For the last decade, the Gallup Organization has surveyed the people of China, as both consumers of goods and employees of the companies that produce those goods. The data provide a unique picture of changing consumer attitudes, market opportunities, and management challenges.

INSIDE THE MIND OF THE CHINESE CONSUMER

by William McEwen, Xiaoguang Fang, Chuanping Zhang, and Richard Burkholder
The Chinese Work Ethic

The impressive output of Chinese factories seems like a formidable challenge to countries and companies hoping to compete. But current output is no guarantee of future output. It’s important to ask, How strong is the work ethic of Chinese laborers today, and how closely does their current productivity match up to their imagined potential?

Our surveys examined the Chinese work ethic through a series of questions addressing the personal philosophies of workers. We asked about their fundamental attitudes toward work and what’s really important to them. We wanted to know what people are seeking from life and how their jobs fit with their ambitions. We also sought to learn about work environments – how conducive they are to productivity and how well managed they are. Our findings seem to contradict many popular assumptions about China’s workforce.

Misconception 1: The primary aim of Chinese workers is to work hard and get rich. We found that few Chinese workers adhere to a self-effacing, stereotypically collectivist “give in service to society” attitude toward work; only 2% of respondents held that view in 2004, depending on how far one goes back in time.

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Inside the Mind of the Chinese Consumer

LIVING TO WORK

In 2004, Gallup found that only a small percentage of urban Chinese employees felt engaged by their work. This lack of enthusiasm may signal productivity problems.

- I know what is expected of me at work. ............................................ 34%
- I have the materials and equipment I need to do my work right. .................... 32%
- At work, I have the opportunity to do what I do best every day. .......................... 26%
- In the last seven days, I have received recognition or praise for doing good work. ........ 12%
- My supervisor, or someone at work, seems to care about me as a person. .................. 26%
- Someone at work encourages my development. .......................................... 23%
- At work, my opinions seem to count. ......................................................... 20%
- The mission or purpose of my company makes me feel my job is important. .............. 30%
- My associates or fellow employees are committed to doing quality work. ............... 27%
- I have a best friend at work. ................................................................. 43%
- In the last six months, someone at work has talked to me about my progress. ............. 19%
- This last year, I have had opportunities at work to learn and grow. ...................... 23%

The data suggest that we’re witnessing the emergence of a Chinese “me” generation. But individual motivation is merely one portion of the productivity puzzle. How that motivation is guided and harnessed in pursuit of company objectives is a management issue. Here, too, the surveys reveal important news.

Misconception 2: Chinese workers are highly dedicated.

For years, companies outside China have viewed its workforce as impressively eager to churn out never-ending streams of lower-cost products for any firm smart enough to relocate its production operations there. No doubt, the number of workers is enormous. But ambition and eagerness are another matter entirely.

For some years, Gallup has been asking a standard set of 12 questions to assess the emotional bonds between workers and their companies. (For more on these measures, see John H. Fleming, Curt Coffman, and James K. Harter’s article “Manage Your Human Sigma,” HBR July–August 2005.) This employee-engagement metric has been used to gauge the strength of employee-to-company relationships for a single company, an industry,

Instead of worrying about the taste (or availability) of the next meal, the increasingly affluent Chinese worker is thinking about the taste of life itself.

down from 4% in 1994. Given the increasing openness of Chinese markets and citizens’ apparent embrace of entrepreneurial opportunities, this is not surprising. What is surprising is that the number of respondents who adopted a seemingly more capitalistic view (“work hard and get rich”) dropped far more significantly, by 15 percentage points between 1994 and 2004. (See the exhibit “Whither Personal Ambition?”)

Rather, what has grown, in lockstep with the country’s economic surge and its rising standard of living, has been the proportion of people saying that their personal goals are self-satisfaction and self-expression. Instead of worrying about the taste (or availability) of the next meal, the increasingly affluent Chinese worker is thinking about the taste of life itself. The percentage of Chinese exhibiting this feeling has more than doubled in a decade. Self-satisfaction is now the number one motivator in the big cities of Beijing, Guangzhou, and Shanghai; it is the principal objective among the young, edging out “work hard and get rich” among 18- to 24-year-olds. It has also become the predominant aspiration among the most affluent.
or across an entire country. In 2004, these questions were used in a onetime survey conducted across China, in which Gallup interviewed more than a thousand urban-dwelling workers.

