What Chinese Shoppers Really Do But Will Never Tell You

China Shopper Report 2012, Series 2

BAIN & COMPANY

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Contents

Introduction 5

Full report 6

Differences in shoppers' behaviors by city tiers and regions 6

Importance of category nature and development stage on shoppers' behaviors 8

Impact of shoppers' life stages on their shopping behaviors 11

Rules of the road 13

Because China is not a single market, it is important to understand the differences in shopper behavior by city tier, category nature and development level, and shopper life stage. This will arm marketers to further win Chinese shoppers through effective and customized brand strategy.

Introduction

China's exploding consumer market creates exciting opportunities – but it's also something of a mystery to consumer goods companies as they pursue the tremendous growth potential. When they consider growing with Chinese shoppers, they face the challenge of learning how to skillfully navigate a host of complex variables: distinct differences in regions and cities with different stages of economic development; and shoppers with fast-evolving needs and preferences. Brands working to establish a strong foothold and emerge as a market leader need to understand how these differences affect shopper behavior.

In a follow-up to our first report published in June, 2012, What Chinese Shoppers Really Do but Will Never Tell You, we decided to explore shopper behavior in more depth across three dimensions: city tier, category nature and development stage, and shopper life stage. The joint study by Bain & Company and Kantar Worldpanel analyzed the behavior of 40,000 Chinese shoppers from 373 cities in 20 provinces and four major municipalities, providing a groundbreaking look at how much shoppers spend by region and by city in 26 important consumer products categories ranging from milk to shampoo. The comprehensive study covers all Chinese city tiers, categories in different development stages and shopper life stages (see Figure 1).

As we explained in our first report, in most situations as Chinese shoppers buy more frequently in a category, they also tend to buy more brands in that category. We call this repertoire behavior - the tendency to choose different brands for the same occasion or need (repertoire being the set of brands purchased by a shopper within a given category). By comparison, shoppers exhibit loyalist behavior when they repeatedly buy one brand for a specific need or occasion. Chinese shoppers exhibit loyalist behavior in a few categories, including baby diapers and infant formula.

By exploring the findings in more detail, we have been able to see how repertoire and loyalist behavior is affected by different city tiers, different category types in varying stages of development, and different shopper life stages – and the implications for both foreign and domestic brands.

Figure 1: This research is based on a database of 40,000 shopper households in China covering different city tiers

Coverage

- Mainland China: Urban China (not rural area)
- 1,877 cities covered (373 sample cities) in 20 provinces + 4 municipality cities
- 40,000 urban permanent households
- 100+ consumer product categories

Approach and Methodology

- Approach
  - Household based shoppers
  - Representative sample distribution
  - Record purchasing behavior on real-time basis
- Methodology
  - Provides scanner to each sample household with standard scanning process to collect data
  - Focus on understanding shopper's purchasing behaviour

Coverage

City tier (based on administrative definition)

- Tier 1 cities: Beijing, Shanghai, Guangzhou
- Tier 2 cities: 19 provincial capital cities plus Chongqing, Shenzhen, Qingdao, Dalian, Tianjin
- Tier 3 cities: 228 prefecture cities
- Tier 4 cities: 322 county cities
- Tier 5 cities: 1,300 counties

Life stage

- Young family: Young single + Young couple aged 18-34 without kid or with kid(s) <14 years old
- Older family: Families with kid(s) aged 14-17
- Adult family: Families with all family members aged >18, and at least 1 member aged between 18-44
- Old single and couple: All family members aged >45

