute analysis

The emergence of a middle class

<table>
<thead>
<tr>
<th>Share of urban households by income class, %</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td></td>
</tr>
<tr>
<td>Emergence of lower-middle-class segment</td>
<td></td>
</tr>
<tr>
<td>Upper middle class (40,001–100,000 renminbi)</td>
<td></td>
</tr>
<tr>
<td>Lower middle class (25,001–40,000 renminbi)</td>
<td></td>
</tr>
<tr>
<td>Poor (≤25,000 renminbi)</td>
<td></td>
</tr>
<tr>
<td>1Base case forecast, 01 2006.</td>
<td></td>
</tr>
</tbody>
</table>
Source: National Bureau of Statistics of China; McKinsey Global Institute analysis
## What will urban Chinese consumers buy?

For urban China (real renminbi, base year = 2000)

<table>
<thead>
<tr>
<th>Product category</th>
<th>Projected change in absolute consumption, billion renminbi¹</th>
<th>Absolute growth, 2004–25, billion renminbi²</th>
<th>Projected compound annual growth rate, 2004–25, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>1.223</td>
<td>3.562</td>
<td>6.7</td>
</tr>
<tr>
<td>Recreation, education</td>
<td>197</td>
<td>2.098</td>
<td>9.5</td>
</tr>
<tr>
<td>Transportation, communication</td>
<td>452</td>
<td>2.468</td>
<td>9.3</td>
</tr>
<tr>
<td>Apparel</td>
<td>369</td>
<td>953</td>
<td>6.3</td>
</tr>
<tr>
<td>Housing, utilities</td>
<td>327</td>
<td>2.982</td>
<td>11.8</td>
</tr>
<tr>
<td>Health care</td>
<td>257</td>
<td>2.325</td>
<td>11.6</td>
</tr>
<tr>
<td>Household products</td>
<td>110</td>
<td>634</td>
<td>9.3</td>
</tr>
<tr>
<td>Personal products</td>
<td>771</td>
<td>652</td>
<td>9.3</td>
</tr>
</tbody>
</table>

¹ Base case forecast, Q1 2006; 1 renminbi = $0.12.
² Figures do not sum to total, because of rounding.

Source: National Bureau of Statistics of China; McKinsey Global Institute analysis

## A changing share of wallet

Relative share of urban consumption categories over time, %

![Graph showing the changing share of wallet](image)

1 Base case forecast, Q1 2006.

Source: National Bureau of Statistics of China; McKinsey Global Institute analysis
Exhibit 2

Generation 2—Chinese consumers in their teens and early 20s—takess a more Western approach to shopping.

<table>
<thead>
<tr>
<th>% of respondents</th>
<th>Upper-middle-class urban Generation 2 members</th>
<th>Upper-middle-class urban population</th>
<th>Total urban population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confident about personal-income growth</td>
<td>64</td>
<td>58</td>
<td>56</td>
</tr>
<tr>
<td>Loyal to brands</td>
<td>46</td>
<td>43</td>
<td>40</td>
</tr>
<tr>
<td>Willing to trade up</td>
<td>41</td>
<td>36</td>
<td>33</td>
</tr>
<tr>
<td>Often early adopter of new products/services</td>
<td>29</td>
<td>25</td>
<td>22</td>
</tr>
<tr>
<td>Seek feedback/comments on Internet before buying</td>
<td>21</td>
<td>16</td>
<td>12</td>
</tr>
</tbody>
</table>

*People born after the mid-1980s and raised in a period of relative abundance.*
Who is Chinese Middle Class?
谁是中国的中产阶层

- **Lower middle class:**
  - State owned enterprises managers and scholars. 小业主，小商贩等自营业者国企干部，知识分子
  - High-tech skillful people. 由引起外资及高新技术人才而生的“软资本”掌握者 Table 2-3, 13% with income from 75000-10000

- **Upper middle class:**
  - Small corporation owners and vendors.
  - Private entrepreneurs
  - 私营企业主 Others on the top of the pyramid

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The Value of Living Methods of Chinese Middle Class
中国中产阶级的价值观和生活方式

- The middle class are well educated, with new specific knowledge, and are easier to move into competitive professions. 具有较高的学历，有新的专业知识，比较容易进入到有竞争力的职业中
  - Have housing and cars

- The “new” middle class are much different from the “old” ones from the perspectives of living styles and social attitudes. 在职业结构上，生活方式和社会态度上与传统的中产阶级上都有很大差异

- The middle class are from reputable professions and inclination for luxury consumptions. 有令人羡慕的职业，有很强的高消费倾向
The Future Development of Chinese Middle Class  
中国中产阶层的未来之路

- The future development of Chinese middle class relies on the government management and policy innovation to give people more opportunities. 依赖于政府更加开明的管理和制度创新
- More people as Little rich
- The future development of Chinese middle class also relies on their own efforts. 依赖于中国中产阶级自己的努力
- Become a group with political power, have stronger voices, and good for progress toward democratic processes

