

Chinese Consumers Series - Issue 1

Understanding China's new consuming class – the millennials

Asia Distribution and Retail
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Lifestyle Upgrade

Millennials demand for premium goods and services that enhance a personal sense of well-being.

Demand for Uniqueness

Millennials demand for unique products which give them a sense of superiority.

Experience-oriented

Millennials spend a bigger portion of their discretionary income on retail-tainment than the older generations.

Craze for Social Media

Millennials are the heaviest users of social media. Social media and mobile shopping become their major shopping channels.

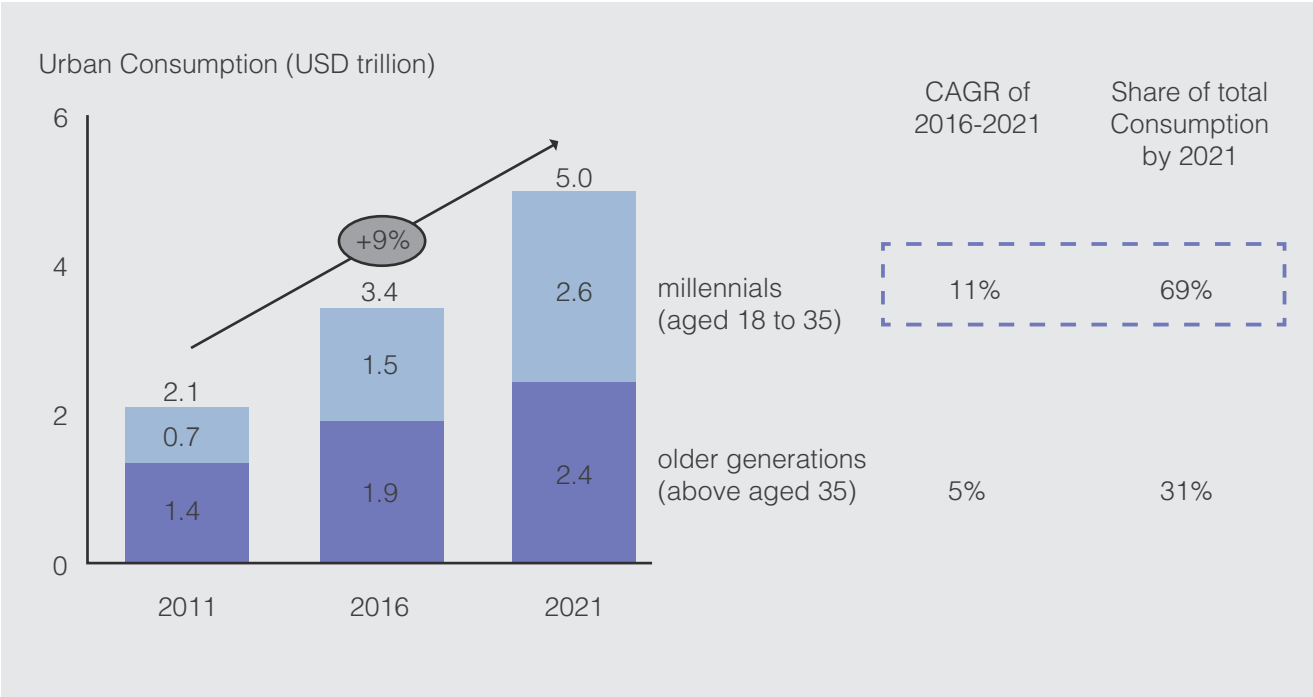
Chinese millennials – who are they?

Today, the dramatic rise of upper middle-class households, particularly the growing, influential Chinese millennials (post-80s and post-90s generation) are reshaping the retail sector in China. According to a recent study by Goldman Sachs, young people who were born in the 1980s and 1990s have a population of around 415 million, or 31% of China's total population¹. Boston Consulting Group (BCG) estimated that the millennials (now aged 18-35) represented 40% of total Chinese urban population who aged 15-70, and the proportion of the millennials will increase to 46% by 2021.

