

Understanding China's Digital Generation

A marketer's guide to understanding young Chinese consumers

Heidi Schultz Martin P. Block Don E. Schultz



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by Heidi Schultz, Martin P. Block and Don E. Schultz in cooperation with the Prosper Foundation

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ISBN: 978-0-9848756-1-0

Library of Congress Control Number: 2012921749

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

Published by Prosper Publishing

Website: www.goprosper.com

Prosper Publishing books are available at special quantity discounts to use for sales promotions, employee premiums, or educational purposes. To order or for more information, please call 614-846-0146 or write to Prosper Publishing, 400 West Wilson Bridge Road, Suite 200, Worthington, OH, 43085.

Book Design by Sun Editing & Book Design (www.suneditwrite.com)

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World and local economic growth is driven by four platforms: infrastructure, trade, investment, and consumption. When the authors conceived this book in 2012, consumption represented about 35% of China's gross domestic product (GDP)—well below the 50–70% levels of the United States, Western Europe, Japan, and South Korea. However, McKinsey forecasts that by 2020, consumption in the world's second-largest economy will exceed 43% of GDP.

One of the key demographics growing China's GDP is its young. They are keenly embracing purchases of cars, clothing, household goods, groceries, electronics, cell phones and digital devices, and health and beauty care products, as well as new opportunities to eat out, travel, and much more. At the same time, jobs, lifestyles, cities and infrastructure, trade, and investment economies in China are evolving rapidly. The resulting social and economic shifts will greatly impact the whole world.

This thought-provoking book is dedicated to the marketing, merchandising, financial, and operations professionals who will successfully play a role in China's healthy evolution to a consumption economy and society.

—R. S. S.

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Thank you for purchasing *Understanding China's Digital Generation*.

Most of the insights found in this book are obtained from the ProsperChina InsightCenter™. Ongoing access to trends analyzed in the text and additional insights are available to users on a complimentary basis. This exciting service provides marketers with a direct link to the heart and mind of the young Chinese consumer.

The ProsperChina InsightCenter is an advanced cloud-based platform for the visualization and delivery of key insights and answers on the financial outlook, lifestyle, and media consumption of 1.3 billion Chinese consumers. It identifies through easy-to-understand graphs how Chinese consumers feel about China's economy, changes they are making in reaction to economic fluctuations, where they are shopping, how they are using media (including digital), and much more.

Whether your company is already located in China or you are looking to expand into the Chinese market, the ProsperChina InsightCenter goes beyond traditional point-in-time data reports to trended insights in one easy-to-use, decision-ready format. And best of all, it's available via tablet app or online for users at any level within your organization can gain the knowledge needed to effectively market to the Chinese consumer.

Register today! Visit <http://www.prosperchinaic.com/chinainfo/> for more information.



Foreword

Here's a secret about many of the marketers at leading multinational companies in China: They know they should be investing heavily in digital media programs that are engaging, entertaining, relevant and interactive, but they have no idea how to go about it. Unsurprisingly, only a handful of companies such as Nike, always an early adopter, have achieved real success online—either in trying to build brand awareness or push sales through e-commerce.

Their confusion is understandable. Digital media can become a powerful marketing tool in China to accelerate brand engagement, activation, leads and sales, but even marketers in the West are still trying to figure out the best ways to calculate the effectiveness of online campaigns, especially when social media is involved. When you take the challenge to China, an entirely new ecosystem is involved. Forget about Google, YouTube, Facebook, Twitter, Amazon, eBay, Yahoo, Groupon and other American Internet giants. They are minor players in China or absent altogether. Instead, you'll want to consider Baidu, Youku/Tudou, Sina Weibo, Taobao, AliExpress, Tencent QQ and the numerous other digital innovators across mainland China.

More importantly, Chinese use the Internet differently and for different reasons than their Western counterparts, as you'll learn in *Understanding China's Digital Generation*. The China Internet Network Information Center (CNNIC) points out that there are nearly 500 million netizens in China, with 40 to 50 million more being added each year. That is larger than the total population of the United States. Marketers are mistaken if they believe they can build a business in China without this knowledge.

