

Double-clicking on the Chinese consumer

The new health craze, the rise
of the post-90s generation, and
other trends worth watching

2017 China Consumer Report

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Over the past dozen years, we've been taking the pulse of the Chinese consumer through our annual and bi-annual surveys. In this relatively short span of time, we've witnessed dramatic changes in their behavior and attitudes towards what they buy and how they shop.

From being hyper-conscious about extracting the most value for their hard-earned renminbi just a dozen years ago, Chinese consumers today are earning much more money, and are spending that money on a wider variety of higher quality and pricier goods and, increasingly, on services.

But with wealth comes choices, and Chinese consumers have more choices than ever before. Understanding how Chinese consumers make the critical decisions that impact what they buy — and what they don't — is a critical skill that any company in China needs to master if they hope to succeed in this hotly contested market.

Digging deeper into the attitudes and behaviors of consumers reveals a much more multi-faceted set of consumer segments, each with unique characteristics that determine their shopping habits. This is what we've done with our latest survey of nearly 10,000 consumers aged 18 to 65 across 44 cities and seven rural villages and towns.

Of all the observations we've made of the Chinese consumer over the past dozen years, one has become very clear in this year's survey: The "Chinese consumer" no longer exists. And what do we mean by this? Mapping the broad trends in consumer behavior is important — but big picture trends no longer provide the nuanced insights into consumer behavior that marketers need to make their decisions.

As in previous reports, we present four key trends companies need to know to help them formulate their operational strategies in China, from marketing to M&A. But this time, we dig deeper into each of the trends, and in doing so, we reveal deeper, more meaningful layers of insight into what makes Chinese consumers tick today.

Here are the trends we explore in this report:

Consumer confidence has reached a ten-year high, but risks remain. The rising cost of real estate, the need to pay for children’s education, and the need to support elderly family members in a greying society combined with slowing income growth and rising prices, are casting a long shadow on what is otherwise a very bright outlook for Chinese consumers.

Consumers are more health-conscious than ever before — but different consumers define health differently, and this varies, too, against western notions of health. This impacts their spending decisions and lifestyle choices.

The “post-90s” generation is emerging as the next engine of consumption in China. Aged 17-27, they’re digital natives – born with the internet – and they’re working, earning money, and making decisions as to how they spend it.

When it comes to spending money, **Chinese consumers are taking a more nuanced view of global versus local brands.** Brand origin is less relevant among Chinese consumers who are looking for quality, value, and service.

Trend #1: Consumers are confident – but risks remain

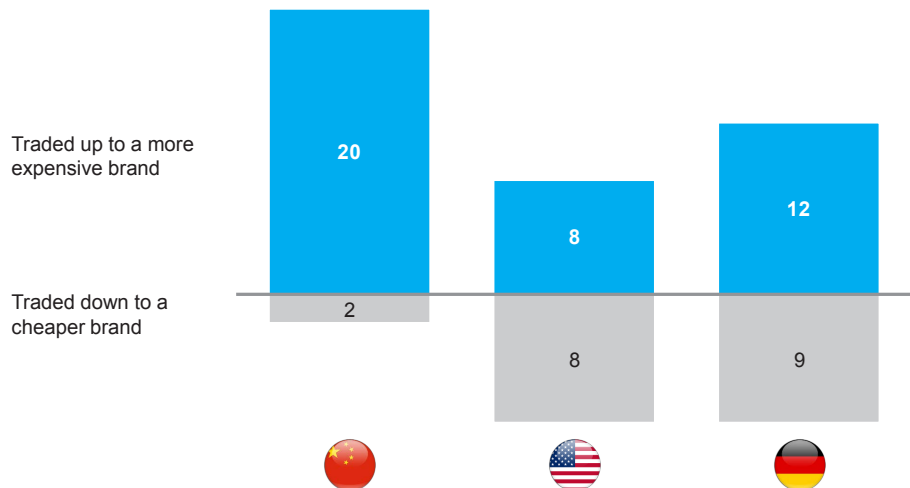
Business leaders and marketers in China often ask: How confident are consumers? Confidence helps to define market strategy and identify growth opportunities. The answer to this question, as of the writing of this report at least, is “very confident.”

Since our last survey, which we published in early 2016, consumer confidence has grown significantly in China to reach a ten-year high. China’s Consumer Confidence Index rose from a low of 100 in the spring of 2016 to 115 in August of 2017, a level that exceeds what the Index had reached back in 2007, right before the onset of the global financial crisis.