The Chinese millennials are set to become the dominant force and the most influential consumer segment in the consumer market. According to the BCG, consumption by young Chinese spenders under the age of 35 accounts for 65% of consumption growth. In addition, consumption by these young consumers is growing at an annual rate of 11% from 2016 to 2021—twice than that of consumers older than the age of 35. The share of total consumption by the young generation is projected to reach 69% by 2021², versus 31% by the older generations (Exhibit 1).

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Exhibit 1. Share of China's urban consumption by the millennials (aged 18 to 35) versus the old generations (aged above 35)



Source: BCG; compiled by Fung Business Intelligence

Unlike their parents, who lived through challenging economic and social times and chose to save and limit their consumption, the younger generations are spending more generously and demonstrating more individualized preferences. This is because they were born and raised at a time when China's economy and wealth were taking off, so they are “privileged generations” who benefited significantly from the economic reforms. Furthermore, most of them are the only child in their family under the “one-child policy”, hence are often at the center of attention with all the love and financial support from the older generations. Their spending attitude is therefore, much more generous than their older generation.

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The younger generations are also more educated and globally-aware than their parents. 25% of Chinese millennials hold a bachelor's degree or higher, compared to 3% for their parents' generation, according to the BCG. They are tech-savvy and are already making around 40% of their purchases online. They travel overseas twice as much compared to the older generations³.

The millennials' mindsets

The highly connected Chinese millennials are more sophisticated with exposure to western cultures and ideas, modern lifestyle and abundance of information at their fingertips. They have high aspirations for a better life and strong desires to live far beyond the basics of living (Exhibit 2).



Exhibit 2. Characteristics of Chinese millennials

	The older millennials (The post-80s)		The younger millennials (The post-90s)	
Who are they?	Ms. A 	Mr. B 	Miss C 	Mr. D 
	Married with a young kid, accountant	Single, entrepreneur	Single, overseas graduate	Single, university student majoring in computer sciences
Life aspirations	Being happy and healthy, living a lifestyle she likes, and staying in touch with trends	Having a premium lifestyle with strong sense of individuality	Able to pursue her dreams and have a successful career	Being bold, with strong personality and identity to create trends
Success definition	Successful career, property ownerships	Achieve personal goals with a successful business	Become a fashion KOL; being socially recognized	Become an entrepreneur
Hobbies and lifestyle	Busy schedule – hope to strike a balance between work & family; jog at night 2 times a week	Busy schedule – work and social networking; play table tennis once every 2 weeks	Dine out with friends, go to gym 3 times a week, enjoy spa treatments and travel overseas 1-2 times a year	Time mainly devoted to entertainment and gaming, especially mobile games, mingling with friends
Shopping habits	Omni-channel shopper; frequently shop in Tmall Global for kids products and JD Daojia for grocery and fresh food; enjoy shopping with family at shopping mall	More planned purchase and buy intentionally; like to shop online	Omni-channel shopper; like to shop in ZARA and H&M; enjoy shopping online at e-commerce platforms hosted by fashion KOLs	Occasionally shop online; enjoy spending time with friends in coffee shop and game centre
Key buying factors	Value for money, authentic and good quality, stylish design	Premium quality, convenient	Unique, trendy and lifestyle products; prefer brands that offer wide product range	Convenient, immediacy
Digital engagement	Frequently use social media to interact with friends and families Look for product information on social media	Frequently use social media to interact with friends and families	Mobile native; addicted to social media to express her thoughts and views Check social media accounts at least once every hour	Mobile native; use social media to interact with friends and express his thoughts and views Spend around 5-6 hours each day on social networks /mobile games platforms
Outlook for the future	Confident	Confident	Confident	Confident

Source: Fung Business Intelligence^a

^a Fung Business Intelligence conducted in-depth interviews with a number of Chinese millennials in Beijing, Shanghai and Guangzhou in May and June 2017 to further understand the core values, shopping habits and beliefs of the Chinese millennials. We found that among the Chinese millennials cohort, the post-80s and post-90s showed distinctive differences in their social attitudes and mentality despite being born only a few years apart in some cases.

1. The lifestyle upgrade

Prefer premium over mass

Nowadays, young Chinese consumers have strong aspirations towards having a premium lifestyle. Demand for premium products and services that could enhance a personal sense of well-being, such as healthy foods, education, and travel, rather than daily necessities – are on the rise. At the same time, they are becoming more selective about their spending as they are more willing to pay for quality. Rising health, food safety and quality consciousness is driving demand for premium products. According to a recent study by Credit Suisse, Chinese consumers are more likely to buy premium and or more expensive versions of products rather than mass-produced products⁴. A study conducted by McKinsey found that 50% of modern Chinese consumers are seeking the best and most expensive offering⁵.

