



The Changing Chinese Consumer: “Doing it their way”

“The Chinese marketplace is driven by young urban consumers who are demanding something new and have no taboos...”

- Alexis Perakis-Valat, head of L’Oréal’s China Operations

A recent article by The Economist described China as the “next consumption superpower”. On the verge of becoming the second largest consumer economy in the world, it has become a uniquely attractive market for many reasons. However, the evolving Chinese consumer also represents a challenge for international companies:

The ‘New’ Marketplace

- The recent shift towards consumer spending rather than saving has been fuelled by several factors including increases in government spending on services normally saved for (i.e. healthcare and pensions), rising wages, the ageing population and even, higher interest rates
- The push to urbanize China has also been substantial; significant growth is forecasted in the average disposable household income, as well as percentage of the population in the upper-middle class through 2022
- Generally competition is fierce in the marketplace with up to three times more brands appearing on retail shelves compared to other countries
- China leads the world in online spending, which is expected to reach \$540 billion in 2015
- Growth has not hindered the expansion of physical shopping centres, high-end malls and boutiques in large- to medium-sized urban areas. In rural areas, ‘express delivery’ offices are increasing
- Consumer market is heavily skewed towards expensive goods, accounting for 29% of all purchases

Chinese Consumers Today

- Chinese consumers are increasingly affluent, opting to trade-up to more luxurious brands even on staple products
- Consumers with lesser disposable income also become ‘big shoppers’, spending the majority of their earnings on up-scale labels
- There’s a shift towards more subtle luxury brands in the market with well-established global retailers being seen as old-fashioned

- ‘Brand-hopping’ has increased significantly with more than 75% of consumers willing to experiment with new products. Brand loyalty is lowest among the middle-class and for goods seen in foreign media
- Foreign brands are considered more prestigious than domestic labels. However consumers are unwilling to continue paying premiums on these international labels. They are increasingly well-educated on international brands’ attributes and pricing
- A growing number of shoppers are choosing to use shopping agents online to help avoid high taxes and mark-ups on imported goods
- Comparatively, online product reviews play a much greater role in the purchasing decision than they do in Western culture

Business Implications

- The new Chinese market represents a significant opportunity for new entrants, however foreign brands must have a deep understanding of their brand’s perceived value. Although consumers have demonstrated a willingness to pay, they are quick to isolate brands that do not deliver on their value proposition
- Significant opportunity to up-sell consumers by creating customized value-offerings unique to consumers’ tastes; has proven extremely effective for brands like Johnnie Walker and Xiaomi
- Given the effectiveness of foreign media in influencing the purchase decision, existing brands should leverage advertising and promotions to invigorate ‘tired’ products
- Companies must prepare to use greater resources defending brands online and in social media channels. Consumers will be quick to switch labels due to their lack of brand loyalty and wide availability of alternatives
- Pricing transparency is crucial. Chinese consumers will be quick to use shopping agents or travelling friends and family – what’s becoming the social norm – to receive a fair price

Reference: Mianyang & Shanghai; “Doing it their way” (2014); *The Economist*. Available online: <http://www.economist.com/news/briefing/21595019-market-growing-furiously-getting-tougher-foreign-firms-doing-it-their-way>