It is important to note that some of the basic requirements for a productive workplace are indeed present in China. Like their counterparts in Germany, Japan, and the United States, Chinese workers know what their jobs require of them. But that isn't enough to ensure a continuously productive workforce. The data show that Chinese workers feel their efforts are insufficiently rewarded and recognized. Though employees are increasingly focused on fulfilling their personal ambitions, relatively few feel that their companies give them important opportunities to learn and develop. (See the exhibit “Living to Work.”)

Our 2004 survey found that 68% of employees don’t feel engaged; that is, they don’t approach their work with passion or feel a personal connection to their jobs. These employees have essentially checked out; they are sleepwalking through their workdays. And a further 20%

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**Made in China, for China**

How well are Chinese companies doing in meeting the needs and desires of their country’s people? On one hand, the powerful domestic behemoths such as appliance maker Haier and computer giant Lenovo seem to be entrenched in the marketplace. Companies like these have also been setting up operations abroad, seeking to acquire companies such as Maytag and Thomson and divisions such as IBM’s PC business, and announcing their ambitious worldwide goals. But are Chinese consumers really devoted to Chinese brands?

Our ten-year research (1994 to 2004) shows that a “Made in China” label doesn’t guarantee protection against newer, more exciting, and perhaps more relevant foreign competitors. Despite the fact that almost two-thirds of Chinese say they prefer to buy durable goods or major appliances made in China (and only one-fifth feel that way about products made in other countries), our surveys also show that consumers are increasingly concerned about the quality of domestic products. Our 2004 survey found that only 21% of Chinese consumers feel that the quality of the country’s durable products is very good, while even fewer (8%) feel it is excellent, 37% feel it is fair, and 3% think it’s poor.

Consumers’ preference for domestic goods has dropped from 78% to 67% in the last five years, and it’s a good deal lower—and declining faster—among the young, the affluent, and the urban. At the same time, preference for foreign goods, perhaps most notably European brands, has risen from 19% to 22%.

While most Chinese consumers haven’t stated a clear preference for foreign goods over those produced in China, they are aware that they now have options. For example, in home electronics (particularly TV sets), our surveys show that most Chinese consumers are aware of Changhong (87%) and Haier (83%), but most are also aware of Panasonic (74%), Philips (70%), and Samsung (70%).

Global competition in China is perhaps most obvious in automobiles, where a wide variety of international brands are already well known, including the once-dominant market leader Volkswagen as well as domestic makers such as Chery and Shanghai Automotive and foreign marques such as Buick, Toyota, Mercedes, and BMW.

Chinese consumers’ hesitancy about goods made at home may or may not be grounded in product performance. And product performance may or may not be linked to issues of employee engagement. Regardless, if Chinese companies are to fully realize their opportunities in New York and Paris, they must make certain that their products are selling well in China. After all, not all ambitious export initiatives are successful. Some are Hondas, but some are Yugos.
of employees hate their jobs to the point of active disengagement. They may well act out their unhappiness, undermining what their engaged coworkers accomplish. Our survey also suggests that the larger the organization, the less employees feel personally connected to the workplace.

When 88% of employees aren’t interested in their jobs, productivity suffers—even in a mass-production, assembly-line culture—and that loss typically results in greater absenteeism, more on-the-job accidents, and lower overall performance. The quality of China’s products and services may even reflect this reduced productivity. Perhaps this is one reason why consumers in China’s urban centers hold such low opinions of “Made in China” versus “Made in Germany” or “Made in Japan.” (See the sidebar “Made in China, for China.”) Indeed, the engagement profiles of Chinese workers stand in sharp contrast to those of workers in many countries China competes with. For example, Gallup’s U.S. employee-engagement database (as of 2004) shows that 29% of workers are engaged, while 16% are actively disengaged. The ratio of engaged to actively disengaged flips in China, where the actively disengaged greatly outnumber the engaged.

**The management challenge.** Clearly, Chinese management practice has lagged behind the changes in employee attitudes. If our 2004 survey accurately reflects worker attitudes, it could be that Chinese managers are still acting as if their reports were automatons rather than human beings with individual strengths, needs, and growth potential. The lack of focus on human development may also contribute to the continuing shortage of leadership talent among domestic and multinational companies operating in China.

Certainly, China can continue to churn out goods, since the countryside is still filled with young Chinese eager to earn a living. But without engaged workers, it appears that China’s true performance potential will not be realized. Any factory that experiences a 22% drop in a “work hard” philosophy (see the exhibit “Whither Personal Ambition?”) is one where management must search for more creative ways to stoke the furnaces and stimulate the assembly line.