On the back of this rise in confidence, consumers have been spending more on discretionary items, a trend driven in part by their desire to trade up to more premium brands, per another recent survey we conducted. (Exhibit 1)

Exhibit 1

Trading up (and down) in key FMCG¹ categories: China, US, Germany
% of survey respondents



¹ Includes food, non-alcoholic beverages, alcoholic beverages, personal care, household products
SOURCE: McKinsey 2018 Global sentiment survey

Double-click: Singles Day sets a new record



If you're looking for evidence that Chinese consumers are confident, look no further than the one-day online sales phenomenon known as Singles Day, which falls every year on November 11. Singles Day, which was initiated and continues to be hosted by China's ecommerce giant Alibaba, has morphed from being a day dedicated to lonely singles, to becoming the single largest e-shopping day globally. With an estimated \$25 billion in sales on Alibaba.com and a further \$19 billion on JD.com - China's two largest ecommerce platforms - Singles Day this year easily bested last year's sales by close to 40 percent, and was larger than Black Friday and Cyber Monday in the US combined.



Will confidence remain high or continue to rise? Perhaps, but speculation on this matter can be risky. While consumer confidence has been on an upward trajectory for the past 15 months, the overall pattern in the past decade has been more volatile, with confidence dipping down to as low as 97 in 2012 and 2013, and then swinging upwards to about 107 during several periods, before falling back down again.

There are several reasons to take a more cautious stance towards the future starting with the very high levels of debt that the Chinese economy overall, and households, are taking on. In 2017, the total leverage ratio in China hit 266 percent, the highest level it has ever reached. Meanwhile, household debt reached 50 percent, the highest it has been since the government started recording this figure, albeit still lower than developed countries. Debt levels aside, the real driver of spending is income growth, and this has slowed considerably, dropping from 10.1 percent in 2012 to 6.3 percent in 2016.

Chinese consumers are also running up against rising education costs and higher real estate costs, especially in tier-1 cities, despite government measures to cool the market.

While these are all relatively short-term indicators, longer-term, the rising cost of caring for elderly family members, particularly the healthcare expenses associated with such care, is set to become one of the biggest burdens on the budgets of Chinese consumers.

Trend #2: Consumers are more health-conscious than ever before – but different consumers define health differently

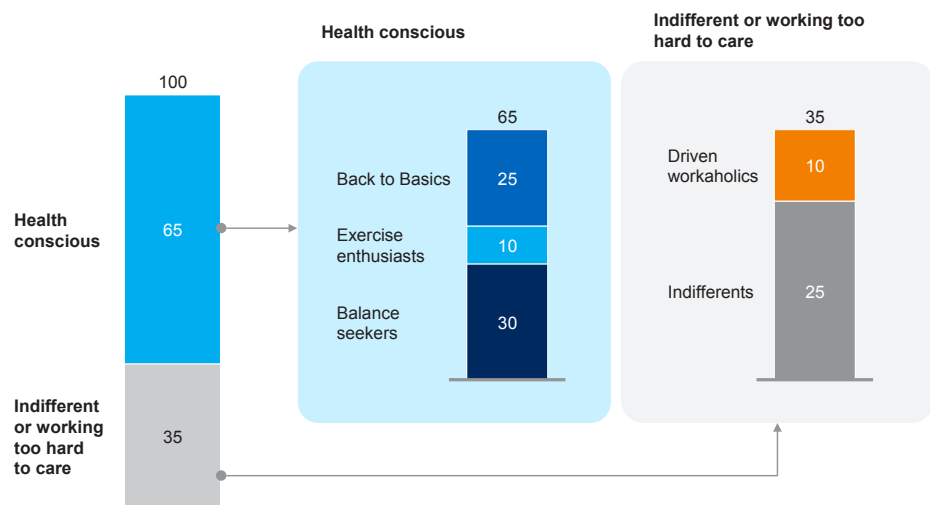
Bigger paychecks mean more disposable income to spend on health and fitness; this is a positive outcome of China's economic boom and, like western societies, the health and fitness trend is most evident among wealthy urbanites.