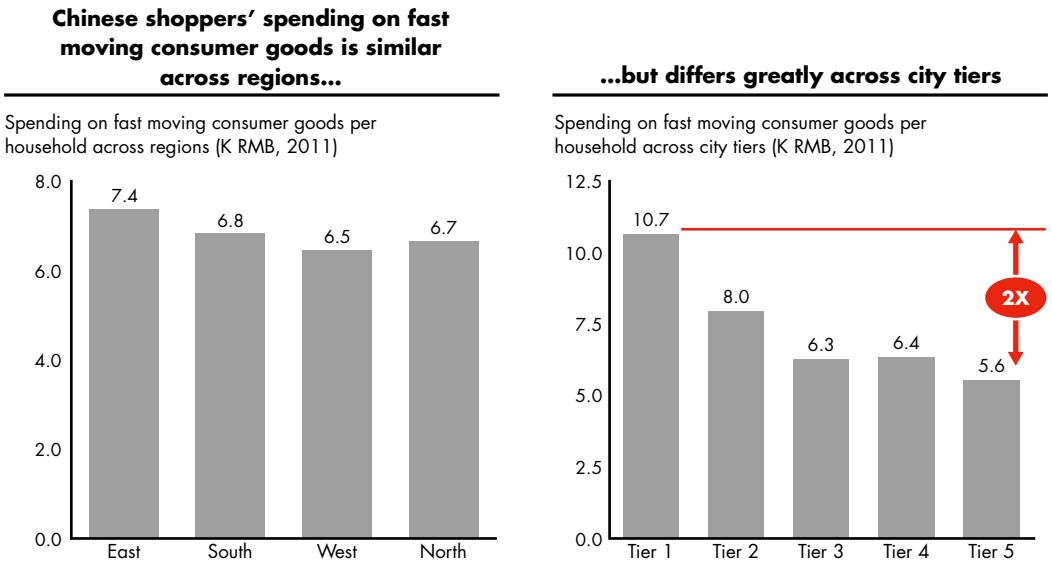
Full report

Differences in shoppers' behaviors by city tiers and regions

Our research shows that across China's four regions—North, South, East and West—all households spent approximately the same amount in 2011. The average annual range was RMB 6,700 to RMB 7,400 per household. But we saw a big difference when we looked at the city tiers where shoppers live (see Figure 2). For example, shoppers in Tier-1 cities spent almost twice as much on fast-moving consumer goods in 2011 as their counterparts in Tier-5 cities. Tier-1 shoppers spent an average RMB 10,700 per household compared with RMB 5,600 for Tier-5 city shoppers. As consumption grows in China, consumer goods brands can gain valuable insights by understanding the detailed differences in shopper behavior across city tiers.

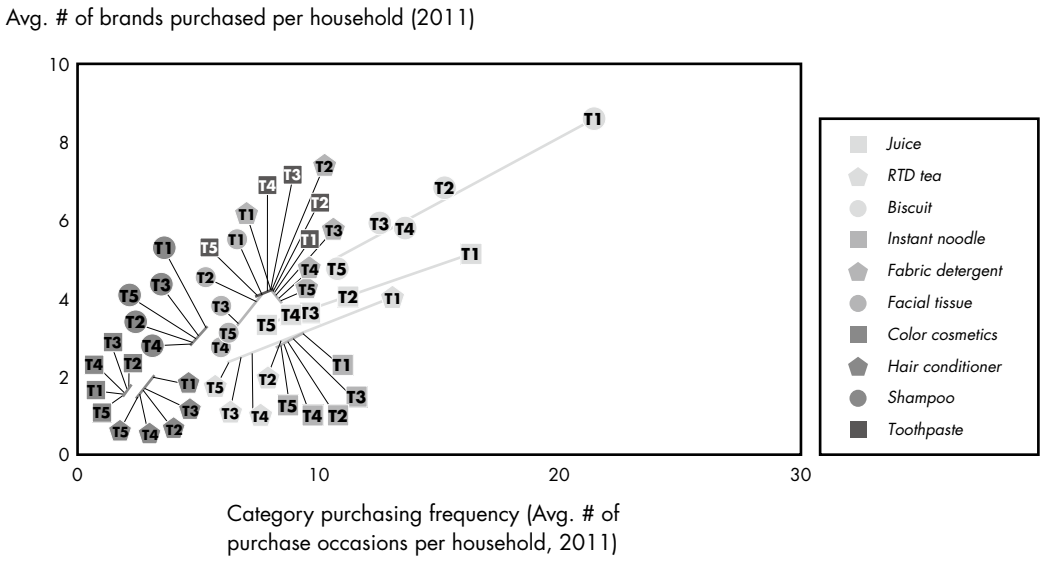
Our research shows that where shoppers live influences repertoire behavior. In repertoire categories, shoppers in Tier-1 and Tier-2 cities buy more brands than their counterparts in Tier 3-5 cities as they purchase more frequently in the category. For example, the average household in Beijing, Shanghai and Guangzhou made 22 purchases of biscuits compared to 11 purchases by the average Tier-5 city household. They bought nine brands of biscuits in 2011, compared with four brands for shoppers in Tier-5 cities (See Figure 3). By contrast, in loyalist categories such as milk and beer shoppers in Tier-1 and Tier-2 cities don't buy significantly more brands than those in Tier-5 cities (see Figure 4).

