

*Agility*



EXECUTIVE SUMMARY  
Consumers in the real China



Most research and syndicated data in China focuses on the top 15-20 cities. As competition in these markets heats up, the focus has necessarily shifted to the lower tier. Only 33.5% of retail sales come from the top 24 cities now. The strong purchasing power in low tier markets has become the engine for market expansion. Multinational and local clients are keen to understand consumers and the retail environment in the lower tier, and not much insight has been available.

In mid 2006, Ogilvy Discovery & Mindshare Insights embarked on an ambitious project to unravel consumers, understand their relationship with brands and the media, and study the retail environment in the low tier towns of China. The results from the study should be of immense help to marketers and agencies who want to connect better and sell in the low tier – it would indeed allow them to micromanage their marketing plans.

### **Scope of coverage, Methodology**

In all, the study was conducted in 22 cities (including a sample of Tier 1 cities to provide a point of comparison) across north, south and west China. Towns included Lanzhou, Yichang and Linxia in the west, Mudanjiang, Hailin, Zhangjiakou in the north, Nanning, Cenxi, Maoming and Xinyi in the south. Bigger cities like Shanghai, Beijing and Xi'an were among the Tier 1 cities.

We visited 3419 homes, where we conducted indepth interviews with family members about their attitudes towards life, brands and future plans. We also took photographs of their living environment. We audited brand presence and in-store communications in 295 retail outlets – hypermarkets, mid-scale supermarkets (e.g. Lianhua, Suguo, Huarun Wanjia, Chaoshifa ...), 24 hour convenience stores (Luosen, Kedi, 7-11 etc), and privately owned mom-n-pop stores. We conducted 530 exit interviews with shoppers, and looked into their shopping baskets.

### **Significant Findings**

Much of the difference between the upper and lower tiers stems from the kind of exposure that the residents have to brands and the media. People from the lower tier are less likely to buy foreign brands, even if they desire them. Only 16% of Tier 3 consumers say they prefer buying foreign brands even if the price is higher, whereas in Tier 1, the figure is 24%. If the favourite brands of Tier 1 consumers are Nike, Sony, Adidas, Nokia and Motorola, they are TCL, Lenovo, Changhong, Konka, Dabao, Anta and Jeanswest for those living in Tier 3 towns. Tier 3 consumers are less willing to pay extra to buy well-known brands (31.6%), which is indicative of their thrift. Tier 3 residents show far less inclination to travel to foreign countries or to buy things that are foreign. They also shop a little less frequently than those in Tier 1 and 2 cities. We found fewer shops very close to people's place of residence in Tier 3 towns.

There is a sharp difference in the autonomy that parents provide their children. 27.2% of parents in the Tier 3 believe that children's opinions should not be considered when doing family shopping. That figure drops to 13.5% among Tier 1 families. Perhaps, as a result of greater time pressure, those in Tier 1 claim that family is more important than career. For those in Tier 2 and Tier 3 towns, the family and its responsibilities are often taken for granted. Similarly, it is less important for Tier 2 and 3 families to eat together regularly than it is for Tier 1 families. Tier 3 families eat out less often. 60.1% of them visited fast food restaurants in the past year, compared with 82.4% of Tier 1 families and 74.1% of Tier 2 families. This is all tinged with irony – Tier 1 families feel pressured to spend time with the family, while Tier 2 and 3 families take the family for granted.

Despite the greater pressures and pace of big city living, families in Tier 1 claim satisfaction with their life and their family's living standards. 53.6% say they are satisfied with their life, 55.3% say they are satisfied with their family's standard of living. The corresponding figures for those in Tier 3 towns are 46.9% and 48%. This dissatisfaction with their existing life is evidently what is driving the migration into big city across China.

While consumers across the tiers are splurging on consumer durables, what they intend to buy is quite different. Consumers in Tier 1 plan on buying TV sets, those in Tier 2 have DVD players, air conditioners and washing machines on their shopping list, and those in Tier 3 plan to buy mobile phones, computers, digital cameras and refrigerator. It is clear that Tier 1 is a replacement - upgradation market – new TV sets would mean replacing conventional TV sets with plasma / LCD TVs, whereas in Tier 3, consumers are buying computers and digital cameras for the first time. Among those who'd like to buy a car, Hyundai is the preferred brand in the lower tiers; Volkswagen is the brand for Tier 1. Tier 3 is pretty much a motorcycle market – 41.8% of the households own one, with Honda being the most preferred brand.

