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What's new with the Chinese consumer

It's hard for brand managers to keep pace with the shifting attitudes of Chinese consumers. But some trends can be discerned amid the noise.

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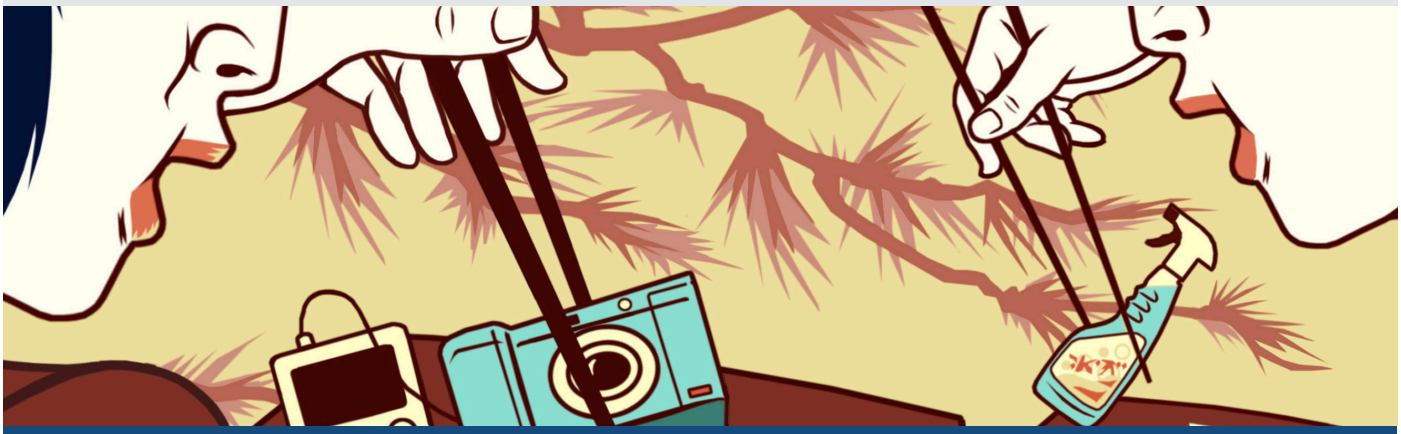
Article at a glance

As more foreign and domestic companies pile into the expanding Chinese consumer market, brands have a harder time being noticed.

Our continuing research has tracked the ebb and flow of the Chinese consumer's habits and attitudes. Personal recommendations, for example, are becoming more important, while television ads, though still indispensable, have begun to lose some of their punch.

Marketers must be nimble enough to understand and follow these shifts.



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Chinese consumers are proving to be an elusive target. Another ten million enter the market each year, and the behavior of the hundreds of millions already there is evolving rapidly.

Since 2005, we have been tracking the behavior of these Chinese consumers. Each year, we have interviewed roughly 5,000 living in cities and towns of all sizes and representing all income groups, ages, and regions. For comparison, we have also conducted parallel online surveys in Hong Kong, Japan, South Korea, Taiwan, the United Kingdom, and the United States.

This article offers an update on our earlier findings. This year, for example, we learned that Chinese consumers are increasingly wary of untried products and ever more likely to make purchase decisions at the last minute. Recommendations from family and friends remain very influential. And television advertising is still a prerequisite for entering the market, but its punch is weakening. Meanwhile, print ads are losing ground, while sponsorships and the Internet are becoming more influential. Amid the growing din of Chinese marketing, connecting with consumers continues to be difficult and frustrating (see sidebar, "What marketers worry about in China").

