

Chinese Consumer Behaviour

An Introduction

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6th February 2009

1 Introduction

This paper is a very preliminary attempt at a small meta-analysis on different subjects in the field of Chinese consumer behaviour. It lifts out a few aspects of Chinese consumer behaviour that might not be completely understood by most people and is merely an introduction. The first (general) part – consumer behaviour – provides a limited basis to which we can relate topics discussed in the second part. This second part is about the Chinese consumer and is subdivided into a part that looks upon Chinese consumers as a whole and a part that tries to nuance the view of one stereotypic Chinese consumer.

2 Consumer behaviour

Philip Kotler defines marketing as “a social and management process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.”¹ An essential aspect of marketing is thus consumer behaviour: the understanding of what consumers need and what exactly influences their buying behaviour.

The interaction between stimuli and reactions are often described by the stimulus-response model as shown in Figure 1.

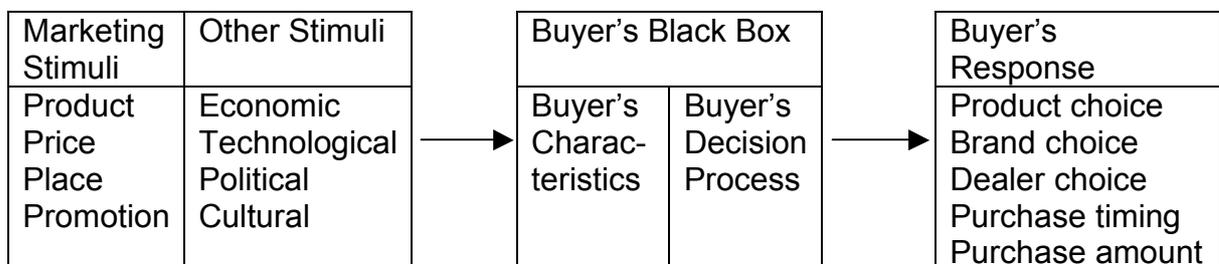


Figure 1 Stimulus-response model. Source: Kotler, p. 188.

The external factors (marketing stimuli and other stimuli) are converted in the buyer's black box into responses. The buyer's black box consists of two parts: the buyer's characteristics and the buyer's decision process. The buyer's characteristics can be subdivided as in Figure 2. This introduction will mainly discuss cultural, social, personal and psychological characteristics of the Chinese consumers, as seen in Figure 2.

We suppose that these models and the importance of their respective elements in a general framework are known by the reader and we will as such immediately focus on the Chinese specificities.

¹ Kotler, p. 9.

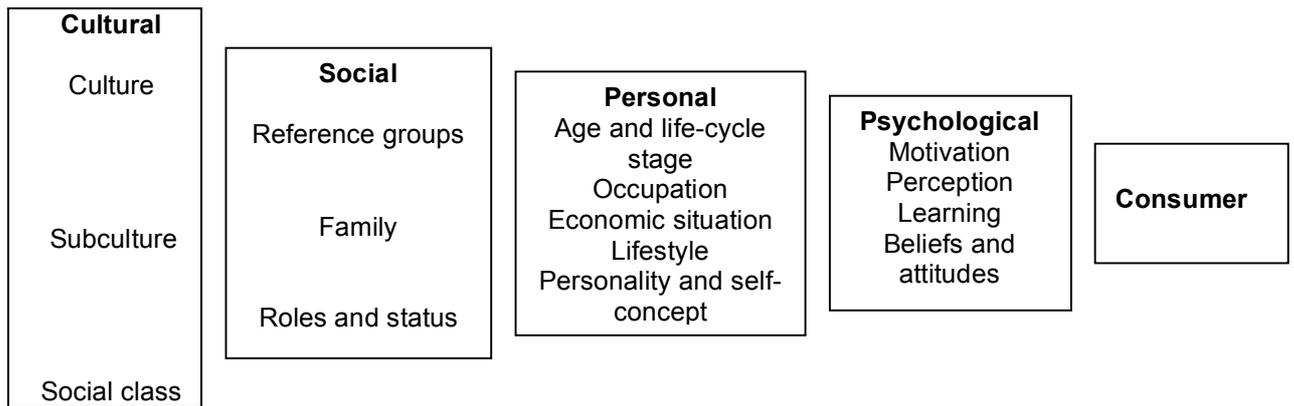


Figure 2 Factors influencing consumer behaviour. Source: Kotler, p. 189.