While we've been tracking their attitudes toward health for nearly a dozen years now, in the past few years we've noticed a substantial uptick in the number of Chinese consumers concerned about their health and the impact that diet, exercise, and the environment have on their quality of life. Our survey showed that 65 percent are seeking ways to lead a healthier lifestyle. (Exhibit 2)

Exhibit 2

Chinese consumers' attitudes toward healthy living

% of respondents



SOURCE: McKinsey China 2017 consumer survey

Double-click: Junk food backlash



After years of heady growth, rising consumer awareness of the importance of health appears to be putting the brakes on some of the less nourishing food and beverage categories:

- 41 percent said ‘almost never’ to eating unhealthy food.
- The instant noodle and soda markets shrank by 7 percent and 2 percent respectively in 2016 compared with 2015.
- Fast food chains, already thought of as healthier than ‘holes-in-the-wall’ and roadside stalls, continue to expand with healthier menu options.



But this belies a more worrying trend. Millions of Chinese consumers have access to, and can afford, more types of food than ever before, and their bulging waistlines are evidence of this phenomenon.

Thirty percent of Chinese adults — roughly 320 million people — are overweight and about 6 percent obese.

While in percentage terms this number might still lag the extraordinary rates of obesity seen in the West, in sheer absolute numbers, China today has the largest population of overweight people in the world.

The government has responded: In 2016 it announced the “Healthy China 2030 plan”, which pledged to promote initiatives geared towards diet, exercise, and access to healthcare services.

Healthy living with a Chinese twist

Chinese consumers’ interpretation of healthy living, in general, differs greatly from western views. While the latter has long-advocated vigorous exercise regimes and high-protein, low-carb, low-fat diets, Chinese people have, historically, focused on the harmonious balance of mind and body. Foods are valued for specific properties, for example, their “heating” or “cooling” effects, while traditional forms of exercise, like tai chi, are low impact and focus on restoring positive flows of energy.

Of course, Chinese consumers don’t all share the same views toward health. Through our survey this year, we identified five distinct segments of consumers based on their different attitudes toward health. Three segments, representing 65 percent of our respondents, are deeply concerned about this issue, but express it in very different ways. (Exhibit 3)

Back to Basics

The “Back to Basics” segment, which comprises 25 percent of respondents, love nature and seek out natural products.

This group takes a natural, holistic approach to health and wellness. Instead of stressing about their personal and work life, 73 percent said they are focused on having fun and being close to nature.

They care less about appearance, and pollution and food safety are big concerns. They buy natural and organic food whenever possible – 55 percent versus 43 percent on average – and, while they are more willing to try health apps, especially calorie-counting and pulse monitors, they’re less willing to pay for them.

Balance Seekers

“Balance seekers”, who account for 30 percent of respondents, are looking to strike equilibrium across all dimensions of health, including physical fitness, mental health, and their relationships with others.

This group wants to look and feel good. While 53 percent desire a strong physique, 60 percent said their state of mind was more important, along with social life and relationships. To the “balance seekers”, having a happy family is a better indicator of success than amassing wealth. Sixty-nine percent, compared with 61 percent on average said they would be less willing to trade off personal time for work.

That said, when it comes to fitness, these individuals are more willing to spend money on sports activities and buy specialized sportswear with 69 percent admitting to buying running gear compared with 47 percent on average. They will pay for health apps, particularly step counters and pulse monitoring.

Exercise Enthusiasts

Another 10 percent of consumers are “exercise enthusiasts” who – not surprisingly – love to exercise. This is driving a surge in sales of exercise clothing and equipment.

One hundred percent of this body conscious group said that exercising regularly is key for leading a healthy lifestyle. They’re driven by a desire for physical strength and athletic ability. They care less about pollution, peace of mind and social relationships.

This mentality extends to diet and just over 50 percent of the enthusiasts avoid unhealthy food, specifically, oil and additives; they take more supplements; buy more fresh food, and take regular physical exams.

Their favorite activity is running – about 50 percent of the exercise enthusiasts run on a regular basis (at least twice a week) and apps such as step counters, weight monitoring and customized workouts and fitness apps appeal to them.

