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# CHINA AS A MARKET: WHAT IS THE REAL MARKET FOR INTERNATIONAL BRANDS?

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## ABSTRACT

To hear talk about China as a market of more than 1,300 million individuals still sounds incredible today, although companies with a presence in the Chinese market, such as Bodegas Torres, Mango and L'Oreal know otherwise. In meetings with executives from European firms, the most common question asked about the Chinese market remains: What is the real market for international brands? In numerous studies, Chinese consumers are defined as pragmatic, price-sensitive, quality-oriented and patriotic. But we must bear in mind that there are several segments within this market and each one behaves differently with respect to international brands. Based on a review of specialist literature, the aim of this article is to further explore the behaviour of Chinese consumers in urban areas, with a view to making a proposal for a new market segmentation. The article also seeks to identify characteristics of brand awareness for each market segment.

To achieve this aim, the author has carried out an exploratory study using secondary sources and in-depth interviews in Shanghai, Beijing, Guangzhou and Hong Kong with:

- Western companies with a presence in the Chinese market;

- Consulting firms and research institutes with a presence in China; and
- Chinese Business Schools.

**Keywords:** China, international marketing, brands, segmentation, consumer behaviour.

## 1. Introduction

Over the last twenty years, the world has witnessed the emergence of China as the world's factory. This has helped many multinationals to achieve what Professor Levitt<sup>1</sup> considered to be the great advantage of the globalisation of markets: more efficient production, which would make it possible to respond to a universal need. However, up until the beginning of the year 2000, the globalisation of markets had basically affected China in its capacity as a producing country<sup>2</sup>.

At present, China is in the throes of a new stage, in which, having overcome its technological backwardness, it is striving to become one of the key players in the globalisation process<sup>3</sup>. On the one hand, Chinese consumers have become a target market for international companies<sup>4</sup>; on the other hand, Chinese companies are beginning to compete in international markets<sup>5</sup>.

This new stage, characterised by an increase in domestic consumption, has paved the way for a second phase in the country's development: China as a market<sup>6</sup>. In 2006, Chinese consumption represented 5.4% of the total consumption of the principal world economies (Figure 1), which placed it in fifth

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<sup>1</sup> Levitt, T. (1983). "The globalization of markets", *Harvard Business Review*, May-June.

<sup>2</sup> Orr, Gordon R. (2004). "The aging of China", *McKinsey Quarterly. Special Edition*, pp. 106-109.

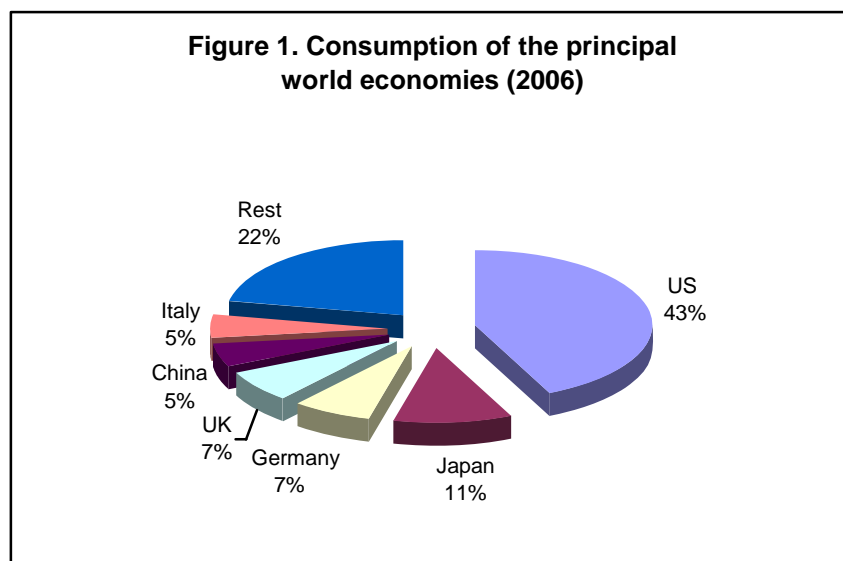
<sup>3</sup> Bregolat, Eugenio (2007). *La segunda Revolución China*. Spain: Ediciones Destino.

<sup>4</sup> Chen, Y.; Penhirin, J. (2004). "Marketing to China's consumers", *McKinsey Quarterly Special Edition*, pp. 62-73.

<sup>5</sup> Zeng, M.; Williamson, P. J. (2003). "The Hidden Dragons", *Harvard Business Review*, October, pp. 92-99.

<sup>6</sup> McKinsey Report (2007). *From "Made in China" to "Sold in China"*.

position, together with Italy. If this trend continues, the next twenty years will see extraordinary growth in domestic consumption and the consolidation of what could be the largest market in the world<sup>7</sup>. The consumption of Chinese households will show an annual increase of 18% to the year 2014, compared with 11% in the rest of the market and 2.1% in the United States, according to a study by the Credit Suisse First Boston Bank.



Source: CSFB (2007). *Credit Suisse First Boston Report*.

The international and the Chinese economic press also endorse this forecast: according to the *China Daily*<sup>8</sup>, consumption in China will represent 14% of the total consumption of the world's main economies in 2015, whereas the United States will represent 37.7%.

Besides the promotion of "China as an investor", one of the strategic interests of the Chinese government is to boost domestic consumption. In this respect, reference should be made to the recent creation of the *China Top Brand* hallmark of

<sup>7</sup> The studies of the principal consultants with recognised experience in the Chinese market coincide with respect to this forecast. These studies are listed in the bibliography.

