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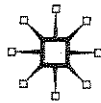
—Pierre Xiao Lu, author of *Elite China*, professor of marketing at Fudan University in Shanghai, and Founder of China Market Institute Consulting

WHAT CHINESE WANT

CULTURE, COMMUNISM, AND CHINA'S
MODERN CONSUMER

TOM DOCTOROFF

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WHAT CHINESE WANT
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THE NEW MIDDLE CLASS: CONSTANTS AND VARIABLES

China's middle class, a modern force with timeless cultural imperatives, will reshape the world. To harness its spending power, marketers must realize that becoming modern and international is not tantamount to becoming Western—Chinese consumers exhibit a unique combination of motivations and conflicts.

The middle classes as a demographic only really came about at the turn of the twenty-first century. Although Deng Xiaoping's 1992 Southern Tour effectively legitimized private wealth—and gave his economic reforms a much-needed fillip—the impact on people's lives was not really felt until the late 1990s. The sheer scale and magnitude of this transformation marks a spectacular inflection point for China—yet nobody has really come up with a suitable definition of the middle class.

Many analysts consider household earnings of RMB5,000 per month (about \$1,400 on an adjusted purchasing-power parity [PPP] basis) is considered the lower edges of the middle class. The core middle class starts from RMB20,000 a month (\$5,700 on an adjusted PPP basis). There are about 125 million people in this category—basically, anyone who is not struggling for day-to-day survival. According to Euromonitor International, a London-based market research firm, the middle class in China is defined as households with an annual income between RMB60,000 and RMB500,000; it estimates there will be more than 700 million people in this category by 2020. It is certainly a fallacy that this class

exists in the primary cities only; it is to be found in every urban area in China, as can be seen in the growth of car ownership across all cities.

WHAT THE MIDDLE CLASS WANTS

Broadly speaking, the Chinese middle classes believe that with the right competitive tools, they will find an opportunity to transform their lives, in contrast to a blue-collar laborer, who sees his social and economic status as more or less fixed. It's the difference between basic needs of survival and physical safety and a need to satisfy social status requirements. The middle class engages with society to get recognition for financial success. It's important to note, though, that this is not about arrival, it's about being on the right journey—they see theirs as a continuous struggle upward, and there is an acute awareness that all could be lost in the blink of an eye. There is a need to demonstrate how high you have climbed but also to protect that ascent. Insecurity abounds. Civic institutions are unreliable; there is no political representation; wealth is not protected institutionally; the safety net, particularly health insurance, is incomplete. People say that all they want is to be happy and to be in control of their destiny, but at the same time they understand that this ideal is not truly practical. The political and bureaucratic system is too firmly entrenched to buck.

More subtly, on an emotional level, there is a sense that there are certain essential rites of passage to middle-class status, such as homes, diamond rings, education, and car ownership. But these items are expensive, and disposable incomes remain low—so how does one decide what to buy? Above all, the middle class seeks to create something sustainable, reducing the chances of falling off the middle-class pedestal. This pressure weighs particularly heavily on men, who are the ultimate providers for their clan and often do not feel in control. A man's ability to fulfill this role determines whether or not he is regarded as an upstanding member of society. Individuals are incredibly conservative; they seek society's endorsement in order to know that they have mastered the rules and climbed the predefined hierarchy.

ORDER vs. CHAOS

Every strand of Chinese thinking reinforces the supremacy of stability and order; the country is unique for its conflict between ambition and conformity, from abiding by the hierarchy to pulling yourself up the hierarchy. Wound into this is an extraordinarily ambivalent relationship with the state. The central government is seen as the means for people to advance and to create order

from chaos. While there is a general frustration with corruption and the slow pace of reform, and widespread demand for institutional reform that protects the interests of society, no one wants rebellion. They want a continuation of the status quo, with the state as the lynchpin. Strong government is necessary to assuage the classic middle-class fear that things could fall apart at any moment.

