



It's all happening in the East

Changing consumer behaviour in China

By Björn Theis

Z_punkt staff member Björn Theis spent four weeks travelling through China. In his travelogue, he reports about a country which is rapidly developing into the world's largest market for luxury goods.

In the western hemisphere, the financial crisis has increased calls for more government control of the market. Comrades in China, however, beg to differ: They progressively slacken the reins of market regulation. It seems as if economic drivers have simultaneously become the engines of social change. In China, hunger for western consumer goods is growing, trade restrictions disappear. European luxury goods, in particular, are booming. Experts forecast that China will become the world's largest market for posh products over the next few years. But western businesses have to be aware of local cultural characteristics and specifics if they want to succeed in Asian markets.

Socialist structural change

Where once the dragon gables of traditional Chinese hutongs decorated narrow alleyways, now chrome and steel sky scarpers loom along generously planned boulevards. In China, high rises are the most evident sign of new capital. Only a few years ago, bicycles and rickshaws dominated the streets, today people overwhelmingly use electric scooters. Mao suits have yielded to denim and colourful shirts of iconic sporting brands. In Asia, change is hogging the fast lane.

The new freedom on the road comes as a consequence of economic and political changes. Today, the protection of personal property is enshrined in the constitution, and private businesses find their position gradually strengthened. Private capital is now on a par with Marx and Mao, a fact blatantly admitted by officials. “In China, money has become the new deity”, says Dr. Ning Ning, Director for Social Sciences of the Chinese State Council’s Development Research Centre (DCR). According to the researcher, “People are in an egotistic mood. They want to show off and be extravagant.”. So far, money reigns supreme first and foremost in the more advanced costal cities. Hardly anywhere in the world are income gaps to rural populations more extreme.

But at least with the current economic stimulus program “Appliances for Farmers”, the capitalist revolution will reach rural populations. Since February 1, 2009, the stimulus package has been offering farmers a government subsidy on no more than eight products from a designated basket of goods which includes personal computers, television sets, microwave ovens, mobile phones, scooters, and household appliances. Under this program, the government pays 13% of the retail price in cash to farmers who submit proof of purchase at their local registration office. The initiative aims to boost domestic demand for Chinese products and support producers of consumer goods. The export slump has made it hard for the latter to sell their wares. China has a total of some 167m farmers’ households.

Millions of tiny dragons are awakening

Since 1990, the purchasing power of China’s population has been constantly on the rise. With the increase of global trade, trade restrictions against the western enemies of the people were lifted, and particularly luxury goods rushed to mainland China. After the Cultural Revolution and the resulting cutting of ties to the West, the opening of a shop displaying western goods is still considered a symbol of a new era.



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It is the small signs of change which stand out: Small and large bill boards show pretty – mostly western – models. Friends who used to greet each other with polite bows now increasingly resort to handshakes and backslapping. In the fast-food trade, competition runs rampant between traditional hole-in-the-wall restaurants and western junk food. Smart business dinners are now held in steak houses and Italian restaurants, chopsticks are replaced by knife and fork – which used to be a sign of barbarianism, “eating with the sword” was universally frowned upon. Current home construction follows western layouts, including IKEA furnishings. In many shops, signs proclaim that haggling is a thing of the past and that the prices displayed will not be the subject of discussion. Only a few years ago, dogs were bred as a culinary speciality, in particular in the South – today, cute mutts are the rage everywhere in the country. And if their owners’ purses allow, their collars are studded with Swarovski crystals. “In China, many purchasing decisions are made for status reasons”, says Edward Bell, Regional Planning Director of Ogilvy China.

“In general, people who afford luxuries consider these to be an extension of their personality. In China, however, this is taken very seriously.” Yang Qingshan, General Secretary of the Chinese Brand Association, estimates that some 170m people in China, i.e. about 13% of the population, purchase international luxury goods. Thirty to forty year old urban consumers, in particular, are voraciously adapting to the western lifestyle. Depending on definition, this group includes 100m to 200m so-called only children which grew up without siblings in the Chinese society of the 1980s as a result of the single-child policy. They represent 37% of the high-income population, are usually well educated and have five to six years professional

experience. They are also more open than their parents' generation. Maybe their predilection for western status symbols can be explained as coming to terms with history: This "new generation" seems to use western consumer goods to escape a past in which Mao tried to shape the country into his version of utopia.

New generation is optimistic about the future

The new generation has healthy optimism and expects rising incomes, global crisis notwithstanding. They show similar positive attitudes to foreign consumer goods, know a wide range of luxury brands and are able to rank these according to price level and market position. For them, international brands are connected to attributes such as advanced, high quality, well designed, or environmentally friendly, and they believe that ownership will improve one's image – even if these products are today manufactured in China. Domestic goods are considered inferior and are almost universally shunned, with the sole exception of convenience goods. European products are held in the highest esteem, competitive products from Japan or the United States do not rank as highly. When it comes to cars, apparel, jewellery, liquor, and cosmetics, in particular, the old continent tops the table. Their exaggerated passion for all things western is best summed up in the following joke of a Hong Kong comedian: "Western people are great. I love western people! If only I was one of them. I would finally be able to date Asian women!"