3 Consumer behaviour in China

By and large we do not intend to discuss every aspect of consumer behaviour – as shown in Figure 2 – but we will try to lift out some of the more interesting aspects of Chinese consumer characteristics.

3.1 Common features of the Chinese consumer

3.1.1 General

The Chinese consumer market is evolving very fast and it happens often that new products have been accepted before their predecessors have succeeded in penetrating the market. When a company wishes to enter the Chinese market with a new product, advertising on television is traditionally a very important medium in the PRC to reach customers. The most important means of reaching customers is by far through recommendations from people close to the customer. Following TV are newspaper advertisements and sponsorships. Television is almost omnipresent and is therefore also a good means to target consumers in mid-sized cities, which are growing quickly in importance in terms of income to spend.

3.1.2 Brands and decision making

A McKinsey study from 2008 reveals that 63 % of the Chinese consumers has a shortlist of preferred brands when planning to buy a product. It is important to get on that shortlist, but companies need to take into account that Chinese consumers on average are only willing to pay a premium of 2.5 % for branded products². Additionally Chinese consumers have become more wary in 2008 to buy unfamiliar products and it is therefore more difficult to launch new brands³.

² McKinsey, “What’s new with the Chinese consumer”, p.1.

³ Ibid., p.2: “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.”

It is very typical for Chinese to make last minute purchasing decisions. 78 % of the buyers decides in the store what they are going to buy. 37 % is easily susceptible for promotions and only 22 % sticks to its original idea before entering the store⁴. Therefore a good way to convince consumers is to engage in in-store marketing with promotions and to invest in salespeople that influence the consumers (especially in view of the considerable low wages this is a cost that is worth being spend).

3.1.3 Ambition and work motivation

In Figure 2 we have seen that on the personal level the occupation influences buying decisions. But what are the work attitudes of Chinese employees? A nationwide survey of The Gallup Organization⁵ reveals interesting patterns in this area. During the period 1994 to 2004, the percentage of Chinese citizens that wants to “work hard and get rich” has lowered from 68 % to 53 %. Ambitions have clearly shifted, because at the same time the percentage of people indicating that they “*don't think of money/fame; live a life that suits my own tastes*” has comparably increased from 10 % to 26 %.

Chinese wages have continuously risen in the past few years and this explains the shift in ambition; which can be linked to Maslow's hierarchy of needs. Primary needs are increasingly being met and the Chinese are now dealing more with the upper layers of Maslow's pyramid.

One of the misconceptions that are often present in the West is that Chinese workers are all ‘very devoted to their job and like to work’. The contrary is true: Gallup⁶ states that

“workers feel their efforts are insufficiently rewarded and recognized. [...] [R]elatively few feel that their companies give them important opportunities to learn and develop. Our 2004 survey found that 68% of employees don't feel engaged.”

20 % of employees are even counted in as being actively disengaged. These figures are in sharp contrast with other countries and obviously do not contribute to productivity.

Although Chinese wages have increased rapidly, that does not mean that the workers are happy with it. A mere 5 %⁷ is very happy with their income and even among the affluent this figure does not increase impressively.

3.1.4 Ethnocentrism

It is common knowledge that Chinese prefer domestic brands; but to what extent and what are the trends? Gallup's research shows that brand preference during a five year period until 2004 has dropped from 78 % to 67 % and that preference for foreign brands has increased from 19 % to 22 %. The McKinsey survey of 2008 even indicates that only 30 % of respondents

⁴ Ib.

⁵ Published in *Harvard Business Review* of March 2006.

⁶ *Harvard Business Review*, p. 72.

⁷ Ibid., p. 74.

“only [trusts] Chinese brands”. At the same time consumers are not always clear what brands are foreign and what brands are domestic.

3.1.5 Face

It is widespread wisdom that Chinese people adhere a lot of importance to the concept ‘face’. Li and Su demonstrate that Chinese are much more likely to buy luxury products to improve or to keep their face, even if they have not enough money to pay for housing and to buy sufficient food and clothes.

