

WHO IS THE CHINESE CONSUMER?

Bernd Schmitt
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President Frohn, thank you for the introduction. Mr. Ooi, Mr. Wang, Ladies and Gentlemen. Welcome and good afternoon. You expect from me an answer to the question "Who is the Chinese consumer"? Here's my answer: The Chinese consumer, meaning the one that best represents the current and future Chinese buyer, the one that loves to spend money on consumer products and the one that should therefore be the target of marketing campaigns for most products, is: female; between 19 and 30 years old lives in Shanghai, lives in an average family size of three people and buys products on image (and not on the basis of price).

It is that simple, Ladies and Gentlemen. You have seen this Chinese consumer. You have seen her every night when you turn on Chinese TV. **SHOW PICTURES AND COMMERCIALS.** There she is, good-looking, well-groomed, with beautiful hands friendly, in beautiful surroundings walking in and out of stores or demonstrating products in the advertisements of joint-venture and increasingly state-owned enterprises.

Let me try to describe her a little more based on the soap and shampoo advertisements that I have seen. It seems to me that she likes herself. She likes to care about herself. She is slightly hedonistic and enjoys beautifying herself. She is proud of her long hair and cares for it.

She shampoos her hair every day and likes to impress others with its length, softness and beauty.

If she is a little older, she shops for jewelry. This is how she does it.

So, this is my answer. Now you can get up and go to the buffet dinner outside the room. But wait. Let me complicate things, just a little bit. You expect from a professor to complicate things, even if they are simple; you expect me to talk for at least 30 minutes (and I will). You expect to hear about theories, methodologies and to see charts and data. Let me not disappoint you but try to satisfy you because I know, as a marketer, that the key to success is to be customer oriented. And, in a marketing sense, you are the customers and consumers of this talk today.

The true reason, however, why I need to complicate things has nothing to do with me being a professor. The reason is the most essential fact of marketing practice: not all consumers are the same. There are groups of consumers that are different from other groups. There is one group that wants certain products and certain brands. And there is another group that wants other products and other brands. There is one group that loves image advertising; there is another group that loves functional advertising. There is one group that buys high quality products irrespective of price;

there is another group that is extremely price-conscious. In marketing, we call these groups "segments."

The typical Chinese consumer that I described in the beginning is one of these segments. But it is only one. And there are many others.

Less than twenty years ago, when China declared its open-door policy, the answer to the question, "Who is the Chinese consumer?" was simple. Segments did hardly exist. Even in 1991, when I first taught in China, segments were not well developed and consumers by far not as sophisticated and informed as they are five years later. In fact, until fairly recently, the term "consumer" was an inappropriate word. Consumers had to take what was produced and not what they wanted.

Nowadays, producers have to satisfy their consumers. In today's marketplace, where consumers have vast choice, when stores, from small boutiques to supermarkets and megadepartment stores, are rising everywhere, when consumers are bombarded with logos and advertisements, nowadays understanding the Chinese consumer requires segmentation.

So let me talk about segmenting the Chinese consumer market. I will give you a selective review of the data that exist about Chinese consumers and what they suggest about how to segment the market. I will first talk about geographic segmentation, then about demographic segmentation, which includes sex, age, income, and similar characteristics, and, finally, about a segmentation that increases quickly in relevance in China: psychographics and lifestyles, i.e., the psychology and lifestyles of the consumer.

An understanding of the Chinese consumer requires in-depth marketing research. With the establishment of this Chair, BAT has laid the cornerstone for an understanding of the Chinese consumer through research. Mr. Ooi, as a marketing professor and consumer researcher, I am personally deeply grateful for BAT's involvement. At the end of my formal presentation, I will give you a brief overview of the research, teaching and other activities that I have initiated as the Chair holder. I will do this by logging on live to the new webpage of the "BAT CHAIR OF MARKETING" on the internet .

Before I get started with segmentation, let me be clear at the outset that I am not saying Chinese consumers are not alike in many respects. As biological human beings, all Chinese have certain needs and desires. As a society, all Chinese share a language, certain traditions and a political system. As such, all Chinese have certain characteristics that impact their perceptions of products and communications and their behavior in the marketplace. Some of these perceptions and behavior may be the same for consumers worldwide; others may be uniquely Chinese. Most of my past research compares the perceptions and behavior of Chinese with those of Westerners in order to reveal this unique Chinese character. Some of this research, which I have conducted jointly with Professor Tavassoli of M.I.T and Professor Pan Yigang at the University of Oregon, examines, for example, how Chinese consumers and Westerners perceive brand names and communications, given that these names

and communications are represented by visually striking characters in Chinese and by alphabetic symbols in the West.

