



**CAPTURING GROWTH IN CHINA:  
NEW CONSUMERS**

Gaining insights into today's Chinese consumers is notoriously difficult. The market's size, complexity and constant evolution present major barriers to understanding what makes Chinese consumers tick.

Accenture's 2018 China consumer study shows that China's vast consumer market is as confounding and fast moving as ever. Digital advances and innovations continue to change how and what consumers buy. The country's remarkable economic growth continues to translate into more consumer purchasing power. And demographic changes and generational shifts are shaping new spending habits and buyer values. Together, these factors are transforming China's consumer market at a pace and scale unprecedented in history and in elsewhere.

Yet, many companies are neither recognizing the impact these changes have on sales growth nor appreciating the speed at which they are occurring. Some still cling to a one-size-fits-all approach to marketing and sales. Others attempt to target consumer segments, but base their customized offers on outdated assumptions. Neither approach is enough to drive growth and harness the vast opportunities in China.

What are the factors shaping buying preferences, intentions and behaviors in China's consumer market? How is the market evolving? In Accenture's China consumer study, we have identified three trends each of which represents an opportunity that forward-thinking companies can pursue to capture the interest and spending of China's evolving consumer market.

# THE RISING NEW PURCHASING POWER

Consumption has been the leading driver of economic growth in China, accounting for 58.8 percent of China's growth in 2017. The shift from an investment-driven to consumption-driven economy has been spearheaded by a new breed of consumer—one that is digitally empowered, richer and more sophisticated than ever.

Two primary factors are converging to create new purchasing power and consumer patterns. The first is the vast digital ecosystem that is now putting more money in the wallets of consumers—and making it easier for them to spend:

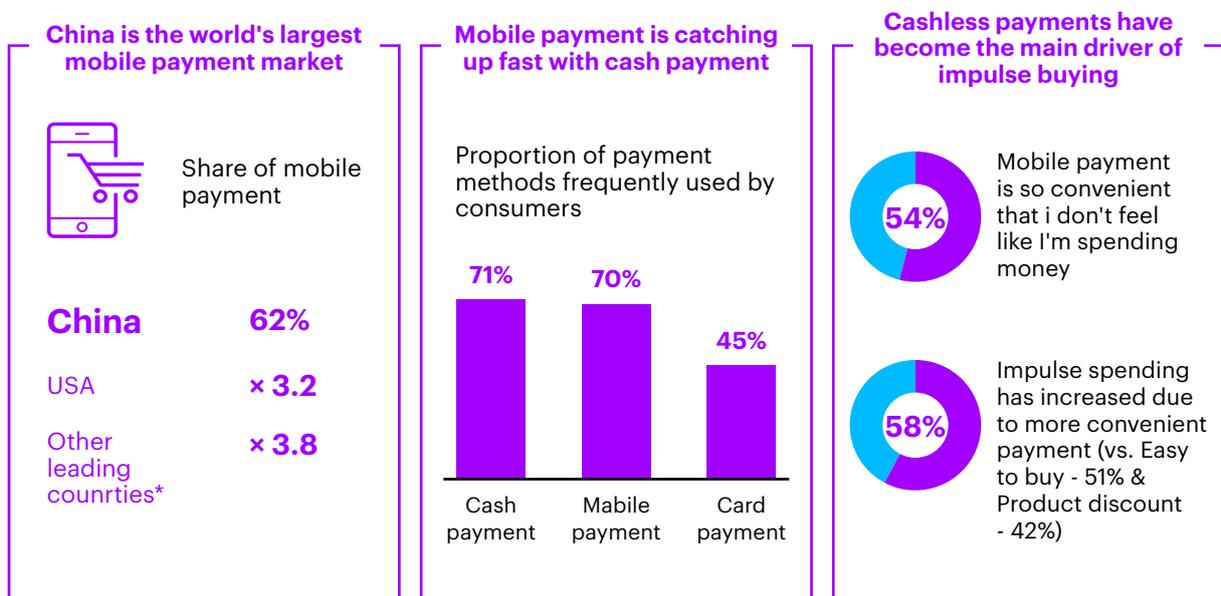
- **More disposable income.** Approximately 40 percent of consumers now earn extra income by selling products online through platforms such as Taobao and WeChat, providing ride-sharing services via Didi Chuxing (which acquired Uber's China operations in 2016), or streaming live broadcasts on the Internet.<sup>1</sup> This is one of the reasons majority of consumers (52 percent) in China plan to increase their spending in the coming year.

