

China's Gen Z are coming of age: Here's what marketers need to know

Gen Z represent the next engine of domestic consumption growth.

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Officially defined globally as the cohort of people who were born between 1996 and 2010, Gen Z make up about 15 percent of China's population and represent the next engine of domestic consumption growth. Understanding Gen Z is paramount for any consumer company that wants to play a part in China's ongoing economic growth story.

China's Gen Z spent their childhoods during the fastest sustained expansion of a major economy in history, and are consequently used to rapid improvements in their standard of living. They are also China's first generation of digital natives, and as such are instinctively familiar with technology as a form of communication and entertainment, and as an enabler of commerce.

With an eye to helping consumer brands understand how this unique background sets China's Gen Z apart from older generations at home and their peers in other markets globally, McKinsey conducted a survey of nearly 3,000 consumers in China, aged 18-54, alongside our global Gen Z research efforts in United States, Australia, Indonesia, South Korea, and Japan.¹ Based on these investigations, we have identified six key trends that define China's Gen Z as a unique cohort of consumers.

Trend 1: China's Gen Z are optimistic, impulsive, and tend to outspend their budget

In all the countries we surveyed, younger consumers said they are more likely to "buy products on the go". Chinese consumers are more impulsive than their peers in other countries; even Gen X (aged 39-54) shoppers in China indicate they are more spontaneous than Gen Z consumers elsewhere. China's Gen Z are the most spontaneous of all, with 47 percent telling us that they buy products on the go, five percentage points higher than for Chinese Millennials (aged 24-38) and more than 10 percentage points higher than for China's Gen X (Exhibit 1).

This behavior is driven in part by robust confidence in future earnings: 78 percent of Chinese Gen Z respondents said they believe they will earn more, or much more, in the future. This combination of impulsiveness and optimism also leads 36 percent of our survey sample to overspend their budget.

In fact, China's Gen Z refer to themselves as "the moonlight clan" in reference to their propensity to spend their entire monthly salary over the course of a single lunar cycle, effectively living paycheck to paycheck. According to our research, they are also relatively more comfortable owing money; only 21 percent stated they would be relieved if they could pay off all their debts, compared with 28 percent of Chinese Millennials. In China, even university students with no credit records have access to financial products that enable them to make purchases they would not otherwise be able to afford. These include Ant Financial's Huabei (literally meaning "just spend") virtual credit card, which draws upon consumers aged below 25 for a quarter of its user base, and JD.com's Baitiao card, which enables customers to buy on the spot and pay later, as well as a multitude of other financial products. Gen Z consumers in the US are similarly inclined to spend big on consumer products, while their outlay on luxury apparel and accessories even surpasses that of Millennial shoppers with higher incomes.