Figure 2: Chinese shoppers' spending on fast moving consumer goods differs greatly across city tiers, but not so much across regions



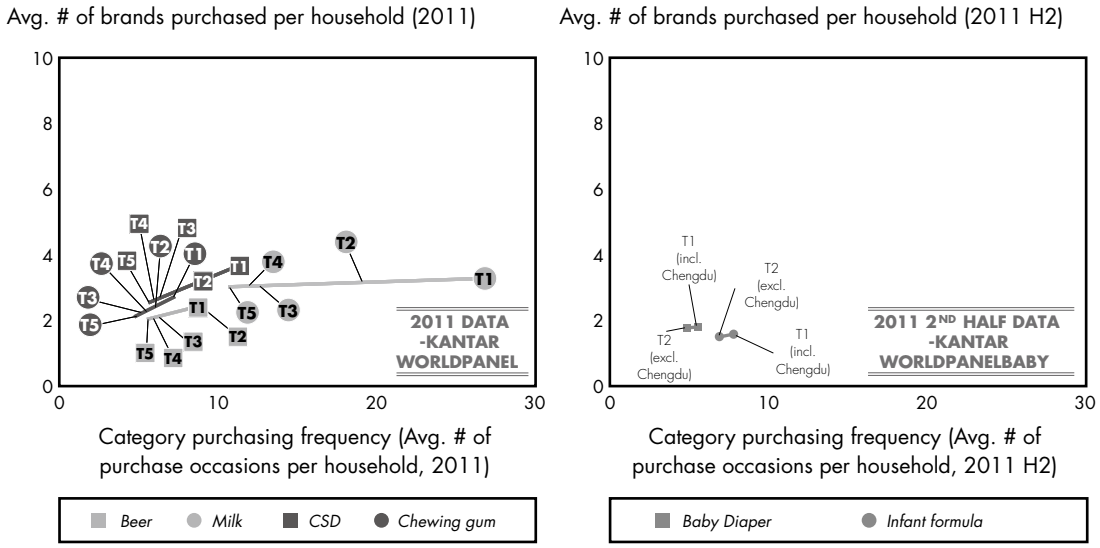
Note: East: Shanghai, Jiangsu, Zhejiang, Anhui, Henan; South: Guangdong, Fujian, Hunan, Hubei; West: Sichuan, Chongqing, Shaanxi, Guangxi, Yunnan, Guizhou; North: Liaoning, Jilin, Heilongjiang, Beijing, Tianjin, Hebei, Shandong, Shanxi
Source: Kantar Worldpanel; Bain analysis

Figure 3: In repertoire categories, the shoppers in tier 1-2 cities buy more brands as they buy more frequently



Note: T1=Tier-1 cities, T2=Tier-2 cities, T3=Tier-3 cities, T4=Tier-4 cities, T5=Tier-5 cities
Source: Kantar Worldpanel; Bain analysis

Figure 4: In loyalist categories, the shoppers don't behave differently across city tiers



Note: T1=Tier-1 cities, T2=Tier-2 cities, T3=Tier-3 cities, T4=Tier-4 cities, T5=Tier-5 cities; Baby diaper, infant formula data from Kantar WorldpanelBaby , which tracked 2,000 households with a baby younger than three years old in Tier-1 and Tier-2 cities in 2011 H2
Source: Kantar Worldpanel; Bain analysis

There's a major factor contributing to the prevalence of repertoire behavior in Tier-1 and Tier-2 cities. Modern trade, which offers wider availability of brands, prevails in those cities (See Figure 5).