Companies must determine how to engage with these consumers and take advantage of their new spending power, consumption patterns and optimism.

- **More ways to pay.** Mobile payment platforms have revolutionized how consumers in China carry out their purchase transactions. China's \$16 trillion mobile payment market, which represents nearly two thirds (62 percent) of the country's online spending, is considerably larger than mobile payment markets in the rest of the world (see Figure 1).<sup>2</sup> Consumer credit and financing products are gaining in popularity, too. As with mobile payment methods, credit and financing options make it easier for consumers to spend without having cash in hand. They encourage more impulse buying and higher levels of spending (see Figure 1). Companies clearly need to meet consumers' demand for cashless transactions.

**New income sources and payment options translate into new purchasing power: CNY 308.9 billion (approximately USD 47 billion) in 2017 alone.**

**Figure 1. Cashless payments are a key driver of consumption in China**



\* Other leading countries = average of the other eight countries with the highest online shopping volume in 2016, including the UK, Japan, Germany, South Korea, France, Canada, Australia, and India.

Source: eMarketer, Digital in 2017 Global Overview, by We Are Social & Hootsuite, Accenture Research.

The second factor is generational change. We identified four generations of consumers—each with unique characteristics, interests, worldviews and social values that inform their purchase decisions (see sidebar). These generations have emerged and evolved over the past 40 years. Over that period, they have seen China grow to become the world’s second largest economy. They have experienced, first-hand, the milestones of economic and social development, as well as the government policies that made those milestones possible.

Beyond the effects of traditional population shifts related to factors like aging and urbanization, government policies have had a huge impact on the demographics, size and make-up of China’s consumer market today. China’s one-child policy, which was in place from 1978 until 2016, affected not only China’s workforce composition, but also its consumer structures. Because of the one-child policy, the majority of people born in the 1980s, 90s and 00s were the only children in their families. Today’s consumer base—while enormous—is actually smaller than it might have otherwise been. Now the one-child generations have come of age and become the mainstream consumers, marking yet another significant societal and economic shift.

Today, each of the four generations is brimming with consumption potential. But they are not static. They will continue evolving. For example, by 2030, today’s 23-37 year olds will be caring for aging parents and two-child households. Their willingness to spend will likely be tempered by their greater financial responsibilities. Those consumers born in the 70s will join their older peers in a silver-haired generation that will exceed 600 million. They will represent the largest consumer segment the world has ever seen. As those born after 1995 become the backbone of the consumer economy, a new and younger generation will step forward. These individuals, born after 2000 and considered “digital natives,” are now entering the workforce. By 2030, they will be 150-million strong. Like the generations that preceded them, these new consumers will reflect the times in which they live. Their purchase decisions and behaviors will be shaped by their unique experiences, values and mindsets.

When carrying out strategic planning to expand their presence in this lucrative, complex and fast-growing market, companies need to understand the differences and similarities across generations. With those insights, they can more readily identify consumer trends, as well as opportunities for growth. Through our research, we’ve identified three.

## SIDEBAR

### FOUR GENERATIONS OF CONSUMERS IN CHINA

1

Individuals **born in the 1950s and 60s** represent China's largest consumer segment today. They became consumers in the 1970s, when China was isolated from the world and consumer choice was limited. They have since benefitted from China's emergence on the global stage. It is perhaps tempting to think of this "silver-haired" generation as being digitally immature. That is not the case. This group keeps up with digital trends—something companies must take into consideration when tailoring products and services to meet their needs.

