



STANDING OUT FROM THE CROWD

How China's youth are
returning to local brands

CHINA'S CONFIDENT AND CONNECTED YOUTH

The speeds of change in China's political, social, technological and economic environments have made generational shifts much more pronounced than other countries. Understanding China's youth is therefore critical to the understanding of the future of China's consumer economy.



China's "post-80s" ("80后") generation, defined as those born in the 1980s, was the first to come of age in a market-oriented economy with a consumer culture. Accordingly, that generation has been a major contributor to the growth of China's consumer sector in the last decade. Now, however, the "post-90s" ("90后") generation is entering the workforce and starting to earn (and spend!). As the "post-80s" generation shaped the last decade of Chinese commerce, the "post-90s" will shape the next.

OC&C has interviewed over 500 of China's urban under-35s to help understand how the new China youth will impact the consumer landscape of the future.

The picture that emerges is of a confident consumer, who is better informed than ever; but also part of a disengaged and occasionally disillusioned generation:

Increased economic confidence is creating a willingness to spend freely, with lower savings rates and high levels of expenditure on discretionary items

More confidence in their choices to reflect their own personality, with a lesser need for the re-assurance of big foreign brands. As such, they show a greater openness to local brands

A seamless merger of the online and offline worlds, with online social interaction being the major leisure activity, enabled by the ubiquitous smartphone ownership

A paradoxical connection to their peers, close online but less engaged in the offline world

E-commerce, and particularly m-commerce through smartphones, is becoming the norm, not the exception

INCREASINGLY SELF-ASSURED IN BRAND CHOICE

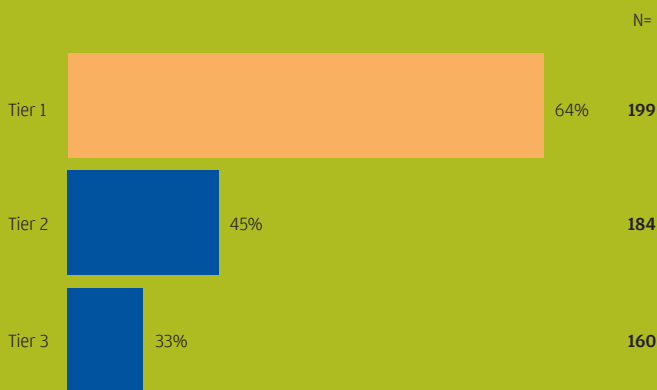
Brand is still critical for the young Chinese, however what they look for in good brands is changing. Post-80's look at brands as a way to communicate (and possibly exaggerate) their social status. The chart below illustrates this showing how the purchase criteria for an iPhone are different between post-80's and post-90's generation.

For the post-90's generation, they are likely to choose Xiaomi over Apple not just because of price, but because of perceived value for money. In the words of one of our respondents, post-90's are no longer superstitious about Apple.

Importance of Brand

Brand importance by city tier

% of respondents who claimed brands are "Important" & "Very important" when making purchases (4 & 5 on a scale of 1-5)



