

# Chinese consumers: three strategies for success

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By Andrew Jobling, WGSN, 16 April 2014

**Speakers at Paris event China Connect focused on how to target three main sectors of Chinese consumers: the emerging middle class, luxury and tourists.**



## \* WGSN ANALYSIS

- China's booming middle class is often spoken about but it is important to remember that there are myriad markets within it, and it spans tiers and income levels. It's perhaps best understood by looking at consumer attitudes, spending choices and aspirations
- Those consumer behaviours also remain fluid as the market develops. Younger consumers have new ideas while many older ones now come with more experience, so a brand strategy that takes an up-to-date look at the Chinese consumer is vital
- One thing that remains important to the Chinese market is loyalty and recommendations from friends and family, so make understanding, engagement and personal interaction the core strengths of the brand

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## Attitude shift: the emerging middle class

As China moves from an export-led economy to a consumer-based one, the government is implementing policies to drive a new class of consumers.

Mykim Chikli, CEO of ZenithOptimedia, China, said that 80,000 new Emerging Middle Class (EMC) consumers would be created each day if projections for middle class growth to 356 million people by 2020 are true. The figure currently stands at 125 million.

However, the fact that the new middle class of consumer is "not organic" and being created "on purpose" by the government means that the attitudes and behaviours among those consumers are different to more mature markets, she said. And that is important for brands looking to succeed in the market.

"The new middle class is unique," she said. "It's a transformation from an egalitarian society. Now it's about upwards social mobility. It used to be about families moving for work and sending money back home, now it is about me and bettering myself."



China Connect



China Connect

Those new attitudes centre on the individual. Chikli said that a recent study asked what the most important thing for women is. The answer always used to be marrying a man with a house and car, but now it is to get a tablet computer. And EMC consumers are more demanding than previous generations because they have been brought up with adverts that increasingly promise more.

Yet the EMC struggles to be defined because it is found across tiers and income levels. Instead, Chikli says the best way to define it is by what it consumes, how members spend their money and what their aspirations are.

So how best to target such a broad spectrum? Chikli says that to first win brand loyalty from EMCs there needs to be high brand awareness, and to get that there's a need for recommendations and daily reminders from a variety of sources, such as friends and family, TV, online and radio.

The big shift necessary this year, she argued, is not just a move into lower tiers, but altering the marketing message so that it appeals to whichever region is being targeted. Some big brands are starting to do it, she said, and there is more to come.

There are other differences to be aware of when looking at lower tiers, including the relative importance of e-commerce in areas that may not be so well catered for with physical stores. Here, an official website is important because Chinese consumers demand authenticity and are highly suspicious of anything that might be a fake.

"Generally, Chinese people are interested in Chinese brands, rather than foreign ones, apart from in luxury," Chikli said. "But if a foreign brand answers all the questions about why they should consume it, it will grow very fast."

## Luxury: the new strategy



Liz Sullivan, VP of strategic consulting & advanced analytics, international, Epsilon



Roger Grae Sole, global e-commerce manager, Mango

A series of factors have combined to hit China's luxury sector and, while there is still growth to be found, it's clear that a new strategy needs to emerge.

China's wealthiest slowed their spending by 15% in 2013 while a government crackdown on consumption has seen spending on gifts fall by 25%, said Liz Sullivan, VP of strategic consulting and advanced analytics, international at Epsilon.

"The luxury market is still growing, but not as fast, so companies are having to be smarter," she said. "They are starting to realise the need to concentrate on retaining customers, not just the landgrab of getting new ones."

So what does the new strategy for luxury look like? First of all, with growing consumer maturity, Sullivan said that there needs to be more emphasis on pricing, customer relationships and fashion content. And as with Western markets, those consumers also expect the same experience at each touchpoint of a brand.

Digital is also vital, for two reasons. The first is that 70% of consumers are online, mostly via mobile, and two thirds of them are buying luxury online, Sullivan said. The second is because of data, much more of which can be collected from consumers using mobile and online channels.

"Companies need a 360-degree view of customers, pricing strategy and product offering at an individual level," said Sullivan. "It's about every channel, social media, email, stores - how can you empower staff using data to also deliver a message for you."

However, some things stay the same in China and Sullivan is another to note the importance of brand loyalty, especially with recommendations from family and friends playing such a huge role in consumer choices. To engender loyalty, you must first start with the customer and understand their needs, emotional state, expectations and the local environment, she says. Then shape your strategy around why customers should want to bond with your brand, and deliver on it through CRM and personalisation.

Mango's global e-commerce manager Roger Grael Sole has another tip.

"The best way to increase loyalty is to invest in operations," he said. "We don't just want customers, we want happy customers."

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## Tourists: a new era



Michelle Lau, head of development, international customer division, Printemps



Nathalie Rémy, principle, McKinsey & Company

Sullivan said that two-thirds of luxury spending by Chinese consumers took place abroad in 2013, and with that kind of statistic it's clear that a tourist strategy needs to deliver. However, as Chinese consumers change, the thinking needs to be updated.

"Before we would see Chinese people visit us in big groups," said Michelle Lau, head of development, international customer division at Printemps. "We still see that, but also smaller groups now as well.

"Also it used to be for luxury, but now it's more mass-market too. People are travelling for leisure now as well as business, and we're also getting more people from tiers 2, 3 and 4. And Chinese people are now more value sensitive and looking for a great experience with shopping. We're seeing the consumer profile change."

Nathalie Rémy, principle of McKinsey & Company, agreed, and said that 65% of Chinese travellers to Europe are below the age of 35. Their needs are very different to a typical Western luxury customers' needs and brands need to make sure they are being properly addressed.

"Consumers travelling now are younger and there are more from lower tiers that are less wealthy, so lower end brands are more appealing," said Rémy. "Lots speak English so don't need the same language support and for many it's no longer their first time travelling. They are getting more sophisticated and need less support."

However, one thing they do want is exclusivity and, with luxury increasingly available in China, anything that can add to it can really make a difference.

"We develop special collections with brands that appeal to the Chinese consumer," said Lau. "This is very appealing, because it's something that you can only find in Paris."

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