2

Individuals **born in the 1970s** reached their consumer stride during China's economic boom of the 90s. This group, which represents 17 percent of the population, is distinguished by its pragmatism. Their focus on value is likely a byproduct of childhoods spent in rural and impoverished conditions. Despite having successful careers in middle age, this group is less willing to spend than younger consumers.

3

Individuals **born in the 1980s and 90s** are the backbone of China's consumption-driven economy, representing a consumer base that is larger than the entire population of the United States. They grew up in the mobile era, in middle-class households, with access to a broad range of goods and services. They are now most willing to spend—especially for convenience. Additionally, they grew up as only children and are now the first generation to benefit from China's two-child policy.

4

Individuals **born after 1995** are the most active when it comes to online and mobile purchases. They likely can't recall a time when what they wanted to buy was not available. As college students or young professionals now, they expect personalized service and highly value targeted experiences.

## OPPORTUNITY 1:

# EXCEED DIGITAL CONSUMERS' GROWING EXPECTATIONS FOR LIQUID EXPERIENCES

As Chinese consumers become more sophisticated shoppers, companies are finding that brand prestige, product quality or even price no longer wield the influence they once did. Our research suggests that companies now need to distinguish themselves with responsive, convenient and social customer experiences (CX). Among our survey respondents:

- 59 percent are interested in the products they buy and the shopping experience as a whole.
- 55 percent will pay more if they are able to save time.
- 47 percent consider the shopping experience a highly social activity.

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**Companies that create seamless, convenient experiences for consumers across channels and across the purchase lifecycle benefit from improved customer satisfaction and more impulse buys.**

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Our research results revealed several things companies should consider when creating adaptive, or “liquid,” experiences that satisfy unique consumer needs at any moment in time and trigger more impulse buys.

- **Break down barriers.** The fight between online and offline purchasing is settled for Chinese consumers. Both are winners. China’s digital consumer market is already the world’s largest (see Figure 2). And it’s growing larger, with 55 percent of consumers acknowledging that they have increased the frequency of online shopping in the last year. But traditional shopping channels are also quite

important—especially among online shoppers (see Figure 3). Companies, therefore, can’t focus solely on building online CX. They must focus on creating better, seamless experiences across all channels. Equally important, they must build CX capabilities across the entire purchase process—from product discovery to purchase and use to repeat purchase and after-sales services. Many companies focus on the experience during the purchase, but ignore the stages before and after. Today, the seamlessness, convenience and relevance of lifecycle processes are as important as the quality of the products sold and services delivered.