Source: Chinese Youth Street Intercept & Online Survey 2013

Importance of brand by category

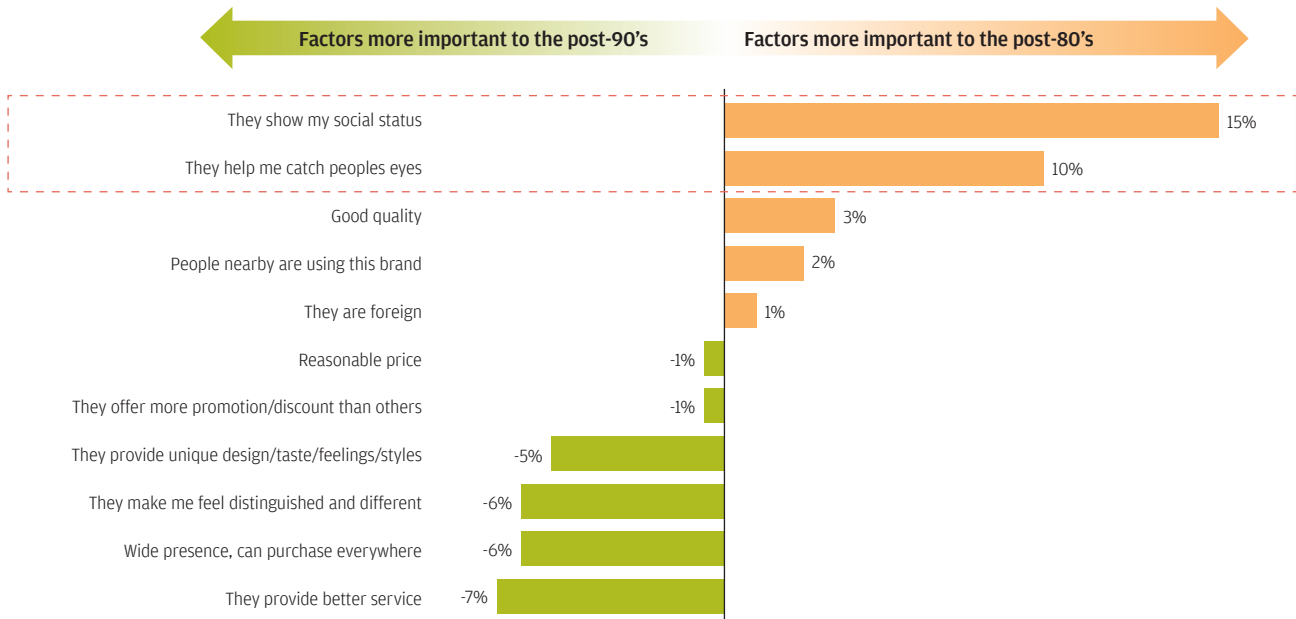
Size = importance



Comparison of post-80's and post-90's generations attitude to brand

Top reasons why young consumers purchase iPhone, post-90's vs. post-80's

Delta % of iPhone users ranking certain factor as top 3 reasons for his/her purchase¹



1. Only include those considering brand "important" or "very important" when purchasing mobile phone

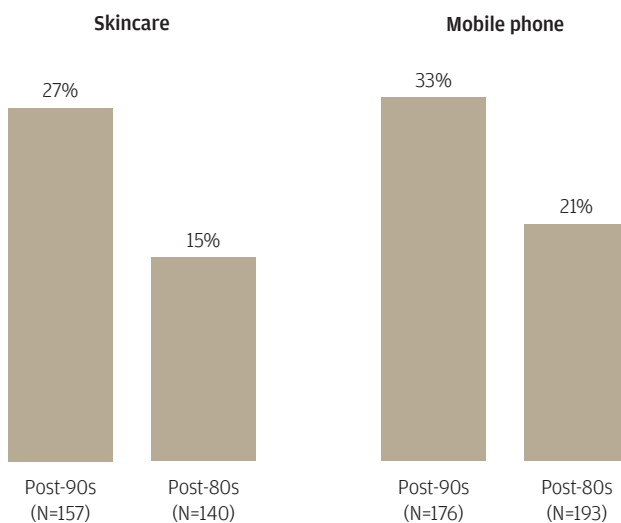
Source: Chinese Youth Street Intercept & Online Survey 2013

While international brands remain attractive to all generations, the post-90's generation is now considerably more open to buying domestic brands. As social status becomes a less important purchasing criteria, and value-for-money and quality become more important, the opportunity for local brands is opening up. Chinese brands have made great steps forward in quality and their value equation has now become very attractive. It also implies that international brands can't simply rely in "foreign prestige" to grow share in China's youth.