<sup>8</sup> "China se convertirá en el segundo mayor mercado de bienes de consumo en el 2015", *La Vanguardia* (24/03/2007).

quality<sup>9</sup>, which may be likened to the European ISO 9000. The initial idea is to add value to quality Chinese brands, in order to reduce their vulnerability to international brands and in this way protect the domestic market.

According to a study completed by the Chinese Business Information Centre and published on 22 March 2003 by the China National Statistics Bureau<sup>10</sup>, 62% of the sales made in the year 2002 in more than 80 consumer product categories corresponded to the 10 best-known brands in each category. When this information was contrasted with other sources, it was confirmed that the principal local and international brands accounted for approximately 60% of the turnover in the consumer market<sup>11</sup>.

## **2. Methodological approach and definition of the objective**

In this context, in both the business and the academic worlds of Western countries, several questions related with research arise. One of these is the following: In China, what is the real present and future market for international brands?

In order to answer this question, a research project has been designed, which is currently in its initial stage.

In this first stage, an exploratory study has been made, based on various secondary sources, which have been classified into the following categories:

- Academic publications (books and journals), principally written by Asian and North American authors.

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<sup>9</sup> “China Making a Brand New Name for Itself”, *China Daily* (17/03/2002).

<sup>10</sup> *National Statistics Bureau Report* (2003).

<sup>11</sup> Hong Kong Trade Development Council (2003). *China's Consumer Market*. TDC Research.

- Technical publications: reports and studies published by consultants; reports by official international and Chinese bodies; economic press.

The knowledge available has been complemented by primary information. To obtain this, in-depth interviews have been employed. In total, eight interviews have been conducted with marketing experts in three different fields:

- a) Three interviews with professors of marketing at Chinese universities: Fudan Management School, in Shanghai, and the University of Beijing, in Beijing.
- b) Three interviews with consultants who have been in China for at least eight years and who are specialists in market surveys: CRF Shanghai and China Consultants (Beijing and Hong Kong).
- c) Two interviews with marketing managers in companies with a direct presence in China which commercialise Western brands: both companies, based in Shanghai, belong to the textile and fashion accessories sector.

The aim of these interviews, which were not structured, was to explore the following areas:

- Market knowledge: degree of knowledge, sources of information available, quality of information, use of market information for decision-making in the field of marketing.
- Trends in the urban consumer market.
- Chinese consumers and their sensitivity to national and international brands.

Following the transcription of the interviews, a text analysis program has been employed to analyse the information<sup>12</sup>. The information obtained has been used to complement the information which is basically quantitative from the secondary sources, as well as to verify the data offered by public sources.

The main objective of this first stage of the study is to try and identify research topics that are useful for brand management in this promising market.

In order to understand “China as a market”, this article has been structured into three parts.

In the first part, the object of analysis is the consumer market in China. The principal aim is to gain greater knowledge of the Chinese consumer which goes beyond their quantification.

In the second part, the object of analysis is the behaviour of the Chinese consumer. Attention is focused on the following question: What is the attitude of the Chinese consumer to brands?

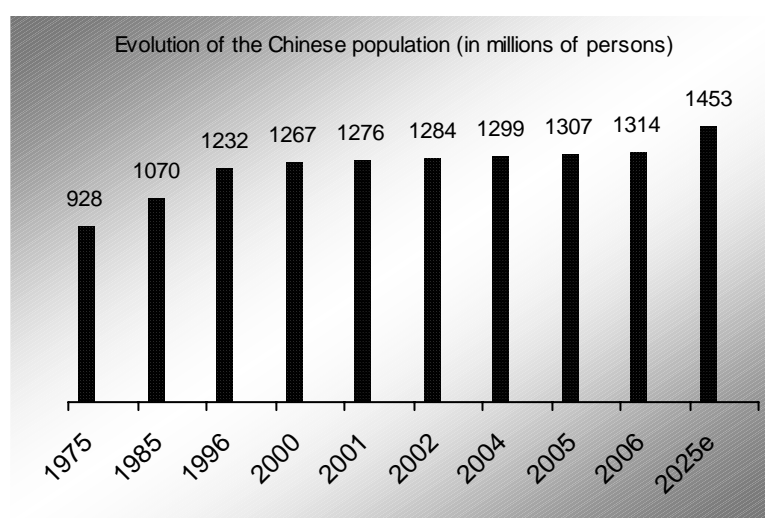
Finally, in the third and last part, some initial conclusions will be offered.

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<sup>12</sup> ENVIVO Software.

### 3. The consumer market in China: What is the real market?

To hear talk about China as a market of more than 1,300 million individuals still sounds incredible today <sup>13</sup> ; however, any company that has become involved in the Chinese market knows that this is not strictly true. Due to its diversity, it is not a single market; nor, on the other hand, is it composed of 1,300 million potential consumers<sup>14</sup>.



Source: Asian Development Bank and US Census Bureau (2007).

All those interviewed are in agreement that, when an analysis is made of the opportunities in the domestic market, it is important not to consider China as a single market, but as an economy with enormous differences<sup>15</sup>. These differences are most clearly seen in the great disparity that exists between its rural society, which represents 61%<sup>16</sup> of the total market, and the growing

<sup>13</sup> 1,314 million in 2006, according to the Asian Development Bank and US Census Bureau (2007).

<sup>14</sup> Chen, Y.; Penhirin, J. (2004). "Marketing to China's consumers", *McKinsey Quarterly Special Edition*, pp. 62-73.

<sup>15</sup> Tao Sun, Guohua Wu (2004). "Consumption patterns of Chinese urban and rural consumers", *Journal of Consumer Marketing*, Vol. 11, No. 4 (*Research paper*).