Consensus ages of generations in 2020

Gen Z: 10-23

Millennials: 24-38

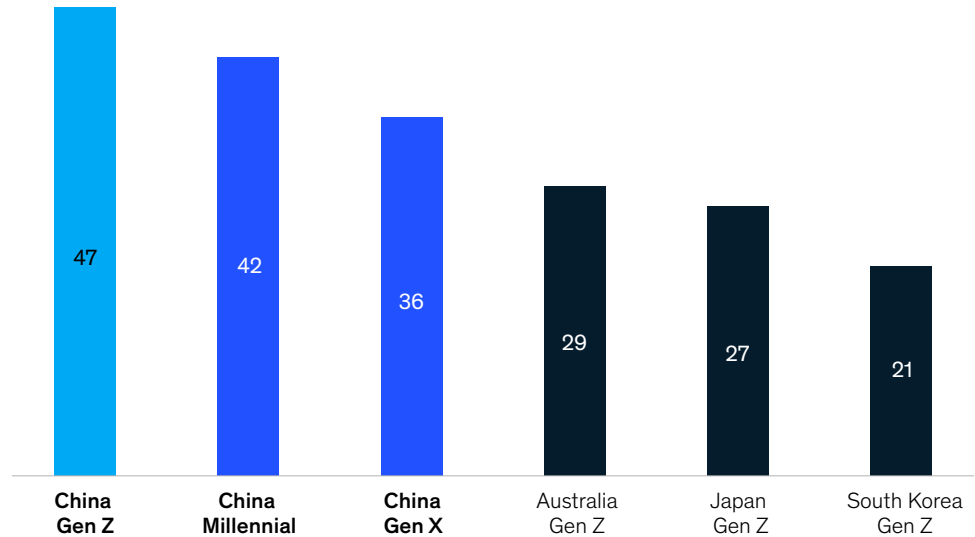
Gen X: 39-54

¹ Consent laws restrict the ability to survey respondents under the age of 16 in Asia-Pacific countries, and under the age of 18 in China and the US. Therefore, we surveyed respondents aged 16-23 in Asia-Pacific and 18-23 in China and the US.

China's Gen Z are most likely to buy products spontaneously

They buy products spontaneously,

% of respondents who strongly agree or agree that they “buy products on the go”



Source: 2019 Gen-Z Survey (N = 2,947 in China, N = 3,311 in Australia, N = 2,966 in Japan, and N = 2,482 in South Korea)

Trend 2: Desire for ‘unique’ products and services

More than half (51 percent) of China's Gen Z consumers prefer brands that offer customized products, while 53 percent opt for brands that provide tailored services. This preference for uniqueness is much more pronounced in China than Australia, Japan, or South Korea (Exhibit 2).

In a spirit of experimentation, brands like YSL have responded by launching ‘unique’ lipsticks that allow consumers to engrave personal messages onto the case, tapping into China's unique gift-giving culture at the same time. China's Gen Z show their appreciation for such customized products but their willingness to pay a premium is still uncertain. Therefore, these early efforts have yet to make much impact on brands' topline.

Trend 3: China's Gen Z are relatively more loyal to brands

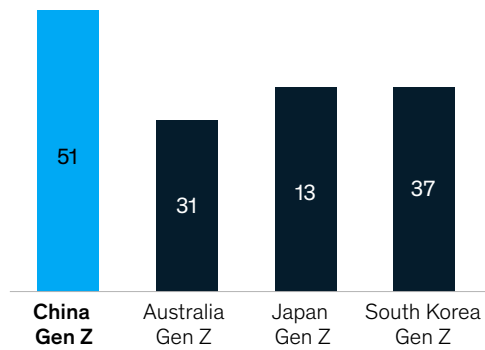
Once engaged, China's Gen Z are also more brand loyal : 47 percent agreed that they stick with brands they like, while 43 percent said they will always choose a brand they know over a new one (Exhibit 3). China's Gen Z are also more loyal than their peers in other countries, especially compared with South Korea and Japan's Gen Z. There is also evidence showing Gen Z in China are even more brand loyal than their older peers.

Successful brands increasingly leverage customer relationship management on social apps to keep customers engaged and retained. For example, WeChat mini programs—apps within WeChat that do not have to be downloaded separately—offer users an array of value-added services, including exclusive access to online events, priority restaurant bookings, and mobile games, all of which help to foster brand loyalty.

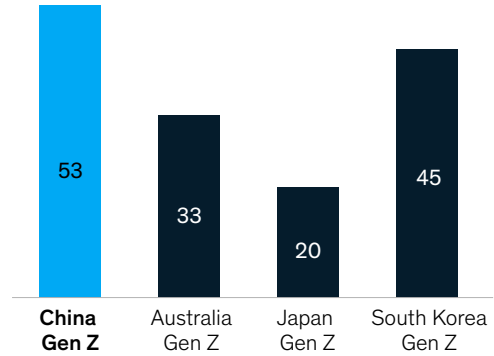
Exhibit 2

Gen Z across markets increasingly demand personalization of products and services

I prefer brands that can customize their products for me, % who strongly agree or agree