Attitude to foreign vs local brands

Adoption of Chinese brands by category, post-90's vs. post-80's

% of respondents considering brand important that use Chinese brands



Source: Chinese Youth Street Intercept & Online Survey 2013

CONFIDENCE TO SPEND NOT SAVE

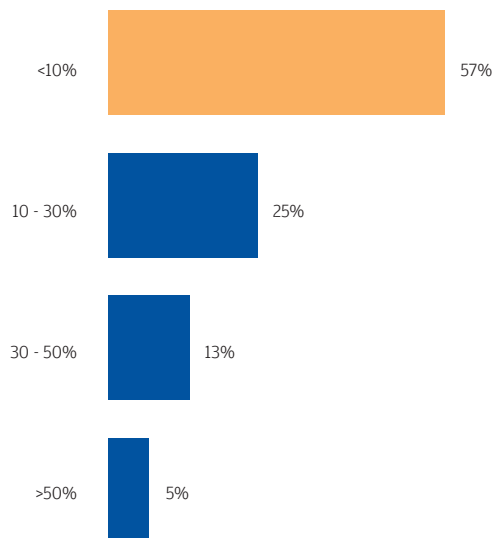
The post-90's generation has hit adulthood with greater economic security and affluence than previous generations, in part due to having a great deal of previous generations' savings. They are ready to spend more and save less. This will naturally help China's economy re-balance towards consumption.

When looking at categories that young consumers spend on, we see a distinct shift towards discretionary categories and services. For example, our survey respondents eat out over 5 times a week, which accounts for nearly 30% of their discretionary expenditure. There should be a bright future for all forms of food service businesses.

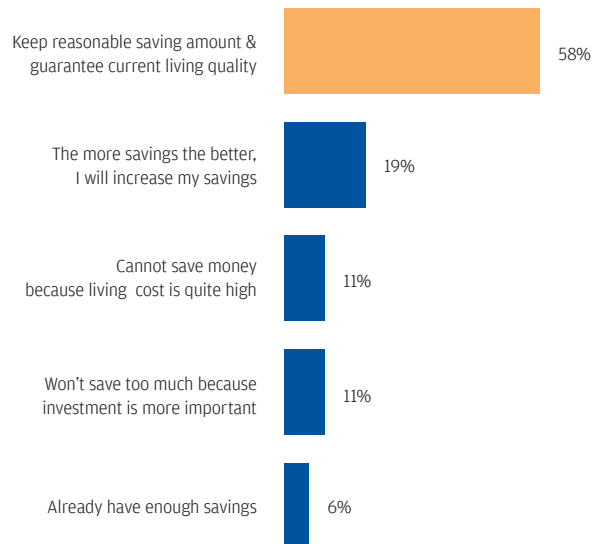
Mobile phones, including subscriptions, also account for more than 10% of the expenditure of the post-90's generation, showing what an important part of their lives the smartphone has become.

Youth attitude to saving

Saving as % of total income last year¹
% of respondents (N=537)



Attitudes towards saving¹
% of respondents (N=537)



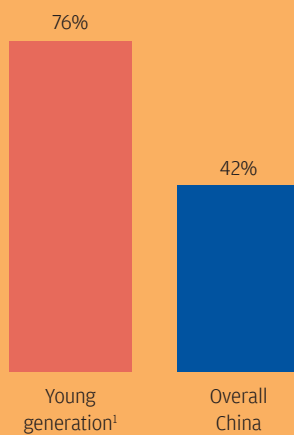
1. Q: How much did you save last year, as percentage of total income? What is your attitude towards saving?
Source: Chinese Youth Street Intercept & Online Survey 2013