<sup>16</sup> According to the sources consulted, the rural population accounts for between 58% and 61% of the total population: 58% (Banco de España, 2005); 61% (PricewaterhouseCoopers, 2005). Managers must bear in mind that, in China, quantitative data is approximate.



urban population, which is calculated to number 500 million people.

Moreover, with respect to the urban population, there are still significant differences<sup>17</sup> between consumers in the big cities and those in the medium-sized and small cities and towns. It is in the big cities such as Shanghai, Beijing, Guangzhou and Shenzhen where consumer profiles are similar to those of Western markets<sup>18</sup>. These differences become greater in medium-sized cities and towns, and they increase exponentially upon analysis of the profile of consumers in rural areas.

The diversity can be measured in terms of the level of economic development of the regions<sup>19</sup>. Thus, the westernmost provinces, towns and regions, despite representing 70% of the land area and 29% of the population of the country in 2002, accounted for only 18% of consumer spending. In contrast, the coastal regions, which represent 15% of China's territory, accounted for 50% of the total consumer spending in the same year<sup>20</sup>.

The per capita income of the rural population is significantly lower than that of the urban population. In 2004, the annual per capita disposable income of a rural household was 242 euros, compared with 775 euros in the case of an urban household<sup>21</sup>. According to data from the China National Statistics Bureau, in 2006, the annual per capita income of the urban population was 1,157 euros, whereas that of the rural population was 355 euros.

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<sup>17</sup> Cui, Geng; Liu, Qiming (2001). "Executive Insights: Emerging Market Segments in a Transitional Economy: A Study of Urban Consumers in China", *Journal of International Marketing*, Vol. 9, No. 1, pp. 84-106.

<sup>18</sup> Casaburi, I.; Sánchez-Monasterio, M. (2007). "La globalización de los mercados y el consumidor chino", *Revista Segmento - ITAM México*, No. 39, pp.18-21.

<sup>19</sup> Cui, Geng; Liu, Qiming (2000). "Regional market segments of China: opportunities and barriers in a big emerging market", *Journal of Consumer Marketing*, Vol. 17, No. 1, pp. 55-72.

<sup>20</sup> Hong Kong Trade Development Council (2003). *China's Consumer Market*. TDC Research.

<sup>21</sup> Banco de España (2005). "Evolución y retos de la economía china", *Boletín Económico*, April.

According to a study by the Boston Consulting Group<sup>22</sup>, in the last few years, growth in per capita income in urban areas has matched growth in China's GDP, while per capita income in rural areas has barely reached 1%.

Given that consumers in rural areas have an average salary of 355 euros a year, at present foreign companies cannot even consider them as part of the potential market. Indeed, their spending is subject to the rules of a subsistence economy.

Consequently, of the 1,300 million people, we are left with a potential market which, in reality, is confined to the inland and coastal urban areas, where it is calculated some 500 million people live. In any event, this is still a highly attractive potential market for Western companies.

### **3.1. The consumer market in urban areas**

The increase in the urban population in China is the result of a growing trend of migration from the country to the cities. As a consequence of the economic development of the urban areas, the rural population is moving towards these urban areas in search of work and a better quality of life<sup>23</sup>. To be specific, the urbanisation rate of the country showed an average annual increase of 0.83% between the years 1978 and 2000. Experts estimate that this trend will continue until 2010. Furthermore, they anticipate that in the year 2050, 70% of China's population will live in urban areas<sup>24</sup>.

It is not surprising that the wealth and spending of the country are concentrated in the urban areas. In 2002, the ten largest cities

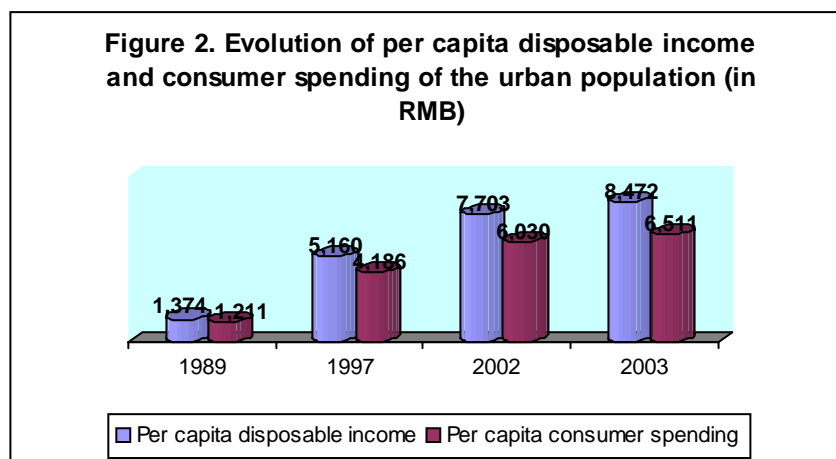
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<sup>22</sup> The Boston Consulting Group (2005). "Selling in China", *Knowledge@Wharton, Special Report*.

<sup>23</sup> Orr, Gordon R. (2004). "The aging of China", *McKinsey Quarterly, Special Edition*, pp. 106-109.

<sup>24</sup> Ren, Jin (2004). "Rapid development of urbanisation", *Beijing Review*, No. 6, June.

in China, although they contained only 9% of the total population, accounted for 19% of the country's total sales of consumer goods<sup>25</sup>.



Source: *China Statistical Yearbook*, 2004.

Between 1997 and 2003, the disposable income of the urban population increased by 64.2%<sup>26</sup>, which led to an increase in consumer spending<sup>27</sup>. In 2003, the annual per capita disposable income in urban areas was 8,472 RMB (100 RMB/ 9,21 euros), three times as much as in rural areas<sup>28</sup>.