**Figure 2. China is the world’s largest digital consumption market**

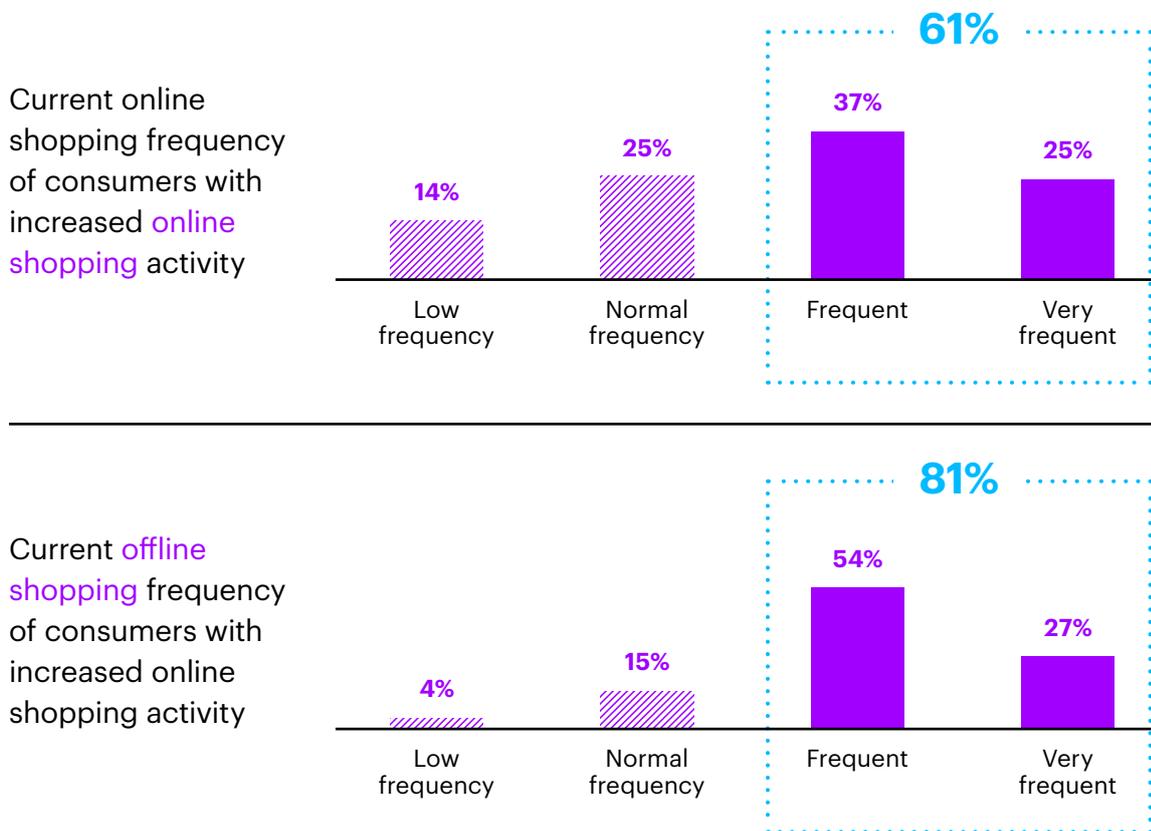
	 <b>Online shopping volume</b> <b>(US\$ billion)</b>	 <b>Online shopping population</b> <b>(millions)</b>
<b>China</b>	<b>851</b>	<b>460</b>
<b>United States</b>	<b>× 2.2</b>	<b>× 2.6</b>
<b>Other leading countries*</b>	<b>× 18.7</b>	<b>× 9.4</b>

\* Other leading countries = average of the other eight countries with the highest online shopping volume in 2016, including the UK, Japan, Germany, South Korea, France, Canada, Australia, and India

Source: eMarketer, Digital in 2017 Global Overview, by We Are Social & Hootsuite, Accenture Research