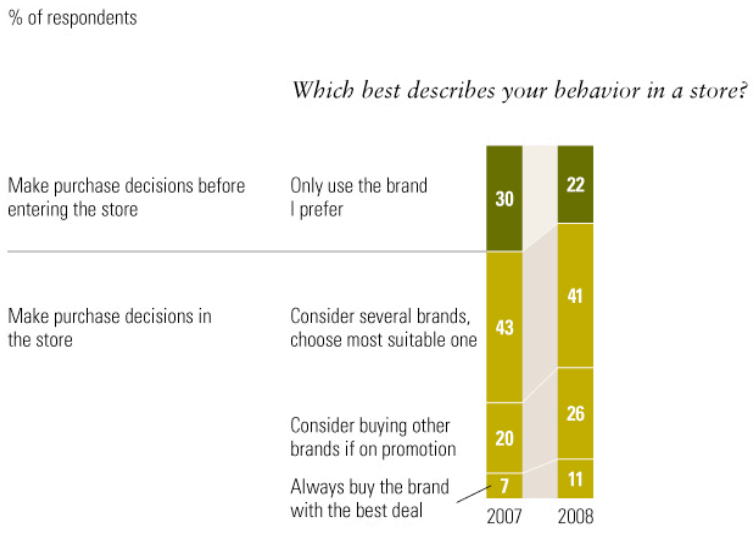
The importance of brands

On average, Chinese consumers are willing to pay a premium of about 2.5 percent for a branded product they purchase regularly, according to our most recent survey. By contrast, in developed markets, premiums for familiar brands can reach 20 percent or more. Our research suggests that rising inflation is making Chinese consumers more price sensitive and less loyal to their preferred brands. This year, 37 percent of the respondents said they base their final purchase decisions on promotions and the best deals in a store, compared with 27 percent in 2007 (Exhibit 1).

Yet brand development remains essential in China. A majority of the shoppers we studied—63 percent in 2008—still enter a store with a shortlist of favorite brands or a single preferred one and don't stray from it when making purchases. Although this percentage dropped from 73 percent in 2007, getting on that shortlist remains an essential step for any consumer product trying to get a foothold in China.

EXHIBIT 1

Flexible purchasing



Source: 2007 and 2008 McKinsey surveys of Chinese consumers

The trouble is that the country's shoppers are becoming less comfortable buying unfamiliar products. This year, for example, only 18 percent of the respondents indicated that they were always willing to try new packaged foods, compared with 29 percent two years earlier. Chinese consumers are also less adventurous than those in most other countries we studied. Asked the same question in 2008, more than 40 percent of our respondents in the United Kingdom and the United States said they would be willing to sample new packaged foods, while the figure for Taiwan was 35 percent.

Our results were similar across many product categories. When Chinese consumers try new products, they are twice as likely to grab those introduced under a familiar brand than under an entirely new one. For facial moisturizers, for example, the numbers are 18 percent and 9 percent, respectively.

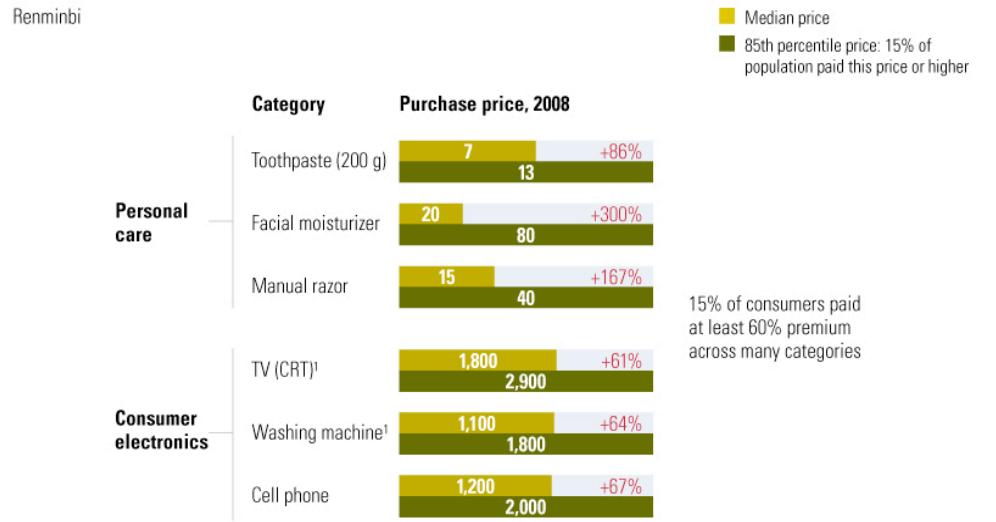
Such reluctance is understandable in China, where many cheaper goods are of poor quality and the consequences of the wrong choice can be drastic, especially in food purchases. By contrast, in developed countries, where consumer protection laws and competition are strong, truly dangerous products are rare. But once Chinese consumers recognize a brand, they are likely to assume that it offers better quality and are willing to pay a premium for it.

While that premium is relatively small—2.5 percent—when averaged across all consumer segments, it is potentially much bigger among the country's high earners:

people making more than 5,000 renminbi ($730) a month. This segment's share of private consumption, now 15 percent, is expected to rise to more than half by 2015. Our newest survey shows that these high earners will pay premiums of more than 60 percent across many product categories (Exhibit 2).

EXHIBIT 2

Willing to pay



[1]Includes purchases in last 3 years; CRT = cathode ray tube.