I prefer brands that offer tailored services, % who strongly agree or agree

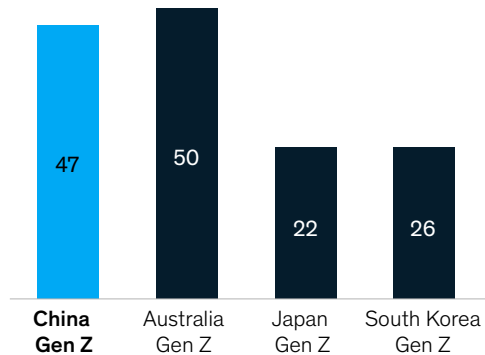


Source: Source: 2019 Gen-Z Survey (N = 2,947 in China, N = 3,311 in Australia, N = 2,966 in Japan, and N = 2,482 in South Korea)

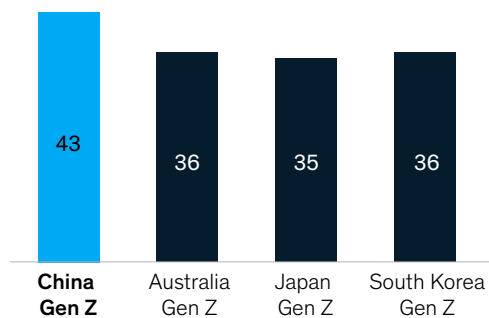
Exhibit 3

Once engaged, Gen Z in China and Australia have higher levels of brand affinity than Japan and South Korea

When I find the brand I like, I stick with it, % of who strongly agree or agree



I will always choose a brand I know well over a new product, % of who strongly agree or agree or agree



Source: 2019 Gen-Z Survey (N = 2,947 in China, N = 3,311 in Australia, N = 2,966 in Japan, and N = 2,482 in South Korea)

Trend 4: Omnichannel shopping is on the rise

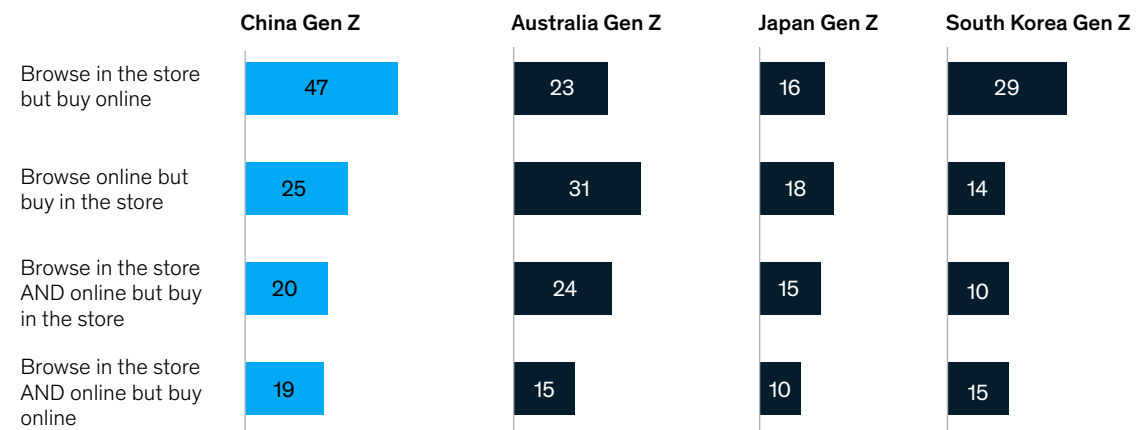
Gen Z consumers in China are more used to omnichannel shopping experiences compared to Gen Z in other countries. Taking apparel as an example, almost 40 percent of Gen Z consumers in China stated they would browse in-store but shop online while only about 15-30 percent of Gen Z in other countries stated they would do so. However, less than 20 percent of China's Gen Z consumers would leverage both online and offline channels to browse apparel. This indicates online and offline channels play different roles in China Gen Z's omnichannel experience (Exhibit 4). In response to this demand for an omnichannel consumer experience, several brands that were initially successful as online-only stores have expanded offline. One example is Chinese snack brand Three Squirrels, which was sold exclusively online for four years before opening its first offline experience store in 2016, achieving fast growth both online and offline.

