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Smaller cities. Bigger rewards.

Accenture 2022 Chinese Consumer Insights Series

Abstract

No one denies that China is one of the fiercest competitive markets in the world. Its rapid growth and large consumer population make it impossible to ignore. And its steady streams of innovation models have introduced new forms of customer experiences that are the envy of the world. China's appeal as a consumer market for domestic and multi-national companies lies not only in higher-tier cities like Shanghai, Beijing, Shenzhen and Guangzhou. While these megacities exhibit enormous purchasing power, lower-tier cities—mostly county-level urban cities and rural areas—are also experiencing fast growth. The potential consumption growth in these smaller cities and rural areas is extraordinary.

Over 70% of China's population lives in third-tier and lower-tier cities. Economic growth, urbanization, infrastructure improvements, and expanded logistics networks have helped bolster both the disposable income of lower-tier cities' inhabitants and the supply of commodities available to them. Not surprisingly, residents of lower-tier cities are buying more. In 2021, the growth of China's rural retail consumption outpaced the urban growth rate for the eighth consecutive year. Rural consumption is now valued at over 5.9 trillion yuan, a year-over-year increase of 12.1%. E-commerce is driving much of the growth. The number of rural online shoppers has grown to approximately 200 million. Rural online retail sales for 2021's Q1-Q3 totaled over 1.4 trillion yuan.

Importantly, consumers in lower-tier cities differ from their peers in first- and second-tier cities in terms of the economic environment in which they live, their habits, their consumption philosophies and more. They enjoy a slower pace of living, experience less mortgage pressure, and readily consume since they rarely live "paycheck to paycheck". They lead relatively "well-off and leisure" lives. They are pragmatic in their purchasing behaviors, while also paying to keep up appearances. They demand high-quality consumer experiences and comparison shop, even if they have a preferred brand in mind. In short, lower-tier shoppers represent a new breed of "neo-rational" consumers.

The unique characteristics of lower-tier cities and the consumers who reside in them have tremendous implications for the consumer goods categories, marketing strategies, and access channels that companies and brands should offer or develop. This report analyzes four key trends in China's lower-tier cities that businesses should consider when striving to grow their lower-tier city market share.

1. **Reliance on online channels.** E-commerce platforms will continue to be the primary consumption channels for lower-tier city consumers, and social media will become increasingly vital for influencing consumer behaviors.

2. **Demand for product-as-a-service and service-as-a-product offerings.** Services such as medical care and education are in great demand. So are high quality service experiences, which increasingly serve as a determinant in consumers' decision-making.

3. **Affinity for domestic brands.** Consumers in lower-tier cities value cost performance, adore trendy designs and favor domestic brands. To seize on this consumption potential, domestic brands should keenly understand the preferences, behaviors and purchasing psychology of these consumers.

4. **Power of memberships and incentives.** An important measure of success in lower-tier cities (and elsewhere) is user conversion rates. Companies can boost sales conversions—and also lower customer acquisition costs—by leveraging affiliate marketing and user incentives.

Lower-tier cities are often considered middle- and low-end markets. They most certainly are not. It's time for companies to view these cities from a new perspective. This means gaining a deeper understanding of consumer demands and behaviors in lower-tier cities, through which they can innovate products and services tailored to those consumers' needs. It also means continuing to consolidate digital capabilities to achieve higher operational efficiencies and lower costs. The ability of companies to succeed in lower-tier cities will be a testament to their abilities to achieve high performance and sustainable growth.

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"Neo-rational" consumers in lower-tier cities

In 2021, Accenture conducted a survey of more than 6,000 Chinese consumers, aged 18 to 60, from third-, fourth- and fifth-tier cities. We found that, in general, these individuals are leading a relatively "affluent and leisure" life. More than 80% of them have stable, full-time jobs with little overtime. More than half report zero mortgage pressure, a working wage that covers local living expenses, and enough leisure time for recreation.

In the Accenture Chinese Consumer Insights 2022 overarching report, we revealed the neo-rational consumption style of consumers in first- and second-tier cities. Those consumers restrain their consumption impulses and compare products from multiple sources before making a purchasing decision. Consumers in lower-tier cities also show neo-rational characteristics, but express them in a slightly different way. **Like their**

counterparts in higher-tier cities, lower-tier city consumers prefer to comparison shop. But unlike their high-tier city peers, lower-tier city consumers are reluctant to live paycheck to paycheck. They are pragmatists when it comes to their consumption behaviors.

We also detected significant inter-generational differences in consumption behavior in lower-tier cities. There, **the age of 30 marks a tipping point in consumers' behavioral characteristics.** Specifically, consumers aged 30 to 40 are increasing their share of purchasing power. They tend to be busier at work and have the least leisure time. They are more willing to spend money to save time, more reliant on well-known brands and businesses, and more likely to flaunt their status through conspicuous consumption.

