



MARKETING MANAGEMENT IN CHINA: WEEK 3: THE CHINESE CONSUMER

OCEAN UNIVERSITY OF CHINA
25th INTL. CHINESE BUSINESS PROGRAM
Marketing Lecture Series
Rainer Appel

Thursday, 8:00-10:00 & 10:00-12:00

Video Case (1)

➤ **Gallup Survey**

- 1994 - 2004
- 3 partial surveys, each with 3,000 respondents

➤ **Harvard Business Review**

- Inside the Mind of the Chinese Consumer
- by William McEwen, Xiaoguang Fang, Chuanping Zhang, and Richard Burkholder

Gallup Survey – Summary (2004)

➤ **Misconception 1**

- Chinese consumers now have a lot of money to spend

➤ **Fact**

- High salary growth, but most people are still too poor to purchase what they want
 - 1997 – 2004: average income rose 30%
- Only 5% of Chinese are satisfied with their household income
 - 14% were satisfied in 2000
- Only 7% of the highest earners are satisfied
- Only ~25% of upper income Chinese are ,somewhat' satisfied

Gallup Survey – Summary (2004)

➤ **Misconception 2**

- All Chinese benefit equally from the rise in China's average income

➤ **Fact**

- Sharp differences between
 - Urban and Rural (3 times)
 - Shenzhen, Shanghai, Guangzhou, Shanghai and the rest
 - Chinese themselves (highly concentrated distribution of income)
 - Gap between rich and poor is growing

Gallup Survey – Summary (2004)

➤ **Misconception 3**

- The biggest markets among Chinese are for basic household products

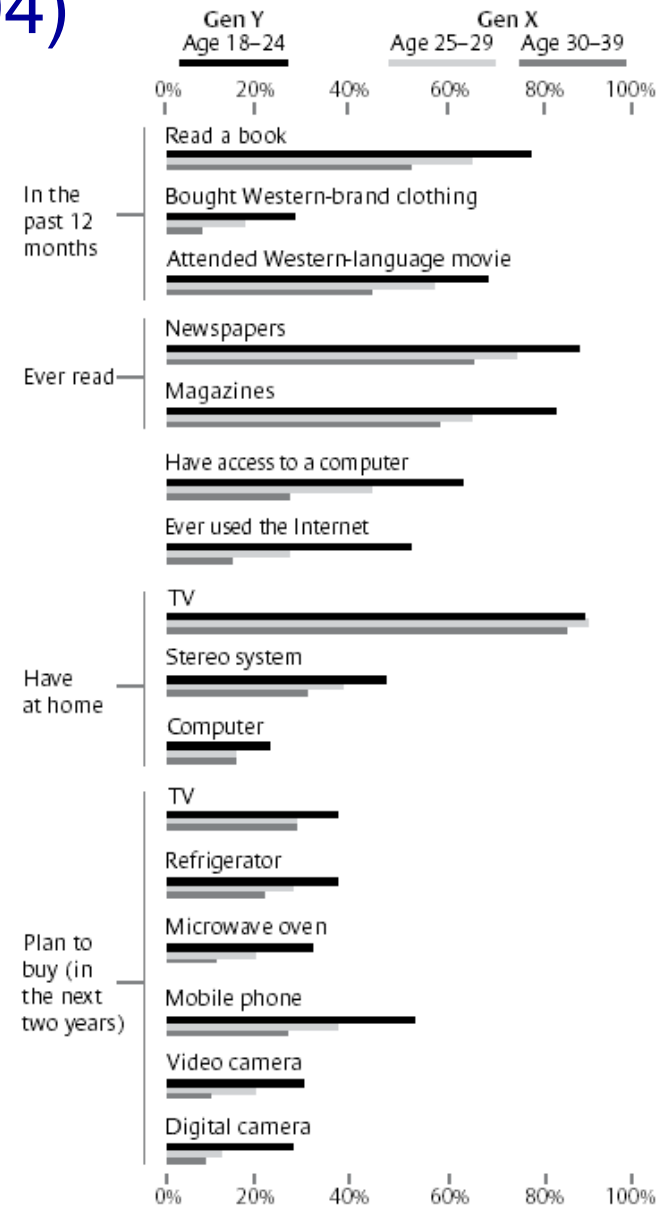
➤ **Fact**

- Many Chinese have their basic needs already covered today
 - 1 DVD player per household: 1996: 7%; 2004: 52%
 - 1 computer per household: 1996: 2%; 2004: 13%