Trend 5: Gen Z gravitate towards individual merchants on ecommerce platforms due to greater transparency and more quality assurance

Gen Z consumers in China embrace online ecommerce sites that allow peer-to-peer transactions such as Taobao and second-hand marketplace Xianyu to a greater extent than their elders. Our research shows that 43 percent favor these platforms, while the same is true for only 38 percent of Millennials, and 35 percent of Gen X. However, the preference does not extend to individual sellers on other social media platforms (e.g. Weishang) at a similar level of appreciation, potentially because of greater transparency and more quality assurance on Taobao and Xianyu.

Exhibit 4

Online is an important channel for Gen Z in China



Source: 2019 Gen Z Survey (N=750 in China)

Trend 6: Word-of-mouth—the online version—is most influential when it comes to purchase decisions

Online reviews, for example product experience write ups on Taobao, Tmall, or RED, as well as the opinions of friends and family on social media, remain powerful sources of influence across the generations in China. More than three-quarters of all generations surveyed said online reviews were among the top three sources of influence when making a purchase decision (Exhibit 5).

Gen Z look to other sources for product recommendations. Fifty-one percent of Gen Z consumers say that official social media accounts of consumer brands are one of their top three sources of influence, while 44 percent count bloggers and online influencers among their top three sources of influence. Gen Z value these sources of information more than Millennials and Gen X. Key opinion

leaders (KOLs) who resonate with Gen Z are driving this trend, such as Li Jiaqi, whose forthright opinions can make or break a beauty brand or product, and online sales superstar Weiya, whose interactive livestreams on Taobao have helped sell billions of RMB of products. Apps such as Dianping and Meituan that offer reviews, discussion forums, and group buying options are also popular among young Chinese consumers.

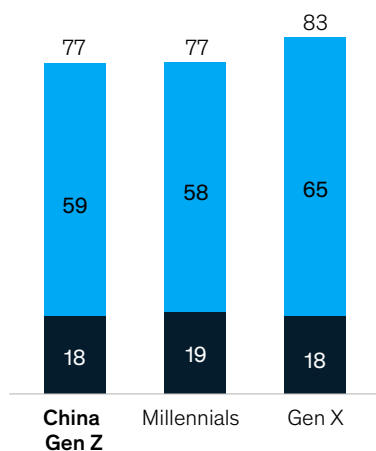
On the other hand, traditional word-of-mouth, or listening to friends and family offline, is waning in importance as a source of influence among young people; only 43 percent of our Gen Z respondents put this category in their top three sources of influence, versus 69 percent for Gen X (Exhibit 6).

In the US, social media is most influential for 39 percent of Gen Z consumers when deciding to recommend a product or brand, while online reviews and blogs is top choice for 26 percent. Friends and family offline still have most sway for 15 percent, and just 10 percent are primarily guided by influencers.

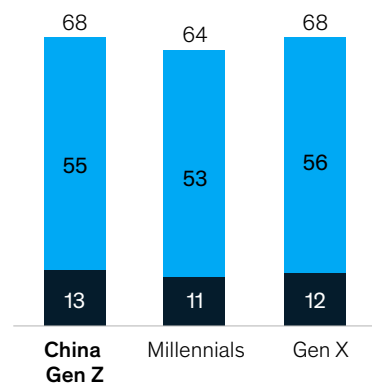
Exhibit 5

For China's Gen Z, word-of-mouth remains powerful but has evolved to mean online reviews and friends/family on social media

Importance of "online reviews"



Importance of "family members/friends' suggestions via Internet"