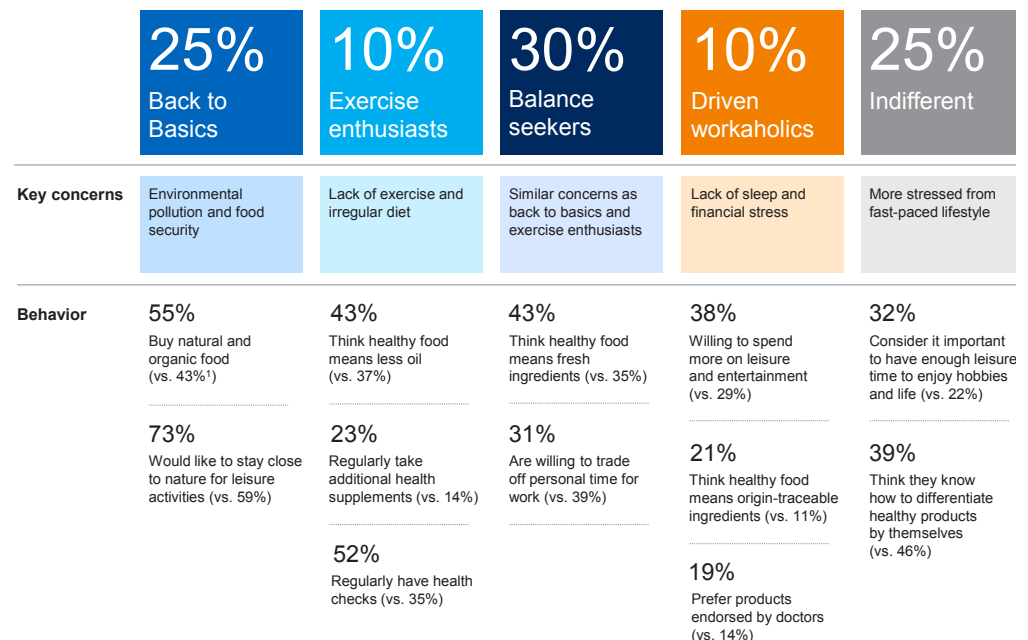
“Driven Workaholics” & the “Indifferents”

The remaining one-third of respondents we surveyed spend little time worrying about their health. About 10 percent of them claim to be “driven workaholics” who are too busy for healthy living; the other 25 percent are indifferent about their health.

That’s not to say they can’t eventually be converted. Over time, consumers who belong to one of these segments are likely to become more conscious of their health, and may start to take action toward improving it.

Exhibit 3

Different consumers define health differently



1 Statistics for the total survey population shown in brackets
SOURCE: McKinsey China 2017 consumer survey

Double-click: Let's get physical



Adidas announced it plans to open 3,000 more stores over the next three years, bringing its total to 12,000 stores. Reebok, which is owned by Adidas, plans to open 500 stores in three years. Specialist sports brands are fast gaining a following, too. As of November 2017, yoga apparel brand, Lululemon, had 10 stores in mainland China, having entered the market in 2016 with just three outlets. French sporting goods and apparel chain Decathlon grew sales by 34 percent in 2016 on the back of 51 new store openings, which brought its total in China to 214 by year-end.

Double-click: Fueling the fitness trend



More than 40 percent of respondents said they exercise regularly and although gym membership and sports event penetration lag developed countries, they are rising rapidly. There are more than 15 million membership card holders in China today and sports apps are capturing an astonishing number of users, with over 65 million active users as of the end of 2016.

When it comes to fueling the body, a growing number of health food stores and F&B outlets offering “clean” and “green” produce are catering to a new wave of clued up, calorie-counting consumers. In addition, China's thriving food delivery services are beginning to offer healthier options such as salads and gluten-free and dairy-free options.



Double-click: Nike+ Run Club



Nike appeals to health-conscious Chinese consumers with its Nike+ Run club, an app that not only tracks running and provides a virtual coach but connects runners in the same community through Nike running clubs. This naturally leads participants back to Nike running shoes. Having placed the consumer, rather than the product, at the center of its strategy, Nike has benefited in both engagement and sales. The app appeals to the largest exercising population in China (50 percent of its runners say they run regularly), and it promotes healthy living, as well as its products, through the community.



Perception vs reality

While there seems to be growing consensus on the merits of leading a healthy lifestyle and all it entails, a mismatch exists, at times, between perception and reality in ways that are unique to China. For example, our survey showed that 39 percent believe that ambient yogurt is as healthy as chilled yogurt despite containing no probiotics, live bacteria and yeasts that are beneficial for the digestive system.

Food safety is important to Chinese consumers. Forty-one percent said they choose only to order food from trusted restaurants as they know the food is safe, and 60 percent claimed they cook at home as much as possible mainly because of food safety concerns.

Lepur, a local yogurt brand that markets itself as healthy and safe, is using its positive food safety credentials to gain appeal. In Beijing, Lepur's glass-enclosed kitchen is visible to the public so they can address any food safety concerns consumers may have. The feedback they get from consumers informs their development process and, through this collaboration, consumers gain confidence in the yogurts' ingredients and health benefits.