LIVES HAVE MOVED ONLINE, WITH REALITY AND VIRTUAL REALITY MERGING

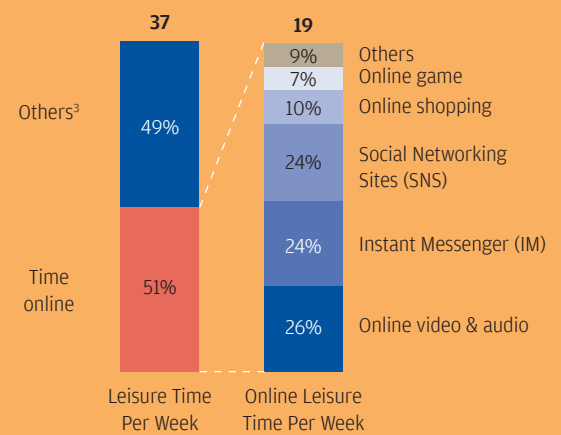
Average young Chinese consumers spend nearly 20 hours a week online, or half their leisure time. Within this, "social time" (social networks and instant messengers) take up 10 hours a week, emphasizing how the online environment is now the main social "location". This online social interaction is very much in "always on mode" - with activity levels only dropping from 2am-8am!

Leisure activities

Internet penetration, 2012
% of population



Leisure time allocation by the young generation
of hours per week, % of time allocated, N=291²



1. 10 to 29 years old 2. 13 to 33 years old 3. Others include sports, hanging out with friends, watching tv, etc.
Source: Chinese Internet Network Information Center (CNNIC), National Bureau of Statistics, Chinese Youth Street Intercept & Online Survey 2013

This level of online interaction is having a severe impact on traditional media consumption. For example, young Chinese spend around 5 hours a week watching online video, which is increasingly marginalizing traditional TV as a media.

Brands will need to reach and engage with consumers in a new way harnessing the short video. CCTV adverts are no longer going to be the standard brand building mechanism to the younger generation.

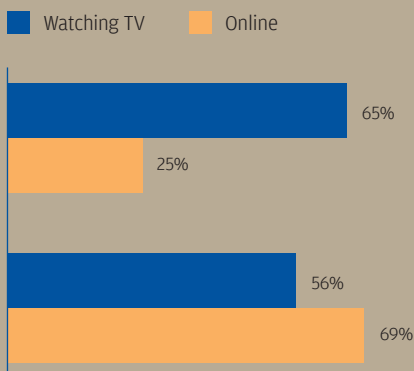
Online video compared to TV

Advantages of online video

- 1 Anytime, Anywhere**
 "I've spent 4 years in college dorm without TV. Luckily I have my laptop so I haven't missed any interesting TV series. I can pause, download, and replay whenever I want."
- 2 Overseas Content**
 "I'm a fan of the US TV series Modern Family and Taiwanese entertainment programs, and I can only watch them online."
- 3 Original Video-Clips**
 "The video clips 喝馄饨 and 挤公交 both started circulating online and they immediately became popular among Nanjing people."

Primary leisure activity

% of respondents



Source: Desktop research, Chinese Youth Internet Behavior Survey 2013, Chinese Youth Focus Group & Home Visit, OC&C analysis

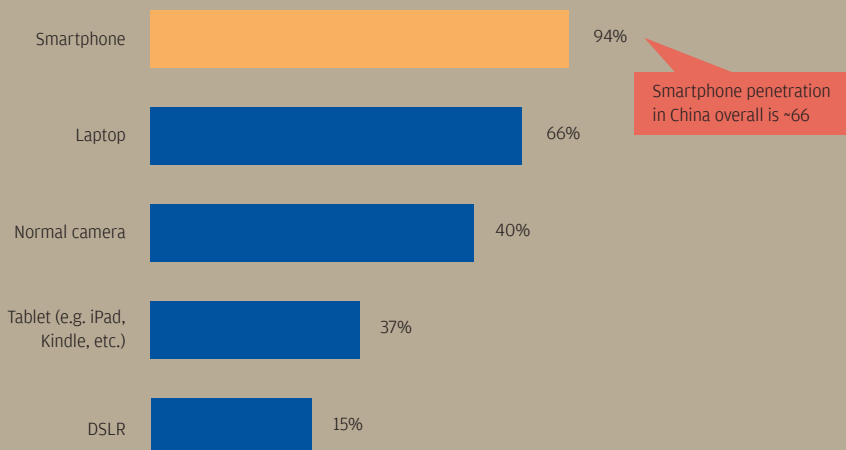
The "always on" mentality, and constant maintenance of a "virtual network" through social media is enabled by the ubiquity of smartphones. It is striking how the smartphone is part of the life of China's youth in all tiers of city, not just the affluent ones. The smartphone is truly the interface through which youth are

