

Financial Crisis Set to Realign Consumer Spending in China

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Germany, the UK and U.S. are officially in recession.

Even China, with its huge economy, has not been spared from the rapidly-expanding financial turmoil.

The Chinese Prime Minister, Wen Jiabao, has been meeting with leaders across Europe this month to talk about the global economic turndown.

But how are the problems affecting Chinese consumers?

A recent study conducted by Millward Brown and Lightspeed Research reveals that 78 percent are already feeling the impact.

Here we look at the effects on Chinese consumers' shopping habits and how brand owners can respond.

A middle-class crisis

The opinions of over 11,000 consumers were collected via an online survey. Middle-class Chinese consumers (with a monthly income of \$146-\$1,168) aged 19-45 are feeling the greatest pressure from the global economic crisis.

Those living in areas with manufacturing-based economies, which have a greater exposure to the fluctuations in demand of the export market, have been hit particularly hard, for example in Shenzhen and Guangdong.

The consumers most affected by the financial crisis plan to cut back on spending in the greatest number of categories during the first quarter of 2009. But there is a greater optimism among those who aren't feeling the pinch. They are planning to maintain or even increase their expenditure in the categories.

Effects of recession will differ by category

The results suggest the impact of future consumer spending will differ by category. Essential items are liable to be more resilient to the effects of recession as Chinese consumers try to maintain their standard of living by focusing on the daily necessities.

They are least likely to cut expenditure on household cleaning products, fruit and vegetables, and personal care products.

For those that did plan to make savings in the household personal care (HPC) category, premium beauty products are most at risk. More basic products face less threat - around half of those who plan to cut spend on HPC items said rather than use a product less often, they will switch to a cheaper brand.

In contrast, people are more willing to reduce their consumption of snacks, alcohol and beverages than buy a cheaper alternative.

Those surveyed said they will first sacrifice expenditure on Western fast food restaurants and high-risk financial investments. Spend on entertainment looks set to take a hit, especially travel, the cinema and karaoke. Health-related entertainment activities seem to be more robust.

Other categories facing tough times are audio/visual products and luxury items like jewellery and premium watches.

Mobile phones ranked in the top 10 categories least likely to be affected by the recession. This suggests people view their mobile as a necessity, rather than a luxury.

What can marketers do?

While many analysts and economists agree that the current financial turmoil will be the worst the world has seen since 1930s, we continue to believe that the sheer size of the Chinese domestic market means that China is in a relatively much better position than most of the world.

Various estimates put China's economic growth in 2009 at 5-7.5 percent. But it is clear from the findings of this study that Chinese consumers are not spared from the almost daily reminders in the media about the slowing economy, factories closing down, and job losses. Consumer confidence is on the decline. In such an economic environment, marketing becomes more difficult, but not impossible.

Needs versus wants

Chinese consumers will first look to make savings by sacrificing purchases of non-essential items. Is your brand an essential? If not, can you make consumers feel like it is more of a need than a want?

Differentiate, but not at the expense of value

Differentiating your brand from the competition will provide limited success if you cannot justify the price. But this does not necessarily mean engaging in price promotions. Cutting prices can be a risky strategy.

Once a price premium is lost, it tends not to be regained. Instead, focus on making your brand more accessible to consumers, for example introduce smaller pack sizes, value (bulk) packs and cheaper packaging.

Invest in your brand

While reducing advertising spend can seem a logical way to increase short-term profitability during a recession, the consequences can be damaging. Brands can "go dark" for six months with little deterioration in their health. But the problems arise in the longer term, leaving the brand in a less competitive position when the economy recovers.

Millward Brown has plenty of evidence that brands which continue to spend on brand-building marketing during recession are the most successful in the long run. Instead, focus your marketing efforts on reinforcing what made your brand successful in the first place.

Look for hidden opportunities

The way most consumers shop changes during a recession. Basic values such as family and health become a priority for many during uncertain times. Affordable luxuries may see an increase in demand as people trade off high-ticket items in favor of smaller indulgences, such as premium ice cream.

Beer, takeaway food and home entertainments also tend to do well in hard times. Brand owners should look for suitable opportunities to connect with consumers and acknowledge the problems they may be experiencing.

The future?

Because of the lack of a social security net, many Chinese consumers avoid risk. The economic problems are therefore likely to be magnified in China. So, if conditions improve elsewhere and consumers start spending again, there may be a lag before the recovery begins in China.

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