Difference in Regional and Generational Consumptions

- Because of the regional differences in politics, economics, and cultural perspectives, Chinese consumers from different areas have different consumption behaviors. 中国区域消费差异主要来源于两个方面：一方面是近年来区域政治、经济、文化发展的不平衡；另一方面是几千年来传统的区域文化的差异
  - Food, skin care, brand by region and generations
- The social environment and cultural values of different generations of consumers determine that those consumers have different consumption behaviors. 不同世代的消费者由于成长社会环境的不同而形成了不同的文化价值观，不同的文化价值观促成了形形色色的消费者行为
### Segmentation of Chinese Consumers

**Hybrid Approach**

<table>
<thead>
<tr>
<th>Segment/Attribute</th>
<th>Nouveau Riche (baofahu)</th>
<th>Yuppies (dashu yishipu)</th>
<th>Salary Class (gongxin jieeng)</th>
<th>Working Poor (qionglaogong)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size of Segment</strong></td>
<td>100,000</td>
<td>60 million</td>
<td>300 million</td>
<td>840 million</td>
</tr>
<tr>
<td><strong>Geographics</strong></td>
<td>Coastal urban areas</td>
<td>Major urban areas</td>
<td>Small cities</td>
<td>Small towns in rural areas</td>
</tr>
<tr>
<td><strong>Demographics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household Income</td>
<td>RMB 10,000 per month</td>
<td>RMB 5,000 - RMB 9,000 per month</td>
<td>RMB 1,000 - RMB 4,000 per month</td>
<td>Under RMB 1,000 per month</td>
</tr>
<tr>
<td>Age</td>
<td>30-65</td>
<td>25-45</td>
<td>18-60</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>various entrepreneurs</td>
<td>college managerial</td>
<td>high school graduates</td>
<td></td>
</tr>
<tr>
<td>Occupation</td>
<td>business people</td>
<td>professional</td>
<td>office clerks</td>
<td></td>
</tr>
<tr>
<td>Psychographics</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orientation</td>
<td>opertimic innovators</td>
<td>hopeful early adopters</td>
<td>uncertain</td>
<td></td>
</tr>
<tr>
<td>Orientation</td>
<td>trans-setters low/high</td>
<td>opinion leaders moderate</td>
<td>late majority</td>
<td></td>
</tr>
<tr>
<td>Risk aversion</td>
<td></td>
<td></td>
<td>minorities</td>
<td></td>
</tr>
<tr>
<td>Readiness for foreign goods</td>
<td>high</td>
<td>moderate</td>
<td>very low</td>
<td></td>
</tr>
<tr>
<td><strong>Lifestyle</strong></td>
<td>active</td>
<td>mobile</td>
<td>confined</td>
<td></td>
</tr>
<tr>
<td>Mobility</td>
<td>wheel &amp; diesel dine</td>
<td>busy work schedule,</td>
<td>trapped to 5, limited</td>
<td></td>
</tr>
<tr>
<td>Activity</td>
<td>&amp; wine in exclusive clubs</td>
<td>frequent dining out &amp;</td>
<td>disposable income,</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>excursions</td>
<td>occasional outings</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>immobile</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**
1. The household income figures in this table are based on reports from MediaCom.
2. The terms in parentheses such as baofahu and dashu yishipu are the romanized Chinese (pin yin) names for the respective market segments.

**Source:** Consumer Behavior in Asia: Issues and Marketing Practice, Cui, Geng and Liu (2001) page 61

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**Figure 1.**

The Pyramid of China's Urban Consumer Market

- **Yuppies**, approximately 5% of the market, are an affluent segment with a household income of 79,181 RMB. These yuppies are confident and maintain active lifestyles. They are brand conscious but also have become more sophisticated in their buying values.

- **Little rich** families constitute 15% of urban China. With a household income of 29,296 RMB, they are better off than most Chinese. They are socially active and brand conscious.

- **Salary class** households consist of 25% of the urban population, having an annual income of 15,166 RMB, and are the largest group employed in the state sector. They are conservative and satisfied with the status quo, yet they are more established in social status and sometimes seek out foreign brands.

- **Working poor** families represent 55% of urban China and have an annual income of 6917 RMB. They are largely impoverished, immobile, and less satisfied. Most of their income goes to necessities, leaving them little for other things. They buy mostly domestic brands.
Which figure is right?
Income - Segmentation Chinese consumers

Examples

No middle class:

<table>
<thead>
<tr>
<th>Income level</th>
<th>Super rich</th>
<th>Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>100,000 people</td>
<td></td>
<td></td>
</tr>
<tr>
<td>800 mio people</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Number of people | 100,000 | 800 mio |

Middle class:

<table>
<thead>
<tr>
<th>Income level</th>
<th>Super rich</th>
<th>Middle class</th>
<th>Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>100,000 people</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>600 mio people</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Number of people | 100,000 | 600 mio |

Examples:

Poor: 800 mio people
Middle class: 600 mio people
Super rich: 100,000 people
The working poor

- The working poor households, which have an annual income up to 10,000 RMB, still represent the largest segment of urban China-55% of the population. Most members have a high school education and work in state-owned factories. They are the least satisfied with the current situation and therefore want to work hard and move ahead. The least socially active, they refrain from costly leisure activities. Although they use all media types, they spend less time with them. They are the least brand conscious, similar to the "market rejecters" and "traditional functionalists" in Schmitt's (1999) study. This group lags behind in ownership of durable goods and usually purchases domestic brands. Most of these households' take-home pay goes toward essentials such as food and rent, leaving little for other things. They closely resemble the "strugglers" (Schmitt 1999) trying to make ends meet.

