

Pulse of China



The Practical Chinese Consumer
Are Chinese consumers really very rational in
their approach to buying? If so, why? What
does this mean for brands?

The Practical Chinese consumer

Marketing people in other markets often struggle to understand China. For one thing, it's a very different ecosystem, with nearly 50% of retail on e-commerce, and e-commerce being dominated by two key players. Those two players also indirectly or directly control the digital advertising ecosystem, driving it in a very different direction from other markets where e-commerce players and advertising players are quite distinct.

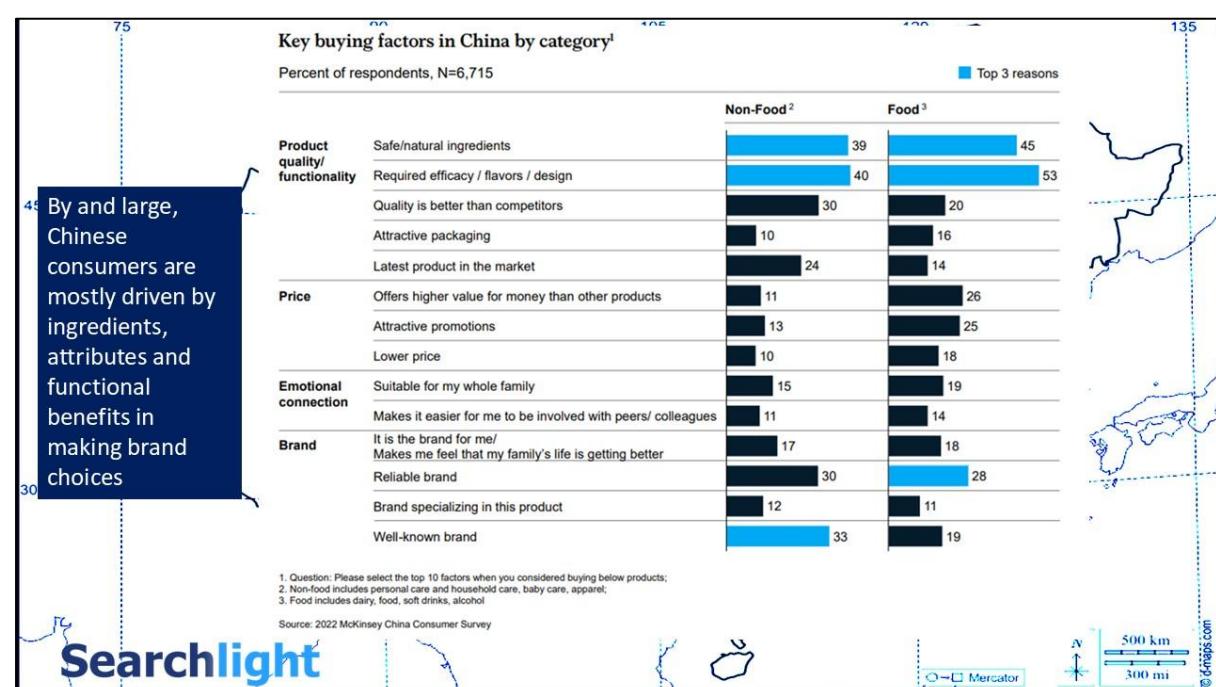
However, one thing most marketers believe is that consumers are the same anywhere. They have the same approach to brands and the same broad logic to making purchase decisions.

We believe that this is not true. Chinese consumers are inherently more practical and analytical in their approach, focusing on product attributes, functional benefits and value for money. They are less likely to be swayed by a brand, less likely to pay a premium for a known brand and far more likely to approach purchase decisions with the mindset of evaluating a large number of options, whether previously familiar brands or completely new labels.

In this issue of Pulse of China, we will set out to explain why and examine the implications for marketers in China.

Are Chinese consumers really more practical?

As always, before we proceed with a hypothesis, it is best to support it with some external data. We'll start by taking a look at a McKinsey survey from 2022 that attempts to identify key factors in purchase decisions across, very broadly, food and non-food related categories.