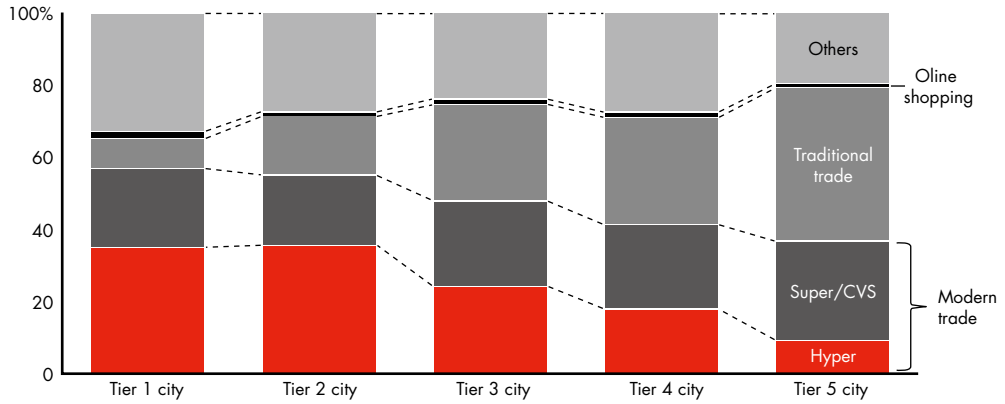
In repertoire categories, we don't expect Chinese shoppers to develop stronger brand loyalist behavior in the future. Instead, as purchasing frequency and modern trade penetration increase in Tier-3 to Tier-5 cities, along with rising incomes-per-household, we expect repertoire behavior to increase in these areas.

Importance of category nature and development stage on shoppers' behaviors

We found repertoire behavior to be consistent across all four types of categories we studied: beverages, packaged food, personal care and home care. And, similarly, although we only found a few loyalist categories, they also spanned different category types (see Figure 6). Repertoire behavior also did not vary as a result of category development stage - the extent to which the category is purchased by all potential consumers. Some companies assumed that the more developed the category, the more prevalent the repertoire behavior. However, we found that repertoire behavior exists even in under-developed categories. A prime example is color cosmetics, a category that includes such make-up products as mascara, eye shadow, foundation and lipstick. Color cosmetics is an emerging category in China compared to most countries – less than 40% of households made purchases in the category last year. But our study found that shoppers of color cosmetics exhibit repertoire behavior that is similar to that of shoppers of highly developed categories.

Figure 5: The prevalence of repertoire behavior in tier 1-2 cities is mostly driven by the dominant presence of modern trade

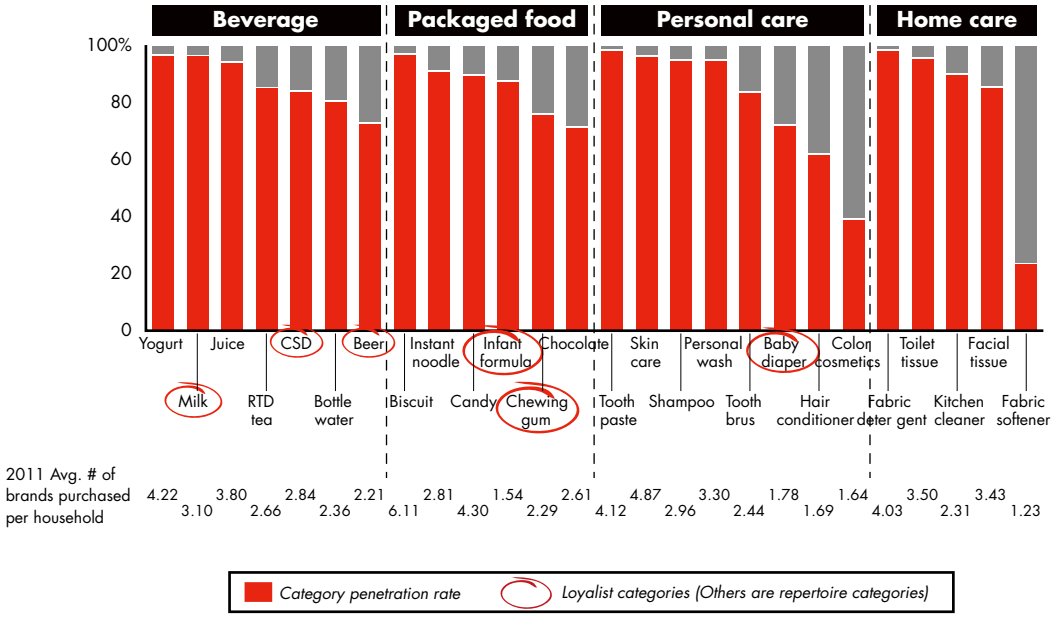
Market value split by channel in different tier cities (%, 2011)