The salary class

- The salary class group, one-fourth of the urban population, consists of people in their forties who are married and have one child. Most of them hold a high school diploma. They are more likely to work in government offices and thus are more established and higher in social status, perhaps more so than the little rich group. They are content with the status quo and do not see much need for change. They are conservative and idealistic, spend more time reading and exercising, and go out occasionally for entertainment or excursions. Although most of them have obtained the traditional durables, only a few have acquired other luxury items. Occasionally, they seek quality products and even foreign brands, sometimes more so than the little rich households. They spend a large sum on essentials, but it leaves them money for savings and entertainment. Their profile is similar to the status quo segment in Wei's (1997) study.
Little Rich

- Another 15% of urban Chinese have moved up to little rich (Mao Kang) status, representing the emerging middle class. These people are mostly married, and some have two children. More of the little rich than the working poor or salary class have sought education beyond high school. Most of them still work for the government, but many have started their own businesses or sought private employment. Although they have achieved a decent living by Chinese standards, they are not as secure or satisfied with their lives as the salary class and yuppies are, and they have greater expectation for improvement. They often go out to parks and travel to other places. They watch more television and spend more time reading magazines. An increasing number of the little rich are stocking up luxury items other than the traditional durables, such as air conditioners. In the purchase of consumables, they are not that different from the salary class.

Yuppies

- Yuppies, nearly 5% of the population, make up the most prosperous urban elite in China. Many of these young people, mostly in their thirties (36 years of age, on average), have obtained postsecondary education. Although some of them are state employees and professionals, many have started their own businesses or engage in private employment (29%). They are satisfied with the current situation and do not feel much pressure. This group is split almost evenly between conformists and individualists. These nouveau riche consumers are willing to pay for brand name products and foreign goods. They have an active lifestyle and frequently go out for entertainment and relaxation. An increasing number of yuppies travel for various purposes, own a home computer, and even have a private car. They are well informed because they spend more time watching television and reading newspapers and magazines. Although they buy luxury and Western goods and enjoy the better things in life, they have also become more sophisticated in recognizing good values. These yuppies are the “work hard and play hard” achievers, similar to the “hard workers” that Schmitt (1999) finds.
Nouveau Riche

- Nuff said, a picture tells a thousand words.
- Check it out here:
    23/
- Top of the Pyramid/Tower
- Conspicuous consumption
- Growing needs for luxury goods and services

The Youth Market

- The generations: X, Y
- Post 80’s: grow up with booming economy, the Internet, and consumer technologies
- Tremendous spending power: Lai See
- Peer influence
- High brand awareness
- Pursuit of global brands and luxury products
- Quicksilver
The Children’s Market

- Single child policy and family planning
- Little emperors/empresses
- Powerful consumer groups, who don’t buy but influence their parents
- All the attention from the parents
- And the grandparents
- All the amenities that the parents can afford
- Busy people, too!

Women’s Market

- Great diversity depending on demographics, psychographics and geographic regions
- Beijing: conservative and cultivated
- Shanghai: trendy and sophisticated
- Guangzhou: high spending power and conspicuous consumption
- Cosmetics: Daobao vs. Lancome
Brand Behavior

- High brand recognition for market leaders
- Low brand knowledge
- Yet large percentage of trial and swaying buyers and low brand loyalty
- Brand recognition/purchase vary by age and region
- Most consumers purchase local brands

Market Competition

- Three-way competition among foreign, JV and domestic brands
- Most markets are dominated by local and domestic brands
- Domestic brands begin to dominate the market in appliances: color TV, refrigerator, air conditioner
- Beverage, roll film and coffee still dominated by foreign brands
Purchase Intention

- Durables such as color TV, refrigerator and washing machine dominate the wish list of replacement buyers but begin to lose ground
- Low purchase intention for microwave oven and motorcycle
- Actual purchase falls 2%-5% below intention
- For some brands, actual purchase is higher than intention
- Services and leisure activities are on the rise
  - Medical services and hospitals

Conclusions

- Post-industrialized cities (first-tier) in China are increasingly like Hong Kong.
- Rapid increase in upscale consumption among the haves segments
- Hyper-competition in key cities.
- With large groups of rural residents lagging behind
- Increasing disparity among the rich and poor
- Second tier cities and rural areas looking increasingly attractive