For instance, Chinese are more likely to watch video entertainment online than on television—a trend based as much on what they don't like about TV as what they do like about computers. Strict regulations on mass-media programming lead to boring, watered-down content with little appeal, and most family homes, typically with three generations under one roof, have one TV set in the family room and a remote controlled by grandma. Few teenagers or young adults living at home—still a common scenario before marriage—have personal TV sets in their bedrooms but many own a computer and a mobile phone.

The Internet also gives them access to friends. Most urban, white-collar Chinese were subject to the one-child policy so today's digital generation largely grew up without siblings. A desire to make friends online partly explains the rise of local social media platforms such as Sina Weibo, Tencent's WeChat and Renren, but online interaction hardly stops there. As *Understanding China's Digital Generation* rightly states, even online shopping is seen as an opportunity for entertainment and socializing.

This book also provides a helpful examination of the uncertainty and risk felt by many Chinese today, including the degree of distrust of things unknown and foreign. As the authors point out, Chinese consumers do not immediately gravitate to imported products or brands simply because they come from the West. Marketers need to understand how being foreign can help or hurt brands, because social media gives consumers a powerful mouthpiece that can destroy brands run by careless or naive managers.

Understanding China's Digital Generation details these and other trends, making it a valuable handbook for anyone who needs to understand the behavior of netizens in the world's largest Internet market.

Normandy Madden, Senior Vice President,
Content Development Asia/Pacific at Thoughtful Media Group, Hong Kong
(Former Asia editor, *Advertising Age Magazine* and editor, *AdAgeChina.com*)



Preface

This book is about a remarkable generation: young Chinese consumers between 18 and 34 years old and the potent role they play in the Chinese marketplace. It is about what they do as consumers—how they shop, what they buy, how they live their lives, how they spend their time, what media forms they use—and some fact-based suppositions on why those behaviors occur.

We say “fact-based” because all the concepts and information in this book have come directly from Chinese consumers themselves. They have reported their views, activities and purchasing behaviors to the ProsperChina™ Quarterly Study (PCQS). This online survey maintained by ProsperChina.com, a service from Prosper Business Development, has collected consumer data for the past half-dozen years. Thus, the information you will find in this text is not based on hypotheses, opinions or marketplace snapshots, but on what Chinese consumers have reported to PCQS every quarter since 2006.

The PCQS is based on similar US consumer surveys from BIGinsight.com, another service of Prosper. The US surveys include the Monthly Consumer Survey™, and the Media Behaviors & Influence™ Study (MBI™), both of which have a ten-year history.

This book is intended primarily for Western managers of consumer-oriented products and services who are seeking to expand their marketing activities from the US to China. Grasping the complexities and dynamics of the Chinese marketplace is no small undertaking, and should not be approached cursorily. Many excellent books have been written in recent years about the broad economic, social and technological advances that characterize China, and this book is not intended to replace any of those resources. However, we have found relatively little has been written about Chinese consumers themselves, and few books provide concrete, research-based data on their marketplace behaviors.

Quite simply, this book aims to be the most specific, most detailed book on any segment of customers that has been published about China. Two questions should be addressed upfront: 1) why use an age-based approach and 2) why choose 18–34-year-olds as the focus of our book? There are several compelling reasons.

First, market segmentation is a hallmark of modern-day marketing, and no method is more basic, straightforward or ubiquitous than segmentation by age. It is readily applied to media strategies, as most TV, broadcast, print and Internet organizations provide details by age segments. It is an approach familiar to most consumer products marketers, and can be applied to most product categories. While some Western marketers may use more sophisticated segmentation techniques such as lifestyle, psychographics, values or needs-based methods, data on such approaches is extremely rare in China. Therefore, a focus on age provides a common reference point that we feel is useful to the greatest number of marketers.

Second, the 18–34 age segment is a priority target for most marketers, especially when they are entering a new territory and looking to build their brand for the long term.. Consumers in the early stages of adulthood are generally a relatively high spending segment, a fact that is particularly true in a market such as China where there is a rapidly expanding middle class. They are at the point of finishing their education, launching a career, beginning their first household, perhaps starting a family and planning for their future. And, they are

establishing habits, consumption behaviors and brand preferences that they are likely to sustain for many years to come. Yes, managers of products geared specifically to middle-age and older adults (hair restorers, anti-wrinkle cream, retirement planning) may not benefit from this text as much as those that have an inherent need to reach young people. However, since this is the first book that has focused on a specific demographic group within China, we believe the 18–34 group has the greatest utility to the greatest number of marketers.

