



consumption in flux: a look at China's high-spending youth



A Q&A with Tan Xie, R.A., LEED AP
Senior Project Manager, Asia Pacific Team
WD Partners

Since China's entry into the World Trade Organization in 2001, most restrictions on foreign retailers there have been lifted — and the Chinese economy hasn't been the same since. According to a recent report by Forbes Insights, "In 2010, China's consumer market was estimated to be worth \$1.7 trillion. Credit Suisse projects that the burgeoning domestic consumer market could grow to nearly \$16 trillion within a decade."

A driving force behind this economic boom is the younger Chinese generation, specifically those born after 1980. So what are the expectations and spending habits of these youthful superconsumers? To find out, we turned to Shenzhen-based Tan Xie, WD's Asia Pacific Senior Project Manager.

WD: What assumptions or impressions might be misleading about the young Chinese consumer?

Tan: Many retailers still underestimate their vast spending power. This isn't just because incomes have grown. Our One-Child Policy, implemented in the late 70s to reign in population growth, means that many Chinese families now have just one child. Not surprisingly, parents tend to dote on them. In fact, in China it's very acceptable to be financially generous with your child, even if they're grown and have a good job. And after marriage, you have two sets of parents doting on their children. Double the buying power!

WD: So how are we seeing this buying power played out on a day-to-day basis?

Tan: Our younger generation has become very enchanted by Western tastes and lifestyles. Western brands like Apple and Nike are most appealing to them, even though they're much more expensive here than in other countries. They'll tap into every resource to get those branded items — if they can't find them in store, they'll purchase them online. This is especially true of our third and fourth-tier cities, places where such items aren't.



WD: How important is it for foreign brands to localize their products and services for young Chinese consumers?

Tan: Naturally, that's a huge consideration. For example, KFC and Pizza Hut have been very successful at adapting their menus to appeal to the tastes of the young Chinese market. A typical KFC meal might include rice, egg soup and some soybean milk along with that famous bucket of fried chicken. And at Pizza Hut, which actually attracts our more upscale urban youth, in addition to pizza, they can choose from menu items such as escargot, crispy fried squid, and scallop croquettes with crushed seaweed.

Changing the essence of a well-known brand too much, however, would be a mistake. Young Chinese consumers go to foreign-brand stores because they perceive them as high quality. They trust these brands because of what they represent in their minds, not just because the merchandise has been localized.

WD: Give us a brief glimpse into your current youth culture. What's hot with this consumer group right now?

Tan: The typical young Chinese consumer loves to travel abroad, making them even more status-conscious and aware of fashion and brands. They love Western pop music, hip hop and Karaoke, as well as Westernstyle bars and nightclubs. They're watching shows like the Chinese version of American Idol, and they're voracious online shoppers, gamers and chatters. Being avid tech adopters, they can't get enough of their gadgets – laptops, iPads, smartphones and the like.

WD: Describe a typical shopping experience in China.

Tan: Shopping here is much more relaxed overall. There's just not as much getting in and out, trying to cross things off your list. In fact, individual stores are often an all inclusive destination where you go to shop, eat and hang out. Our younger generation tends to buy in larger quantities and visit a store less often than their parents, so they really want to make the most of it. The older Chinese shoppers still feel more comfortable going to the smaller local stores, which they might frequent up to a few times a day.

The perception of cleanliness is also very important here, especially when it comes to grocery stores and restaurants. Our urban youth just won't settle for unsanitary outdoor markets that stock old meats, eggs and vegetables, or restaurants that reuse their cooking oil. They have extremely high expectations now, and retailers really do have to establish global health standards.



WD: What Western brands have been most effective at marketing to this consumer group – and which emerging brands should we be watching?

Tan: KFC, Pizza Hut and McDonald's are all popular with our younger consumers, as are luxury brands like Louis Vuitton and Gucci. Starbucks has been seeing double-digit growth here too – an indication of an eager willingness to expand from a tea-drinking culture into a Westernized coffee-drinking one. As far as brands to keep an eye on, J. Crew seems destined for success – if only because Michelle Obama is a fan and our younger generation trusts the opinions of such iconic Western figures. Gap is also just emerging in China and is already looking like a brand favorite. Banana Republic and Victoria's Secret retail stores aren't here yet, but I predict they will be soon. Both are very popular in Japan and Hong Kong right now, and our young Chinese consumers are already keenly aware of them. I predict they'll quickly gain acceptance.

visit wdpartners.com for more information on specific global design and development projects