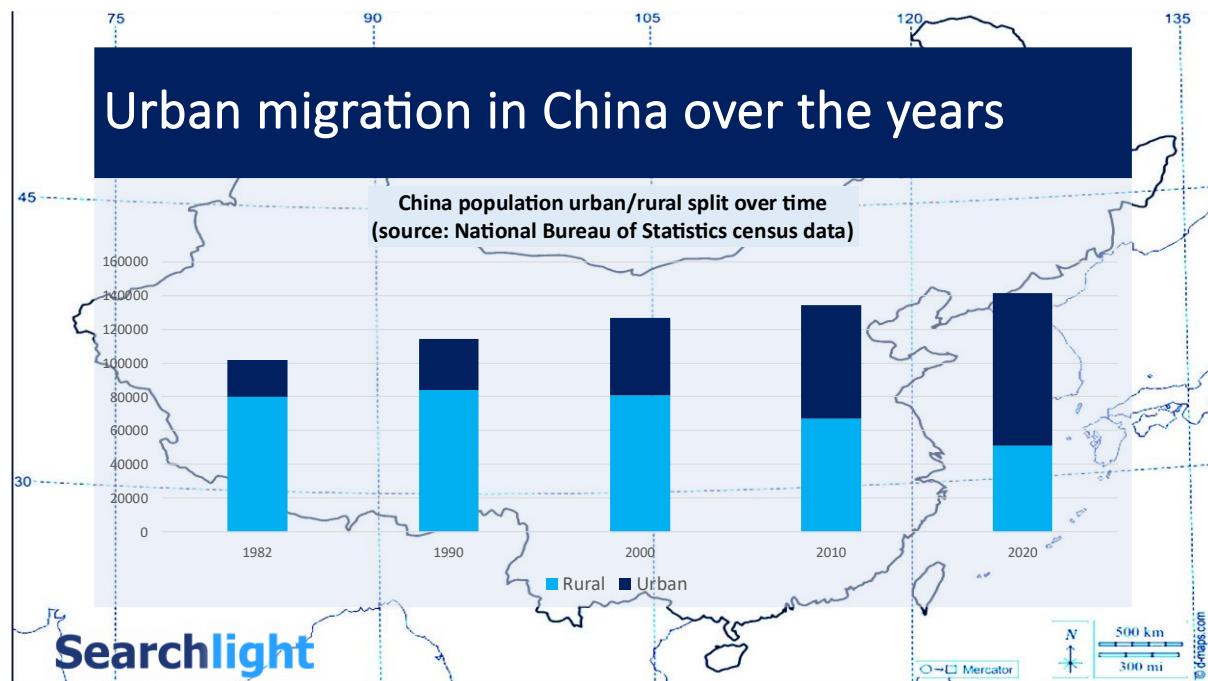
The top 3 factors are coloured light blue – a look at the charts tells us that 2 of the 3 top factors in consumer decision-making are unrelated to any brand imagery, history or emotional relationship with brands. Even the 3rd is related more to a brand being well known or reliable, rather than to any more emotional connection to the brand or a sense that it, in any way, represents a badge for consumers.

Clearly, therefore, consumers in China are far more attribute / function / value driven. Why is this the case?

Consumers and marketing have evolved differently in China than elsewhere

If you ever travel to lower tier cities and rural areas in China, you'll notice that the labels you see there are very different from those in the larger cities. Of course, as you go to rural areas, there are less brands visible and many of those that exist there are the only ones available locally. When you go to a shopping mall or department store in a tier 4 or 5 city, you might find it organized in a very similar way to similar outlets elsewhere, but the labels you see will be completely different.

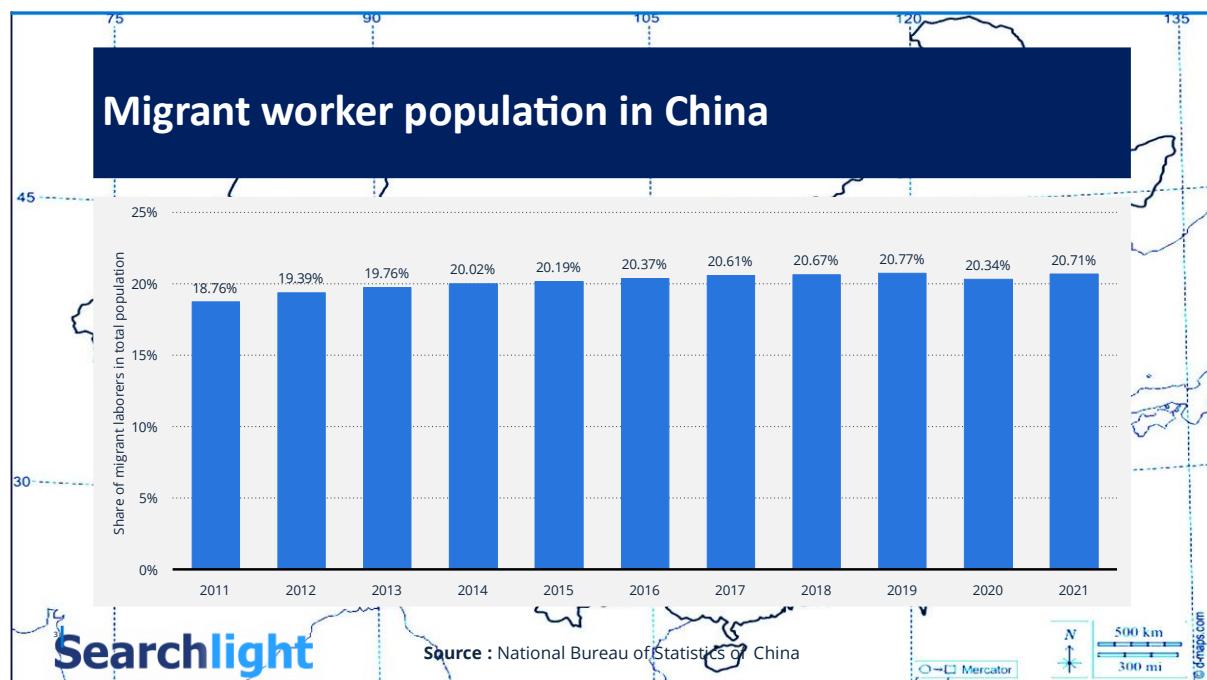
Let's combine that with a look at where consumers in urban China come from. First, we'll look at official census data and understand the population split between urban and rural over the years.