In parallel with the growth of China's per capita GDP, an increase in consumer demand has been observed among the Chinese, mainly in urban areas, as well as greater spending on products of a higher range than those purchased in the past.

Thus, in the large and medium-sized cities<sup>29</sup>, a gradual shift in demand has been noted over the last few years, with increased

<sup>25</sup> *China Statistical Yearbook*, 2003.

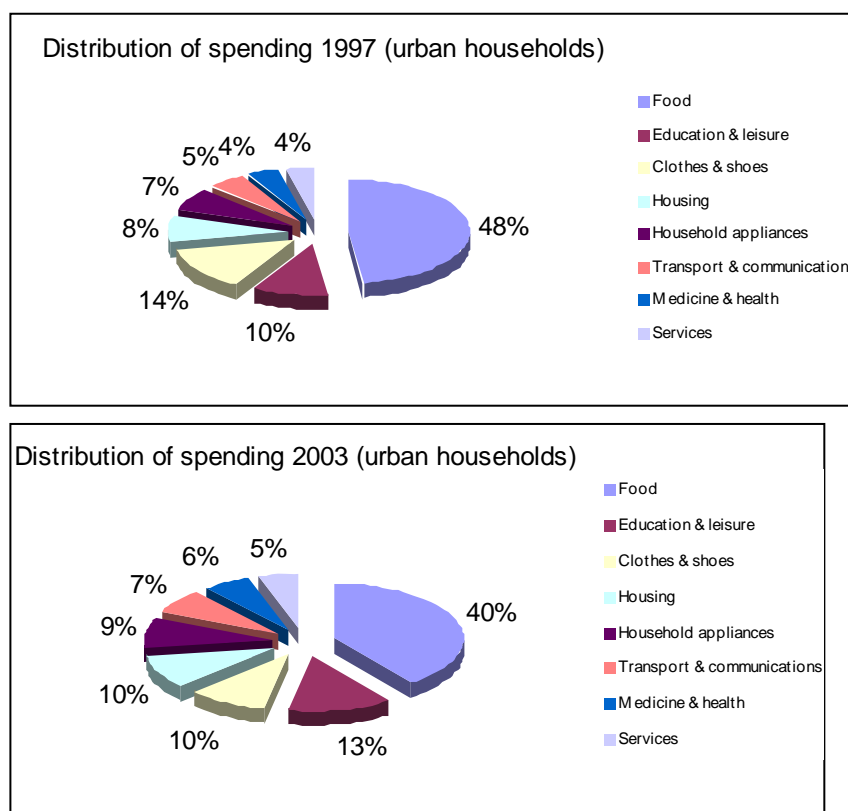
<sup>26</sup> Deloitte Research (2005). *China's Consumer Market: Opportunities and Risks*.

<sup>27</sup> For more details, see Appendix 1.

<sup>28</sup> PricewaterhouseCoopers (2004). "Global Retail & Consumer Study from Beijing to Budapest".

<sup>29</sup> Normandy Madden (2007). "Tier tale: How marketers classify cities in China", *Advertising Age (Midwest regional edition)*, Vol. 78, No. 12, p. 21.

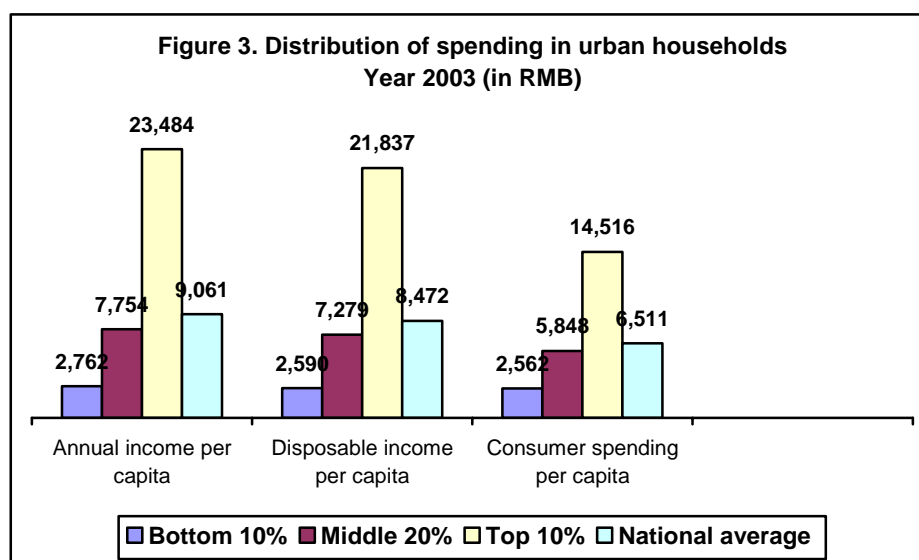
spending on more sophisticated product categories, such as real estate, cars, communication equipment and tourism<sup>30</sup>.



Source: Access Asia Report (2005). *China's Consumer Market: An overview of the Chinese consumer sector*.

There are very clear differences in the consumption patterns of the Chinese, judging by the data published in the *China Statistical Yearbook* of 2004. According to this source (data obtained from a survey of 48,000 households in 2003), the per capita income of the top 10% comprising the richest urban households was 8.5 times higher than the bottom 10% comprising the poorest urban households. Moreover, the per capita income of this top 10% was three times that of the middle 20%.

<sup>30</sup> Deloitte Research (2005). *China's Consumer Market: Opportunities and Risks*.



Source: *China Statistical Yearbook*, 2004. Based on 48,000 urban households.

