

CONSUMER TRENDS

Understanding the Chinese Millennial Consumer

Summary

Goldman Sachs refers to Chinese millennials as “the single most important demographic on the planet today”. Making up one-third of China’s total consumers (415 million people), this group of young Chinese are a force to be reckoned with. They are the first Chinese people in living memory to have the chance to inherit and spend their parents’ wealth. They are digital natives who are reliant on technology, and see consumption as a form of self-expression and freedom. They are prone to job-hopping or increasingly, becoming entrepreneurs; and despite having a low salary compared to their Western counterparts, their disposable income is high, they travel extensively, and they borrow to spend. They see brands as part of their unique and rebellious identity, and are starting to pay attention to locally grown businesses. They demand a seamless integration of the offline and online worlds, and have built a “sisterhood” that forms the basis of the “she-conomy”. This is a fascinating demographic of growing importance to New Zealand. This Consumer Trends report looks to outline some of the key trends impacting Chinese millennials, and the potential opportunity they present to New Zealand.

Action

For information – to be shared with companies, as appropriate.

This report is the 5th in the BEI Consumer Reports series. The previous reports in the series are as follows, and are attached as reference to this formal message:

- [Consumer trends: China’s upper middle class – who are they, where are they, and why do they matter? \(11 December 2015\)](#)
- [Consumer Trends: The 101 on China’s Singles Day – the world’s biggest day of online shopping \(22 December 2015\)](#)
- [Consumer Trends: What is WeChat and how is it changing Chinese consumer behaviour? \(1 March 2016\)](#)
- [Consumer Trends: Who are the key players in China's e-commerce scene and why does it matter? \(30 June 2016\)](#)

Report

Goldman Sachs refers to Chinese millennials as “the single most important demographic on the planet today”. Aged between 18 to 37, Chinese millennials are now a 415-million strong segment of Chinese consumers, constituting almost one-third of the nation’s total people. By 2020, they will likely make up more than a third of the Chinese urban

population. With their average income set to double in the next decade, Chinese millennials will consume more of the world's brands in almost every category. According to the Boston Consulting Group, Chinese millennials are expected to drive 65% of consumption growth until 2020, when they will make up over half of total Chinese consumption spending. So who are these Chinese millennials, what drives them, and what does this all mean for New Zealand?

Chinese millennials can be "balinghou" or "jiulinghou", and sometimes even "fuerdai"

2 While millennials are mostly considered to be one demographic in most places in the world, the group is typically split into two subset categories in China: the ones born in the 1980s ("balinghou", literally translated "post-80s") and the ones born in the 1990s ("jiulinghou", literally translated "post-90s"). According to Eric Fish, author of *China's Millennials: The Want Generation*, someone born in 1995 was born into an economy more than twice the size of someone born in 1985. And when that person born in 1995 turned 15, there was a 34% chance they already had internet access, as opposed to less than a 2% chance for the person born in 1985. Fish explains that this access to increased wealth and information has provided "jiulinghou" the ability to explore their individuality in a way that even the "balinghou" couldn't.

3 Flamingo Shanghai, a cultural consultancy in China, says that as a generalisation, the "balinghou" tend to be idealistic, worried about jobs, and are trendsetters, whereas the "jiulinghou" are individualistic, want to start businesses, and are trend followers. According to the firm China Youthology, the "balinghou" were the pioneers of individuality in China, but it's the "jiulinghou" that are taking individuality to the next level. And in the process, they are becoming more open-minded, rebellious, individualistic, and willing to challenge authority.

4 But this doesn't mean that Chinese millennials have completely adopted Western individualism. According to the results of a J. Walter Thompson survey of Chinese millennials, 88% of respondents were proud of their national traditions and customs. 91% thought it was important to hold onto family traditions, while 75% believed that traditions held society together. So while the idea of the collective remains strong in the backdrop of Chinese millennials at this cross-section in time, the sentiment embodies itself differently between the "balinghou" and the "jiulinghou". China Youthology explains that "balinghou" see collectivity in relation to other people and being seen as a "bridge mindset" to the older generations, whereas the "jiulinghou" are much less concerned with the perceptions of others beyond a select group – often their friends.