Today, however, I will talk about differences among Chinese consumers and how these differences can help marketers in segmenting the Chinese consumer market. Let me get started with differences uncovered in a study by Gallup, a world-leading survey research firm. In 1994, interviewers of Gallup China set out on bicycles, trains and even camels to conduct a national survey of Chinese consumers. Gallup interviewed 3,400 people in their homes, a roughly representative sample of the adult Chinese population, and published its results in February last year.

A national survey based on personal interviews such as the Gallup survey may be standard in most countries; in China it was unprecedented. Until the mid-1980s, market research of any kind did not exist in China. The only source of information available was economic information gathered by the State Statistical Bureau and other State agencies.

Not all the results of the Gallup survey are noteworthy. However, the major outcome of the survey certainly is: it revealed sharp differences between rural and urban consumers. Let's take a look at some of the differences that are directly relevant to consumer behavior.

Let's first look at the role of advertising. The urban population is significantly more likely than the rural population to study advertisements before the purchase of a "da jian"— a big ticket item or durable. 60% of city consumers said that they first studied advertisements before purchasing a refrigerator, air conditioner or rice cooker. 52% of urban respondents (vs. 38% of all respondents) would pay higher prices for products of high quality. 30% percent of respondents stated that they would buy a leading brand regardless of price; however, among urban consumers the percentage rises to 41. Brand-name recognition of foreign brands is also highest in the cities. For example, overall, Coca Cola had 62% recognition, but 94% in the selected cities. The corresponding numbers for "Pepsi Cola" are 42% for the rural sample and 85% for the selected cities. Finally, how do Chinese consumers spend their budget? On average, one third is spent on food; the figure rises to 37% among urbanites and even to 41% in Shanghai.

These statistics are a stark reminder that, when it comes to consumer behavior in China, Shanghai, and other cities, are as Chinese as New York is American. If you can make it there, it doesn't mean you can make it anywhere else.

Shanghai has 117 star-rated hotels. All the major luxury brands of clothing, leather wear, cosmetics and jewelry are available in Shanghai department stores or specialty stores. Supermarkets display a wide array of modern consumer packaged goods from canned fruits and instant noodles to cold tablets and laundry detergents.

But Shanghai is only a small part of China. And Shanghai consumers are only a tiny fraction of the 1.3 billion consumers that are the dream of every marketer. In fact,

cities as a whole account for only 20% of the population. According to a recent study by Nielsen SRG, shops in the cities of Shanghai, Guangzhou and Beijing that carry modern consumer goods represent less than 1% of about 12.9 million stores in China.

The Chinese consumer market is a geographically immense and fragmented market. Premium-priced Western consumer goods that sell in the big cities of Shanghai, Beijing and Guangzhou may flop in smaller urban areas, not to mention the country side. Therefore the continuum ranging from "big city" on one end and "small village" on the other end is perhaps the most significant segmentation variable.

On the other hand, let us not underestimate the importance of cities for the development of the modern Chinese consumer society. Cities set trends and are testing grounds for future marketing strategies. Also, segments, no matter how large, must also be accessible. In China, many rural consumers, at this point, fall short as targets of marketing strategy due to insufficiencies in infrastructures and distribution systems.

Moreover, an increasingly affluent suburban economy seems to be forming on the fringes of the cities, but this suburban population is classified officially as "rural." According to a recent report by ING Baring, suburbanites and better-off peasants living near the cities enjoy per capita incomes that are only slightly lower than those of urbanites. These suburbanite consumers are estimated to be \$384 million.

Perhaps these figures are too high. However, there seems to be an immense prospect for a suburban middle class in the interlocked network of cities and towns that span all over China. Assuming sufficient improvements in infrastructure to assure the distribution of goods, the Yangtse Delta comprising Shanghai, Jiangsu, Zhejiang, and Anhui provinces is such an example. 35 cities in the Delta have already populations of 1 million or more. The GDP per person was \$660 in the delta as a whole in 1992 compared with \$470 for all of China, and \$1140 for the two corridors of the delta that run from Shanghai south through Hangzhou and west through Suzhou. Similar networks of cities and towns exist also in the Chongqing-Chengdu corridor in Sichuan the Pearl River delta in Guangzhou province the Beijing-Tianjin region the Fuzhou-Xianmen corridor in Fujian province as well as a handful of others.

The "urban - rural" segmentation or perhaps "urban-suburban-rural" segmentation is important but our segmentation should not stop there. Little is known about subsegments within the rural segment. More is known about subsegments among the urban segment. So let us pursue these urban subsegments.

To begin with, there are noteworthy differences among cities. Dynamics Decision, a research firm, compiles statistics about Chinese consumers from public sources. Each month, a sample of 9000 families is surveyed in cities across China on their income level and expenditures. The average per capita income as well as disposable income is roughly the same for Beijing, Tianjin and Shanghai but more than twice as

much for Shenzhen. Moreover, there are cultural differences in language, traditions and food preferences among, say, Beijing, Shanghai and Guangzhou. Therefore, products are increasingly advertised and sold differently from city to city. The major advertising firms in China that I visited typically distinguish between 5 to 8 city markets.