Source: 2008 McKinsey survey of Chinese consumers

In European and North American markets, emotional attributes such as "trendy" and "cool" can sway large segments of consumers. But in China, brands are powered mostly by their functional characteristics, such as quality and taste. For consumer electronics, personal-care products, and food and beverages, the top three factors that this year's respondents cited for deciding what to buy were all functional. Functional characteristics also ranked high when we asked respondents what brand attributes inspire their loyalty. These findings confirm anecdotal evidence that Chinese consumers are sensitive to value for money and generally have a clear idea of which functional features merit a higher price.

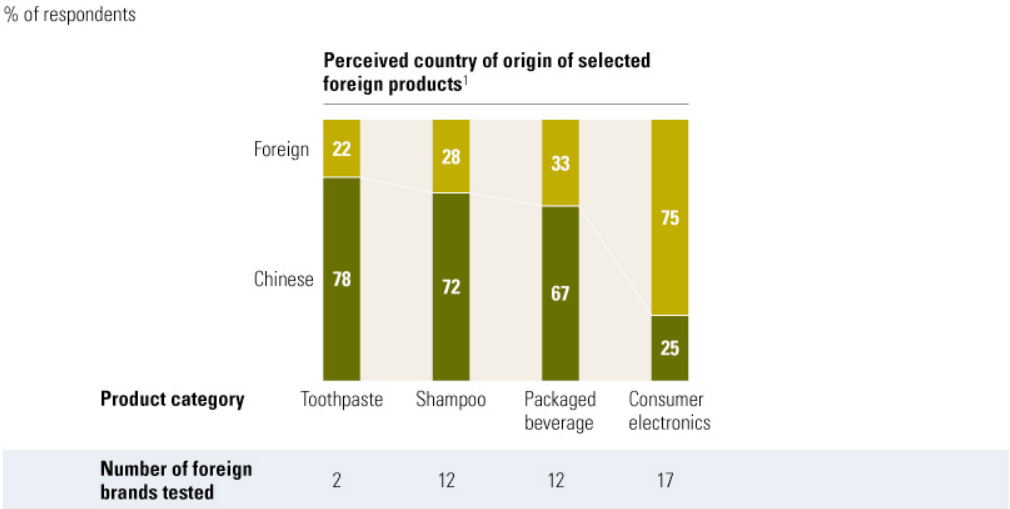
The rise of nationalism is palpable in many aspects of life in China, particularly as the country has gained economic strength and increased its international visibility by, among other things, hosting the 2008 Olympic Games. But our research suggests that as Chinese consumers become more sophisticated, nationalistic tendencies play a smaller role when they shop. Thirty percent of this year's respondents said they trust only Chinese brands, down sharply from 44 percent in 2007, and in the biggest cities just 13 percent expressed a clear preference for Chinese brands. The

majority—52 percent nationwide (up from 42 percent in 2007) and 63 percent in the biggest cities—said they had no clear preferences based on a brand's country of origin.

Chinese consumers, however, don't always have a clear idea about a brand's nationality. Among our respondents, a large majority mistook leading foreign products for domestic brands across many categories (Exhibit 3). The Chinese names for these products, their packaging, the Chinese models they use in ads, and their brand presentation have given them Chinese identities. Crest, Pantene, and Motilium have been especially successful with this strategy. While such brands don't actively conceal their origins, they also don't emphasize those origins in their marketing.

EXHIBIT 3

Which is it?



[1]Toothpastes: Colgate, Crest; shampoos: Clear, Hazeline, Head & Shoulders, Kérastase, LaFang, L'Oréal, Lux, Pantene, Rejoice, Slek, VS Sassoon, and Yu Jie; packaged beverages: 7UP, Cha Yan Gong Fang, Coca-Cola, Dole, Fanta, Kirin, Miranda, Nestea, Pepsi, Sprite, Uni-President, and Wei Chuan; consumer electronics: Apple, Compaq, Dell, Dopod, Hitachi, HP, LG, Mitsubishi, Motorola, Nokia, Panasonic, Philips, Samsung, Siemens, Sony, Sony Ericsson, and Toshiba.