5 The economic boom that has transformed China has also brought about a new subset of Chinese millennials that go beyond the distinction between "balinghou" and "jiulinghou". This new sociological phenomenon called the "fuerdai" (literally translated "rich second generation") refers to the first Chinese people in living memory to have the chance to inherit and spend their parents' wealth. During the Maoist period, wealthy Chinese who didn't flee the country were either killed or stripped of their assets, which means there was no opportunity for wealth to be accumulated. Chinese "fuerdai" (both "balinghou" and "jiulinghou") are now in the unique position of benefiting from inherited, not earned, wealth for the first time since the founding of the People's Republic of China.

Chinese millennials are digital natives and are reliant on technology

6 Chinese millennials are digital natives, with a 97% smartphone penetration rate, far higher than that of their American counterparts and almost certainly higher than its New Zealand ones. According to Daxue Consulting, Chinese millennials check their WeChat accounts (loosely a local Facebook equivalent) and Weibo accounts (loosely a local Twitter equivalent) on average up to 18 times a day, and spend at least 9 hours on the internet daily, mostly via their smartphones. 77% pay their bills digitally on third party platforms like WeChat Wallet or Alipay (the payment system run by Alibaba), and around 70% of millennials in first, second, and third tier cities buy goods online on a daily basis.

7 Flamingo Shanghai says that Chinese millennials are much more willing to adopt and try new technology because they haven't necessarily had to go through the step-by-step change from the clunky modem to the desktop, to the laptop, and then to the mobile as those in the West had to. They have essentially bunny-hopped straight to the mobile. In the West, world views are reinforced in digital media (for example in a Facebook feed) because we befriend likeminded people who mirror our own views. In a way, we opt into what we believe in, and we opt out of what we don't believe in. In China, Flamingo Shanghai says it's the opposite. Chinese millennials want to opt into a lot of the ideas and ways of doing things that are *different* – in part borne out of the lack of trust in official sources of information. Chinese interact with a much broader set of information, and then make their own sense out of it, which makes them more questioning, more willing to take chances, and crave new things.

Chinese millennials see consumption as a form of self-expression and freedom

8 The Boston Consulting Group (BCG) points out that Chinese millennials for the most part grew up during a time when China was transitioning to a market-based economy. As a result, Chinese millennials are more aggressive in their spending behaviour. In a BCG survey, 60% of respondents agreed with the statement: "It seems like every year, there are more things I want to buy" and almost two-thirds of respondents believed that "some products are just too important to me to scrimp on". When asked why they enjoyed spending and buying, more than 75% of Chinese millennials responded that buying new items had become a "habit" in order to express their needs, to satisfy those needs, and to gain a sense of belonging.

9 The Nielsen Group has also identified a trend in the Chinese millennial consumer market whereby consumption is seen as a way one can improve the quality of life and become more sophisticated. The words that millennials use to describe better life quality include "appearance", "fitness", "convenience", and "digitally-connectedness". For many millennials, consumption is seen an expression of the self, and therefore a type of freedom.

Chinese millennials are job-hoppers and increasingly, entrepreneurs

10 According to a study by the Mycos Research Institute, “jiulinghou” millennials who graduated in 2011 have on average, two different employers within a period of three years. Only 38% worked for the same company within a three-year period. Many Chinese millennials are not scared of quitting their jobs, and will prioritise personal freedom over financial security.

11 Figures from the Chinese Ministry of Human Resources and Social Security show that in 2015, 40% of Chinese aged 18-22 were attending university (compared to 0.26% in 1949). In New Zealand, 2015 figures show that 9.8% of the population aged 15 and over participated in tertiary education. As the Chinese become more educated, millennials’ career expectations are rising with it, demanding that their jobs provide personal development opportunities, a suitable working environment, pay the right salary, and be interesting. Often considered to be self-focused, confident, and bad team players, the “jiulinghou” are much less concerned about workplace hierarchical relations than their parents, and rate personal fulfilment in the workplace above anything else.

12 But coupled with the reality of slowing economic growth rates, deep-rooted corruption, fierce competition, and fundamental questions about the sustainability of China’s growth, it is becoming increasingly difficult for educated Chinese millennials to find employment. In a J. Walter Thompson survey, 85% of Chinese millennial respondents said that their job should help them pursue their passions. If it didn’t, 74% said that they would just start their own business.