Note: 1) Aggregation of 24 categories, exclude infant formula and baby diaper as these 2 categories come from Kantar Worldpanel Baby, which only covers T1 and T2 cities 2) Traditional trade include Grocery, Specialist store, Free mart, Department store 3) Others include Beauty salon, Direct sales, Drug store, Milk store, Overseas purchase, Wholesales, Family shopping, Work unit & Gift
Source: Kantar Worldpanel; Bain analysis

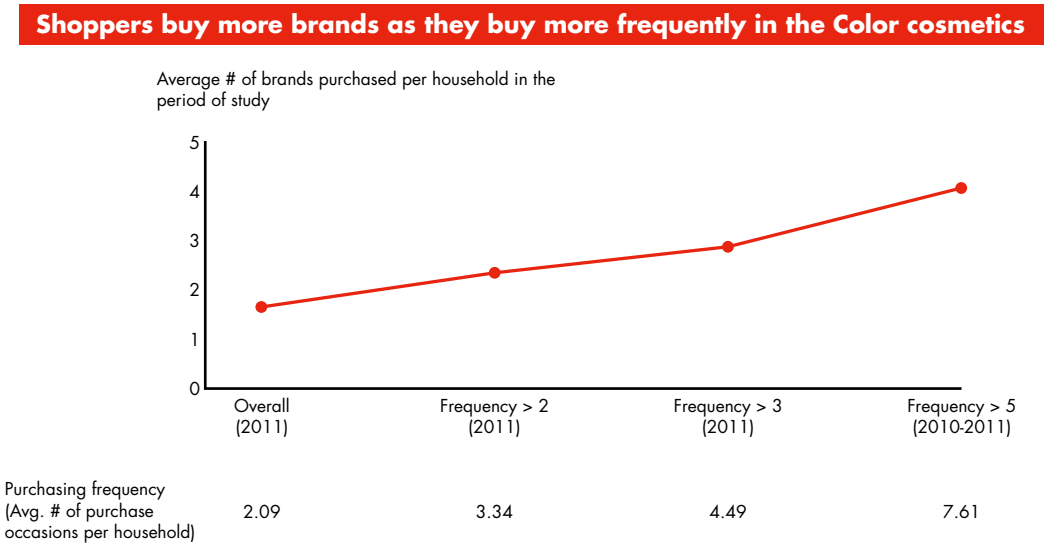
Figure 6: Repertoire or loyalist behavior doesn't depend on the category's nature or development stage in China

Number of category shoppers (% of penetrated shoppers vs not-penetrated shoppers)



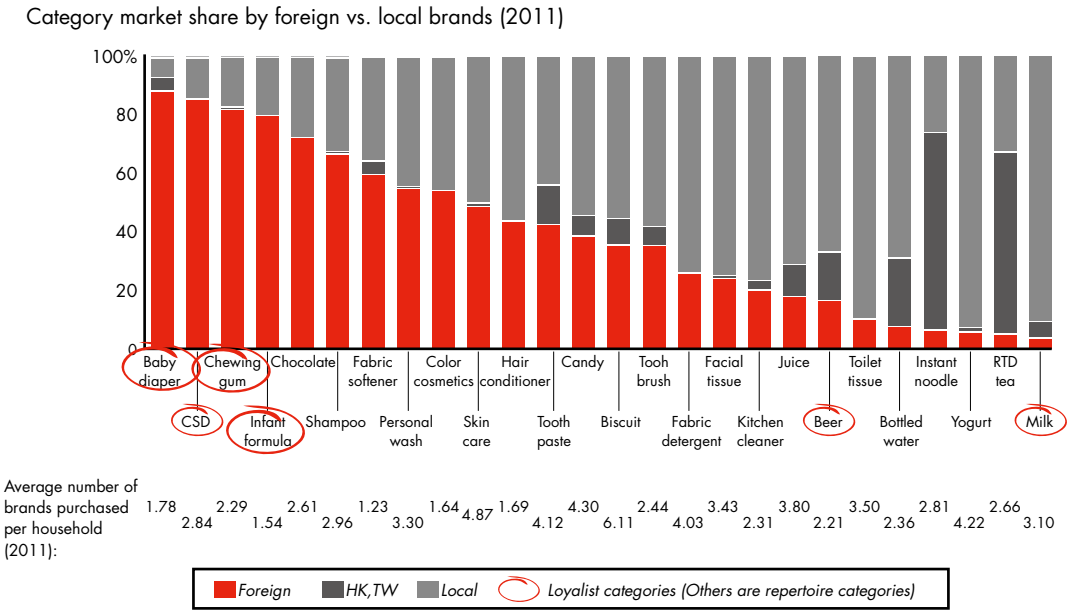
Note: Baby diaper, infant formula data from Kantar WorldpanelBaby , which tracked 2,000 households with a baby younger than three years old in Tier-1 and Tier-2 cities in 2011 H2
Source: Kantar Worldpanel; Bain analysis