More than that. For most product categories, it is necessary to segment and then target certain demographic groups within cities—groups based on sex, age, education and occupation.

Let me start with sex and age. Coopers and Lybrand regularly conducts focus groups, i.e., small-group focused discussion sessions with consumers, in Shanghai and distinguishes four segments: men aged 30-45, women aged 30-45, men aged 19-25 and women aged 19-25. The four segments are distinct in their shopping habits: women aged 30-45 appreciate "value and convenience." Men aged 30-45 are "utility shoppers," they buy whatever they need or their wives and children ask them to buy. Shanghai consumers aged 30 and under are, as the report puts it, "highly aspirational and interested in ownership and leisure."

Let's take a closer look at these young women. We have seen them already in the TV ads I showed you before. They are the least concerned about price. As one participant noted, "If I see something I like, I'll just buy it, and I don't worry about whether I need it or not." As a result, many of these young women, according to the report, even if their income is low, spend all of their income on cosmetics and fashion. And they favor foreign-invested department stores and boutiques for their atmosphere and service.

Ladies and gentlemen, I think I know this type of consumer. I have seen her in the early evening hours on Huaihai Road. She is dressed in a style that New Yorkers call "casual/chic," wears a matching handbag and the latest cosmetics, and she shops at Isetan because, as Cooper and Lybrand report, "Isetan has the right atmosphere and product display but is also 20% less expensive than other department stores of this type."

I believe it is this type of consumer that explains the success of Western cosmetics firms in Chinese cities, when they enter these markets with quality image products that are value-priced. Last year, I had the opportunity to interview Ms. Cecilia Young of Mary Kay Cosmetics as part of a business case that I am writing for CEIBS. This is how she describes the changing lifestyles of this consumer. She said: "The lifestyles of women especially in Shanghai have changed drastically. Women actively want to make themselves look more beautiful."

Again, we hear about the aspirational qualities of this type of segment. And Mary Kay has also capitalized on the aspirational qualities of young Chinese women in their salesforce.

I have also interviewed Mr. Ge of Jahwa Corporation as part of a case that I am writing on Shanghai Jahwa. He describes the consumer today in general as sophisticated and

demanding and I suppose it applies this in particular to the segment I just described.
SOUND OF MR. GE.

Let me now move from sex and age to three other demographic variables: income, education and occupation. Last year, affiliates of Louis Harris conducted a survey of 2500 consumers in Beijing, Shanghai, Guangzhou, Tianjin and Chengdu. The methodology was based on studies by Yankelovich and Skelly, who are considered pioneers in the measurement of social attitudes in the US. The aggregate survey results are very interesting in their own right, indicating, for example, that Chinese consumers overall seem to look more for value and performance than commonly thought and often seem to think that domestic products are just as good as foreign ones.

However, here I would like to focus not on the aggregate results but on differences that allow for segmentation. Let me discuss these differences with respect to attitudes toward new products, trial of new products and orientations toward other people. The survey indicated that young, more-affluent and better-educated consumers were much more likely to try new products than older, less-affluent and less-educated consumers. Based on their attitudes and behavior toward new product categories or new brands within a category, they are the innovators. Turning to occupations, the survey also found that entrepreneurs and others working in the private sector are more likely to experiment with new products than government employees. Moreover, the young, affluent and educated are also more likely to try products admired by others. They have a strong desire to conform to the norms of the reference group.

I have seen this phenomenon in my own research with my colleague Jennifer Aaker, a professor at UCLA. In a cross-cultural experiment that we conducted in Shanghai and in Los Angeles, we asked students to complete a personality questionnaire. After they completed the personality questionnaire, we gave them false feedback about their performance. Randomly, half of the students were told that the results of the personality test revealed that they are unique, i.e., that they have a positive personality that is different from the other people in the class (for example, they are more socially competent, friendly and well-rounded than the rest of the students). The other half of the students were told that they are just the same as everyone else. Subsequently, students were asked to select a product for participating in the study. The products that we offered were either standard products that are liked and consumed by young people or high-quality products that were very special.

Here are the results: The Shanghai students who were told that they are unique were more likely to pick the standard products than the students that were told that they are just like anybody else. In contrast, the American students that were told that they are just like anybody else were more likely to pick the special products compared to the students that were told that they are unique. In other words, both young Chinese and young American consumers are affected in their product choices by others. But Chinese use products to show their belonging to the group. Being unique is not a value, even if the uniqueness is positive! On the other hands, for Americans

uniqueness is a value, and being like everybody else almost an insult. Perhaps that's why it is so hard to get Chinese consumers to disagree in focus groups (as I have observed in my own focus group research in China) and why there is almost always an opinion leader who tries to run the show in the US focus groups.