Finally, and most compelling, is the fact that this generation is unlike any that has come before in China—or perhaps anywhere in the world. They were born at a pivotal point in the country’s history: at the onset of a host of economic, technological and societal changes that fundamentally transformed China and which continue to this day. Their lives have been shaped not only by the extraordinary economic success and dizzying transformation that China has witnessed, but also by the advent of new communication systems that connect them directly to each other and to the rest of the world. They are the first “post-revolution” generation, and the first cohort of the “one-child” policy. As consumers, these young adults have greater spending power, a greater variety of products available to them and more tools with which to gather product information than any previous generation.

The economic pillars that have supported double-digit growth each year over the first decade of the century have been manufacturing, infrastructure and financial investment. However, going forward, it is critical that China expand its economy to include greater domestic consumption. According to the *Wall Street Journal’s* Tom Orlik, “To foster sustainable growth, China needs to shift to a new model, where investment takes a break and household consumption steps up as the new engine.”¹

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1. Tom Orlik, “Internal-Consumption Engine Poised to Rev?” *Wall Street Journal*, April 8, 2012, <http://online.wsj.com/article/SB10001424052702304023504577319682208442906.html>

Importantly for marketers, the young adults who are the focus of this book will be in the vanguard of China's growing consumption economy. In 2012, China began the second year of the Twelfth Five-Year Plan. A stated objective of this plan is to increase the role of consumption in China's gross domestic product (GDP). Outgoing premier Wen Jiabao, addressing the annual National People's Congress in March 2012, pointed out, "Boosting consumer demand is the year's first priority, with the government looking to wean the economy off its reliance on external demand and capital investments. We will improve policies that encourage consumption."

Thus, marketing managers operating in China are well served to take the time to understand this unique and economically powerful group, the factors that have shaped them, their beliefs, their media usage and their purchasing behaviors.

Because Western managers are accustomed to dealing with US consumers, whenever possible we will try to put the information on Chinese consumers into perspective by comparing and contrasting it with the parallel data on 18–34-year-old consumers in the US.

Thus, the consumers explored in this book share two important characteristics: they are all 18–34; and they participate in online activities, including the surveys on which the data is based. What makes the insights in this text so useful and practical is the ability for marketing managers to compare and contrast what young adult Chinese consumers say and do with their counterparts in the US. We believe that provides an informed framework for managers to adapt and adjust their marketing strategies to the realities of the Chinese market.

The structure of the book is straightforward. We start with a general picture of young adult Chinese, and then provide more granular detail on their behaviors and beliefs about specific activities and product categories. Chapter 1 sets the stage for understanding the context in which young Chinese adults live their lives, and provides a very brief glimpse into the cultural, geographic and economic factors that shape their consumer behavior. In Chapter 2, we discuss the methodologies

used to gather data in both China and the US, and provide a basic comparative demographic profile of the two groups, including such key indicators as education, income and occupation, and how these differ among major cities according to their “tier” classifications. Subsequent chapters examine specific aspects of their lives: leisure activities, media usage and influence, online activities. We also examine purchasing and use behavior across a range of individual product categories—such as digital media, telecommunications, health and beauty, entertainment and amusement, fashion and apparel, durable goods and financial services. We conclude with a summary and some thoughts on the challenges and opportunities Western managers face in creating effective, relevant and sustainable marketing programs for young Chinese adults.

Knowing the marketing similarities and differences between the US and Chinese young adult consumers, we *laowei* (Chinese for “outsider”) can take a big step in developing effective strategies and tactics for the reaching young adults in the world’s fastest growing and perhaps most challenging consumer market. That is the goal of this book.

The authors wish to thank the staff of the Prosper Foundation for granting us access to the consumer insight databases, and their assistance throughout the process. In particular, we wish to thank Gary Drenik and Phil Rist for their long-term friendship, support and constant encouragement to expand our thinking. To Roger Saunders we owe a great debt for his valuable insight, based on his own deep experience in China. And, finally, we wish to express our very special thanks to Chrissy Wissinger, without whose hard work, dedication and great organization this book could not have come to fruition.

Heidi Schultz
Martin P. Block
Don E. Schultz
December 2012