Key takeaways

The three key segments – the “Back to Basics”, “Balance Seekers” and the “Exercise Enthusiasts” – will become more important and companies will need to create thoughtful messaging and marketing. Drilling down into the detailed nuances of this vast and complex consumer group is key to success.

Although China is still in the nascent stage of its health awareness journey, forward-thinking companies have an opportunity to shape perceptions by partnering or aligning with trade associations, education institutions, and regulatory bodies.

Carefully constructed, multi-platform, marketing campaigns are essential. Companies in the health and fitness space must think beyond the product and create a broader offering. Tapping into China’s massive online communities, for example, with health and wellness information, will allow companies to connect the dots between the product and a lifestyle proposition.

Trend #3: The “post-90s” generation is emerging as a new engine of consumption

Our research this year shed new light on one of the fastest-growing and increasingly influential segments of Chinese consumers — what we call the “post-90s generation.” While many reports in recent years have grouped China’s younger generation under the familiar term, “millennials,” this term doesn’t fully capture the unique attributes of this segment of the population, which we define as people born between 1990 and 1999.

This generation exhibits very different behavior and attitudes not only with older generations of Chinese consumers, but also the generation that we call the “post-80s”, which is generally lumped together with the “post-90s generation” in media reports that cover this topic. They also differ to western millennials.

The post-90s generation grew up in a China unknown to their parents, one marked by extraordinary levels of wealth, exposure to western culture, and access to new technologies. Comprising 16 percent of China’s population today, this consumer cohort is, by our projections, going to account for more than 20 percent of total consumption growth in China between now and 2030, higher than any other demographic segment.

It’s a diverse group of consumers, as we discovered when we asked them their attitudes toward certain areas of life: success, health, family, brands & products, and their future.

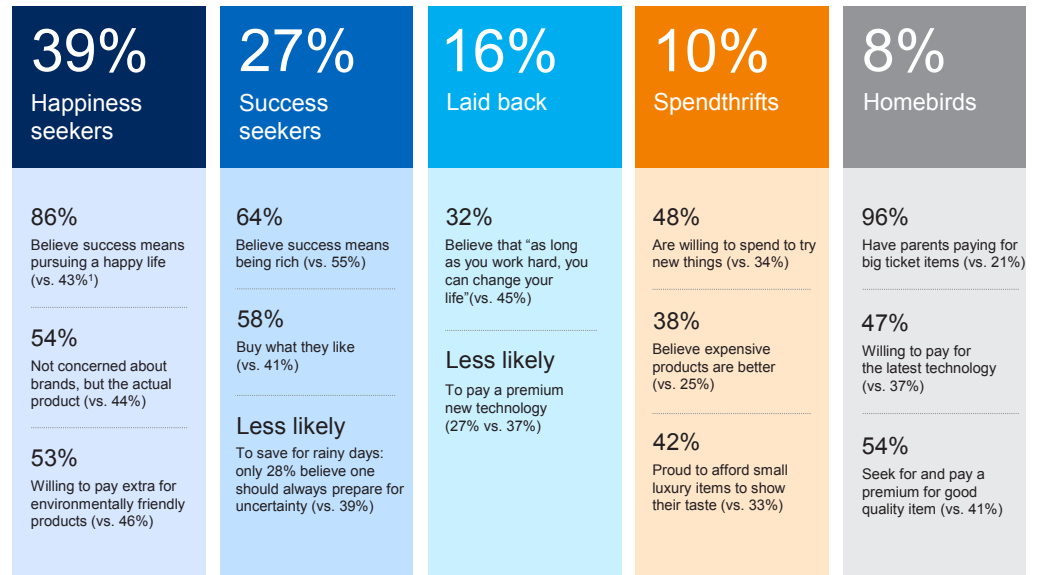
Exploring how this group defines success, or how they choose brands and products, yielded, in many cases, very different answers. Based on their beliefs and attitudes, we sorted them into five distinct segments. (Exhibit 4)

The “Happiness Seekers”

What we call the “happiness seekers” make up 39 percent of the post-90s generation, the largest single segment. Born after 1995, this group is young and comprised primarily of students. Despite concerns about supporting their parents financially later in life, they’re confident about their overall economic outlook, however, they define success in terms of their own happiness rather than material possessions. Eighty-six percent, compared with 43 percent of overall respondents is focused on pursuing a happy life and far less concerned about brands, and what they might represent to their peers.