Money has always played a major role in Chinese culture. Many temples, palaces, schools, and even office buildings are decorated with traditional symbols of wealth, e.g. a fish. To gain favours with deceased relatives, bundles of imitated banknotes are burned during a number of holidays. What is new is that the middle class is affluent enough to afford international status symbols. Asked for the reason behind their purchasing passions, a group of young Chinese women in front of the Shanghai Fendi Shop answers unanimously: "We want to enjoy life today. That's why we work so hard." Zhong Wie, professor at the Institute for Finance of Beijing's Pedagogic University, affirms that his countrymen "no longer spend their money on basic provisions, but to enjoy a higher standard of living". However, Chinese consumers seem unwilling to go into debt to acquire luxury goods – apparently, these have to be earned.

Shopping tourism and clannish behaviour

In China, luxury goods do not come cheap. Many of the premium goods on offer are some 30% more expensive than e.g. in Europe, a result of taxation and transport costs. Hence, affluent Chinese use holidays abroad to purchase expensive goods. The World Trade Organisation estimates that by 2020, some 100m Chinese tourists will travel the globe. But

domestic shopping vacations are also highly popular. Some 30% of all luxury items are not bought locally, but during trips to the shopping metropolises of Hong Kong or Shanghai. Purchases are predominately made in flagship stores. On the one hand, these shops guarantee that customers acquire original products, on the other hand, they offer customers the opportunity to immerse themselves in the lifestyle of luxury brands. A most profitable concept: Dior, for instance, has one of its biggest and most lavish stores in Shanghai, achieving an annual turnover of some 1.6 million Dollars. The luxury chain Cartier expects to have 30 stores in China in the near future, second only to the US. Luxury malls are also booming. The mall culture may be in decline in the West, but still enjoys skyrocketing growth in China. Retail Asia Magazine has forecast that by 2020, seven out of the world's ten biggest malls will be in China. Today, China is the world's third largest consumer of luxury goods. By 2015, the country is expected to be runner-up, consuming 29% of the all luxury goods produced worldwide.



Prada, Fendi etc. notwithstanding: The Chinese love of the collective is evident also when it comes to shopping. The western concept of individuality has not prevailed in China.

However, purchasing Prada, Fendi and the like does not mean that western concepts of individuality have become fully accepted. The Chinese love of the collective is evident also when it comes to shopping. If one tries to understand China, the “Danwei” has to be accepted as the basic social structure of Chinese society. This term designates the core cell of Chinese society, the work unit. It constitutes a nest, an “extended family” every Chinese is born into, organised by the Mao government. Here, everyone is cared for and protected as long as he

lives, but is also controlled and harassed. “Chinese citizens remain a member of a danwei for life. They may be able to change their danwei, but will never be able to leave this organisational pattern”, says Li Hanlin, a sociologist. Career, wages, health care, pensions, birth control – a work unit controls every aspect of its members’ lives.

Danweis have taken the role of the extended families of the past, and their upper echelons play a correspondingly fatherly role. Their behaviour is modelled on the old concept of the “ren”, the Confucian version of charity. In this way, they have an enormous influence on their members’ consumer behaviour. Individual preferences often take second place to group taste in purchasing decisions. More than in Europe, luxury goods – in particular apparel – reflect their owner’s social standing. People take scrupulous care not wear more expensive suits or watches than their superiors. Deliberate transgressions are swiftly punished with social sanctions or even loss of face. The danwei plays an even more decisive role when it comes to acquiring larger items, e.g. cars. Registering a private automobile in China’s metropolises may easily cost 10,000 USD or more, depending on the vehicle’s category. Unsurprisingly, most cars are registered at reduced rates as company cars. Doing so, however, requires the support of the work unit. Anyone interested in displaying individualistic extravagance by acquiring a powerful automobile will soon meet with resistance should this jibe with the morals of his danwei superiors. It is not without reason that many businesses view danweis as speed bumps for market economy and consumptions. It remains to be seen whether people will be able to free themselves from this all-round obedience and become individuals and consumers based on the western model.

Gucci comrades? Perspectives of the Chinese luxury market

Increasingly, Chinese consumers begin to take notice of domestic brands, e.g. the fashion label Goldlion or the jewellers Chow Tai Foof or Tse Sui Luen. These brands oppose western market hegemony in China and help consumers show pride in their nation’s new riches. However, international luxury brands need not worry about their investments in China: Should Jonathan Garner’s report “The Rise of the Chinese Consumer” come true, China will be responsible for 14% all global consumer expenditures in 2015. This rice cake should suffice to satisfy the hunger of both eastern and western luxury producers.

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