Figure 7: Color cosmetic example: Shoppers exhibit "repertoire" behavior despite the early category development stage



Note: use 2 years data for frequency>5 shoppers due to limited samples
Source: Kantar Worldpanel; Bain analysis

Figure 8: Repertoire or loyalist behavior doesn't depend on whether the category is dominated by foreign or local brands



Note: Baby diaper, infant formula data from Kantar WorldpanelBaby , which tracked 2,000 households with a baby younger than three years old in Tier-1 and Tier-2 cities in 2011 H2
Source: Kantar Worldpanel; Bain analysis

In general, Chinese women use color cosmetics for special occasions, not on a daily basis as women do in developed Asian countries or regions. They spend $5 per capita annually on color cosmetics – significantly less than women in Korea, who spend $104 per capita. But as Chinese women begin to buy color cosmetics products more frequently, they also start to exhibit repertoire behavior (see Figure 7). When women purchase them more than three times a year, they buy on average 2.86 brands. When they purchase them more than five times over two years, the average number of brands they purchase increases to 4.05 brands.

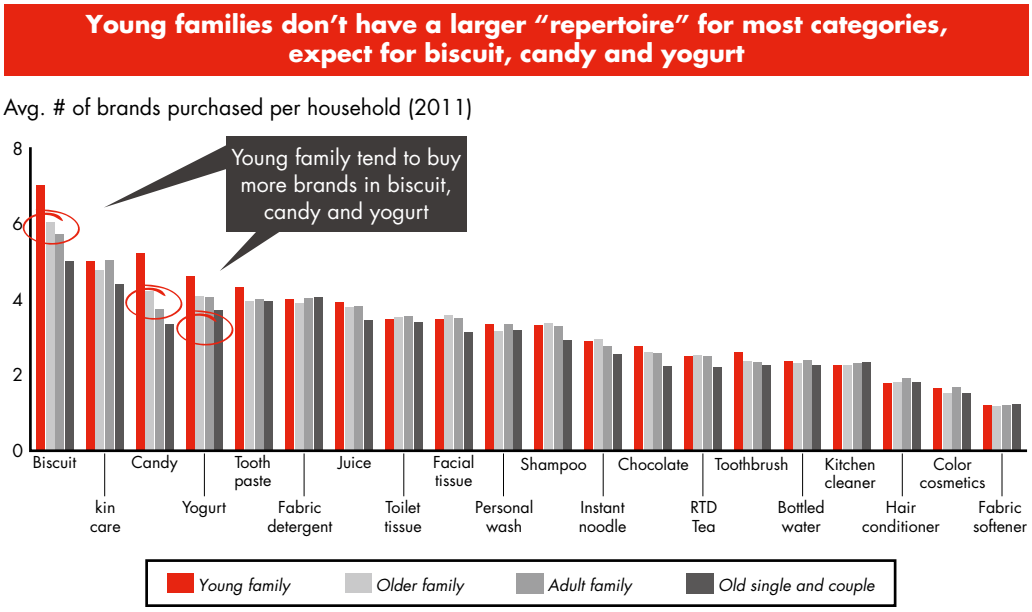
An additional observation: repertoire or loyalist behavior in a category doesn't depend on whether a category is dominated by foreign or local brands. (See Figure 8)

Impact of shoppers' life stages on their shopping behaviors

One finding that surprised us: repertoire behavior does not vary across shoppers' life stages. A common belief is that curious young shoppers buy more brands while older, set-in-their-way shoppers are more loyal. But the data debunks that belief. Younger families don't have a larger repertoire for most categories that we studied, with only three exceptions: they tend to buy more biscuits, candy and yogurt brands (see Figure 9). Life stage doesn't seem to have significant impact on shoppers' repertoire or loyalist behavior (see Figure 10).