Chinese manufacturers' strength in the consumer durable market can be seen through the brand choices made in most categories barring digital cameras and mobile phones. Changhong TV is an absolute market leader with 21.9% of the share in Tier 3, and even though the share drops to 16.7% in Tier 1, it remains the market leader. Royal Star, at 23.8%, is the market leader in washing machines in Tier 3, Haier and Little Swan in Tier 2 and 1 respectively. When it comes to refrigerators, Frestech is tops in Tier 3, Ronshen in Tier 2 and Haier in Tier 1. Siemens is the only MNC brand to appear in the top 5 list. Among air conditioner brands, Gree has higher penetration in Tier 3 homes, Midea in Tier 2, and Haier in Tier 1. BBK, Amoi and Shinco all have significant shares across the tiers. In the personal computer category, Lenovo, Tong Fang and Founder have greater ownership in Tier 3, IBM in Tier 1, whereas DIY / assembled computers are popular in Tiers 1 and 2. Japanese / Korean brands dominate the digital camera market – Sony and Samsung are popular in Tier 2 and 3, whereas Canon is the most preferred brand among Tier 1 consumers. In case of mobile phones, Tier 3 consumers show a strong preference for the local brand Bird; Nokia and Samsung have higher penetration in Tier 2; Motorola, Sony-Ericsson and Lenovo in Tier 1.

Among sportswear brands, Nike and Adidas have greater penetration in Tier 1, Li Ning in Tier 2, Anta and Double Star in Tier 3 – an increasing preference for local brands as we go down the tiers. A similar trend prevails in the men's razor category. Tier 1 consumers prefer

Gillette, Philips and Panasonic, Tier 2 and 3 chooses local brand Xi Niu. Da Bao skin cream is universally popular among men from all tiers. Local / Hong Kong brands of female casual wear and jeans such as Jeanwest, Giordano, Baleno, Etam and Metersbowne are popular across the tiers, only their rank shuffles around a bit. MNC brands such as Levi's, Lee and Benetton were conspicuous by their absence in the wardrobes of young women.

Regulatory factors ensure that it is local brands that dominate the telecom service provider market. Shen Zhou Xing and Go Tone are the most popular in every tier, but M-Zone among Tier 1 consumers and China Unicom's CDMA service among Tier 3 consumers are used quite a bit. Interestingly, personal insurance has high penetration among tier 1 (perceived lack of safety?), while property insurance is high among tier 3. Tier 2 consumers have a low propensity towards buying any insurance coverage. Insurance companies – you now know where the opportunity lies. Ping An Insurance is the most preferred brand of personal insurance in Tier 1, China Insurance Co. Life in Tier 3.

Traditional media are still powerful and influential to contact consumers. TV is the largest medium with average penetration of 94% across all tiers. Audiences in tier 1 show a higher preference for entertainment and leisure programs such as sports, music, food, business, nature and environment programs; Tier 2 audience prefer local news, Tier 3 people are more skewed towards national/international news, education and career – suggesting a need for advancement.

Newspaper, magazine and out-of-home media follow TV with average penetration of 64%, 72% and 60% respectively. Moreover, people in tier 1 cities have more rich and diversified lifestyle than tier 2&3 do. In tier 1, people spent more time out of home, as a result the reach of OOH media in tier 1 cities is higher with a penetration of 73%, which is 20% more than tier 2&3. Radio and movie penetration of tier 1 is also 10% higher than tier 2&3.

Digital media brings a big challenge to traditional media. Internet has become one of the fastest developing media in China. CINIC (China Internet Network Information Center) claimed the population of China netizen is amount to 137 million till the end of 2006 which accounts for 10.5% of total population. Furthermore, this proportion is even much higher in metro cities such as Beijing, the netizen proportion run up to 30%. In our study, it also can be seen that more than half of respondents have access internet in the past week. They spent average two hours on internet everyday, and there's little difference among all tiers. This shows that internet really became a common medium for everyone without any geographic boundary and would be too important to ignore in any marketing communications plan.

There's a flood of in-store communications out there, and we discovered some patterns of use – as well as pointers towards future optimization. The obvious space constraints in smaller towns and the larger number of small retail outlets meant that Tier 3 stores used simple shop posters more and had fewer promotions than Tier 1 and 2. Categories such as beer had more innovative displays, especially in Tier 1 cities. The skin care category had the most promotions, in any category – so competitive is the category that there were in-store promoters in even Tier 3 towns. Consumer durable stores were characterized by lots of space and a paucity of interactive displays / demonstrations in Tier 3. Most brands only use posters, banners and light boxes.

Shoppers in Tier 2 and 3 do more impulse shopping compared with shoppers in Tier 1; those in the north and the west go shopping a little more frequently than those in the south. Milk is the most common product in people's shopping baskets – with MengNiu being especially popular (51%) in Tier 3 towns. Bright Dairy's share drops dramatically from 23% in Tier 1 cities to 6% in Tier 3. Arawana cooking oil is popular throughout. Tsing Tao beer is again much more popular in Tier 3 cities (39%) than Tier 1 (22%); in Tier 2 cities, Blue Ribbon is most popular.

*The implications of the study are deep and far reaching. It gives marketers and brand planners a clear understanding of the differences in consumer expectation and behaviour – and will force us to rethink a one-China plan. Importantly, it tells us the differences in competitive frameworks by the tiers, and allows us to map consumer attitudes and behaviour by brand preference, shopping behaviour and exposure to media. It also allows us to identify where the opportunities are, in a very focussed manner. Branding in the Real China will surely be an invaluable source of insight for marketers who desire greater marketing and communications effectiveness in China's hinterland.*

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