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A growing healthy lifestyle

With the strong advocacy from the Chinese government, Chinese consumers have become much more health conscious. Since the promulgation of the *Opinion on Accelerating the Development of the Sports Industry and Promoting Sports Consumption* by the State Council of China in October 2014, the robust development of sports industry in China has become a national strategy. In 2016, several important government initiatives were launched in an effort to build a more healthy China (Exhibit 3). In March, the National People's Congress of China adopted the *13th Five-year Plan*, which sets out new objectives, principles, and targets for 2016–2020, including action plans for enhancing environmental protection and green growth, promoting individual and population health, and improving the health care system and services⁶. In June, the State Council launched a strategic plan to implement a program to improve the nation's physical fitness and health levels⁷. In October, the Political Bureau of the Chinese Communist Party adopted the *Healthy China 2030* plan as part of a comprehensive strategy to improve the general health of Chinese people⁸. As such, more Chinese especially the younger generations are pursuing a more balanced and healthy lifestyle.

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Exhibit 3. Selected major Chinese government’s initiatives of promoting a more healthy lifestyle in 2016

Month	Initiatives	Details
March 2016	<i>The 13th Five-year Plan</i> by the National People's Congress of China	Sets out new objectives, principles, and targets for 2016–2020 to promote the Sports Industry and sports consumption.
June 2016	A strategic plan by the State Council	A plan to implement a national fitness strategy and improve the physical fitness and health level of the whole nation.
October 2016	<i>Healthy China 2030</i> blueprint by the Communist Party of China (CPC) Central Committee and the State Council	Cover areas such as public health services, environment management, the medical industry, and food and drug safety.

Source: State Council's website; Xinhuanet; compiled by Fung Business Intelligence

According to a recent survey by Credit Suisse, nearly 40% of consumers intend to increase the time spend on playing sports, while almost 80% agree that they have started to eat more healthily⁹. According to the General Administration of Sport of China, the total value of China’s sports industry amounted to 1.7 trillion yuan in 2015, representing an increase of 549.4 billion yuan from the previous year and accounting 0.8% of GDP in the same period¹⁰. The total value of China’s sports industry is estimated to reach more than 3 trillion yuan by 2020, while total value added of the industry is expected to account for 1 % of GDP. By 2025, the total value of China’s sports industry is expected to reach 5 trillion yuan, with a compound annual growth rate of 20% from 2015 to 2025. As many as 500 million people are set to participate in sports regularly by then¹¹.

Rapid growth in service consumption

In recent years, China has witnessed a rapid growth in lifestyle services consumption, in particular those related to people's quality of life and sense of well-being. The rapid development of e-commerce, the booming O2O platforms and the rise of the sharing economy have all opened up opportunities for the local lifestyle service sector. In contrast with older generations, who mostly worked for the sake of financial security, younger generations are spending a higher proportion of their income in the services industry, particularly education, healthcare, entertainment, food and beverages, and travel.

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Spending on travel on the rise

Chinese millennials constitute the largest share of China's outbound travelers. Goldman Sachs estimated that millennials now account for the majority (67%) of total Chinese overseas tourists¹². A survey conducted by Marriott International and the Hurun Research Institute showed that an average young luxury traveler traveled abroad for about 3.3 times in 2015¹³, 69% of which was leisure travel. Furthermore, Chinese millennials tourists are the most powerful spenders. According to a study commissioned by the Singapore Tourism Board, Chinese millennials spend more than two times that of the average Asian millennials travelers per trip¹⁴. When searching for traveling information, the younger generations rely heavily on social channels such as WeChat for travel tips from friends, brands and professional travel advisors. Third-party apps from popular platforms such as C-trip, Qunar, and Tuniu are also regarded as important information channels.