Chinese millennials’ individual average salary is still low

13 For those that don’t take the entrepreneurial route and do find employment in a traditional sense, the working conditions aren’t easy. According to an OC&C report, Chinese millennials work on average 8.3 times more hours per week than [richer] OECD countries. And while the average official Chinese salary is rising, it’s still low by Western standards. Even for those who have received an overseas education, less than one third of Chinese millennials earn more than \$10,000 USD a year.

14 Analysts do, however, predict that average incomes will increase from \$5900 USD in 2014 to \$13,000 USD in 2024. Such an increase in spending power would amount to more than half of the estimated \$5 trillion USD that would be added to total US private consumption expenditure over the next 10 years, if the US were to sustain the compound annual growth rate of 3.7% that it achieved over the past decade.

15 But despite the comparatively low salary, Chinese millennials spend. They spend 14% of their incomes on non-food shopping – the highest rate in the Asia Pacific region. Analysts think the long work hours, chronic traffic, and heavy levels of pollution have roles to play in Chinese millennials’ willingness to purchase convenience and escapism. Chinese millennials go out almost 10 days a month, while North Americans do the same 7.4 days and Europeans only five days a month. Eating out is by far the most popular activity, followed by going to the movies and then live events. Last year, China also saw a surge of online sales in FMCGs (“fast moving consumer goods” i.e. products that are sold quickly and at relatively low cost, such as soft drinks, toiletries, processed foods, over-the-counter drugs, and many other consumables) – having the benefit of being able

to be purchased from anywhere at any time. An increase was also seen in the sale of cinema tickets, water purifiers, imported wine, and international travel.

Chinese millennial "super travellers" are a group to watch

16 According to the China National Tourism Administration, about two-thirds of Chinese travelling abroad in 2015 were millennials, and they accounted for half of Chinese outbound travel spending. Within this millennial group, the Chinese Luxury Traveller 2016 report, co-authored by Marriott International and the Hurun Research Institute, identifies the very wealthy among them as "super travellers".

17 These "super travellers" have been to 13 countries and have travelled abroad 3.3 times for leisure in the past year alone for an average of 25 days (in total). They spend an average of \$87,500 NZD on tourism per household per year, and spend an average of \$45,800 NZD on tourist shopping. They are flexible in the time of year they travel, and 90% travelled with family or friends, in a party of four people on average, and stayed abroad for 8.5 days. While leisure is still the most popular reason to travel, the report found that more and more millennials are seeking novel experiences and challenges, such as adventure travel and road trips off the beaten track.

Unlike previous generations, Chinese millennials borrow to spend (because they can)

18 Previous generations upheld a frugal attitude, producing one of the highest levels of credit worthiness around the world, with household savings equal to some 50% of GDP. But Chinese millennials are embracing debt in a way the previous generation did not. They use their credit cards frequently, borrow from online platforms (like Alibaba's Ant Check Later, a popular online lending service), and fall back on mum and dad's wallets when needed. Parents paying off the credit card bills on behalf of their millennial children is not unusual in China.

19 Millennials' willingness to borrow has driven up household lending to be the fastest growing area of China's debt. Consumer credit has grown 300% in the last 6 years, with the average millennial having debt 18.5 times their income. So how does this all make sense with a larger trend of growing consumption?

20 First of all, it's important to remember that Chinese millennials don't have student loans. Parents often pay for their child's education, which at an average cost of \$2200 USD per year is affordable. Secondly, Chinese millennials often don't have housing expenses. A recent HSBC study has found that a sizeable 70% of Chinese millennials already own their own homes, and 91% plan to buy a house within the next five years.