Gallup Survey – Summary (2004)

➤ Look out for generation Y

- Young adults open to Western ideas and products, yet also
- Proud and supportive of their own culture
- High spenders



Lessons learned (1)

| Misconception | Fact | Lesson |
|---|--|--|
| Chinese consumers now have a lot of money to spend. | Though incomes are rising, most Chinese consumers remain too poor to purchase what they want. | <p>The market may not offer as much potential as its size (in population) implies.</p> <p>Avoid making investment commitments until you have solid evidence that Chinese not only want your offerings but also have the resources to buy them.</p> |
| All Chinese are benefiting equally from the rise in China's average income. | Some Chinese are faring better than others. And the better-off among them—such as affluent urban dwellers—already own what they want most, including TVs and mobile phones. | <p>To seize opportunities in the more affluent market, emphasize repeat and replacement purchases over first-time product acquisition.</p> <p>And look more to word-of-mouth than company-managed communications to drive sales.</p> |
| The biggest markets among Chinese consumers are for basic household products. | Chinese consumers' demand for merely functional products (vacuum cleaners, washing machines, refrigerators) has paled compared to a hunger for stylish offerings that "suit one's tastes." | <p>Whether you're selling appliances or consumer electronics, ensure that these offerings provide as much style appeal as performance reliability.</p> <p>For example, by emphasizing fashion over function, Nokia has seen its cell phone sales rocket past those of Motorola and Ericsson in China.</p> |



Map of Qingdao



Map of Qingdao

Video Case (2)

➤ **Meet the Wang Family**

- 2 adults, 1 child
- Living in Hangzhou
- IT manager
- \$1,000 per month



Lessons Learned (2)

- **Chinese are yearning to find their own individuality**
 - Brand awareness
 - Brand personality

What the video cases did not show

- **There is no average Chinese consumer**
- **Overall Chinese markets are highly segmented**
 - **Geodemographic**
 - North-South
 - East-West
 - Income

Overview of China's Consumption Structure

| Consumer Category | Total Number of Households (in millions) | Percentage of Total Population (%) | Per Capita Income (\$/year) | General Classification Criterion | What They Buy | Where They Buy? |
|-----------------------------|--|------------------------------------|-----------------------------|----------------------------------|--|--|
| Luxury Consumers | 6.0 | 1.6 | > 6,000 | They own cars | Top global brands, e.g. Louis Vuitton, Prada, Armani, BMW, Hummer, Nike | High-end department stores or overseas shopping, e.g. 青岛海韵名店商场 (Qingdao Haiyun Mingdian Shangchang) , 青岛海信广场 (Qingdao Haixing Guangchang) , 阳光百货 (Yangguang Baihuo) |
| Brand Consumers | 46.1 | 12.3 | 3,000 – 6,000 | They own computers | National brands, low to middle global brands, e.g. Li-Ning, Qingdao beer, Laoshan water | Department stores or exclusive stores, e.g. Jusco, Mykal, Parkson |
| Quality Sensitive Consumers | 70.2 | 18.7 | 1,500 – 3,000 | They own air conditioners | Middle brands, e.g. 361°, Hisense | Grocery chain stores, e.g. DaRenFang, Carrefour, Walmart, LiQun |
| Price-Sensitive Consumers | 73.8 | 19.7 | 800 - 1,500 | They own refrigerators | Local brands, e.g. Laoshan beer, Konka | Cheap grocery stores, e.g. 美特好 (Meitehao) , |
| Staple Consumers | 118.4 | 31.6 | 300 – 800 | They own TV sets | Nonbrands or cheap staples | Open bazaars or wet markets |
| Subsistence Consumers | 60.4 | 16.1 | < 300 | They do not own TV sets | Nonbrands | Self-supplied or open bazaars |