Exhibit 4

Post-90s consumers have different priorities



¹ Statistics for the total survey population shown in brackets
SOURCE: McKinsey China 2017 consumer survey

These consumers value quality and will do their research before shelling out their hard-earned money for things: 55 percent frequently check labels and ingredients, versus 47 percent of overall respondents. Fifty-three percent say they would pay a premium for an environmentally-friendly product, versus 46 percent of overall respondents. And 54 percent emphasize what they're getting from a product over the brand, compared with 44 percent of respondents overall.

Companies have an opportunity to shape their spending habits and preferences, which are likely to change as they mature.

The "Success Seekers"

The "success seekers", the second largest segment (27 percent), are largely well-educated and white-collar. It's no surprise then that they admit to feeling stressed about their current life and their future. Unlike the "happiness seekers", happiness does not factor in their definition of success. They see success as getting rich (64 percent versus 55 percent of the average post-90s consumer).

Perhaps as an outlet for the day-to-day pressures they bear, this hard-driving segment of young consumers are more likely to reward themselves. They don't believe in saving for a rainy day and, instead, buy what they like, when they like.

The “Laid Back”

Unlike the “success seekers”, the “laid back” (16 percent) don’t see being rich as a definition of success, rather, they’re preoccupied with living better than others. They have little interest in premium, branded or high-tech goods and they don’t suffer the same stressed outlook as their counterparts.

The “Spendthrifts”

We also identified a smaller but nevertheless distinct segment, representing 10 percent of the overall post-90s group, whose materialism and lax attitude toward their future makes them a valuable consumer group.

They grew up in households where all their material needs were covered for by their parents and, today, as they embark on their careers and start to earn their own livelihoods, they appear to be carrying the relative disregard for saving money into their current spending habits. These well-educated, high earners are the most willing segment among the post-90s generation to spend money on the latest fashions, top brands and leisure activities in order to stand out from the crowd.

The “Homebirds”

The smallest segment of the post-90s generation, making up 8 percent of those surveyed, is what we’ve identified as “the homebirds” – those yet to have flown the nest and who still rely on their parents, especially for big ticket items. This low-income, predominantly female (68 percent), segment want to lead their own life, define success as living better than others, and feel little stress about their present situation or the future.

However, since they have not yet achieved financial independence, and given their comparatively gloomy outlook toward their earning potential—only 38 percent believe their household income will significantly increase in the next five years, compared with 53 percent overall – the “homebirds” are most likely to save for a rainy day.

Double-click: Gaming your worries away



It's no secret that social media is key to winning the hearts and minds of younger consumers. Tencent's multi-player mobile game, Honor of Kings, has successfully targeted the two largest post-90s segments – the “happiness seekers” and the “success seekers” – by appealing to their unique motivations. For the “happiness seekers”, the game appeals to their desire for happiness and quality of life. For the “success seekers”, it serves as an outlet for escaping their stressful existence.

Key takeaways

The post-90s generation represents a promising group of consumers who will heavily influence how brands perform in China.

However, brands should learn to manage their portfolios with new and emerging consumer segments in mind. Each segment differs and they differ again to western millennials.

Companies that think carefully about their story and whether it will resonate with these segments based on their beliefs and attitudes will have an advantage. Understanding the specific motivations of each post-90s sub-set will help companies to tailor their marketing messaging for more targeted reach.

While higher tier cities remain the focus, companies should pay close attention to populations of young people in lower tier cities and rural areas, where they exist in large quantities. They're optimistic about their future spending power and there is significant opportunity for companies to enter these markets early with the help of ecommerce.



Trend #4: Chinese consumers are taking a more nuanced view of brands, both global and local

In past surveys, we saw Chinese consumers take a strong interest in international brands. In other years, they acquired an interest in local brands. In recent years, they have developed a sharp eye for brands that delivered value for money.

In this year's survey, we've observed consumers take a more nuanced view of the brands they choose.