Traditionally Chinese consumers would buy products to (publicly) fulfil certain social needs: e.g. drinking when one has guests or is together with his friends is such an activity. Brand and price are important in such a situation. As a consequence Li and Su have developed the concept of ‘face consumption’, which they define as: *“the motivational process by which individuals try to enhance, maintain or save self-face, as well as show respect to others’ face through the consumption of products. Face consumption has three unique characteristics: [...] obligation[, ...] distinctiveness [, ... and] orientation [to the other person].”*

Another example could be that there is a high penetration of mobile phones in the Chinese urban society⁸, yet the Gallup survey indicates that 34 % of the urban dwellers in Beijing, Guangzhou and Shanghai intend to buy one in the next two years⁹. Not surprisingly cell phones are a token of status and attribute to the social status of a Chinese individual.

After the analysis of the statistical data the researchers conclude that

“due to the heavy influence of face, Asian consumers must purchase luxury products to enhance, maintain or save their face. Therefore, the conceptualisation of face and face consumption provides a useful way to understand why Asian consumers, on the one hand, are very thrifty in their everyday life and consumption but, on the other hand, spend – and sometimes waste – a large amount of money on luxury consumption.”¹⁰

3.1.6 Consumer knowledge

Guo and Meng conclude in an international comparison that Chinese consumers are more inclined to make stereotype judgments than French consumers. At the same time the Chinese consumers remembered more of the product attributes than the French. According to the authors this is attributable to the particularities of the Chinese language: much more categorization leads to more stereotype judgments and they claim the use of Mandarin asks more of the human brain and therefore Chinese are better in remembering product attributes.

3.1.7 Generation Y

Generation Y consists of late teens and people in their early twenties. In China this is a generation that is far better educated than its predecessors.

⁸ 137 phones per 100 urban households in 2005, according to a presentation of Duncan Freeman in the Fall of 2008.

⁹ *Harvard Business Review*, p. 76.

¹⁰ Li & Su, pp.251-252.

According to Gallup they are “*open to Western ideas and products, yet still proudly supportive of their own culture*”. They wear more Western-brand apparel, read more, use computers and the Internet more than the older generations. They are familiar with technology; this is a generation to pay attention to from the viewpoint of a marketer.

3.2 The myth of a stereotypic Chinese consumer

Lots of foreign companies (and even domestic companies) have not succeeded in conquering the Chinese market. This was often due to the fact that they didn't acknowledge that not every Chinese consumer is the same or that there are more differences than only a rich East and a poor West.

3.2.1 Different consumer types

In a 1999 survey carried out in Beijing, Li and Jing tried to find out if they could identify several consumer types. Each consumer was based on the following elements: information acquisition, purchasing style, attitudes in life and social and economic factors. They discovered that there were four consumer types: 50.8 % of the consumers belonged to the pragmatic type, 33.9 % to the commercialized type, 11.7 % to the sociable type and 3.6 % to the conservative type.

The pragmatic type (50.8 %) is only interested in the functional aspects of the products he buys and represents the central command economy. The ‘old’ consumer is used to fixed prices, low inventories and doesn't use commercial information. This type has been confirmed in McKinsey's research¹¹ where they call it “*that Chinese consumers are sensitive to value for money and generally have a clear idea of which functional features merit a higher price.*” The pragmatists are thrifty and adhere to traditional Chinese values.

The commercialized type (33.9 %) has an increased brand awareness and compares products actively on the basis of commercial information. This type represents the market economy after the reform period. According to Li and Jing this group will increase “*along with the economic development of China*”. It was evidenced that “*men, white-collar workers, the better educated and the young are more likely to be the ‘commercialized’ type*”.

The sociable type (11.7 %) obtains product information from friends and is happy with his current life.

The conservative type (3.6 %) is not willing to change his life and wants society to be static. This type usually consists of the older part of the population and wants to return to past times, when it was better.

Since it was a Beijing survey, the researchers warn that these results should not per se be extrapolated to the rest of China.

¹¹ McKinsey, “What's new with the Chinese consumer”, p.3.

3.2.2 Regional division

MNEs¹² often seem to believe in “*the concept of a ‘global consumer’ [... that,] regardless of their country of residence [, ... aspires to obtain] high quality goods to enhance the quality of life*”¹³. The misconception of a homogeneous market is understandable of course from the viewpoint that there is – to a certain extent – a common language, culture and political system. However Cui and Liu prove that it is not appropriate to consider the PRC to be one homogenous consumer market. They find seven different regional markets with their own particular consumer behaviour. This is derivative of the fact that China exists of such a vast land area, different nationalities, customs and culture, regional dialects, income disparities, infrastructure etc.