More willing to spend, though less willing to live paycheck to paycheck

On average, almost 60% of the personal/family income of consumers in lower-tier cities is allocated to daily consumption. Of the remaining income, 12% goes to asset investments and 28% to financial investments. Digging a bit deeper into our findings, seven out of ten survey respondents reported that their daily household expenditures account for more than 50% of their income. Food & beverages, and apparel & accessories are the two primary spending categories, accounting for 63% and 74% of household spending,
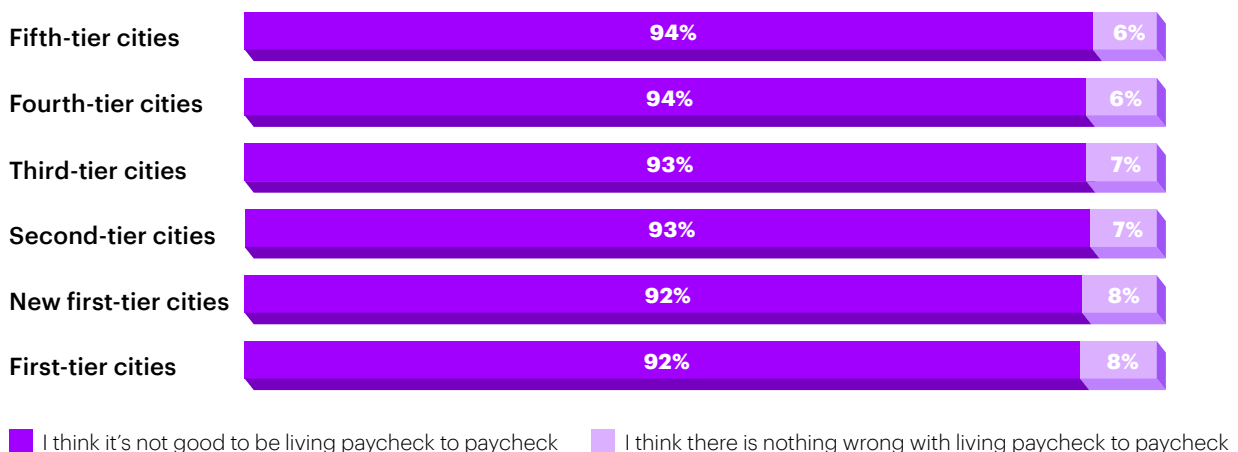
respectively.

Compared with their peers in first- and second-tier cities, consumers in lower-tier cities are more willing to spend on a daily basis. But they also save and are not in favor of living paycheck to paycheck. Indeed, more than 90% of respondents in lower-tier cities disagreed with a paycheck-to-paycheck consumption mode—a higher proportion of consumers than in first- and second-tier cities.

Figure 1: A comparison between the consumption tendencies of residents in cities of different tiers shows that consumers in lower-tier cities are more likely to increase their spending in certain areas

Legend: Fifth-tier cities | Fourth-tier cities | Third-tier cities | Second-tier cities | New first-tier cities | First-tier cities

Question: In what areas do you plan to spend more in the coming year? (Single choice), N=10,140
Data source: Accenture China Consumer Survey 2021

Figure 2: Compared with consumers in first- and second-tier cities, those in lower-tier cities are more reluctant to live paycheck to paycheck

City tier	I think it's not good to be living paycheck to paycheck	I think there is nothing wrong with living paycheck to paycheck
Fifth-tier cities	94%	6%
Fourth-tier cities	94%	6%
Third-tier cities	93%	7%
Second-tier cities	93%	7%
New first-tier cities	92%	8%
First-tier cities	92%	8%

Legend: ■ I think it's not good to be living paycheck to paycheck   ■ I think there is nothing wrong with living paycheck to paycheck
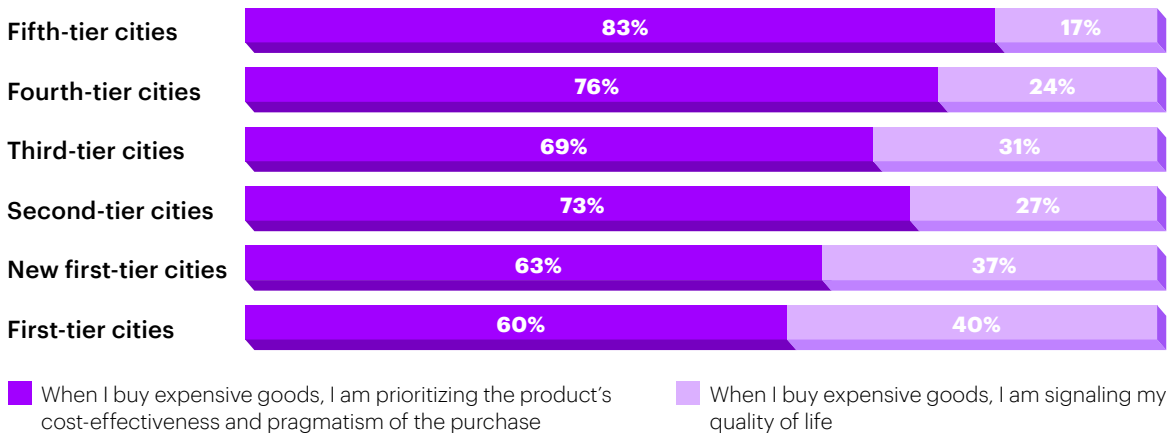
Questions: Which of the following best describes your style of consumption? (Single choice) N=10,140
Data source: Accenture China Consumer Survey 2021

Pragmatic, but with an eye toward product appearance

Consumers in lower-tier cities are less likely to show off their social status through vanity spending than those in first- and second-tier cities. The survey shows that 66% of the respondents in first-tier cities are willing to pay a premium for products exuding an upper-class vibe; in lower-tier cities, only 50% are. By the same token, consumers in lower-tier cities pay more attention to product cost and pragmatism than to showing off their station in life.