**Figure 3. Chinese consumers will spend more, online and off**

**Active online consumers are also active in shopping offline**



Source: Accenture Chinese Consumer Digital Trends Research 2017

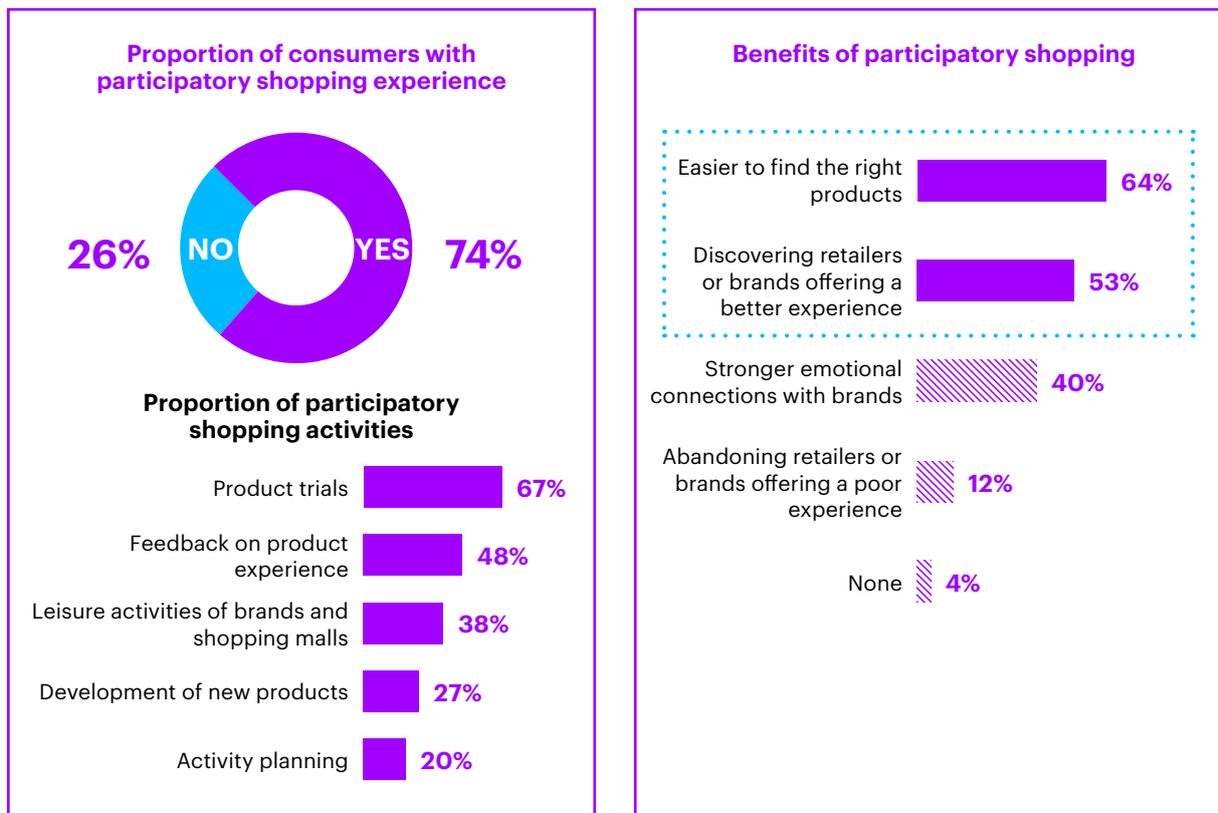
- Set the scene.** Consumers are more inclined to make a purchase if they can imagine themselves using the product in their daily lives. IKEA is a leader when it comes to employing traditional scenario-based shopping models. A beautiful living room decorated with a sofa, cushions, a coffee table and cups unconsciously increases the consumer's desire to buy.
- Augment the experience.** Digital technologies enable companies to create new physical and sensory experiences that drive sales. Augmented reality (AR) and virtual reality (VR) make shopping smarter and more engaging. Nearly half of the consumers we surveyed expressed an interest in experiencing the products they want to buy through AR or VR devices.

- **Involve consumers.** Nearly three-quarters (74 percent) of consumers we interviewed have participated in product development or marketing activities. Participatory experiences have many positive effects (see Figure 4). The biggest one is to help consumers find the right products and brands.

A couple of years ago, Jiang Xiaobai, a Chinese alcohol brand, launched

the Expressive Bottle Campaign, which enabled consumers to upload a picture of their bottle with a message. Jiang Xiaobai then chose some of the uploaded content for its official products, which were mass-produced and launched simultaneously across China. Within six months of the campaign’s launch, sales had grown by 86 percent, and search engine indexing rose by over 100 percent.<sup>3</sup>

**Figure 4. Participatory shopping improves the customer experience**



Source: 2018 Accenture Research on Chinese Consumer Digital Trends. N = 4,060

- **Socialize retail.** The social nature of shopping is reflected in the emergence of online communities that attract people with common interests in food, travel, sports or other topics. Nearly 90 percent of Chinese consumers belong to such communities, and most prefer to buy products recommended by their community cohorts—even if prices are higher than for comparable products. Given the influence that peers can have on purchasing decisions, companies should focus on creating, managing or participating in consumers' hobby communities. By doing so, they can create better experiences for their consumers and also attract more repeat customers and sales.

Social apps extend the social dynamics of shopping even farther by providing a new channel for sales. Equally important, they provide a platform through which consumers can share their shopping experiences with others or publish their comments for others to see. We found that 87 percent of consumers were willing to do so, and 55 percent already had. Managing sharing and feedback platforms for target consumers is critical, since comments and recommendations mark the end of one social shopping process and the start of the next.