In contrast, it can be seen that the level of per capita spending of the top 10% comprising the richest urban households was 5.7 and 2.5 times higher than that of the groups corresponding to the poorest 10% and the middle 20% respectively. This difference in the ratios shows that the higher the income of a household is, the higher the percentage of income it saves.

If the composition of spending is analysed<sup>31</sup>, it may be observed that the poorest households assign almost half (47%) of their income to food and other types of basic products and services. In contrast to this, the group of 10% comprising the richest households assign more income to spending related with “Transport & communications” and “Education & leisure” (Appendix 2).

The differences in the levels of income of the urban population are also reflected in the ownership of shopping goods. Thus, in the group of 10% comprising the richest urban households, there is an average of 6.6 cars per 100 households, whereas in the

<sup>31</sup> Appendix 2 presents the data relating to the distribution of spending of the bottom 10%, the middle 20% and the top 10% referred to in this section.

bottom 10% the average is only 0.2. This gulf can be observed in the case of many long-lasting products. For example, whereas in the top 10% there are 64.8 computers per 100 households, the national average for Chinese households is 27.8.

Considerable differences can also be observed in the availability of air conditioning units and mobile telephones. With respect to this last category, the statistics show that, in 2003, the top 10% group had 159 mobile telephones per 100 households, in contrast to the figure of 24 for the poorest 10%. This indicates that the richest households had more than one mobile telephone, as is the case in the Western world.

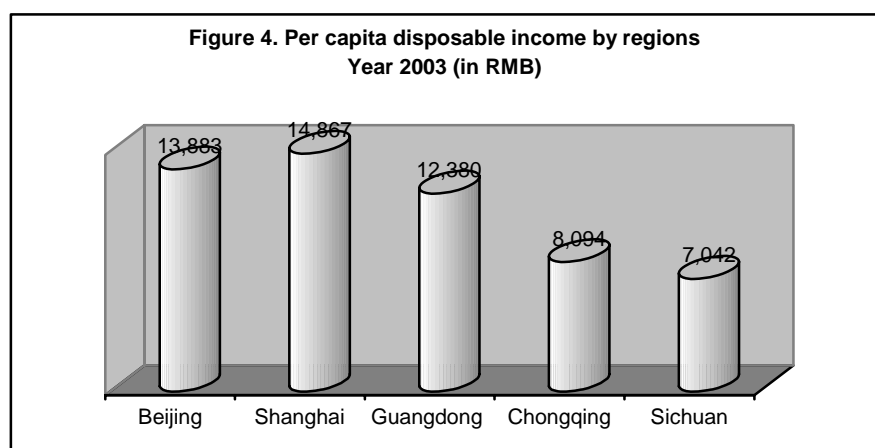
According to a study published recently<sup>32</sup>, the number of mobile telephone users increased from 230 million in 2003 to more than 600 million in 2006, and mobile telephone sales currently stand at 7 million units a month. This same study reports that over a period of five years the number of car owners has climbed from 17 million to 40 million.

On the basis of the information analysed, it would appear to be clear that the variations in income and, as a result, in purchasing behaviour are principally related with geographical differences<sup>33</sup>. Starting from this consideration, and leaving aside the most rural areas, we may arrive at an initial proposal for segmentation of the urban market based on the variable “geographical area”, understood as the location of the cities in China. The data from the China National Statistics Bureau shown in Figure 4 highlights the fact that per capita disposable income varies not only according to the location of the city, but also according to its size.

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<sup>32</sup> InterChina (2007). *Tendencias del consumo en China*.

<sup>33</sup> Tao Sun, Guohua Wu (2004). “Consumption patterns of Chinese urban and rural consumers”, *Journal of Consumer Marketing*, Vol. 11, No. 4 (Research paper).



Source: *China Statistical Yearbook*, 2004.

For this reason, within the variable “geographical area”, recourse will also be made to both the sub-variable “location” and the sub-variable “size of the city”.

**Table 1. Types of cities in China**

TIER ONE	TIER TWO	TIER THREE	TIER FOUR	TIER FIVE
4 cities: Beijing, Shanghai, Guangzhou and Shenzhen.	30 cities, many of which are provincial capitals, of more than 5 million people.	150 cities of more than 1 million people.	Thousands of towns and cities with a population of between 100,000 and 1 million people.	Small towns and villages.

Source: Own elaboration based on the article by Normandy Madden (2007).

Taking the geographical location of the cities and their size<sup>34</sup> into consideration, three macro-segments<sup>35</sup> are identified, as defined and analysed below:

A) Medium-sized towns and cities in inland regions: those classified as “*Tier Four*”.

<sup>34</sup> Normandy Madden (2007). “Tier tale: How marketers classify cities in China”, *Advertising Age (Midwest regional edition)*, Vol. 78, No. 12, p. 21.

<sup>35</sup> The three geographical areas described hereunder are the result of grouping data published in the *China Statistical Yearbook*, 2004. This data has been obtained from a survey of 48,000 households in 2003.

- B) Large cities in inland and coastal regions: those classified as “*Tier Three*” and those smaller than “*Tier Two*”.
- C) Very large cities: capitals of provinces and of coastal municipalities classified as “*Tier Two*” and “*Tier One*”.

A) Consumers in medium-sized towns and cities located in inland regions

The consumers who live in the towns and cities of the most remote regions have very limited disposable income; consequently, they belong to the bottom 10% consumer group (Appendix 2) and tend to be very conservative. Since they have little or no knowledge of the overseas market, they are not very prone to buying imported products.

According to the study by the Hong Kong Trade Development Council, this market offers opportunities for those companies which are capable of offering quality products at reasonably low prices. On the other hand, according to the managers interviewed and some authors consulted<sup>36</sup>, consumers in these regions do not generally value the fashion component of articles, and so products which have gone out of fashion in the large cities could see their life cycle prolonged in these remote areas.