Source: 2008 McKinsey survey of Chinese consumers

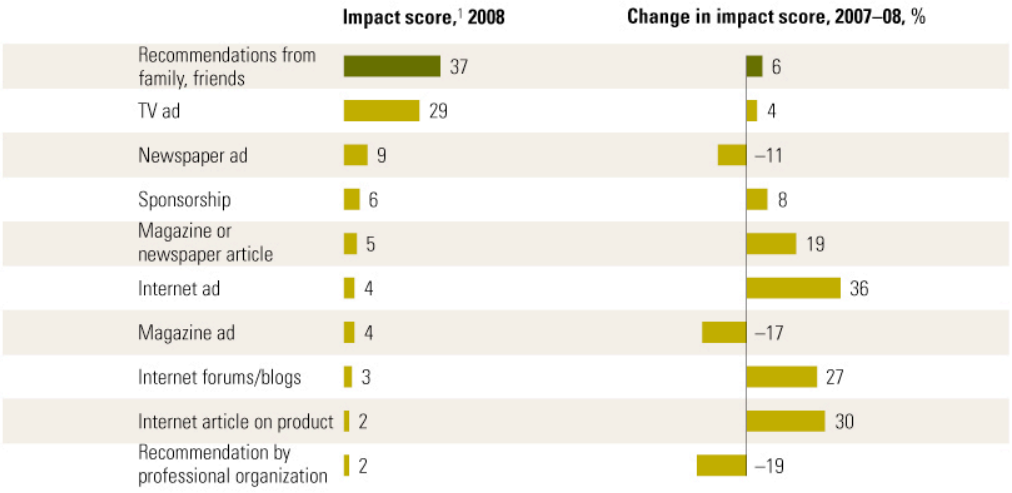
Reaching consumers

The way Chinese consumers get product information is shifting. Recommendations from family and friends remain high on the list—underscoring the need for companies to find ways of generating word-of-mouth excitement—and television is indispensable, though its power is declining. Other marketing channels, however, are gaining clout.

To assess the effectiveness of different market approaches, we combined reach (how many respondents connected with a particular source of information) and quality (how credible and engaging respondents found that source) to develop a media impact score.[1] Recommendations from friends and relatives score highest on our scale (Exhibit 4). Indeed, their impact has edged higher, moving to 37 in 2008, from 35 in 2007. The impact of ads on television and in the print media was mixed, while indirect approaches, such as sponsorships, the Internet, and articles in the print media, are gaining strength.

EXHIBIT 4

With a little help from my friends



[1]Impact: % of respondents who had been exposed to source of information in 2 months before survey and thought of it as quality source; impact score: product of level of exposure and quality, divided by 100 and rounded.

Source: 2007 and 2008 McKinsey survey of Chinese consumers

Recommendations are much more important in China than in any of the other markets we studied. When buying a laptop, for example, 55 percent of this year's Chinese respondents said that a friend or relative would have to recommend a brand before they bought it, compared with 37 percent in the United States and even less elsewhere. Marketers must find ways to get their brands into everyday discourse, and the rise of the Internet offers a creative opportunity.

Following the devastating May 2008 earthquake in Sichuan, for example, the drink maker Wang Laoji pledged 100 million renminbi toward relief efforts during a telethon that was broadcast nationwide. This highly visible act dwarfed gifts made by foreign beverage companies, and within two weeks thousands of online discussions mentioned the pledge. Bloggers even created a couplet—"If you donate, donate 100 million; if you drink, drink Wang Laoji"—which rhymes in Chinese and was used in a print ad for the company. In some regions, its sales increased by 25

percent, and restaurants and stores were frequently out of stock, which the company attributed at least in part to the Internet activity.

Sports and cultural sponsorships can also help build interest. Although sponsorships have limited reach, they scored relatively high for credibility and engagement among our respondents. Their impact in big and midsized cities was almost twice as great as in the largest cities—particularly for food and beverages—possibly because sponsorships suggest corporate strength, while fake and low-quality products are more pervasive in smaller urban areas. The dairy product maker Mengniu is well known for using its sponsorship of Super Girl, a televised singing competition, to increase its brand recognition and sales.

While companies must find creative ways to use these alternative channels, television advertising remains the bedrock of Chinese marketing. A significant number of the consumers we surveyed—41 percent—said they had to see a new product advertised on TV before they would consider buying it, and television's impact score is second only to that of word-of-mouth recommendations. With a few exceptions, such as some luxury goods and consumer electronics, TV advertising is the price of entry into the Chinese mass market. It reaches consumers across the breadth of China, and since not every company can afford a TV campaign, it bestows a badge of respectability upon new products, especially for consumers worried about unknown and potentially unsafe goods. (For food and beverages, 91 percent of our respondents said they were concerned about safety.)

Yet as we have seen, marketers cannot rely solely on TV ads to reach the Chinese consumer, particularly as a constant bombardment of media messages dulls the influence even of television. While the impact score for TV ads inched higher between surveys, fewer of our respondents said that they must see a product on TV before they would consider buying it—41 percent this year, compared with 56 percent in 2007. Among people buying flat-screen televisions, for instance, the percentage saying that they had to see the product on TV dropped by a third from 2007 to 2008, to 38 percent. This weakening, which mirrors a trend around the world, should remind marketers to watch carefully how China is maturing and adjust their media mix accordingly.