Reform is happening, but it is a slow race between what the state will allow and what the people will tolerate. With average annual per capita incomes still comparatively low and urbanization far from complete, it will be decades before the basic current structures of power reach a critical contradiction. But those at the top of the socioeconomic pyramid are already hedging their bets. This is why so many of China's wealthiest citizens are busy securing foreign passports as insurance against future instability. Nearly half of Chinese with assets worth more than 10 million yuan, or \$1.6 million, are considering moving abroad, according to a 2011 survey by the Bank of China and the Hurun Report, a compilation of the PRC's richest individuals. The US and Canada, countries perceived to offer robust rule of law, are the most popular destinations. The main reasons given are better education and asset security, and a less polluted environment.

EVOLUTION OF MIDDLE-CLASS CONSUMPTION PATTERNS

Historically, the Chinese are incredibly price sensitive when it comes to products for the home. These items will not be exposed to societal scrutiny—the home is rarely visited by outsiders—and given the need for conspicuous consumption it makes sense for cost savings to start here. You don't see people spending money on expensive bedspreads. That said, comfort is important, and both the willingness to indulge and consumer education on product quality are growing, albeit relatively slowly and from a low base. This is a typical symptom of an evolving middle class.

Evolution means not only the range of goods that appear to consumers is changing but also the value placed on quality services—be it banking or health care. There is a dearth of good service in China, and there seems to be an ever-widening gap between what's available and what is in demand. The time is ripe for foreign companies, with more knowledge and experience than their domestic counterparts, to enter the market. This begs two questions. First, will the government recognize the need for foreign companies in the sector and allow liberalization? Second, how will foreign companies decide to play aspirations of individualism and the reality of social conformity?

PROMOTING SOCIAL ADVANCEMENT

While China's middle class is becoming more modern and international, it is not becoming more Western. A brand's success is rooted in an appreciation of people's fundamental motivations—and in China this means that a premium-priced product must be a tool for social advancement. And the range of product categories perceived to achieve this objective has expanded significantly.

DeBeers. In the fifteen years since DeBeers entered the market, the penetration of diamond engagement rings has risen from 8 percent to 80 percent. The company achieved this by understanding that marriage is perceived differently among Chinese than Westerners. While the latter like to believe that passion and romance last forever, the former see commitment as persistent, not love as such. De Beers gave the Chinese man a tool to demonstrate his reliability.

SK-II. Upper mid-tier skin-care products such as P&G's SK-II are achieving critical mass. The desire of middle-class women to leverage youthful beauty as a professional competitive advantage has resulted in the reduction of the white space between extremely expensive luxury brands such as Estée Lauder and Dior and local mass-market products.

Siemens. Most Chinese consumers are still loath to purchase expensive foreign appliances because they are used only at home and the quality of local brands is acceptable. However, products that have high visibility or can be displayed have made great strides. Siemens, despite an average price premium of 40 percent versus Haier, is the second largest refrigerator brand after Haier.

The bottom line is that the product is a means to an end. The Chinese have no excuse for buying luxury goods, given their level of income, but luxury is so externalized it enables inconspicuously conspicuous consumption—that is, the ability to show off without being seen to do so. It is all about convincing consumers that the product will help them climb the social ladder. If there is a craftsmanship to selling products in China, it's communicating how a product will help the owner solidify status while avoiding clichés.

THE JOURNEY OF SUCCESS

Clichés can be avoided if marketers acknowledge that China's middle class is not a monolithic socioeconomic slab. Yes, all aspiring professionals—in China, career and class identity are inextricably linked—are torn between impulses to, on one hand, boldly project status and, on the other, remain understated. Across all income levels, achievement must be underpinned by substance, lest suspicions of superficiality arise. Every member of China's new middle class is on an arduous journey to success, a climb, up different tiers and income levels, to the

top of Mount Glory. But there are differences. Ten years ago, practically everyone was a neophyte. Today, the middle- and upper-middle, as well as wealthy classes have all achieved critical mass. The strategies of brands targeted to each must shift accordingly.