B) Consumers in large cities located in inland and coastal regions

The consumers in this second group live in cities such as Chongqing, Chengdu and Wuhan, cities with more than one million inhabitants, and they have a somewhat higher income

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<sup>36</sup> Lane, K. P.; St-Maurice, I.; Wu, C. (2006). “Marketing to China’s hinterland”, *McKinsey Quarterly, Special Edition*, pp. 42-45.



than those of the previous group. They belong to the middle 20% (Appendix 2) and they are also conservative.

According to those interviewed, since the beginning of the economic reforms there have been no relevant changes in the spending habits of these consumers. Functionality continues to be the key variable in their purchases, although quality and price are acquiring increasing importance. Indeed, these cities generally have large groups of consumers with a high propensity to spend; however, in spite of their considerable purchasing power, these consumers have a limited knowledge of foreign products, and so they trust brands or other external variables when considering a product.

According to those interviewed, the consumers in this group tend to associate high price with good quality.

### C) Consumers in very large cities

Following more than twenty years of reforms and a process in which China has opened up, the income of the population living in the principal coastal cities and the special economic areas has increased considerably (2003: 12,000-14,000 RMB/year), and this has led to drastic changes in their consumption patterns. The cities which have benefited most from these changes are Shanghai, Beijing, Guangzhou and particularly Shenzhen, near Hong Kong.

With respect to income, we may observe that the average disposable income of a household in Shanghai is 14,867 RMB, 75% higher than the national average. Bearing in mind the higher level of income of the most important coastal cities in China, it is easy to imagine that 10% of the richest households

in Shanghai, Beijing and Guangdong enjoy very high income in the context of living standards in China.

The consumers in this group have more contact with the outside world, and so they are both more familiar with imported products and more receptive to these. At present, the consumers in this area not only look for the functionality of products, but also comfort, design and fashion. These consumers demand quality in a product and they are prepared to pay a premium to obtain this.

#### **4. The urban consumer profile and brand sensitivity: a hybrid approach<sup>37</sup>**

The market in urban areas, numbering between 450 and 500 million people, can be divided into three socio-economic groups. Each of these groups reveals differences with respect to preferences for Chinese or international brands<sup>38</sup>.

##### **4.1. The *laogong*<sup>39</sup>**

The *laogong*, or “working class<sup>40</sup>”, which represents a mass market, number some 160 million people. They work in commerce and in factories, receiving an annual salary of between 960 and 1,440 euros<sup>41</sup>.

The purchasing behaviour of this market segment is highly price-sensitive, with a marked preference for Chinese brands.

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<sup>37</sup> The profiles described hereunder have been drawn up by the author on the basis of the interviews and the bibliography consulted.

<sup>38</sup> Dickson, A.; Lennon, S. J.; Montalto, C. P.; Shen, D.; Zhang, L. (2004). “Chinese consumer market segments for foreign apparel products”, *Journal of Consumer Marketing*, Vol. 21, No. 5 (*Research paper*).

<sup>39</sup> Chinese term used to refer to the working class.

<sup>40</sup> Traditionally called “lower middle class”.

<sup>41</sup> Corporate Research Foundation (2005). *CRF Report*. Shanghai.

This preference is based on rational criteria, such as price – often lower than the price of international brands – and also on emotional criteria, fuelled by a strong national identity.

When these consumers spend, over and above their subsistence, they seek social acceptance in the city. This market segment is going to demand some changes of Western companies, particularly with respect to defining an offer that is attractive on the basis of product, price and accessibility.

#### **4.2. The *bailing jieceng***<sup>42</sup>

The group composed of the *bailing jieceng* or “white collar workers” represents the middle class and numbers some 300 million people. It is estimated that in the year 2020 this group, together with the working class, will comprise 600 million people<sup>43</sup>.

The members of this group have higher education qualifications and occupy lower and middle management positions, receiving an annual salary of between 3,600 and 7,000 euros<sup>44</sup>.

Those at the lower end of the salary scale (3,600-4,500 euros p.a.) frequent shopping centres close to their home and cybercafés, they move around by bicycle and they hardly ever travel. In contrast, those at the higher end of the salary scale (4,500-7,000 euros p.a.) shop in small stores, use the underground and visit Chinese cities near their city of residence once a year<sup>45</sup>.

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<sup>42</sup> Chinese term used to identify “white collar workers”, a segment corresponding to the middle and upper middle class in the reports consulted.

<sup>43</sup> The studies of the principal consultants, listed in the bibliography, echo this forecast.

<sup>44</sup> Corporate Research Foundation (2005). *CRF Report*. Shanghai.

<sup>45</sup> Sociological profiles according to a report by InterChina (2007).

In this segment we find a high propensity to spending oriented towards the search for social recognition. Thus the brand sensitivity of the *bailing jieceng* is focused towards both high-quality Chinese brands and international brands, with differentiation always a high priority. This group is beginning to show characteristics of Western individualism, although collectivism is still present – an essential facet of oriental culture – and a strong sense of national identity. This emotional value is what leads the Chinese consumer, when confronted by products of equal quality, price, service and modernity, etc., to prefer Chinese brands to international brands.

In this context, if the potential Chinese consumer is asked whether they would buy an international brand, they tend to say: “this brand and this product is as good as the Chinese product, but it doesn’t touch my heart”<sup>46</sup>.

#### **4.3. The *yapishi* and the *quizu jienceng***<sup>47</sup>

Finally, a third segment can be identified, formed by the *yapishi* and the *quizu jienceng*, who correspond to yuppies and aristocrats respectively. They are members of the upper urban class and currently number some 10 million people. It is predicted that this figure will rise to between 70 and 100 million by the year 2020<sup>48</sup>.