In-store programs remain crucial to that mix. This year's study showed that only 22 percent of Chinese consumers focus on a single preferred brand as they shop, down from 30 percent in 2007. A large portion, 41 percent, are still deciding among favored brands on a shortlist—in addition to the 37 percent, mentioned earlier, who are bargain-shopping at the last minute. Store displays, in-store promotions, and salespeople who steer consumers to specific brands are crucial influences on such last-minute decisions. Many foreign companies underrate the effectiveness of in-store programs as complements to mass-media spots, but consumer attitudes and low wages in China make such efforts sensible.

The shopping behavior of Chinese consumers will remain volatile for many years. Seasoned shoppers and new consumers alike will become more sophisticated by leaps and bounds as they are exposed to constant marketing, travel abroad, and surf the Internet. Amid these changes, brands will certainly increase in importance, as we have already seen in some high-income segments. To capture a share of the market, companies must keep their messages and media mix attuned to the consumer's shifting characteristics. Even in segments with razor-thin premiums for brand names, investments today in brand building and market research can generate substantial long-term dividends.

What marketers worry about in China

In 2007, we polled 41 brand managers in China—including executives from the consumer electronics, consumer goods, and pharmaceutical industries—to understand how they see the marketing challenges posed by Chinese consumers. Only 7 percent said they had a good understanding of the market, while the majority, 85 percent, professed some understanding but with "a lot . . . that I still don't know."

By a large margin, our respondents said their priority was to understand the attitudes and behavior of the growing urban middle class. Thirty-seven percent identified this attractive segment as a top priority—far more than those who picked the wealthy or rural segments (exhibit).

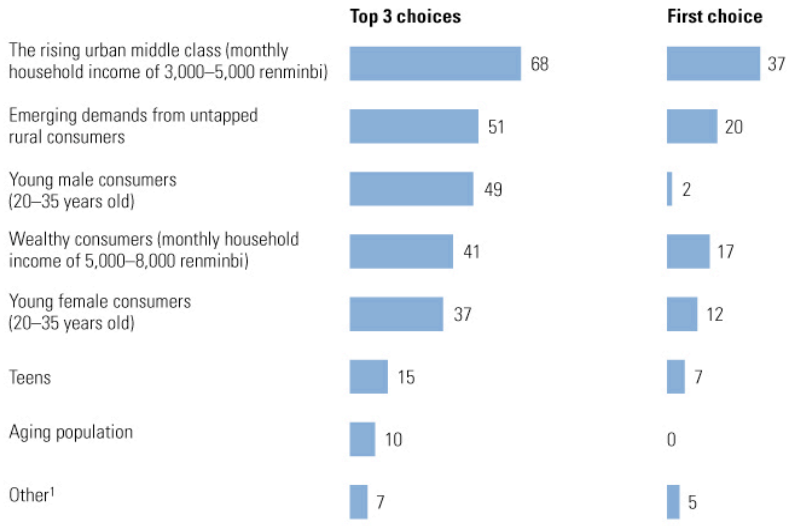
Attracting attention in China's crowded market was also a large concern: 44 percent of the respondents said that their biggest strategic challenge was to define a stronger and more differentiated value proposition than the competition did. Far fewer—29 percent—saw developing a breakthrough product as their top priority.

Three challenging media factors weighed almost equally on the marketers' minds, with each listed as a top priority by about a quarter of our respondents: whether TV advertising was necessary (and, if so, how necessary), which marketing channels should supplement TV campaigns, and how to split spending between media and activities such as sponsorships and in-store promotions. Clearly, marketing executives still find it hard to understand Chinese consumers—partly because the market is changing so rapidly and partly because official data are often incomplete or inaccurate. Proprietary research can help companies navigate this thicket, but, considering the market's size, research investments must be targeted carefully if they are not to cost a lot and reveal very little.

EXHIBIT

TARGETING THE MIDDLE CLASS

Priorities of Chinese brand managers in understanding the market, % of respondents (n = 41)



[1] For top 3 choices, includes children aged 3–14; for first choice, includes corporate customer and urban mother of children aged 2–12.
Source: 2007 McKinsey survey of Chinese brand managers

About the Authors

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Hsinhsin Tsai is an alumnus of McKinsey's Shanghai office, where **Ian St-Maurice** is a consultant and **Claudia Süssmuth-Dyckerhoff** is a principal.

Notes

[1] "Reach" represents the percentage of respondents who said they were exposed to product information from a certain source in the two months before the survey. "Quality" was derived from the percentage who said a specific source was completely or mostly credible and the percentage who said they were interested in and paid attention to information from a specific source. "Impact" is the product of reach and quality, divided by 100 and rounded for simplicity.

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