Acceptance. Young college graduates, earning RMB4,000 to RMB5,000 per month, are unproven, in search of acceptance. They need acknowledgment of their potential, not admiration for their achievement. Sail, one of the least expensive vehicles sold by General Motors, celebrates a "new world, opening its doors for you." But the "new man's" initial excitement is quickly replaced by a fear of elimination. Wrigley's Double Mint chewing gum asks, "Are you really ready?" and presents fresh breath as a shield against coworker alienation. For individuals just out of the starting gate, brands can sharpen their basic survival skills—to pounce on opportunity or demonstrate their potential. Rejoice shampoo links dandruff-free hair to having the confidence to approach the boss when a chance to translate English arises. Ariel detergent links clean, white shirts with an ability to "rise and shine at the office."

Recognition. Once strivers are in mid-career, they must be recognized for both their past achievements and their capacity for further advancement. Products play an active role in their winning the game by demonstrating their advanced survival skills. In one ad, Sony Handycam associates digital transmission capabilities with resourcefulness by, somewhat ironically, enabling a vacationing professional to delay returning to work. Technology brands from Motorola to NEC to Hewlett Packard are productivity weapons, competitive advantages deployed on the business battlefield. As people scale their work hierarchies, it also becomes increasingly important to them to sharpen their internal tools—for example, a "heart both focused and wild" (Kia Motors), "determination to face the future" (China Mobile's Go Tone network), a "combination of calmness and the will to go the distance" (Buick Regal), and "breadth of vision, over time and place" (Sapphire Cove, a real estate complex).

During the middle stages of advancement, a happy family is an important factor, a necessary-but-not-sufficient prerequisite to being taken seriously as an adult constructively engaged with society. That's why many automobile ads targeted to business people feature parents with their (only) child and Epson commercial printers dramatize color accuracy by depicting a father educating his daughter.

Admiration and iconization. Toward the top of the hierarchy, the *laoban*, or boss, requires unanimous respect and deference. Given the ubiquity of rival factions and impatient upstarts, power is conditional. Authority, therefore, must be self-evident—hence premium Ballantine scotch's tagline, "When success speaks for itself, there is no need to show off," or BMW's call to "Reflect your inner leadership spirit."

In China, iconic stature is the best defense against corporate maneuvering. Icons are paragons of wisdom, masters of the system. They are revered because they both lead and teach. This is why the most premium products often base their appeal in “shared mastery” and “artistic connoisseurship,” potent demonstrations of internalized confidence. The late Chen Yifei, China’s most esteemed contemporary painter, equated depth of creative vision with the digital pixillation of LG’s flat-screen televisions. And Chen Xiyang, a famous conductor, intones, “True masterpieces are tried and tested over time, just like Zui Lai Lai premium yellow wine.”

The middle class is on a perilous journey of advancement, both material and societal. In this context, brands should enable strivers to achieve surer footing every step of the way.

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CHINA’S LOWER-TIER CITIES: BRIGHTER EYES, BIGGER MARKETS

During the past decade, in tandem with the central government’s campaign to rebalance investment between coastal and inland cities, a new mass-market consumer class has emerged. A huge income gap still exists between urban and rural residents, and the consumer spending share of GDP is at historic lows—it has gone down by seven percentage points over the last decade to 36 percent; in the US it is 70 percent. But purchasing power in second- to fourth-tier cities is increasing by about 10 percent per year. This raises the question of what motivates lower-tier consumers. The tension between self-protection and ego gratification afflicts both lower-income and coastal consumers, but the former are easily the more cautious.

DEFINING AN EVOLVING LOWER-TIER MARKET

A growing middle class. Mass-market and lower-tier consumers are not the same. Practically every medium-sized city—provincial, capital, or otherwise—has a nucleus of individuals with a household income in excess of RMB5,000 per month—which is often defined as the lower threshold of the middle class. These people’s buying motivations—protection at home and bold status projection in the public arena—are essentially the same everywhere. The challenges in targeting the inland middle class are operational, not attitudinal. Companies must transform inefficient, multilayered sales and distribution channels into more