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## TO SHOP IS TO SOCIALIZE

According to Nicole Yang, CMO of luxury goods retailer Secoo, companies can boost customer engagement and sales by facilitating transactions through social activities.<sup>4</sup> Electronics company Xiaomi and Footwear manufacturer Belle International are two brands adopting this approach. In 2017, Xiaomi launched an online event, which invited users to comment on the company's new MIUI Direct Service. During the event, Xiaomi updated the product based on those comments.<sup>5</sup> Belle International teamed with an important social media influencer, Uncle Tongdao, to expand its reach to young consumers.<sup>6</sup> Both companies use social media platforms to carry out content marketing, distribution and sales.

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## OPPORTUNITY 2:

# ENTER THE FITNESS ECONOMY

Successfully competing in China's complex consumer market requires companies to take advantage of emerging trends and seize market share with products and services that meet consumers' changing needs. Our research confirms that fitness has become a major lifestyle trend:

- 60 percent of the consumers we interviewed spend over three hours on sports or fitness every week.
- 38 percent are members of sports clubs
- 37 percent frequently buy sports or outdoor equipment
- 22 percent expect to increase their spending

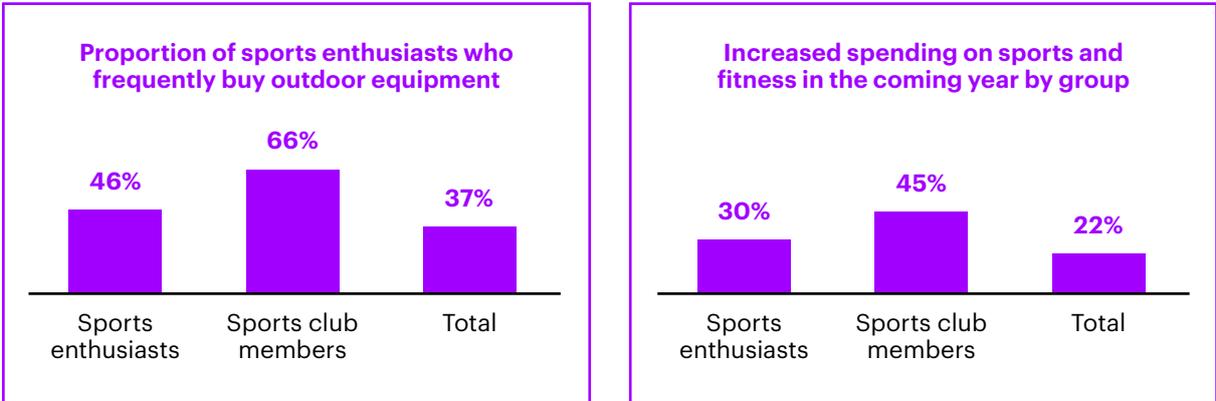
Currently valued at approximately CNY 1.5 trillion (or roughly USD 235 billion), the market size is expected to reach CNY 5 trillion (USD 783 billion) by 2025.<sup>7</sup> Not surprisingly, it's driven by sports enthusiasts and club members—consumers who have time to spend on sport, are better educated and have higher incomes (see Figure 5).

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**Valued at more than USD200 billion, the new “fitness economy” in China represents a significant opportunity for companies looking to capitalize on emerging trends. Digital technologies will allow them to stand apart.**

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**Figure 5. Sports is big business in China**



Source: 2018 Accenture Research on Chinese Consumer Digital Trends. N = 4,060

Companies looking to make inroads into this new market should:

- Digitize fitness.** Digital advances have transformed every aspect of the fitness industry—from real-time health monitoring to copyright protection. Companies can use new technologies such as AR, VR, artificial intelligence (AI) and extended reality (XR) to create immersive experiences that excite and engage. Consumers are ready for such blended “digital + fitness” experiences. We found that 41 percent see AI and the Internet of Things (IoT) enabling “smarter” sports and fitness solutions and shopping experiences, and 29 percent hope digital technologies will create environments in which outdoor sports products can be shared, as is now the case with bike sharing.