Annual Chinese Consumer Survey 2008

➤ **McKinsey**

- 2005 - 2008
- 5,000 – 6,000 respondents

Annual Chinese Consumer Survey 2008

Key Findings

- **Growing Importance of Regional Differences**
- **Accelerating Demand for Premium Products**
- **New Look of Winning Brands**
 - Fewer brands, bigger brands
 - Focus on right brand attributes
 - Go green
- **Connect with Consumers**
 - Television: Earn the right to play
 - In-store promotion: Stand out from the crowd
 - Sponsorship: Get maximum bang for your buck
 - Blogs and online forums: Understand new media

Annual Chinese Consumer Survey 2008

As seen in class

- **8 key buying factors**
 - 6 differentiated more by region than by city tier

Annual Chinese Consumer Survey 2008

As seen in class

- **8 key buying factors**
 - Any mass-market approach needs to move beyond thinking solely about city tiers and adapt to regional differences

Annual Chinese Consumer Survey 2008

As seen in class

- **Quickly growing upper-middle class (>RMB 5,000 / month)**
 - Opportunity for mass-market companies to enter higher segment

Annual Chinese Consumer Survey 2008

As seen in class

➤ **Polarized consumption**

- Gap between average and premium prices is widening
- → Compete at both ends (don't get stuck in the middle)

Annual Chinese Consumer Survey 2008

As seen in class

- **Chinese buying behavior strongly based on perceived value**
 - → Leverage existing brands

Annual Chinese Consumer Survey 2008

As seen in class

- → **Good news for foreign brands and new entrants**
 1. Dissolution of brand loyalty goes in hand with increasing openness to brands regarding of origin
 2. However: decline of brand loyalty less pronounced for biggest brands

Annual Chinese Consumer Survey 2008

As seen in class

- **Chinese consumers have traditionally viewed big brands as a proxy for quality and reliability**
 - → Brands in China can be stretched with less risk of brand dilution

Annual Chinese Consumer Survey 2008

As seen in class

- **Chinese consumers tend to seek out brands that fulfill their desire for practical, functional benefit**
 - Food safety is of particular importance (esp. After last year's scandals)

Annual Chinese Consumer Survey 2008

As seen in class

- **Majority is „pro green“, but premiums are less than in West**
 - There is even scope for companies in educating consumers and reinforcing their brand as „greener“ than the competition

Annual Chinese Consumer Survey 2008

As seen in class

- **TV by far highest reach**
 - Impact of TV ads also vary regionally (North > South)



Annual Chinese Consumer Survey 2008

As seen in class

- **Consumer goods companies should ensure they make sufficient investments to improve their in-store presence**

Annual Chinese Consumer Survey 2008

As seen in class

- **In-store promotions**
 - Stand out from the crowd !!!

Annual Chinese Consumer Survey 2008

As seen in class

- **Sponsorship**
 - Get maximum bang for your buck
 - E.g. Mengniu



Annual Chinese Consumer Survey 2008

As seen in class

Further reading

- **Annual Consumer Survey 08, McKinsey**
- **The Rise of the Chinese Consumer, Credit Suisse, First Boston**
- **BILLIONS Selling to the New Chinese Consumer, Tom Doctoroff**
- **Inside the Mind of the Chinese Consumer, HBR, Gallup**
- **Marketing to China's Youth, HBR**
- **The Battle for China's Good-Enough Market, HBR**
- **To Reach China's Consumers, Adapt to Guo Qing, HBR**



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