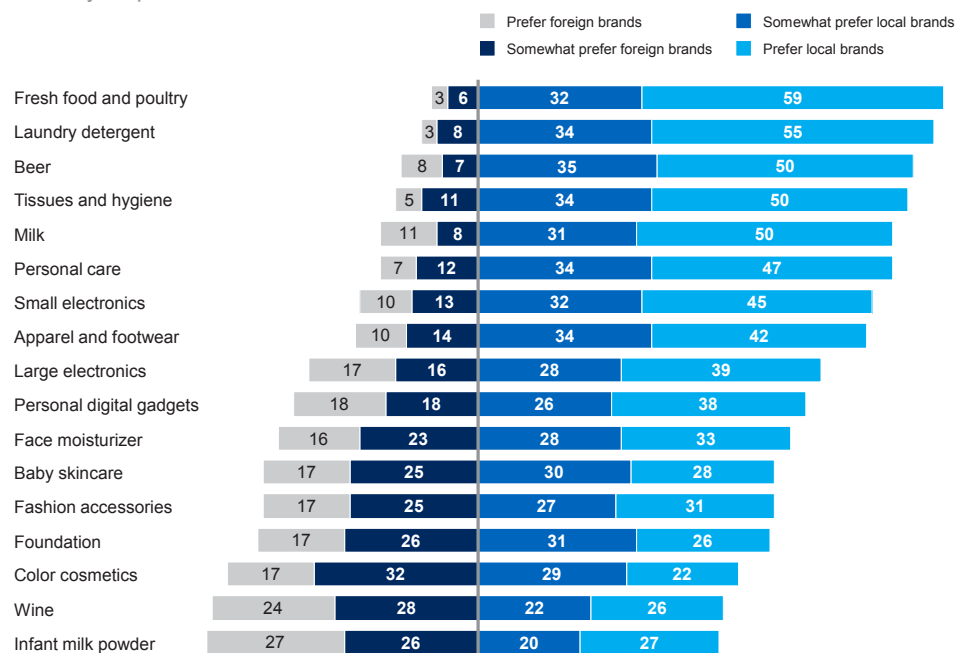
Across the majority of categories surveyed, brand origin matters less than before. Consumers today have very clear expectations and they apply to local and foreign brands alike. First and foremost, they want value for money. That's followed by quality products – they want their unique tastes catered to - and, lastly, they demand good after sales service.

In 8 of the 17 categories surveyed, respondents showed clear preference for local brands because they deliver in these three areas. Combined, these categories account for more than half of the total retail sales in China. (Exhibit 5)

Exhibit 5

Consumers are taking a more nuanced view of brands

% of survey respondents



SOURCE: McKinsey China 2017 consumer survey

Double-click: Brands beyond borders



Chinese outbound travel has negatively affected consumers' perception of brands in China among 30 percent of those surveyed. The top complaint from these well-travelled shoppers is that Chinese brands are of poorer quality (48 percent) and present a less premium brand image (39 percent). However, they also said that discrepancies over quality (40 percent) and after-sales service (40 percent) impacted their view of foreign brands in China. Brands should take such dissatisfaction as an early warning sign: more than half of these consumers were born after 1980 and they show a willingness to pay higher prices. They will become a valuable, and profitable, consumer segment.



In many cases, Chinese brands have become credible competitors. This is especially true in the personal digital gadget and personal care categories, where they have cemented their position over the last five years.

In 2012, Chinese brands accounted for 43 percent of the market in categories such as personal digital gadgets versus 63 percent in 2017. In personal care, Chinese brands made up 76 percent in 2017 compared with 61 percent in 2012.

While the survey showed that brand origin matters less than before, it also highlighted a level of confusion among consumers; there is increasing ambiguity between the country of origin and the country of manufacture.

It's fair to say, then, that Chinese consumers buy local brands not because they're local but because they believe they offer better value, the product is more suitable for them, and that the service is superior.

In the remaining six categories, there is no clear preference for foreign or local brands. However, in the instances where foreign brands are preferred—namely cosmetics, wine, and infant milk powder—demand for better quality and well-known brands emerged as the key factors in consumer decision making.

Across these six categories, 64 percent said they would seek out and pay more for better quality products that last longer while 46 percent would buy internationally branded products if they had more money. More than half believe well-known brands are always of better quality.