Nike shows how digital + fitness experiences can provide a competitive edge—not just for consumers, but also for the companies looking to reach

them. The sportswear giant created a new shopping experience that integrates AR/VR into the purchase process for the limited-edition sneaker PSNY x Air Jordan 12. It developed a mini AR/VR game that allows consumers to buy products while playing, rather than having to queue for hours in a store. And its flagship store in Paris uses AR and holographic projection to help consumers try products on virtually, in different colors and styles.<sup>8</sup>

- Think outside the boxing ring.** Opportunities are not limited to companies that sell sportswear or fitness products. Non-fitness companies have the chance to consider integrating sports- and health-related concepts into products and marketing activities. For example, financial companies can collaborate with sports clubs and sports equipment manufacturers to sell financial management and insurance products specially designed for sports consumers.



## OPPORTUNITY 3:

# LEAD THE TRANSITION FROM OWNING TO SHARING

Historically, any discourse about consumers tended to focus on materialism. That's no longer the case. Around the world, consumers are beginning to value product sharing (more than product owning) and experiences (more than things).<sup>9,10</sup> A growing number of consumers in China are making similar mindset shifts. They are going back to basics—embracing a value-based economy that enables them to make better use of the products they have purchased.

- 47 percent of consumers we interviewed admitted they barely used the products they bought after a certain period of time.
- 63 percent have given products a second life by using second-hand trading platforms.

These value-based consumers represent a huge and untapped market. In China, the sharing economy is already estimated to be worth CNY 4.5 trillion (approximately USD 705 billion). Over the next few years, it is projected to grow at an average annual rate of about 40 percent.<sup>11</sup> Clearly, companies that can tap into this value-based economy and consumers' desire to share, repurpose or recycle product uses can reap big rewards.

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**One of the more innovative (and arguably counter-intuitive) ways companies can grow their business in China is by enabling consumers to share, re-use and recycle their purchases. As more Chinese consumers embrace the value-based economy, profitable business models will emerge.**

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- **Demonstrate caring by sharing.** Forward-thinking companies have a chance to help consumers not only extend the lives and the value of their purchases, but also avoid the issues or costs that often come with ownership. Opportunities extend beyond today's car- or bike-sharing platforms. Books, media, sporting equipment, kitchen appliances, and digital products are just some of the items consumers are interested in sharing.
- **Build a sustainable platform for growth.** Beyond creating sharing platforms, there is a valuable opportunity for companies to focus on issues of sustainability or recycling. It is not enough to make cash and in-kind donations to charity. By focusing on production and operations, using Big Data to develop more sustainable

production plans, reducing waste and carbon emissions, and enhancing recycling efforts, companies can strengthen and differentiate their brands and image.

Apple, for example, has taken this approach by offering replacement schemes to encourage consumer recycling.<sup>12</sup> And H&M has placed clothing recycling bins in every store. Further, H&M has launched a foundation that funds fashion start-ups every year, taking environmental protection and sustainability of supply chains into account.<sup>13</sup>

# CHARTING INTO THE NEW

China is rapidly entering a new age of consumption. As digitalization continues, new spending power is emerging. So are new consumer behaviors and expectations, new consumption models, and new opportunities to deliver differentiating products, services and experiences.

To thrive in the years ahead, companies must have an understanding of the economic drivers, generational differences and trends shaping China's complex and fast-changing consumer market. Only then can they effectively pursue opportunities to drive growth and competitive advantage. We believe three opportunities in the areas of customer experience, fitness and sustainability hold particular potential. There are many more.

Regardless of the engagement strategies companies choose to pursue, certain universal principles apply. In China, as in other markets, it is brand trust, convenient experiences, and differentiated value propositions that will win consumers in the New.

# SOURCES

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# ABOUT THE RESEARCH

Accenture has been monitoring the Chinese market's evolution for years. Our goal has been to develop consumer insights that will remain relevant long enough to inform successful growth strategies. Our most recent research initiative, completed in early 2018, surveyed 4,060 consumers in 252 cities, representing all ages, genders, and income and educational levels.

# ABOUT ACCENTURE

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