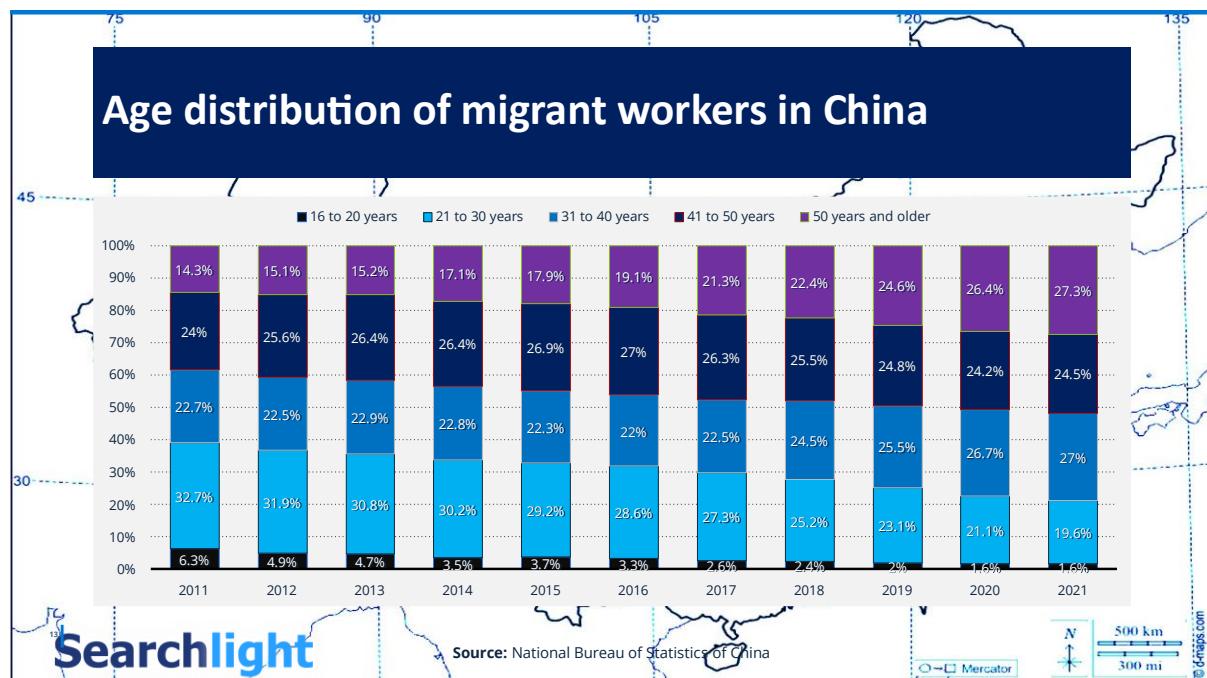
Let's focus on the last two bars on the right - until 2010, rural and urban population are almost equal and it is only since 2020 that China has had more urban than rural residents. What that means, is that a lot of the urban residents in their mid-late 30s came from rural China (or smaller towns and cities)

To lend more emphasis to that point, let's look at the proportion of migrant workers in China

– which has hovered around 20% of the population for a very long time.