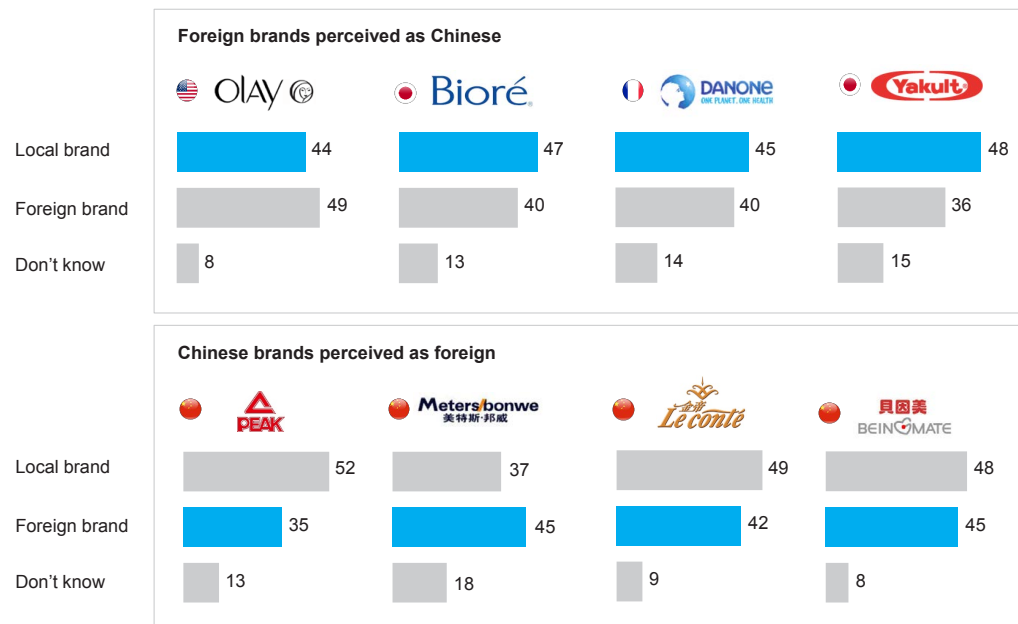
Blurring between local and foreign

However, as with the health-conscious consumers described earlier, a mismatch exists between perception and reality when it comes to brand selection.

Exhibit 6

Perceived country of origin of select brands

% of respondents



SOURCE: McKinsey China 2017 consumer survey

Many believe that global brands with a longstanding presence in China, such as Olay and Biore, are local brands. In the yogurt category, 45 percent of consumers believe Danone, which originates from France, is a Chinese brand and 48 percent think the same of Yakult, which is from Japan. On the other hand, Chinese brands that have packaged themselves as international are often mistaken as foreign. Beingmate (infant milk powder) is regarded as a foreign brand by 45 percent of respondents, and, in the apparel category, where 76 percent of consumers prefer Chinese brands, Shanghai-based casualwear brand, Metersbonwe, is thought to be foreign by 45 percent of consumers. (Exhibit 6)

Double-click: The value of value



Cost is less of a concern among today's consumers who appear to be preoccupied by value for money. Huawei is a good example. The Chinese technology company is top of mind among consumers who are proud to own a Chinese smartphone that is as attractive and technologically advanced but less expensive than an iPhone.

Conversely, consumers are also willing to pay a premium for top of the range foreign brands that they believe offer great functionality, design, and quality. Take British technology firm Dyson, for example. It saw Chinese sales grow by more than 200 percent in 2016, despite its products costing considerably more than the local alternatives.



Key takeaways

Both foreign and local brands have opportunities to grow in China providing they can appeal to the increasingly nuanced needs of consumers.

MNCs may find it easier to invest in new products and strategies that bridge the gap in areas where local companies are currently preferred, including pricing, quality and service.

For local brands, catching up with foreign brands on their attributes - safety and aspirational qualities - will be more challenging. Joint ventures and M&A may support their growth strategies in such cases.

Conclusion

There is no longer a single, one-size-fits-all definition of the Chinese consumer.

These increasingly discerning shoppers are younger, focused on health, and more brand savvy than ever, and they demand more from the products and services they buy. Both global and local companies must understand these nuances if they hope to craft brand and product messages that appeal to them.

About the McKinsey 2017 China Consumer Survey

Our study combined a comprehensive survey of Chinese consumers, in-depth research, and observations from our work advising companies in China.

- The survey was conducted from May to July 2017, and is part of a series of comprehensive surveys of Chinese consumer behavior conducted by McKinsey since 2005.
- The survey sample included approximately 10,000 respondents from 44 cities and 7 rural areas, representing approximately 90 percent of China's GDP and more than half of its population.
- We conducted a combination of online and offline research with respondents, covering consumers' general attitudes and purchasing behavior, key trends regarding their consumption patterns and leisure habits, and attitudes toward life, success, money, and health.
- The survey included a deep dive into apparel, cosmetics, and fast moving consumer goods categories, including food, personal care, and household products.
- Our research was supplemented by additional research that McKinsey is conducting on consumer sentiment in 26 countries. Results from our 2018 Global Sentiment Survey are available on mckinsey.com.

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