Chinese Culture and Shopping Behavior
Agenda

- Cultural Differences
- Differences in preferences across China’s economic tiers
1. *Culture Differences*
Dimensions of Cultural China Compared to U.S.
Hofstede’s Cultural Dimensions

- Individualism-collectivism
- Masculinity-femininity
- Power distance
- Uncertainty avoidance
Individualism-Collectivism

**Individualism**
- High value on autonomy
- Individual achievement
- Privacy

**Collectivism**
- High value on group
  - Family, clan, organization
- Loyalty
- Devotion
- Conformity
Masculinity - Femininity

Achievement
- Success
- Assertive acquisition of money/power
- achievement

Relationship
- Equality of genders
- Caring for disadvantaged
- Harmony
Power Distance

Acceptance of Difference in Power

High-Power Distance
- Accept position
- Follow authority
- Concentrated & centralized authority
- Hierarchical

Low-Power Distance
- Avoid concentration of authority
- Decentralized
- Fewer layers of management
Uncertainty Avoidance

Reaction of Ambiguity

Low Uncertainty Avoidance
- Embrace unpredictable
- Less adherence to rules, procedures, or hierarchies
- Risk taking desirable

High Uncertainty Avoidance
- Threatened by ambiguity
- Need stable & predictable workplace
- Reliance on rules
Cultural Differences

Individualistic (IDV) vr. Collectivist – look out for self, self reliant, loose bonds with others

Power distance (PDI) – acceptance of power and wealth inequality

Long-Term Orientation (LTD) – importance of tradition, protecting face
What effect do these cultural differences have on retailing?

- Shopping behavior
- Store management
Shopping Behavior in China
Shopping During Mao Era

Ration coupons were required to buy cloth, but a selection of fabric drew customers to Beijing Department Store on Wangfujing Street in 1983.
Shopping as Leisure

Exhibit 3: Chinese consumers see shopping as one of their favorite leisure activities and one of the best ways to spend time with family.

"Shopping is one of my favorite leisure activities"

"Going shopping with my family is one of the best ways to spend time with them"

Percent of respondents answering "strongly agree" or "agree"

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>U.S.</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shopping</td>
<td>45</td>
<td>25</td>
<td>17</td>
</tr>
<tr>
<td>Family</td>
<td>52</td>
<td>15</td>
<td>9</td>
</tr>
</tbody>
</table>

Brand Conception

“Well-known brands are of better quality”
Percent of strongly agree or agree

<table>
<thead>
<tr>
<th>Brands</th>
<th>2008 data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>8</td>
</tr>
<tr>
<td>U.K.</td>
<td>9</td>
</tr>
<tr>
<td>U.S.</td>
<td>16</td>
</tr>
<tr>
<td>China¹</td>
<td>45</td>
</tr>
</tbody>
</table>

Over the years, brands and prices have remained important in China

- More than 40% of Chinese consumers think well-known brands are of better quality (from 41% in 2007 to 45% in 2010)
- Around 26% of Chinese consumers think expensive products are of better quality (from 23% in 2007 to 30% in 2010)

“Expensive products are of better quality”
Percent of strongly agree or agree

<table>
<thead>
<tr>
<th>Prices</th>
<th>2008 data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>7</td>
</tr>
<tr>
<td>U.K.</td>
<td>9</td>
</tr>
<tr>
<td>U.S.</td>
<td>10</td>
</tr>
<tr>
<td>China¹</td>
<td>30</td>
</tr>
</tbody>
</table>

Local vs. Foreign Brands

Exhibit 2. The Preference for Foreign or Local Brands Varies Across Categories

<table>
<thead>
<tr>
<th>Category</th>
<th>Prefer Foreign (%)</th>
<th>Prefer Local (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer electronics</td>
<td>28</td>
<td>47</td>
</tr>
<tr>
<td>Home appliances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Designer and luxury goods</td>
<td>33</td>
<td>31</td>
</tr>
<tr>
<td>Skin care and cosmetics</td>
<td>25</td>
<td>39</td>
</tr>
<tr>
<td>Personal care</td>
<td>19</td>
<td>42</td>
</tr>
<tr>
<td>Apparel and footwear</td>
<td>19</td>
<td>42</td>
</tr>
<tr>
<td>Home décor</td>
<td>14</td>
<td>50</td>
</tr>
<tr>
<td>Health-care and nutritional products</td>
<td>13</td>
<td>50</td>
</tr>
<tr>
<td>Household care</td>
<td>13</td>
<td>46</td>
</tr>
<tr>
<td>Food and beverages</td>
<td>8</td>
<td>53</td>
</tr>
</tbody>
</table>

