Lecture 5
Chinese Consumer Revolution

The Evolution of Consumption Environment

• The evolution of infrastructure
• The evolution of media environment
• The evolution of consuming policies
Upgrade of Consumption

• The upgrade of consuming products, moving from basic items, to appliances and electronics to luxury products.

• The upgrade of consuming motivations.

• The change of consuming structure (among different categories, necessities vs. luxuries) and increasing discretionary income.
Change of Consuming Structure

- The Engel Coefficient of Chinese residents has been falling since 1978.
  - 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.

Engel’s Coefficient for Urban and Rural Chinese Residents

(Data Source: China Statistical Yearbook 2013)
Difference in Consuming Abilities

- Besides Engel Coefficient, Gini Coefficient is another indicator of the changes of Chinese consuming structure.
  - 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.

- After the Reform and Opening, the Gini Coefficient of China increases significantly.
  - 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.
Consuming Conception: Rational and Irrational

- Before 1980’s, Chinese consumers inherited the habit of frugal consumption
- The blind demand in the late 1980’s.
- Further enthusiastic investing consumption in the early 1990’s.
- In the late 1990’s, Chinese consumers reexamined and changed the consumption behaviors
- In 2000s, market further fragmented with many different lifestyles and consumption patterns
- New focuses on stocks, real estate, luxury goods
- High savings rate results in large bank deposits. Not enough suitable channels for investment.
Difference in Generational Consumptions

- The social environment and cultural values of different generations of consumers determine that those consumers have different consumption behaviors.
- Growing income disparity
- Increasing consumption yet low brand loyalty: top brands with low market share
- Large percentage of trials and swaying buyers
- Young people: 80s, 90s, Gen-Xer, Gen-Yers

Segmentation of Chinese Consumers

<table>
<thead>
<tr>
<th>Segment/Attribute</th>
<th>Nouveau Riche (baofahu)</th>
<th>Yuppies (dushi yapishi)</th>
<th>Salary Class (gongpin jieceng)</th>
<th>Working Poor (qionglaogong)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of Segment</td>
<td>100,000</td>
<td>60 million</td>
<td>300 million</td>
<td>840 million</td>
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<tr>
<td>Geographics/Rural Residence Place</td>
<td>Coastal urban areas</td>
<td>Major urban areas</td>
<td>Small cities</td>
<td>Small towns in rural areas</td>
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<tr>
<td>Demographics</td>
<td>Household income</td>
<td></td>
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<tr>
<td>Age/Education/Occupation</td>
<td>RMB 10,000 per month and more</td>
<td>RMB 5,000 = RMB 9,999 per month</td>
<td>RMB 1,000 = RMB 4,999 per month</td>
<td>Under RMB 1,000 per month</td>
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<tr>
<td></td>
<td>35-65 various</td>
<td>25-45 college</td>
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<td>all age groups</td>
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<td></td>
<td>entrepreneurs</td>
<td>managerial</td>
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<td>elementary school</td>
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<td>business people</td>
<td>professional</td>
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<td>manual labor</td>
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<td></td>
<td>own officials</td>
<td>technical</td>
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<td>peasants</td>
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<td>Psychographics</td>
<td>Orientation</td>
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<td>Innovativeness</td>
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<td>Risk aversion</td>
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<td></td>
<td>Readiness for foreign goods</td>
<td>optimistic innovations</td>
<td>hopeful early adopters</td>
<td>status quo</td>
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<td>opinion leaders</td>
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<td>late majority and leggends</td>
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<tr>
<td>Lifestyle/Mobility Activity</td>
<td>active wheel &amp; deal</td>
<td>mobile busy work schedule</td>
<td>confined trapped 8 to 5, limited</td>
<td>immobile menial labor &amp; hand-to-mouth, &quot;mass&quot; style</td>
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<tr>
<td></td>
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<td>disposable income, occasional cuttings</td>
<td>entertainment such as sports on TV</td>
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</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 dushi yapishi are the romanized Chinese (pin yin) idioms for the respective market segments.
Yuppies, approximately 5% of the market, are an affluent segment with a household income of 78,181 RMB. These yuppies are confident and maintain active lifestyles. They are brand conscious but also have become more sophisticated in seeking values.

Little rich families constitute 15% of urban China. With a household income of 29,266 RMB, they are better off than most Chinese. They are socially active and brand conscious. However, they tend insecure and concerned about the future.

Salary class 25% households consist of 25% of the urban population, have 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 the least satisfied. Most of their income goes to the necessities, leaving them little for other things. They buy mostly domestic brands.

Figure 1. The Pyramid of China's Urban Consumer Market
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.
• They refrain from costly leisure activities.
• 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.
The Salary Class

- The salary class group, one-fourth of the urban population
- 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
- They are content with the status quo and do not see much need for change.
- They are conservative and idealistic
- Only a few have acquired other luxury items. Occasionally, they seek quality products and even foreign brands
- They spend a large sum on essentials, but it leaves them money for savings and entertainment.
Little Rich

- Another 15% of urban Chinese have moved up to little rich status, representing the emerging middle class.
- These people are mostly married, and some have two children.
- Higher education
- Started their own businesses or sought private employment.
- Not satisfied yet, have greater expectation.
Yuppies

- Yuppies, nearly 5% of the population, make up the most prosperous urban elite in China.
- Have obtained postsecondary education.
- In private employment (29%).
- They are satisfied with the current situation and do not feel much pressure.
- Willing to pay for brand name products and foreign goods.
- They have an active lifestyle and frequently go out for entertainment and relaxation.
The Youth Market

- The generations: X, Y
- Post-90s and post-00s: grow up with booming economy, the Internet, and consumer technologies
- Tremendous spending power
- Peer influence
- High brand awareness
- Pursuit of global brands and luxury product
- The power of Idol
Generation 2—Chinese consumers in their teens and early 20s—takes a more Western approach to shopping.

% of respondents

<table>
<thead>
<tr>
<th>Trait</th>
<th>Upper-middle-class urban Generation 2 members¹</th>
<th>Upper-middle-class urban population²</th>
<th>Total urban population³</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 up³</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>26</td>
<td>22</td>
</tr>
<tr>
<td>Seek feedback/comments on Internet before buying²</td>
<td>21</td>
<td>16</td>
<td>12</td>
</tr>
</tbody>
</table>

¹People born after the mid-1980s and raised in a period of relative abundance.
²Annual household income of 108,000–229,000 renminbi (equivalent to $16,000 to $34,000 in 2010 real terms).
³Personal-care-product example.
Source: 2012 McKinsey survey of 10,000 Chinese consumers
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
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
- 11/11 Nov.11 shopping festival, to buy or to die
Other Niche Segments

- Gold collars (vs. white and blue collars)
- Top of pyramid
- Moonlighters (spend all before month ends)
- Bobo (bourgeois + bohemien)
- Soho
- Second Generation Rich
- Ants (Second generation poor)
- Hikers (www.doyouhike.com)
- Migrant workers
- And many other communities

The Future Development of Chinese Middle Class

- Rely on the government management and policy innovation to give people more opportunities.
- More people as Little rich
- Rely on their own efforts. Become a group with political power, have stronger voices, and good for progress toward democratic processes
Conclusions

• Big cities 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
• Third tier cities have become increasingly viable!