By and large, it seems that China’s famed work ethic is not what it appears to be; perhaps it never was. Given China’s culture and history—as well as its focus on high-production operations—Chinese managers may not embrace the idea that an efficient assembly line requires personal gratification and individual development. But if Chinese factories are to compete with companies like Toyota, Mars, or Stryker, these issues must be addressed.

Many experts have said that the opportunities now afforded by China’s entrance into the World Trade Organization will open the door for marketing-savvy and smartly managed multinationals. With an increasing number of Western multinationals managing factories in China, different HR policies, practices, and people management methods will no doubt be introduced. Of course, not all Western companies employ enlightened and worker-focused management practices; and given the cultural differences between East and West, there’s no guarantee that Western management methods will provide a better fit with the needs and hopes of Chinese workers.

Still, savvy and creatively managed outsider companies will want to take note of the important evolution, if not revolution, in workers’ feelings about what they desire and expect from life and work. Firms such as Procter & Gamble, Starbucks, GM (Buick), and KFC have made inroads into China partly because they’ve correctly anticipated emerging consumer needs; in the long term, however, their success depends on the active assistance of their employees. The trainloads of rural workers arriving in the cities require human resource management and skill development. Until that happens, the output potential of the Chinese factory remains merely that: potential.

**Beyond the Basics**

The Gallup surveys also set out to discover what the Chinese consumer is eager to buy. As a country of 1.3 billion people with, as the cliché goes, 2.6 billion armpits to deodorize, China has always appealed to the pecuniary imaginations of Western marketers. The size of the prize has been so tempting as to encourage steep company investments, even in the absence of solid evidence about consumer demand.

**Misconception 3: Chinese consumers now have a lot of money to spend.** Certainly, the endless drumbeat in the media about China’s increasing prosperity supports the image of a growing high-potential market—but a market isn’t about size alone. Consumers must not only want to buy products but also have the money to do so. While Chinese buyers are many, and incomes are rising, most citizens remain too poor to purchase what they want. Despite the overall increase in household income—the average income rose 30% from 1997 to 2004—China’s average household income in 2004 was still less than $1,800.

**While Chinese buyers are many, and incomes are rising, most citizens remain too poor to purchase what they want.**
LOOK OUT FOR GENERATION Y

Companies should forget what they’ve learned about China’s Generation X—people currently in their late twenties and thirties—when marketing to the country’s late teens and early twentiesomethings, or Generation Y. They should also forget what they’ve learned about Generation Y in Germany, the United States, or Brazil, where this age group is often viewed as a generation of slackers. China’s Generation Y has increasing drive, hopes, and demands; it is a highly literate and information-savvy group that refuses to be taken for granted. These young adults are open to Western ideas and products, yet still proudly supportive of their own culture. And they’re apparently on a buying spree.

What’s more, only 5% of Chinese now say they’re “very satisfied” with their household incomes—a drop from 9% in 2000. In fact, the average Chinese citizen is more likely to express dissatisfaction than satisfaction, with one in five “very dissatisfied” with current earnings.

Even the relatively affluent, while clearly happier about their income status, are hardly complacent. Only 7% of the highest earners say they’re “very satisfied” with their incomes, and more than one in four upper-income Chinese say they’re to some degree dissatisfied.

Misconception 4: The biggest markets among Chinese consumers are for basic household products. We learned a decade ago that only 6% of Chinese households owned a vacuum cleaner and 25% owned a refrigerator. Given those numbers, it would seem logical that, with their rising incomes, more Chinese consumers would want these items. Certainly, the average Chinese household is now much more likely to have a TV set, a phone, a refrigerator, a vacuum cleaner, and a washing machine than it was a decade ago. But the rate at which these products are now purchased pales compared with that of higher-technology products—products that may not save labor but rather enhance enjoyment and entertainment that satisfies individual tastes. Within a decade, ownership of color TVs increased by almost half. The percentage of households reporting they have DVD players jumped from 7% in 1997 to 52% in 2004. The number of households with computers grew from 2% in 1994 to 13% in 2004, and the number of those with mobile phones jumped from 10% in 1999 to 48% in 2004.

