Chinese Consumers In 2020: A Look Into The Future

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Welcome to the first article in our new monthly 2020 series of comment pieces spotlighting future consumer trends in key consumer markets, starting off with BRIC countries.

Some trends are already simmering, some new but all are likely to influence consumers in specific countries in 2020. After a look at current trends, the pieces explore emerging trends and future scenarios

The undeniably strong spending power demonstrated by Chinese consumers both domestically and abroad has held the attention of all market watchers in the past decade.

They are more liberal than those of their savings-minded parents. The new consumers are trendy, hold white-collar jobs, own an apartment and a car and travel abroad extensively. Following these trends, what will the Chinese consumers of tomorrow be like? Will they ride over the economic crisis and continue to spend big?

Chinese Consumers Today

Growing affluence

China's total consumer expenditure by 2008 was RMB10.4 billion (US$1.52 billion). At present, Chinese families generally save or invest a quarter of their total income and spend almost the same proportion on food.

Chinese Generation Yers enjoy the most buoyant income growth and tend to splash out more on clothes and entertainment, making them the prime target group for China-bound retailers.

As the Chinese consumer grows more affluent with the emphasis of the Chinese Government on promoting quality of life and increasing per capita income, the insatiable urge for image and upmarket goods will continue to be an increasing trend.

According to Goldman Sachs, China is now the third biggest consumer of luxury goods, just next to Japan and the United States, accounting for 12% worldwide. Currently, the Chinese market generates more than US$2 million in luxury consumer goods sales a year and sales are growing 20-30% per year.

Love of travel

The market for outbound tourism is expected to increase substantially. The RMB is expected to appreciate on the US dollar, which will continue to reduce costs for outbound travellers.

A greater number of middle income travellers have begun to join outbound tour groups, and those whose monthly family income ranges from RMB5,000 to RMB30,000 are the main consumer base of short holiday outbound travel not exceeding three days, the most popular destination being border nations or one of the SARs.

European destinations are also expected to grow in popularity, due to the widespread Approved Destination Status amongst EU nations. The US also hopes to attract a large segment of the Chinese outbound market.

Buying property

China's property market has grown strongly in all sectors amid robust demographic and economic growth. Just two years ago, overseas investors were responsible for more than half of the country's high-end housing sales.

Today, the home-grown new rich account for more than 70% of luxury home transactions, according to real estate services firm Jones Lang LaSalle. Transactions involving high-end residential properties such as villas, luxury flats and serviced apartments, stayed active on the back of market liquidity, a growing influx of expatriates, the rising affluence of residents and also the wealth effect of the stock market.

Emerging Chinese Consumer Trends

Strong brand loyalty

A majority of the shoppers surveyed by McKinsey â€“ 63% in 2008, still enter a shop with a shortlist of favourite brands or a single preferred one and will not stray from it when making purchases.

Although this percentage dropped from 73% in 2007, getting onto that shortlist remains an essential step for any consumer product trying to get a foothold in China. Chinese shoppers are becoming less comfortable about buying unfamiliar products.

In 2008, only 18% of respondents indicated that they were always willing to try new packaged foods, compared with 29% two years earlier.

When Chinese consumers try new products, they are twice as likely to grab those introduced under a familiar brand than under an entirely new one. Such reluctance is understandable in China, where many cheaper goods are of poor quality and the consequences of the wrong choice can be drastic, especially with food purchases. Once Chinese consumers recognise a brand, they are likely to assume that it offers better quality and are willing to pay a premium for it.

Big internet users
In 2008 there are 180 million internet users in China and this figure is expected to reach close to 500 million by 2020. China has already overtaken the United States in 2007 as the country with the most internet usage, with 180.2 million users.

China is experiencing a breathtaking rise in internet usage (a 126.7% increase in users between 2003-2008 according to Euromonitor International figures) despite the Government's supervision of web content. According to the Chinese Government, there are now 20 million Chinese bloggers and more than three million active writers.