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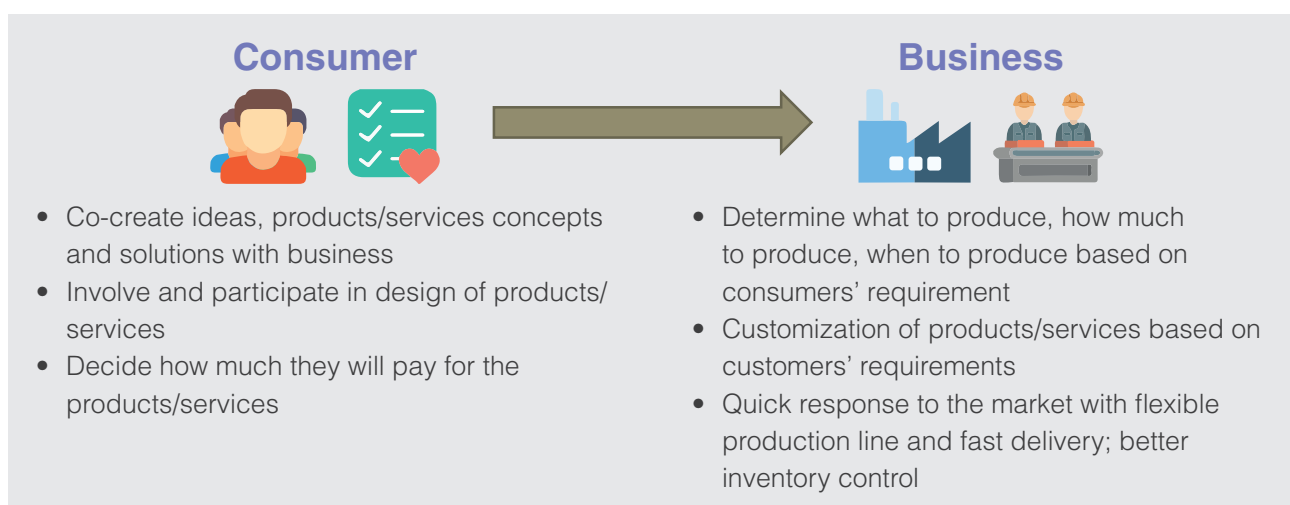
2. Demand for uniqueness

As basic needs are met, Chinese millennials are demanding for unique products which give them a sense of superiority. Niche brands, limited edition products and customized products are getting more popular in China. Customization is the trend for not just the high-end but also the mass market and young segment.

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At the same time, young customers like to proactively convey their views, ideas, and even product solutions to the suppliers. More and more companies now adopt a consumer-to-business (C2B) model to enable customers to participate in the design of the products and services (Exhibit 4). Under the C2B model, designers, producers, and consumers are directly connected on the Internet; companies can design and produce according to what the consumers request¹⁵.

Exhibit 4. C2B model is about consumer-driven production



Source: Fung Business Intelligence

For example, Nike launched the popular “NIKEiD” design-it-yourself (DIY) service to allow customers to design their own shoes and accessories, including bags and backpacks. The service fits in perfectly with Nike’s focus on its direct-to-consumer strategy and provides a more engaging shopping experience to customers (Exhibit 5).

Exhibit 5: NIKEiD – customized Nike sneakers

NIKEiD is a service provided by Nike allowing customers to personalize and design their own Nike merchandise. They offer online services as well as physical NIKEiD studios in different countries around the world. In China, NIKEiD has been very popular among Chinese consumers, particularly the young millennials and young parents with children. Many of them design and customize their own Nike shoes based on their preferences and share on social media.



Source: Nike China's official website

3. Expect a better shopping experience

Shopping with social and entertainment purposes

Chinese millennials increasingly view shopping as a desirable social activity. Shopping no longer satisfies the sole purpose of purchasing goods, but rather of spending quality time with friends and family. According to a survey conducted by CBRE, Chinese millennials spend a significantly bigger portion of their discretionary income on retail-tainment – shopping while enjoying leisure and entertaining at the same time – than older generations, who set much of their budget aside for necessities.