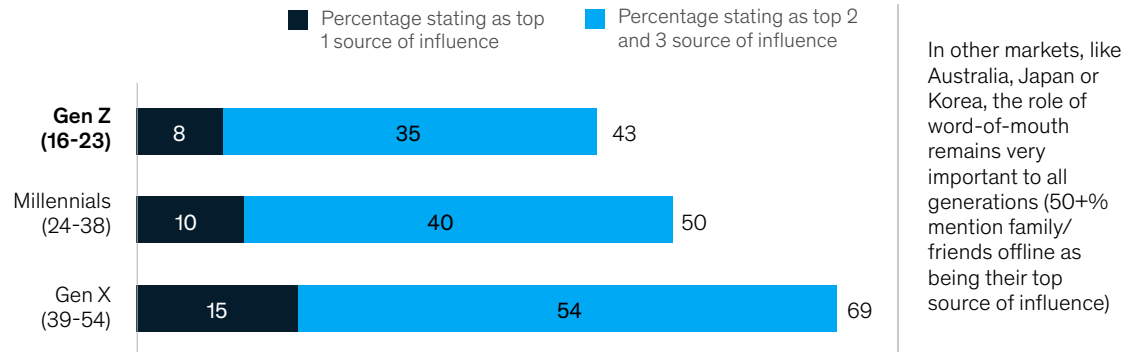


■ Percentage stating as top 2 and 3 source of influence
■ Percentage stating as top 1 source of influence

Source: 2019 Gen-Z China Survey (N = 2,947 in China)

Traditional, offline word-of-mouth is losing influence among China's Gen Z

Importance of "family members' / friends' in-person suggestions"



Source: 2019 Gen Z Survey (N=750 in China)

Implications for brands seeking to resonate with Gen Z

Brands seeking to tap into China's evolving consumption growth story must pay attention to the factors shaping opinion and behavior among Gen Z. Based on our research, brands should consider taking the following steps to resonate with China's new wave of consumers:

1. **Invest in data to drive a deeper understanding of Chinese consumers and develop unique product and service offerings:** China's Gen Z are a unique cohort that demand a differentiated approach. This starts with developing data-driven insights into their shopping pain points, consumption behavior, and expectations for brands. Although this is still an emerging trend that hasn't really impacted topline yet, brands should continue their experiments. One option could be partnering with one of an increasing number of companies providing data-driven insights into China's consumer market, before launching personalized products and services based on the results.

2. **Tailor brand proposition and build loyalty:** Brands must establish a unique proposition that appeals to their target segment, and support this with personalized messaging and services in order to build and retain consumer loyalty.
3. **Double down on both online and offline channels (new social media formats in particular) to ensure a consistent omnichannel experience:** Gen Z increasingly research purchases and complete transactions online so the onus is on brands to provide an inspirational omnichannel customer experience that is consistent and seamless across online and offline touchpoints. Leveraging digital platforms such as WeChat, RED and Tik Tok to establish an end-to-end marketing strategy is necessary to connect with Gen Z, while teaming up with ecommerce players such as JD.com and Tmall is advisable for brands seeking to maximize sales potential. This is true even for luxury brands that are highly protective of their image; Chanel and Estée Lauder both host official brand stores on Tmall. Brands should also continue to offer great offline experiences especially on service, testing and face-to-face social engagement activities.

4. Identify and partner with the right

influencers: Finding a set of opinion leaders that embody the right brand values, and who can reliably connect with target audiences through user-generated content, is critical. Dedicated agencies can help accelerate this task. For example, Chanel partnered with Instar Model Management to establish a discrete network of micro-influencers, while also partnering with mega stars like the model Liu Wen.

5. Adjust positioning to resonate with attitudes to technology:

Our research suggests data protection is more important to China's Gen Z than their older peers. Brands should be transparent about how they handle consumer data, and the measures they take to protect it, in order to gain their trust.

Our research presents China's Gen Z as a unique group of consumers who deserve more than a "one-size-fits-all approach." As established elsewhere in this special edition report, the COVID-19 crisis has accelerated existing trends, including digitization, and demand for healthier products and lifestyles. The pandemic has also prompted young consumers to be more prudent, heightening competitive intensity and making it all the more imperative for brands to understand what drives young shoppers in China's fast-growing consumer market.

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