Note: Percentages do not add up to 100 because respondents could choose to be neutral.
Young Consumers Preferences

Exhibit 1. Young Consumers in the Top Three Cities Show the Strongest Preference for Foreign Brands

<table>
<thead>
<tr>
<th>Age Group</th>
<th>41-to-50-year-olds</th>
<th>31-to-40-year-olds</th>
<th>18- to 30-year-olds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Local</td>
<td>Foreign</td>
<td>Local</td>
</tr>
<tr>
<td></td>
<td>n</td>
<td></td>
<td>n</td>
</tr>
<tr>
<td>41-to-50-year-olds</td>
<td>35</td>
<td>28</td>
<td>44</td>
</tr>
<tr>
<td>Local n = 103</td>
<td></td>
<td></td>
<td>Local n = 138</td>
</tr>
<tr>
<td>31-to-40-year-olds</td>
<td>32</td>
<td>32</td>
<td>41</td>
</tr>
<tr>
<td>Local n = 101</td>
<td></td>
<td></td>
<td>Local n = 148</td>
</tr>
<tr>
<td>18-to-30-year-olds</td>
<td>27</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Local n = 672</td>
<td></td>
<td></td>
<td>Local n = 438</td>
</tr>
</tbody>
</table>

Note: Percentages do not add up to 100 because respondents could choose to be neutral.
Shifts in Behavior

- Brand to Value
  - Collect information from internet and other sources
- Shift from traditional channels-Dept. Stores and brand exclusive stores to hypermarkets, supermarkets, Internet
- Increasing Consumer Sophistication
  - Demand products with more function, better value, better price, variety
  - Consumers gain more access to product information—brands, products, prices and channels
Shift in Consumption

China’s Urban Household Expenditure

1985
- Food: 54%
- Clothing: 16%
- Home appliances & services: 10%
- Entertainment: 11%
- Others: 4%

2009
- Transportation & Communication: 37%
- Housing: 14%
- Others: 12%
- Clothing: 10%
- Home appliances & services: 10%
- Entertainment: 7%
- Others: 6%

Source: National Bureau of Statistics

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2. Differences in Preferences across China’s Economic Tiers
Tier 1 and 2 Cities
Urban Life in Tier 1 and 2 Cities

- Families live in high rise apartments (condos)
- Apartments (condos) are small with small kitchens, small refrigerators, limited storage
- Use public transportation, walk, bicycle rather than automobiles
## Comparison U.S. with China in Tier 1 and 2 Cities

<table>
<thead>
<tr>
<th>Comparison</th>
<th>U.S.</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean household income ($)</td>
<td>47,300</td>
<td>10,220</td>
</tr>
<tr>
<td>Median household income ($)</td>
<td>84,300</td>
<td>add 2.2 times</td>
</tr>
<tr>
<td>Gray income - top 10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household debit as % of income</td>
<td>137</td>
<td>17</td>
</tr>
<tr>
<td>Own a home %</td>
<td>85</td>
<td>69</td>
</tr>
<tr>
<td>Carry mortgage %</td>
<td>70</td>
<td>11</td>
</tr>
<tr>
<td>Consumer loan credit cards %</td>
<td>47</td>
<td>1</td>
</tr>
<tr>
<td>Car owner %</td>
<td>90</td>
<td>20</td>
</tr>
</tbody>
</table>
Hidden Income

Rich are richer
Credit Suisse research shows actual income levels in China could be higher than previously thought.
Annual per capita disposable income by household

![Graph showing income distribution by percentage of households and comparison between official data and Credit Suisse estimates.]