There is also the phenomenon of many Chinese teens being addicted to the net by being hooked on online games and instant messaging. The internet has been the gateway for almost any Chinese citizen to the world beyond the once Forbidden City and its attractions.

This awareness alongside with increased knowledge and purchasing power are the powerful ingredients of strong demand for travel, luxury goods, modern technology gadgets, cars and housing.

Chinese Consumers In 2020

Living in what is becoming a well-off society
By the year 2020, China will have a population of more than 1.4 billion people that will make up a significant portion in the world's consumer market. The annual disposable income of Chinese consumers is forecasted to increase to 65.4 billion yuan (US$9.57 billion) by 2020 compared with 15 billion yuan (US$2.19) in 2008.

The National Bureau of Statistics of China announced that the country would be considered a moderately affluent society by 2020, if development trends since the year 2000 continue.

The estimate was made taking into account progress in the fields of the economy, social harmony, quality of life, democracy and law enforcement, culture and education, as well as resources and the environment.

Zheng Xinli, Vice-Minister of the Communist Party's central policy research office, said that taking price changes into account, 55% of the population will be middle class by 2020, with 78% of city dwellers and 30% of those in rural areas reaching that status.

Middle class is currently defined as having an annual household income of between RMB60,000 (US$8,700) and RMB200,000 (US$29,215). In 2008 prices, the annual disposable income per household will be RMB98,956 (US$14,900) in 2020.

A sustained desire to see the world
Travel will always be on the agenda, particularly among the white-collar working class population due to companies' annual leave privileges in addition to â€œarrangedâ€• long weekends and public holidays. Public holidays are often arranged in such a way that they fall on either side of a weekend to prolong the break.

Even if travelling abroad proves to be an obstacle to most Chinese due to visa restrictions etc. domestic intercity trips are most common as each city in the country always boasts several inherent attractions.

China is seen as one of the world's most attractive outbound tourism markets, as evidenced by campaigns that have continued to appear in large cities, most notably, Shanghai, Guangzhou and Beijing, often in banner format and television advertising format to boost awareness of destinations available to Chinese travellers.

Mass urbanisation
An annual average of 12 million people per year will migrate from China's rural areas to become urban dwellers. Such mass urbanisation, coupled with China's robust economic growth, will result in a surge in demand for housing in urban areas.

This equates to a phenomenal demand for housing of approxiÂ¬mately 14.4 billion square feet annually compared to a supply of only 6.5 billion square feet, representing a 7.9 billion square feet shortfall.

In a report from the Federal Reserve Bank of San Francisco, it is estimated that China each year from now until 2020 will need to construct 209 square miles of new urban residential floor space to keep pace with the estimated annual influx of migrants.

Residential developers in China are finding a profit niche building affordable and dream homes for Chinese double-income Gen Y couples.

By 2020, China's per capita GDP is expected to reach over US$10,000, comparable to Europe, Japan and the USA in the middle of the 20th century. These growth periods are generally characterised by a surge in demand for cars.

In a report by NBC News, carmaker Buick's excellent sales have propelled General Motors (GM), even as it closes plants and lays off workers at home, to the top of the pack in China, the world's fastest-growing car market.

Boys will be boys
Forecasts show that by 2020 there will be over 18 million more men than women aged 20-34. This figure provides a solid opportunity for digital media and gaming products that will serve to occupy their bachelorhood evenings. Immersive entertainment experiences for China's young consumers will help drive PC, media, wireless and broadband usage in China over the next 10 years.

We want everything
By and large, any commodities or consumables that are associated with providing quality of life and meeting physical and mental needs will be in great demand among the Chinese as they mature as sophisticated and educated consumers.

With economic growth expected to exceed 9% annually, year after year, well-managed companies will reap huge profits as China's 1.3 billion increasingly affluent consumers exercise their collective economic clout to purchase enormous quantities of every conceivable consumer product.

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