now communicating with the world. The more recent WeiXin (WeChat) phenomenon has also shown the power of instant messengers to create closed communities, driving a greater degree of trust and self-expression. Monetizing this stickiness will be one of the big drivers of the next phase of commerce.

Youth electronics penetration

Gadget ownership among young generation

% of respondents (N=537)



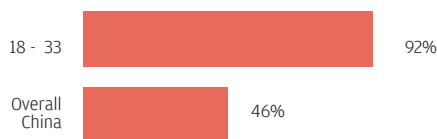
Source: Chinese Youth Street Intercept & Online Survey 2013

Over 90% of our survey respondents had purchased at least one item online in the last 6 months, which demonstrates how ubiquitous online shopping is. Within this, it is striking how new categories are becoming e-commerce categories - movie tickets and vouchers for eating out / KTV are all becoming major e-commerce categories.

Online shopping penetration

Overall online shopping penetration, P6M

% of internet users, N=260



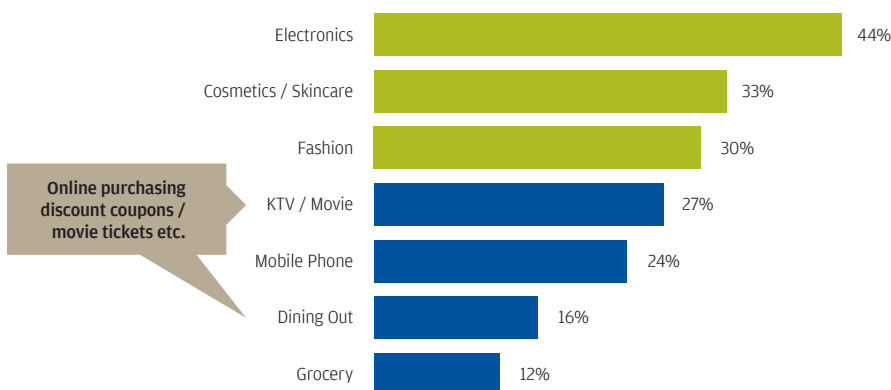
"I purchase most of my clothes online since it is convenient and there are far more choices than offline. Furthermore, I don't have to worry about shop assistants staring at me."
- Young adult in Tier 1 city

"I go to bricks-and-mortar stores to choose electronics model, but I buy them online through JD."
- Young adult in Tier 2 city

Source: Chinese Internet Network Information Center (CNNIC), Chinese Youth Street Intercept & Online Survey 2013

Online shopping penetration, selected categories, P1M

% of respondents who have purchased this category



Online purchasing discount coupons / movie tickets etc.

Source: CNNIC, Chinese Youth Street Intercept & Online Survey 2013, OC&C analysis

Despite the depth of appeal of social media, and the length of time China's youth spends on it, the main tool to navigate the internet is still Baidu. Navigating shopping on the internet is however the domain of searches within Taobao and TMall which are much more powerful than any Western equivalent. Baidu may as a result be short circuited for e-commerce.

Most popular sites

Most frequently visited website



Source: Chinese Youth Internet Behavior Survey 2013, Wordle.net, iResearch, OC&C analysis

MINI STORY 1 TIER 1, 22



Alice is a 22-year-old girl working as an accountant in one of the Big 4 accounting firms in Shanghai. She was born in Jingzhou, Hubei, raised in Zhuhai, Guangdong, and went to Beijing for college. After graduation, she chose a job in Shanghai to explore the city. "I learned a lot growing up in different-tier cities and different regions in China. It made me a more open-minded person and able to appreciate differences in life."