When we look at the age distribution of those migrant workers, a significant proportion are over 30 – in fact, over 80%. A very large proportion of these people would have come from smaller towns / rural areas to the cities.



Putting all that together helps us arrive at the insight that a significant proportion of the 30+ in urban China today grew up in a very different environment than the one in which they live

now. They grew up with very few brands and even the ones they are familiar with are not the ones they see now.

The second aspect to consider is that brands and branding in China, have had a very short history. It was only in the late 1980s that China opened up to private enterprise in a big way, and also to international brands entering the market. P&G, Coke, Mars, Pepsi and the like all entered the market in the 90s and brought their best practices in branding and marketing with them. There was a lot of M&A activity and local brands were initially acquired by these multinationals. A few years later, Asian brands like Taiwan's Master Kong and Hong Kong brands like Lee Kum Kee and Amoy also entered the market.

For about 10-12 years, brands believed in building consumer recognition, trial, repurchase and loyalty. Consumers were shopping offline and only relatively big brands had access to distribution.

However, all that started to change around 2002-2003 when Alibaba branched out from B2B ecommerce to becoming a consumer retail channel. Suddenly, every manufacturer had access to the consumer. As e-commerce grew and became the dominant form of retail in many product categories, that open playing field for new brands expanded. Consumers who were not familiar with the brands they saw would go online and compare options across functionality, features and price. E-commerce rewarded transaction-oriented advertising rather than brand building advertising.

Most E-commerce platforms in China across most categories offer a 7 day, no-questions-asked return policy. That policy takes away the risk for consumers of making a purchase decision that they regret. They can now buy, try and return what they don't find suitable.

a

Of course, there are categories in which consumers behave differently, and there are some brands which have managed to build more than just a functional brand, which brings us to a key question with which to leave you.

What does this all mean?

The core finding in all this is that consumers are not likely to pay a significant premium for a known brand, since they have the option of exploring a lot of viable options in a consumer-oriented e-commerce environment. This is true in a lot of categories in China including food – we found, for instance, 1480 “brands” (labels, really) of frozen chicken products being sold online on Tmall – which points to the fact that even an relatively unknown brand can compete against the giants and win enough business to be sustainable. There are exceptions, of course, but they are not usually able to charge significant premiums – usually their success lies in retaining consumers against competitors who offer a small improvement in value.

Brands in China are currently operating at the bottom end of the brand pyramid – winning consumers on attributes and functional benefits. However, that leaves them vulnerable to the

next new entrant who can offer something better or a parity product at a lower price point – better value, either way. Focusing on long-term brand building and higher order benefits is counter-intuitive, but valuable for consumer retention even if it doesn't yield a significant premium.

How to go about building a brand in China

The mistake we find many brands making in China is in trying to appeal to a broad, demographically defined audience. This tends to leave brands with nowhere to go except to focus on attributes and functional benefits.

We have seen success for our clients when we explore more nuanced consumer segmentation along parameters like their lifestyles and attitudes, uncovering needs that go beyond the purely functional and being focused on channels, right product mix and engagement that builds and reinforces this connection to a core group of consumers.

This approach may mean focusing on a smaller segment of the market, at least to begin with. However, it builds a more sustainable business model, where a brand can hold and build share without having to compete on price or constantly bringing new products or features to market.

(This is not the place for us to get into case-studies, but we do have stories to tell about our clients in this regard – reach out and we can share some of them with you).

Brands who focus on a core target and building a brand that goes beyond the functional will find, as the market evolves and the migration trend slows, that brands can start to command loyalty and even advocacy amongst consumers who get used to them.



Set up in early 2020, Searchlight is a boutique management consulting firm headquartered in Shanghai. We focus on helping brands understand and prioritize their opportunities and overcome their barriers to growth. We do this by working closely with our client teams over an extended period, facilitating their process of decision-making, building capability by guiding and training their teams, and also helping with organization redesign if necessary.

Our team of 14 associates covers a wide range of specialist areas – business management, brand management, marketing, communication, media, HR, CRM, sales management, technology. Each of us has at least 20 years of work experience, a large part of that in China

We coach and assist client teams to make quality decisions for the business. We also assist in the design of organizational processes and financial models, especially building internal and external capabilities for strategy implementation.

We've worked with both international and local brands, startups, and public listed companies - J&J, Hollister Medical and Pandora as well as SUNNER Foods (a listed food processing company that has become one of the fastest growing B2C brands in China) and startups like Little Ondine, LeBunna and Youxin coffee. For more about us visit www.searchlightchina.com