More retailers now leverage Internet technologies to offer experience- and lifestyle-driven offerings, and even the latest VR technologies to attract the connected Chinese millennials. Increasing numbers of shopping centres, department stores and retail stores have introduced experiential elements and endeavored to become retail destinations for entertainment and social interactions, hoping to create memorable experiences for the new generation

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of sophisticated consumers. According to a survey conducted by Fung Business Intelligence and China Commerce Association for General Merchandise (CCAGM) in 2016^b, 50% of the surveyed department store operators have already started O2O practices; and 76.6% of surveyed department store operators have added experiential elements in stores to provide fun and exciting retail-tainment experience to attract customers.

Convenience-driven

Nowadays, Chinese millennials have high expectations on shopping convenience. They are the omni-channel shoppers – to use whatever channel that best suits their needs, be it online or offline. When they do online shopping, the majority of them use mobile for their entire shopping journey – from product research, to purchase, payment, delivery and after-sales. While at physical stores, they look for convenient payment methods such as Alipay or Tenpay; as well as hassle-free delivery service. To attract Chinese millennials, it has become the top priority for many retailers to offer a seamless, O2O shopping experience across various retail channels.

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^b For more information, please refer to our publication [China's Department Stores Report 2016](#).

4. Craze for social media

In addition to having the world's biggest number of Internet users – 731 million as of December 2016, China also has the world's most vibrant environment for social media. Among the Chinese Internet population, 80% regularly visit social networking sites and online communities, mostly on a daily basis. Chinese millennials are the heaviest users of social media. According to a recent report co-published by the Chinese Academy of Social Sciences and Tencent Research Institute, the penetration rate of social media among the post-00 generation reached 99%. 73% of the post-80s and post-90s generations launch social media app such as WeChat and QQ every 15 minutes¹⁶.

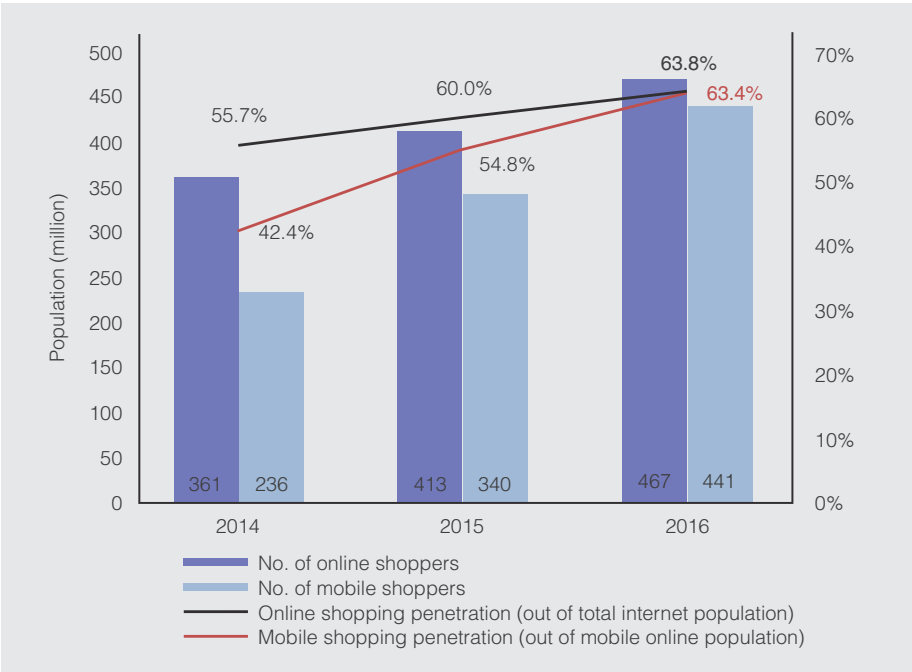
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Mobile shopping and social shopping prevail

In China, the booming mobile generations and the fast growth of mobile social media usage have fuelled the growth of social-commerce (s-commerce) or social shopping. Social media and mobile shopping are now the major shopping channels that the millennials embrace. According to the China National Commercial Information Center (CNCIC), the number of shoppers who use mobile devices to buy online reached 441 million as of December 2016, up 29.7% yoy. Mobile shopping penetration (out of mobile online population) reached 63.4%¹⁷ (Exhibit 6).

Social media and mobile shopping are now the major shopping channels that the millennials embrace.

