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China's confident consumers

A survey highlights how fast the market is changing.

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The Chinese have taken to consumerism with ease, embracing thousands of new products, services, and brands. But the flipside is that the Chinese market changes at a speed capable of leaving all but the nimblest of companies breathless, as McKinsey's 2011 survey of Chinese consumers highlights.¹ Three findings stood out. Even in the face of rising inflation, Chinese consumers are more confident this year than in 2010 about their financial prospects. Among urban consumers, the number of first-time buyers—a group that has been a major driver of category growth in China—is declining. Finally, although brand awareness is rising, we see little sign that brand loyalty is following suit. In fact, more and more consumers choose among a growing number of favorite brands.

These and other findings from this year's survey have clear implications for companies seeking to capture the next wave of consumer-spending growth in China. Any broad-brush approach to winning consumers' rising spending power will miss the mark.

Consumers and inflation

At the end of 2010, annual inflation in China was 4.6 percent. By this August, it had reached 6.2 percent—close to its highest level in three years. This development is inevitably affecting real growth in consumption, which fell to 8.5 percent in 2010, from 9.4 percent in 2009. Still, our survey found that consumers are more confident about their financial future than they were last year, and this will probably affect their buying behavior. Fifty-eight percent of respondents said they expected their incomes to rise next year, compared with 39 percent in 2010.

No doubt reflecting this confidence, the survey shows that the number of respondents who choose to spend more—buying in greater quantities, more frequently, or more expensive items in a given category—is holding firm. Whereas last year's survey showed that consumers offset higher spending in some categories by spending less in others, this year there appears to be much less rebalancing.

Also noteworthy is *how* consumers who spent more in 2010 than in 2009 account for their higher spending. On average across categories, some 50 percent of the survey participants identified inflation as the main reason. But of the remainder, 35 percent said they were trading up (buying more expensive goods in a given category), an increase from 26 percent in last year's survey. Sixty percent said that buying in larger quantities or more frequently was the main reason for their higher spending, compared with 54 percent in last year's survey. But only 5 percent of consumers said they were spending more because they were first-time buyers in certain product categories—down from 20 percent in last year's survey—an indication of the growing maturity of many such categories.

¹ McKinsey's 2011 survey of Chinese consumers was conducted between February and April of 2011 and is the sixth annual study on Chinese consumers' shopping behavior. The survey interviewed 15,000 consumers in 49 cities, across four city tiers, six geographic regions, and 17 out of 22 city clusters that McKinsey defined. The survey covered consumers' general attitudes, leisure-activity participation, and Internet usage, and dove deep into five categories, including apparel, automobile, consumer electronics, food and beverages, and home and personal care.

Consumers and category growth

A decade ago, most category growth came from first-time buyers. But this is changing, as so many products are now both available and within the financial reach of large numbers of consumers. Big variations in the importance of first-time buyers have opened up, depending on the category and geographic region. Take large personal-care categories such as skin care and hair care, for example. In personal care, only 3 percent of respondents who said they spent more on the category in the past year were first-time buyers. In less mature niche categories (deodorants, for example), first-time buyers remain more important, as they are for several big-ticket items. In personal digital gadgets, for example, 23 percent of respondents said they had bought such goods for the first time.

At the geographic level, the penetration of certain goods may be high in China's more economically developed regions, but plenty of consumer-conversion opportunities remain in less developed ones, which the government has targeted for higher economic growth. Again in personal care, the survey showed that 15 percent of consumers in the Chengdu cluster—the region that encompasses the western city of Chengdu, as well as the less developed surrounding cities of Mianyang and Neijiang—said they had started to use products in these categories only in the past year. Just 1 percent of consumers in the more developed Hangzhou cluster, which includes the cities of Hangzhou, Jinhua, and Linhai, gave that answer.²

Consumers and brands

Our survey detects no letup in the influence of brands on Chinese consumers' buying decisions. But neither does it indicate strong signs of increasing loyalty to any single brand.

The survey shows the extent to which consumers value brands more than price or channel, largely because they believe that branded products are safer, of higher quality, and more reliable than nonbranded ones. But faith in brands still does not translate into brand loyalty. In fact, both the number of consumers who always choose from among a relatively small set of brands—whom we refer to as “repertoire loyalists”—and the number of brands in their repertoire continue to rise. The average Chinese consumer now chooses among three to five brands in any given category, compared with two to three brands two years ago. In some categories, such as apparel, where luxury brands have grown hugely popular, the contrast is sharper still.

To succeed in this environment, executives will need to understand where the growth prospects lie, both at the category level and in different geographic regions. Only then will companies be able to prioritize resources and tailor strategies appropriately, to strike a balance between building mass appeal and meeting the needs of specific consumer groups,

²In 2010, the Hangzhou cluster contributed 6.24 percent of urban GDP; the Chengdu cluster, 2.87 percent.

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to focus on perceived value rather than absolute price, to modernize marketing tools for the Internet age, and to embrace rapidly growing online sales channels quickly. Companies must have both the flexibility to adapt and the skills to innovate to keep in step with the Chinese market’s exciting development. [○](#)

Yuval Atsmon and **Max Magni** are principals in McKinsey’s Shanghai and Hong Kong offices, respectively. This article is adapted from the McKinsey report *2011 Annual Chinese Consumer Study—The New Frontiers of Growth* (October 2011), available on mckinsey.com. Copyright © 2011 McKinsey & Company. All rights reserved.