Let me now talk about a final segmentation variable that is related to demographics and absolutely critical for marketing among urban consumers: psychographics and lifestyles. The concept of Psychographics and lifestyle segmentation has been pioneered in the United States with the VALS instrument, which stands for Values, Attitudes and Lifestyles Segmentation. Values are enduring beliefs that people hold (such as being conservative or radical in life), attitudes are opinions and feelings toward things and lifestyles are ways to lead your life (e.g, whether you do exercise or tai ji or live the quiet life of a scholar like myself). As the Figure shows, in the VALS segmentation scheme, every consumer is categorized as belonging to one of eight consumer types. Consumer types are created based on two dimensions: their resources (such as money and education) and their self-orientation (i.e., whether they live their lives based on principles, based on status, or based on a practical life style). A similar scheme has not been developed for Chinese consumers yet. I expect psychographics and lifestyle segmentation to look different in China than in the US. For example, the resource dimension seems to be more complex in China than in the U.S., including, of course, social relation such as guanxi, as well as hierarchical and generational relations. Certain segments of the US scheme may not exist in China. And so on. I am convinced that it is a very useful way to move beyond economic and demographic descriptions of Chinese consumer segments in order to understand the psychology of the Chinese consumer in more depth. In my own research, I am working on such an understanding of the Chinese consumer, and to facilitate the development of a psychographic and lifestyle segmentation, I have just given an assignment to CEIBS students in my Consumer Behavior course.

So, "who is the Chinese consumer?" Based on what I presented this afternoon, there is not one type of Chinese consumer but many different segments. There are consumers in the cities and there are consumers in the countryside. Consumers in one city are different from consumers in other cities. Even in one given city, there are male and female consumers of different income, education, occupation and even in the same income and education group there are people with different lifestyles. It is up to the marketer of each product to find out how detailed and finagrained the segmentation must be and then to use one of three strategies: a broad based approach that targets several segments at the same time. Using this approach, Nestle, P & G and Unilever market both inexpensive consumer items via joint-ventures and premium international brands in the same consumer product category (such as soap, milk and toothpaste). an approach that focuses on one large and fast growing segment or a niche strategy that targets a small segment that has been neglected by other marketers.

Segmentation is a celebration of diversity. This diversity of consumers provides an opportunity, to concentrate on certain consumers, to serve them well and affect their lives by providing them with quality products for their daily use.

Ladies and gentlemen. This concludes the formal part of my presentation. During the next five minutes, I would like to give you a brief overview of the activities of the BAT Chair at Marketing at CEIBS. Please welcome my assistant, Sally Lee.

BERND: So, Sally what exactly are we doing now?

SALLY: I have looged on to the "BAT Chair of Marketing" webpage on the internet via Chinanet. We are projecting now mycomputer screen onto the big screen. What you see is the CEIBS webpage and here is the BAT Chair of Marketing icon.

BERND: Can anyone in China do this?

SALLY: Yes. Everyone who has access to a computer - a modem and access to Chinanet can easily log on to the world wide web. And of course not only people in China but around the world.

BERND: And once you are logged on, you just click around with your mouse, have fun, get information and send email. So let's click on the BAT Chair of Marketing icon and see what happens.

SALLY: You get several other icons.

BERND: Yes. Five. One with information on the BAT Chair itself including information on BAT, one on research, one with information on myself, one on teaching and one on What's New. At this point it's all in English but we are already preparing a Chinese version. So let's click on the icon that says "Professor Schmitt".

SALLY: Bernd, I don't think we have time for that. Let's click on something more important such as research.

BERND: So here you find information on the research projects that I am working on. So, clearly, now you want to know more about me. So let's click "Professor Schmitt."

SALLY: No, no, no. Let's click teaching.

BERND: Here are the courses offered in marketing. In the future there will even be course materials here for downloading.

SALLY: Let's finally click on What's New?

BERND: Well, here's the Ceremony. When you click next week, there will be a summary of the speech for downloading. Also, breakfast meetings with managers and other activities like conferences will be featured here. Let's go home, that's the BAT Chair of Marketing page again. Thanks, Sally. So, Ladies and Gentlemen, as you can see, our webpage is a useful tool for getting and exchanging information. My assistants Julie and Ivy and our computer manager, George King, will be outside during the buffet dinner to demonstrate the webpage further. The worldwide web is not only useful for academic institutions but also in particular for businesses. It allows any company, foreign or Chinese, to stay in touch and inform the world. It's an active way of exchanging information. In a sense, it goes beyond segmentation because it allows to treat consumers not only as groups but as people with individual needs and wants. Thank you.