This market segment is composed of those who occupy top management positions, famous people and public figures. They earn between 7,200 and 18,000 euros a year. A small sub-

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<sup>46</sup> Lianzi, Zhou; Hui, Michael (2003). “Symbolic Value of Foreign Products in the People’s Republic of China”, *Journal of International Marketing*, Vol. 11, No. 2, pp. 36-58. Interview with the Director of Marketing Strategies of China Consultants.

<sup>47</sup> Chinese terms used to refer to *yuppies* (successful managers) and aristocrats (the nouveau riche class).

<sup>48</sup> Reports by consultants.

group<sup>49</sup>, the aristocrats, may have salaries of up to 60,000 euros a year. Their wealth is measured by the assets they have accumulated, and through their purchases they seek to show society their personal and professional achievements. Not for nothing have the Chinese nicknamed them “the banana men” – yellow on the outside and white on the inside – for their aim is to gain a reputation and prestige by purchasing luxury products with international brand names.

China is the third largest consumer of luxury goods<sup>50</sup> in the world. It is estimated that sales of luxury goods represent 12% of total market sales<sup>51</sup>, a figure not so far away from the 17% and 16% of the United States and Europe respectively. In the case of Japan, sales of luxury goods represent 41%<sup>52</sup> of total sales, one of the highest figures in the world. At present, the Chinese luxury goods market generates more than 2,000 million US dollars a year<sup>53</sup>. It is anticipated that sales of luxury goods will increase by 20% a year to 2008 and by 10% to 2015<sup>54</sup>.

The sociological profile<sup>55</sup> of the yuppie is that of a young executive who frequents luxury shopping centres, uses taxis and travels once a year to Hong Kong. The corresponding profile of the aristocrat is that of a middle-aged executive, the director general of a large corporation, who shops in luxury stores, is a member of private clubs, has a luxury car and travels to Europe and the United States.

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<sup>49</sup> Between 320,000 and 500,000 people, according to the reports of consultants.

<sup>50</sup> By luxury goods, reference is made to those goods which, through their style and quality, bring the consumer a lifestyle that is refined and elegant.

<sup>51</sup> Vontobel Research (2005). *European luxury goods in China*.

<sup>52</sup> “Mainland taste for the expensive grows. Foreign luxury brands are feeding China’s penchant for conspicuous consumption”, *South China Morning Post* (20/05/2005).

<sup>53</sup> “China set to become luxury hub”, *Shanghai Daily* (20/05/2005).

<sup>54</sup> Vontobel Research (2005). *European luxury goods in China*.

<sup>55</sup> Sociological profiles according to a report by InterChina (2007).

As a final consideration, all managers must bear in mind that the differences in behaviour patterns are not solely due to different levels of income. China is a nation of great diversity, with many languages, lifestyles, types of food and business styles. Therefore, companies that are planning to invest in China must take these regional differences into account, both in the selection of the product or service that they wish to sell, and in their brand management.

## **5. Some conclusions**

The explosion of domestic consumption in China is, in part, a forecast that has already been confirmed by the growth in the demand for consumer goods over the last few years. For the first time since 1998, product demand is exceeding supply in the case of more than one hundred references publicised last September by Spain's Ministry of Industry, Tourism and Commerce<sup>56</sup>.

The number of mobile telephone users has risen from 230 million in 2003 to more than 600 million in 2006, and sales of mobile telephones currently stand at 7 million units a month. Furthermore, over a period of five years, the number of car owners has increased from 17 million to 40 million.

These figures reflect something more than just the consequences of economic growth. They are also related with the strategies of "China as a market".

In order to quantify the brand-sensitive market, a segmentation proposal has been presented in which the combination of two segments is identified as potential consumers: the "white collar workers" segment and the "yuppies and aristocrats" segment.

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<sup>56</sup> "China: la explosión del gasto", *La Vanguardia* (11/09/2007).

The “working class” segment has been left to one side, since this consumer profile is governed by the price-functionality criterion. At present, this last urban consumer segment is dominated by Chinese companies and by Western companies that manufacture in China, but do not sell an international brand.

In view of this data, it would appear that the potential market for the sale of international brands is limited to some 310 million consumers, on whom international brand names could have some kind of influence. Even so, it is still a very attractive market on account of its size and, of course, a future market that offers enormous opportunities<sup>57</sup>.

However, this market is as attractive for international companies as it is for Chinese companies and, of course, the Chinese government, whose strategic priority remains the economic development of the country. Its strategic interests also include the promotion of domestic consumption and the recently created *China Top Brand*<sup>58</sup> hallmark of quality, which may be likened to the European ISO 9000 standard. This hallmark of quality, which was given to 556 brands in 2006<sup>59</sup>, can only be obtained by products “made in China” and is exclusively awarded by a governmental body, the Committee for Strategic Promotion of Chinese Brands.

The initial idea is to add value to quality Chinese brands, in order to reduce their vulnerability to international brands and in this way protect the domestic market. At the same time, it is aimed to influence the more emotional side of purchasing behaviour, fuelling the feeling of national identity. The objective

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<sup>57</sup> It is calculated that, together, the middle class and the upper class may number between 670 and 700 million people. Reports by InterChina (2007).

<sup>58</sup> “China Making a Brand New Name for Itself”, *China Daily* (17/03/2002).

<sup>59</sup> “Meet the New China: China’s Top Brands”, *Financial Times* (28/06/2007).

is to promote the purchase of Chinese brands, beginning with the lower class urban segment, the working class (160 million), before moving up to the upper middle class, the “white collar workers” (300 million), and finally reaching the highest segment of yuppies and aristocrats (10 million).