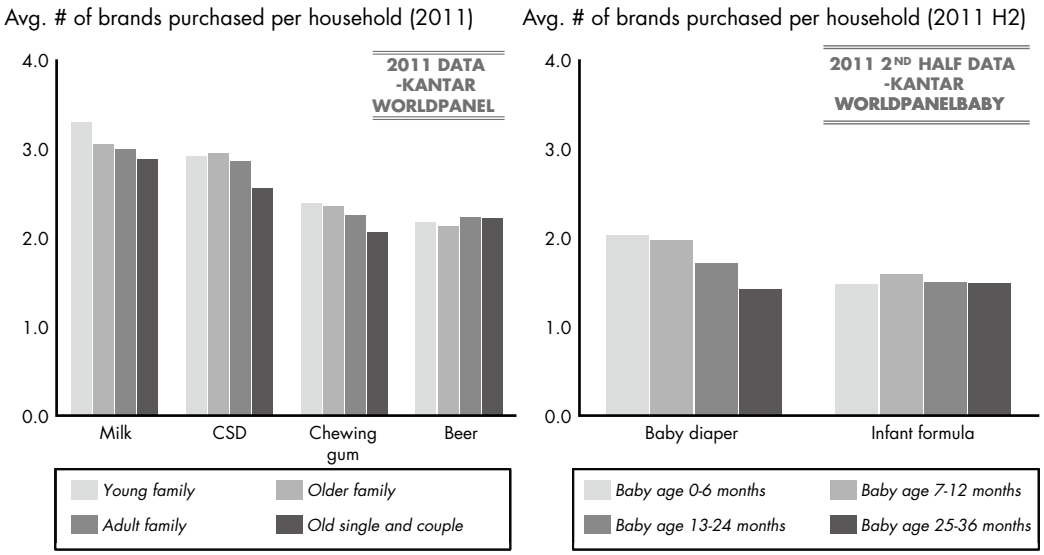
(Definitions in Figure 1)

Figure 9: Interestingly, the repertoire behavior does not vary a lot across life stages, except for biscuit, candy and yogurt



Source: Kantar Worldpanel; Bain analysis

Figure 10: The loyalist behavior does not vary across life stages either



Note: Baby diaper, infant formula data from Kantar WorldpanelBaby , which tracked 2,000 households with a baby younger than three years old in Tier-1 and Tier-2 cities in 2011 H2
Source: Kantar Worldpanel; Bain analysis

Rules of the road

In the first report, we established some rules of the road for brands in both repertoire and loyalist categories. For marketers, the implications are far-reaching, providing insights that help shape strategic decisions. Here's a quick recap of the key implications from the first report.

The path to winning begins by understanding the type of category in which you compete. The first step is to define the boundaries of the category. For example, is it biscuits or snacks? Is it carbonated soft drinks or non-alcoholic beverages?

Then, when it is clear in which category you compete, the rules vary:

In repertoire categories:

- Make sure your brand is part of shoppers' repertoire and then recruit them when they purchase through in-store activation, day in and day out.
- Build scale in priority regions first. If scale is required for year-round visibility, the most cost-effective approach is to target a locality or region and then move on to the next one with a winning repeatable model.

In loyalist categories:

- Recruit new shoppers in well-defined segments where you're likely to find and attract shoppers who will stick to a preferred brand for a specific need or occasion.
- Build brand preference through highly targeted marketing initiatives and public relations events.
- Make it easy for shoppers to find your brand in the store. But it's not necessary to constantly motivate them with in-store activations.

The new findings based on an in-depth look at city tiers, category nature and development stage, and shoppers' stage of life provide additional implications for gaining market share and sustaining growth in China.

For brands in repertoire categories:

- Invest more resources in in-store activations in higher tier cities, where shoppers display more repertoire behavior. Prepare for increasing repertoire behavior from shoppers in lower-tier cities as these cities approach the purchasing frequency and modern trade penetration of Tier-1 cities.
- Understand that repertoire behavior flourishes even in under-developed categories. Being a first mover does not guarantee long-term success because shoppers will have other brands in their consideration set as the category develops.
- Don't focus too much on segmenting shoppers by life stage or expect to win loyalty for your brand as shoppers move to later life stages. As we mentioned, the best approach to win repertoire shoppers is to consistently recruit them at the point-of-sale, day-in and day-out, and to deploy perfect sales execution.

For brands in loyalist categories:

- In loyalist categories, shoppers behave very similarly across regions and city tiers. So in these categories, geographic strategy should not be based on consumer behavior. Instead, it should be based on other considerations.

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