Exhibit 6. Online shoppers population and penetration, 2016



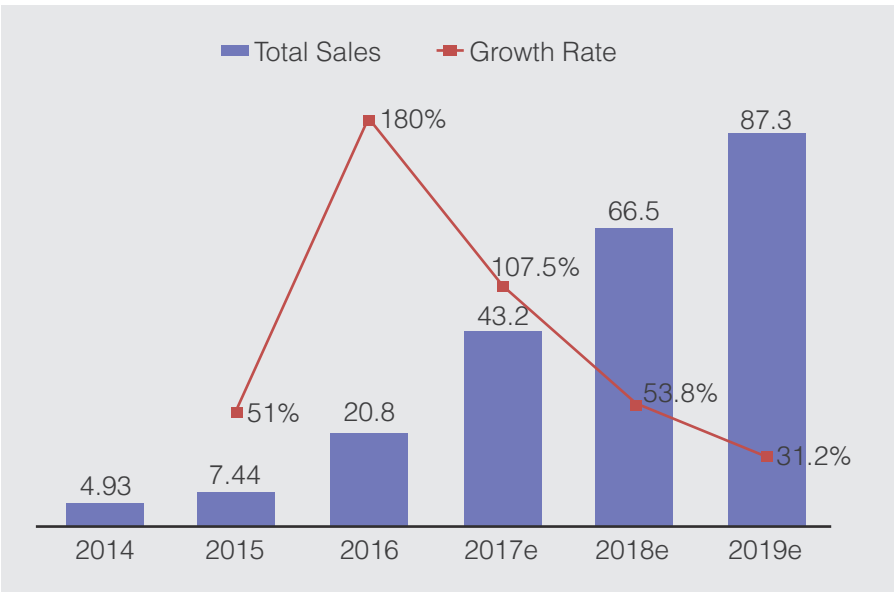
Source: CNCIC; compiled by Fung Business Intelligence

The post-80s and 90s generations, who spend substantial amount of time on social media platforms, are more likely to be affected by their friends and peers in WeChat Moments and various key opinion leaders (KOLs) on social networks. Increasing numbers of retailers or brands now use social networks to sell their goods. Some have launched their own “Weidian” (or micro-store) to sell their products.

From live streaming to video viewing and sharing

A latest trend among Chinese millennials that is becoming popular with the fast growth of social media is live streaming on social networks. According to iResearch, the Chinese live video streaming market was worth around 20.8 billion yuan at the end of 2016, a huge jump of 180% compared to 2015. The Chinese live video streaming market is expected to have total sales of 87.3 billion yuan by 2019 (Exhibit 7). Some popular live streaming platforms include YY, Tian Ge Interactive, Song Cheng and Momo; these platforms recorded combined live video streaming revenue of more than 11 billion yuan in 2016¹⁸.

Exhibit 7. China’s live video streaming market (billion yuan)



Source: iResearch; compiled by Fung Business Intelligence

Apart from live streaming, China has seen an explosive growth in short video market in 2016; apps such as MiaoPai, Toutiao Video and Meipai recorded skyrocketed growth in terms of number of monthly active users. According to iiMedia Research, short video users in China are expected to reach 242 million people by end of 2017, up 58.2% yoy¹⁹. Among the mobile short video apps users, young people aged 24 to 30 made up the largest cohort, accounting for 42.7%²⁰.

With live streaming and short video markets taking off, they become a widely used marketing and distribution channel for brands and retailers to promote or sell their products to the younger generations. We believe the young Chinese netizens will continue to drive the live streaming and short video markets in China, backed by the hopes of thousands of young Chinese who want to become famous streaming anchors or video bloggers (“vloggers”).

Winning the Chinese Millennials

The growing, influential Chinese millennials have attracted global retailers' attention as they are having substantial impact on consumer markets in both China and overseas. To win this generation of empowered and discerning Chinese millennials who poised to be the future biggest spenders, it is imperative for retailers to adapt to their needs – mobile, social, experiential, convenience-driven, customized products and services. Retailers should leverage their data analytics capabilities to provide personalized experiences; keep innovating and constantly revamp with new business models to keep up with the rapidly changing consumer needs; embrace O2O practices to provide the seamless and integrated shopping experience that millennials are seeking; and introduce fun and exciting retail-tainment concepts to “wow” them and lure their repeat visits.

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