As a consequence of what has been outlined in the preceding paragraphs, two questions arise:

1. What must the response of the international brands be to the increased value acquired by Chinese brands in China’s large market?
2. What must the model for brand creation and management be for the consumer market in China?

A first working hypothesis is that one of the principal challenges facing Western companies lies in answering these very questions. On the other hand, it would seem clear that, as a prior step, quality market research must be conducted in order to define a comprehensive offer that exhaustively covers the most rational elements of the purchasing process. A further challenge is to be found in distribution, above all to the second and third tier cities, the cities which are growing fastest and where there are still considerable market opportunities. Finally, it will be important to find an emotional message that is able to compete with the *China Top Brand*, taking advantage of China’s “backwardness” with respect to its knowledge of market management.



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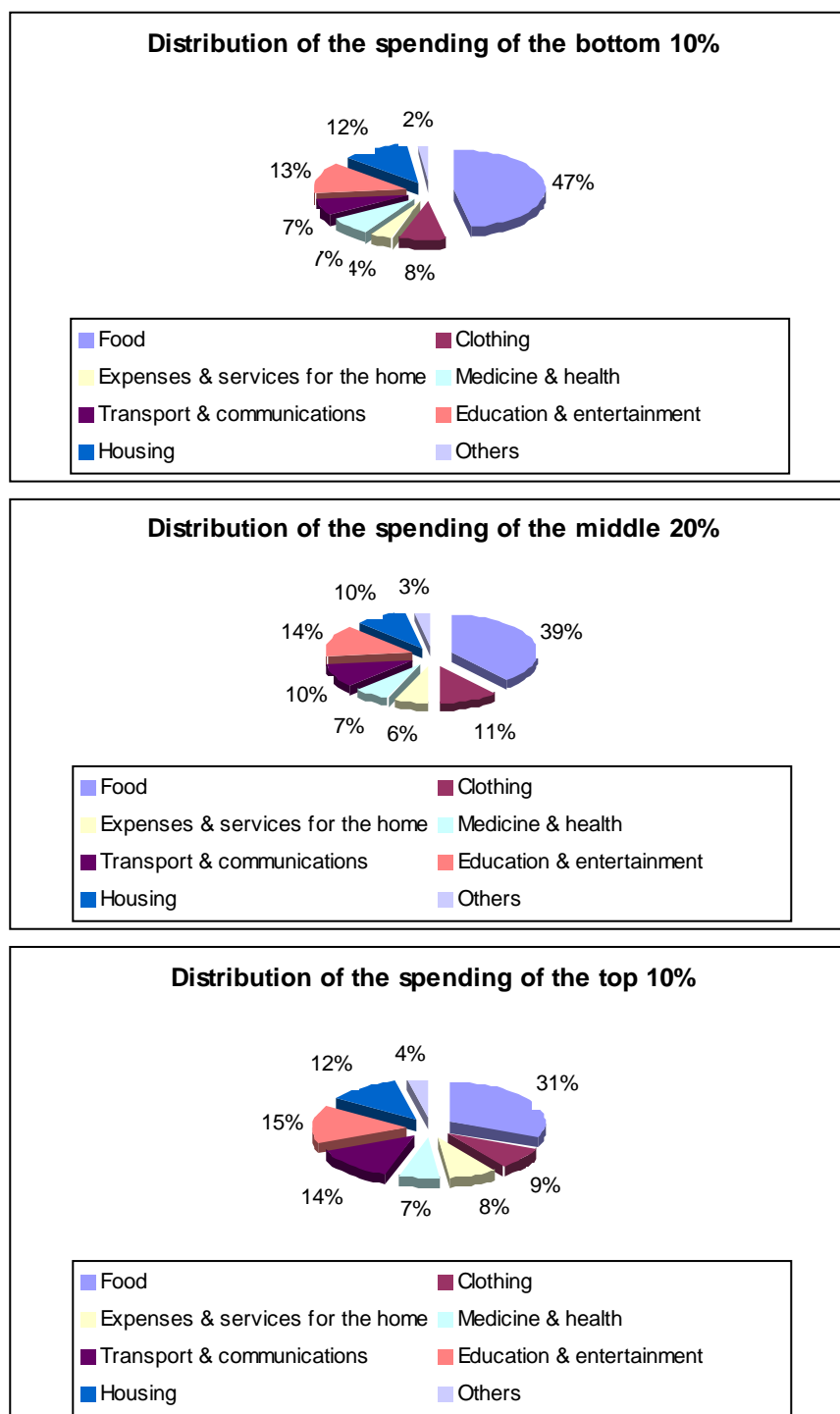
**Appendix 1. Per capita disposable income of an urban household (value in Chinese currency – RMB)**

Year	Value	%
1989	1,373.9	
1990	1,510.2	9.9%
1991	1,700.6	12.6%
1992	2,026.6	19.2%
1993	2,577.4	27.2%
1994	3,496.2	35.6%
1995	4,283.0	22.5%
1996	4,838.9	13.0%
1997	5,160.3	6.6%
1998	5,425.1	5.1%
1999	5,854.0	7.9%
2000	6,280.0	7.3%
2001	6,859.6	9.2%
2002	7,702.8	12.3%
2003	8,472.2	10.0%
1997-2003: 64.2%		

Source: *China Statistical Yearbook*, 2004.

N.B.: 1 US dollar/ 8.28 RMB

## Appendix 2. Distribution of the spending of urban households in 2003



Source: *China Statistical Yearbook*, 2004. Based on 48,000 households.