It is clear that consumers in the coastal cities are far better off than inland consumers in rural areas. These differences are hidden in national statistics and it is therefore not a good idea to focus only on overall rising incomes and the total size of the population.

Cui and Liu divide the PRC in seven regional markets¹⁴: South, East, North, Central, Southwest, Northwest and Northeast China. They have grouped several provinces that are “*close to one another in terms of physical proximity, and economic and cultural similarity, these regions represent the “natural markets” in China*”.

On the basis of household incomes, these regional markets are part of one of three groups: the growth markets, the emerging markets and the untapped markets.

The growth markets consist of South and East China. South China (Guangdong, Fujian and Hainan) is made up of export-oriented provinces that attract a lot of FDI. The population is among the most affluent in China and they easily adopt new and luxurious goods. East China (Shanghai, Zhejiang and Jiangsu) is a highly urbanized area that is the driver of the Chinese economy. The people living there are “*the most innovative and cosmopolitan, setting trends in fashion and lifestyles*”. The growth markets also outperform the rest of the country in terms of the education of its inhabitants.

The emerging markets are in North, Central and Southwest China. North China comprises Beijing, Tianjin, Hebei and Shandong. The economy of the geopolitical centre of China has been growing very fast the last years. The Northern consumers are

“attaching great value to the Confucian doctrines of hierarchy, stability and control. Consumers here are relatively conservative and emphasize intrinsic satisfaction, yet are still open to new product ideas”.¹⁵

¹² Multinational Enterprises

¹³ Cui and Liu, p. 56.

¹⁴ Ibid., p. 58-60.

¹⁵ Ibid., p. 60.

Central China (Henan, Hubei, Hunan, Jiangxi and Anhui) is more focused on agriculture and less developed. Consumers have less purchasing power, but on the whole follow the trends in the more developed areas. Southwest China (Yunnan, Guizhou, Guangxi and Sichuan) is “*relatively isolated from other parts of China, consumers have a slow pace of life and are less exposed to foreign goods*”.

The untapped markets are the Northeast and the Northwest. Northeast China (Heilongjiang, Jilin and Liaoning) was the heavy industry base of China prior to the opening up and reform. It is not very successful in turning the SOEs into dynamic enterprises and the northeastern culture is quite influenced by Manchu and Korean minorities. Northwest China (Shanxi, Shaanxi, Neimenggu, Gansu, Ningxia, Xinjiang and Xizang) is the least developed market in China. Its population is dispersed and poor.

Job categories of the population differ between the regions, but factory worker is the largest category in almost all regions. The more to the West, the more people you find that are engaged in agricultural activities. The more to the East, the more professionals and office workers you can find. “*As for traditional durables such as refrigerator[s] and washing machine[s], ownership rates largely fall on the income line*” that is defined by the concept of growth markets, emerging markets and untapped markets.

There are opportunities in every segment, but companies need to take into account that depending on the region different targeting methods must be applied that consider the specificity of the region.

3.2.3 Different attitudes

A 2008 study of Zhang, Grigoriou and Li has confirmed this divergence between the different regions, even on the level of values and attitudes. They demonstrate that Chinese consumers in the coastal areas have accepted more western values and that they have become more individualistic than inland consumers.¹⁶

“Inland consumers have retained more traditional Chinese values and are more collectivistic than their coastal counterparts. As a consequence of these value differences, coastal Chinese consumers care more about their own feelings and desires, and less about the opinions or evaluations of other people.”

This means that inlanders are much more sensitive to the social consequences of their buying behaviour. This research also confirms that coastal consumers place more importance on product functionalities and inlanders on the social product attributes.¹⁷

¹⁶ Zhang, p. 397.

¹⁷ Ibid., p. 393.

4 Conclusion

Although this paper is only an introduction to Chinese consumer behaviour, we can already see that there are common facets of consumer behaviour in China, but that there are maybe even more characteristics that differ between the regions and age groups.

The last minute decision making style could be surprising compared to consumers in more developed countries. And the influence of face consumption is in a lot of Asian countries of a high importance.

On the other hand, there are different consumer types in the same city, provinces with very high incomes and other provinces with very low incomes and all these differences are already reflected in major shifts in attitude between the coastal and the inland provinces.

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