Having spent half a year in the US as an exchange student and traveled extensively in the US, Europe and Japan, Alice sees travelling as a way to appreciate life in every corner of the world and to discover inner peace. As the other "post-90s", Alice is happy to spend freely, especially after she starts to earn her own salary, but not always on shopping. "Shopping is sometimes boring - why waste such precious time to chase after so-called luxury products? I'd rather buy something cheaper from a boutique brand, visit more sights and experience more."

Alice is a savvy Internet and mobile user. Checking on friends on Wechat Moments, ordering taxi from Di Di Da Che, watching "The Good Wife" (her favorite US TV series) on iPad, buying promotion products on Shangpin.com are her everyday life.

Alice is not too loyal to foreign brands just for the sake of being foreign. She uses Meizu mobile phone for its interface and value for money. "There're a lot of interesting Chinese brands coming up, such as the fashion brand Exception, which is worn by Peng Liyuan (President Xi Jinping's wife). I like its design and uniqueness."

MINI STORY 2 TIER 2, 28



Wang Jun is a post-80's local Wuhanese married with a baby. Jun has above-average income for her city, and therefore has a cozy lifestyle. "I'm quite satisfied with my life and job right now."

"Baby is my focus of life now. I have settled down." She cooks more at home instead of eating out now. Because of recommendations from friends, she purchased a set of Zwilling cookware in Wuguang. "I need to be very careful regarding cookware since it's closely linked to the food my baby eats. I did a lot of research online, chatted with friends about their cookware choice and visited their home to try their cookware before finally making my decision to buy Zwilling."

Inside Jun's closet there's a collection of Season Wind, Only, Vero Moda, Eland and Scofield clothes. "After buying at least 3 times of these brands, I can establish my trust. I like to continue to buy from these brands as I expect them to be good, but I'm happy to leave if they let me down."

Above a third of her clothes are purchased online on Tmall (70%) and Taobao (30%). "Online shopping is really convenient - just order and get delivery. It takes one hour in total."

Jun is a fan of Estée Lauder and Clinique skincare. Jun's first contacts with these two brands are both from friends' recommendation. She registered on the brands' homepages and got product and promotion information. "I would pay attention to other famous brands as well, such as Lancome, but I would not try if no one recommended it to me, especially expensive ones."

CONCLUSION

China's youth is more confident than ever, creating their own space and sometimes isolating themselves in their own digital world. This is changing their attitude to spending and how they relate to brands. They are not simply a more confident version of the older generations. Their adoption on the virtual world as their preferred means to communicate and interact is changing behaviours more deeply. Behind the shield of the smartphone the youth is more confident to be themselves, and more confident to not follow the crowd on adopting the big brands.

For businesses trying to reach this confident youth the implications are likely to be profound.

The consumer economy is set to grow, with free-spending youth driving expenditure on discretionary categories; especially services such as dining out and travel

Engaging with youth online is critical, and the smartphone is the major channel to get their attention. The smartphone is the prism through which youth is interacting with the world

Brands will need to target tribes, identify leaders and deliver more to them

The "blockbuster brand" will become a thing of the past as young consumers are increasingly willing to have their own opinion, leading to more niche brands

Brands need to carry through on promises rather than rely on a name - there is increasing awareness of what makes for genuine quality

Through social media the youth are looking for tailored individual attention. Marketing needs to step up to this challenge and, given the Chinese social media landscape, be highly localized (global Twitter / Facebook accounts are next to worthless)

The "benefit of the doubt" long-enjoyed by foreign players is rapidly evaporating, making China a more challenging market to enter and grow in than before

Youth is a big opportunity, and will define the success or failure of consumer businesses over the next decade. Winning the youth game will require fundamental changes - how many people in your organisation speak "post-90's"?

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