Source: Credit Suisse Equity research
Differences Between Consumer Behavior in Tier #1, #2, #3 Cities
Where is the money currently?

51% population
64% of GDP

44.5% population
32% of GDP

4.5% population
4% of GDP

Source: Asian Demographics
Consumer Lifestyle - attitudes to family

- Tier 1 residents feel almost guilty of giving their careers preference over family, hence justifying priorities to themselves.

- Many Tier 2-3 families eat together
  Family is more important than career for me

Families should make an effort to eat together regularly

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>76.2%</td>
<td>67.7%</td>
<td>67.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>94.6%</td>
<td>89.0%</td>
<td>88.1%</td>
</tr>
</tbody>
</table>
Consumers living in tier 1 cities are more satisfied than those in the Tier 2-3.

Over half of those living in Tier 2-3 are not satisfied.

- “A big city has many more opportunities for earning and spending” – Nanning respondent
Consumer attitudes - risk

- The majority plays safe, yet there is a substantial number of those willing to take risks – in equal measure across the tiers

I like doing things that are a bit risky

<table>
<thead>
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<th>Tier 1</th>
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<th>Tier 3</th>
</tr>
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<tbody>
<tr>
<td>37.7%</td>
<td>37.2%</td>
<td>37.0%</td>
</tr>
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</table>
Consumer attitudes - risk

- The majority remains debt-averse; China continues to be a high savings nation.
- Change marginally greater in Tier 1 cities

I could take on debt to allow me to buy the things I want

<table>
<thead>
<tr>
<th></th>
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<th>Tier 2</th>
<th>Tier 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>20.1%</td>
<td>17.9%</td>
<td>18.9%</td>
</tr>
</tbody>
</table>
Consumer attitudes - ambition

- Tier 1 residents are only slightly more ambitious than the lower tiers; the majority still does not consider itself very ambitious.
  - “I want to be like Yo Yo Ma”

I consider myself an ambitious person

<table>
<thead>
<tr>
<th>Tier</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>38.3%</td>
</tr>
<tr>
<td>Tier 2</td>
<td>34.5%</td>
</tr>
<tr>
<td>Tier 3</td>
<td>34.4%</td>
</tr>
</tbody>
</table>
Consumer attitudes - fashion

- Again, small differences between the tiers. Lower tier consumers have huge access to fashion & beauty, even if it is not always branded. It’s also cheap.

  - “Why should I spend 200 kuai on a pair of branded jeans when I can pick up 5 stylish pairs here?” – Young woman, Cenxi

I like to keep up to date with the latest fashions

<table>
<thead>
<tr>
<th></th>
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<th>Tier 2</th>
<th>Tier 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>35.8%</td>
<td>34.1%</td>
<td>37.7%</td>
<td></td>
</tr>
</tbody>
</table>
Novelty is a big draw. Consumers are looking for new ideas in every sphere of consumption. Again, across the tiers, and to a slightly greater extent in Tier 1.
Food habits

- Tier 1 has significantly more consumers eating at fast food restaurants (such as KFC, Yoshinoya, McDonalds …) than Tier 3; Tier 3 families remain conservative with their eating habits.

Have you visited a fast food restaurant in the past 12 months?

- Tier 1: 82.4%
- Tier 2: 74.1%
- Tier 3: 60.1%
Interestingly, shoppers in Tier 2&3 markets do a bit more impulse shopping than those in Tier 1.
Hidden Income

Credit Suisse research shows actual income levels in China could be higher than previously thought.

Annual per capita disposable income by household

Rich are richer

Source: Credit Suisse Equity research
Differences between Consumers - China, U.S. consumers

- Greater emphasis on quality, freshness for food, brands
- Less interested in customer service
- Haggling over price
- Shop for fresh food daily
- Limited credit, mostly cash transaction
- Group buying
"With the emergence of a new middle class and new opportunities for spending in many developing markets in Asia, it's understandable that there is a huge enthusiasm about shopping – far beyond that of the U.S. consumer, who may have a 'been there, done that' view of the shopping “