What does all this mean for a company planning to do business in China? First, it’s clear that aspirations are growing, that desire is outstripping ability, and that the traditional bellwethers of modernization don’t necessarily apply. Chinese consumers want more than just function. This is one reason why Nokia, which has emphasized fashion over function, has seen its cell phone sales in China rocket past those of Motorola and Ericsson. If a company wants to sell vacuums or washing machines in China, it had better pay attention to emotional needs as well as physical ones. And if it’s selling microwave ovens, air conditioners, and TVs, it should be sure those products are as fashionable as they are reliable.

The ripe urban market. Some Western managers see the continuing rise in China’s average income as an opportunity across an entire nation. Others divide China into two worlds: the cities of Beijing, Guangzhou, and Shanghai; and all other locations. Both perspectives are incomplete. While it’s true that average income has increased, some Chinese are benefiting far more than others. And while there are sharp differences between the incomes of urban and rural dwellers (urban Chinese earn almost three times more than rural dwellers do), affluence is growing not just in the big three cities but in what has been termed the “third China”—the midsize cities such
as Xi’an, Nanjing, and Wuhan, which may afford some of the largest opportunities for marketers.

Indeed, a relatively well-to-do segment is expanding briskly across the nation. In 1997, about 3.5% of Chinese households had annual incomes of 30,000 renminbi (about $3,800). In just five years, that figure skyrocketed to over 12%; half of those living in the big three cities have achieved this level of income. These consumers can afford the products that other Chinese may only dream about.

In some product categories, where consumers live appears to be a more important predictor of spending than affluence. This may reflect the needs of urban dwellers for products such as air conditioners or the availability of technology support for items such as computers. In other categories, like automobiles, affluence is the largest predictor of ownership.

By and large, affluent urban dwellers already own a fair amount of what they want: Televisions and mobile phones are ubiquitous. Accordingly, opportunities in this market spring more from upgrades than from first-time product sales. The product-marketing game in the affluent world is now about brand share. Though marketers will still use the first-time-sale approach in rural areas, many affluent city dwellers will now be drawing on their direct experiences and will be persuaded not only by company-managed communications but, more powerfully, by word of mouth.

The survey data also reveal important differences among product segments. Not all are growing equally; some appear to be quickly gaining appeal, while others are merely edging forward—or even backsliding. Overall, the older ones even have a chance to get established. For example, we’re seeing the digital camera rocket past the film camera, the VCD zoom past the VCR, and the mobile phone bypass the landline. In fact, more than 80% of all city dwellers own a mobile phone, and 33% of these people say they’re planning to buy another one.

The automobile is an exception—it is still poised for first purchases. As of 2004, only 10% of those in the highest income bracket owned a car. Though intense competition is forcing prices to drop, cars still cost two to three times most people’s annual income. Even so, appreciable numbers of consumers are actively planning to acquire one. It’s small wonder that companies like GM, Volkswagen, and DaimlerChrysler continue to have strong interest in China. With an estimated upside of 100 million

We are not only witnessing the dawn of a new millennium in China but a new era in which the emotions, attitudes, and perceptions of the man and woman on the street increasingly matter.
Among those living in the big three cities (Beijing, Guangzhou, and Shanghai) and among those making 30,000 renminbi or more a year.

<table>
<thead>
<tr>
<th>Plan to buy in the next two years:</th>
<th>Among those living in the big three cities (Beijing, Guangzhou, and Shanghai)</th>
<th>Among those making 30,000 renminbi or more a year</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV</td>
<td>27%</td>
<td>34%</td>
</tr>
<tr>
<td>Refrigerator</td>
<td>21%</td>
<td>24%</td>
</tr>
<tr>
<td>Air conditioner</td>
<td>23%</td>
<td>26%</td>
</tr>
<tr>
<td>Microwave oven</td>
<td>17%</td>
<td>23%</td>
</tr>
<tr>
<td>Stereo system</td>
<td>20%</td>
<td>23%</td>
</tr>
<tr>
<td>DVD/VCD player</td>
<td>18%</td>
<td>16%</td>
</tr>
<tr>
<td>Mobile phone</td>
<td>34%</td>
<td>15%</td>
</tr>
<tr>
<td>Computer</td>
<td>28%</td>
<td>31%</td>
</tr>
<tr>
<td>Digital camera</td>
<td>29%</td>
<td>29%</td>
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<tr>
<td>Automobile</td>
<td>13%</td>
<td>16%</td>
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</tbody>
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What about the cookie company that outsources its work to elves in a hollow tree? Have we explored that option?