21 How are such high home-ownership figures possible given comparably low salaries and high property prices (it would take an average of 25.2 years of a millennial's income to buy a house in Beijing)? Due to the One Child Policy, there will be 30 million more men than women looking for a spouse by 2020, meaning that home ownership has become a way to get ahead of the competition for millennial men hoping to attract a bride. Also, due to cultural norms, it is still common for parents to move into their

children's homes in old age. As a result, parents often buy their child a house outright (or if not financially able to do so, will help pay the deposit) as they see it as both an investment in their own future and in their child's ability to secure a spouse. Furthermore, as sole children, many millennials are sole heirs to their parents' and grandparents' properties and are likely to marry an only child in a similar situation. [Note: about 90% of Chinese households own their own homes and 80% of these homes are owned without mortgages or other loans]

22 As a result, for many Chinese millennials without student loans and mortgage or rent expenses, they're able to spend more on shopping and consumption than peers from other regions around the world.

Chinese millennials see brands as part of their unique and rebellious identity

23 According to the Boston Consulting Group, Chinese millennial consumers engage with brands. Almost 50% of Chinese millennials said they advocate for brands, either personally or online, compared with 34% of US millennials. More than half have volunteered to test new products on behalf of brands, and when they lose trust or respect for a brand, 64% have told their family and friends not to purchase their products, 47% have boycotted the company, and 32% have posted something on their social networks.

24 Furthermore, Chinese millennials are found to have a greater emotional connection with brands than counterparts from other countries. A top priority for 18-25 year old Chinese consumers buying skin care products is that the brands should "fit their personality" and convey that they are "young and energetic". Interestingly, according to consulting firm Landor's research, Chinese millennials favour single companies that extend across multiple categories, unlike Western millennials who favour big brands that specialise in a niche product or service. An example of this "brand for all my life" phenomenon is Chinese company Tencent, which operates across gaming, financial services, and social media (WeChat and QQ).

25 Landor's research also found that there is also a growing spirit of rebellion in Chinese millennial consumers. The new Chinese consumer is far less conservative and has a greater sense of irony and curiosity than previous generations. The Chinese millennials refer to this braver, more daring approach to branding as "brain boom" – anything that is eye-opening in a positive or negative way. Marketers see this as an opportunity for brands to leverage off Chinese millennials' rebellious spirit and let them wear and use products in a subtle way that allows them to express their individuality and rebelliousness without breaking societal norms.

Chinese millennials are starting to pay attention to local brands

26 According to Landor, Chinese millennials are displaying a newfound affinity for local brands that for the time challenges consumer predispositions to Western brands. Being a Western brand in itself is no longer enough. When asked to describe their overall view of China, older Chinese used words like traditional, arrogant, unapproachable and restrained. But Chinese millennials used words like authentic, different, fun, and helpful.

The research found that there was a growing sense of patriotism in millennials, which could suggest favouritism towards China-made products and brands.

27 The Boston Consulting Group has also found that Chinese millennials are becoming increasingly open to local brands. While first-time buyers of certain goods in emerging markets trust well-known international brands over domestic ones, consumers begin to consider local brands as they become more knowledgeable about the products. For example, Chinese millennials preferred Chinese-branded home appliances 10% more in 2016 than they did in the previous year. Similar shifts are being seen for consumer electronics, apparel, and skin care brands.

Chinese millennials want a seamless integration of the online and the offline

28 While the tech-savvy nature of Chinese millennials is powering the growth of China's e-commerce market, the country is also seeing a re-emergence of the traditional in-store shopping experience, particularly at shopping malls. Global advisory firm CBRE China found that while Chinese millennials still rely on online shopping for the majority of goods, they still crave physical retail because they see it as a form of leisure activity. The Cheung Kong Graduate School of Business (CKGSB) did a study that found that shopping malls are where two-thirds of Chinese consumers choose to go to spend time with family and friends. One university student in the study commented, "every time I go home I spend two or three days shopping with mum. It's not that I can't get those clothes elsewhere, it's because we enjoy shopping together and we talk a lot".

29 Tangibility, immediacy, and a willingness to pay extra seem to also be factors favouring the re-emergence of brick-and-mortar retail. The same CKGSB study found that Chinese millennial consumers like to see and feel a product in person. And if there were a choice of buying the same product cheaper on Taobao (one of Alibaba's online e-commerce platforms) but having to wait a few days for delivery, the millennial consumer would likely choose to buy the product at a slightly higher price in store to have the product in hand immediately.

30 This trend has created an impetus for businesses to integrate their online and offline resources into a seamless, "omnichannel" or "O2O" (online-to-offline and vice versa) experience for the consumer. At the 2016 Computing Conference, Alibaba's Jack Ma coined a term in this vein, noting that in the future there would be no "e-commerce" but rather "new retail". Brands like Korean skincare company SK-II have taken this on board, launching WeChat campaigns that invite online customers to experience facial treatments in any of its physical stores in China. By providing free skin tests and helping customers design a customised skincare plan in-store, customers can then leave and continue to purchase products from SK-II's online WeChat boutique store.

Chinese millennial women have a "sisterhood" that forms the basis of the "she-conomy"

31 According to research conducted by Mediacom, China's women under 30 are more empowered, adventurous, and self-confident than any previous female generation. More and more women are making purchase and investment decisions in the home (for their parents, grandparents, and their own nuclear families), and they are more discerning

and demanding of brands. They grew up under the one-child policy, and therefore form the world's first generation composed almost entirely of only children. In practice, this means that between two-thirds and three-quarters of Chinese millennials' classmates were only children, and have no siblings, aunts, uncles, or cousins. Chinese millennial women therefore tend to turn to girlfriends for their support network, putting their relationship with their "sisterhood" over their relationships with their mothers.

32 Rapid economic development has given China's millennial women greater financial control and personal freedom, but this independence is still firmly rooted in their community. According to one study, Chinese millennial women are significantly motivated by a desire to improve their country. While British female millennials rate courtesy, authenticity, and happiness as values they aspire to, their Chinese counterparts rate health, justice, and sustainability as priorities.

33 Chinese millennial women are also creating new role models for themselves. They believe that they can shape new identities for themselves and for their future daughters, calling these women "champions of the she-economy". One such role model is 29-year old Ling Zihan, female CEO of TechBase (the first tech accelerator for women-led start-ups in China), who said "we can't say that we'll change the whole world, but at least we can change half". International brands like Adidas and Nike have plugged into this trend by launching women-only stores in China. Designed by women for women, Chinese female millennials have welcomed the movement explaining that they feel alienated by the masculine image typically presented by sports brands.

34 These Chinese millennials in the "sisterhood" or the "she-economy" are also becoming a force in the business world. According to Alibaba's figures, women make up almost half of business owners on all its online platforms. And they're starting to pop up on global rich lists as well. Women billionaires make up 15% of the Hurun Global Rich List, and of the 88 who are self-made, almost two-thirds are Chinese.

So what does all of this mean for New Zealand?

35 As an exporting nation, it is in our interests to understand the drivers and impacts of "the single most important demographic on the planet today". The days of China's insatiable demand for virtually anything is waning. Even though China's overall consumption will continue to boom over the medium term, New Zealand exporters will need to take account of China's ever-more-sophisticated millennial consumers and work to position our brands in a way that resonates with this constantly evolving demographic.

36 So what can we do in practice? Marketing the New Zealand brand, as a country or as an individual business, to a 415 million-strong Chinese millennial consumer market both online and offline is an uphill battle to say the least. But one thing to remember is that we have an increasing number of the target demographic (especially the Free and Independent Travellers, who are predominantly professional Chinese millennials) coming to our own shores every year. With over 400,000 Chinese short-term arrivals to New Zealand in 2016, there is a ripe opportunity to begin the process of brand awareness,

marketing, and engagement with Chinese millennials from within the comfort of our own borders.

37 We essentially have a “captive” audience during their time in New Zealand. If we take advantage of social media tools, “O2O” strategies, and be agile to the evolving needs and wants of this demographic, we could make key New Zealand brands become an integral part of the traveller’s experience. That way, once travellers return to China, New Zealand products and services remain familiar, become trustworthy, and act as an emotional connection to the adventure and experience they had in New Zealand.

38 Chinese millennials have a predisposition to share experiences with family and friends, whether positive or negative; and to engage with a brands on an emotional level. Considering the growing scale and impact of the Chinese consumer market on New Zealand goods and services, this poses an inherent risk to the New Zealand brand if not executed well. But if we remain vigilant, agile, and execute strategically, this powerful group of Chinese millennial consumers could, in the future, very well become our own army of marketers, and active champions of New Zealand.

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