Interestingly, consumers in lower-tier cities are very willing to pay for a product's appearance. In fact, 78% of respondents in lower-tier cities consider a product's design and appearance when making a purchase. For them, appearance supersedes price as a product's most attractive feature.

Figure 3: Consumers in lower-tier cities pay more attention to cost and pragmatism when it comes to shopping

Fifth-tier cities	83%	17%
Fourth-tier cities	76%	24%
Third-tier cities	69%	31%
Second-tier cities	73%	27%
New first-tier cities	63%	37%
First-tier cities	60%	40%

■ When I buy expensive goods, I am prioritizing the product's cost-effectiveness and pragmatism of the purchase

■ When I buy expensive goods, I am signaling my quality of life

Question: Which one of the following better suits your actual situation? (Single choice); N=10,140
Data source: Accenture China Consumer Survey 2021

Figure 4: Price is no longer the most important factor when making purchasing decisions The trend of "paying for appearance" has emerged in lower-tier cities

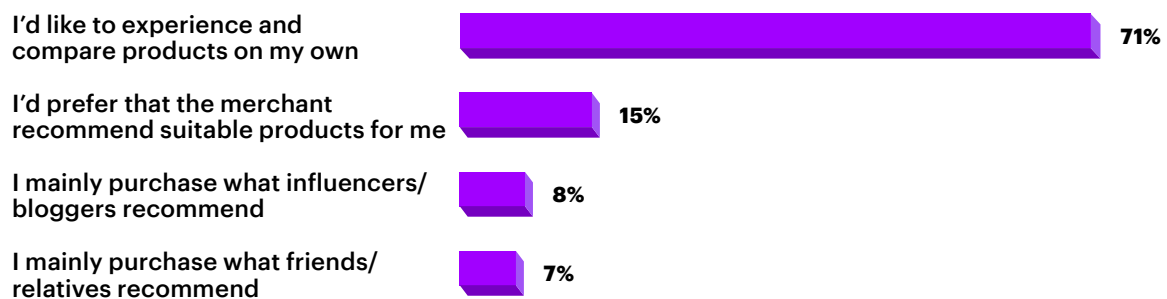|	
Good-looking product appearance	78%
Attractive product sales promotion	68%
Trendy brand image	67%
Good service provided by the merchant/sales staff	50%
Publicity campaigns	45%

Question: Which of the following factors will pique your interest in purchase? (Multiple choice); N=6,000
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021

Keen on experiencing and comparing products, even when they have a preferred brand in mind
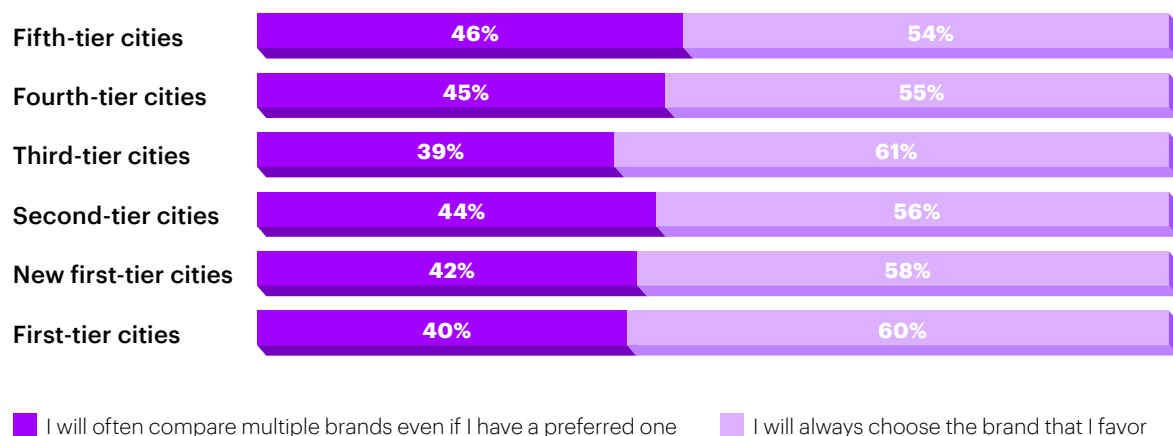
More than 70% of the respondents in lower-tier cities seek to experience and compare various products, obtain information by asking their acquaintances, and review online evaluation platforms such as Xiaohongshu and others before making their final purchase decisions. Compared with their peers in first- and second-tier cities, they are more willing to compare different brands to make the most appropriate choices, even if they already have brand preferences.

Figure 5: Consumers in lower-tier cities are keen to experience and compare products and services themselves

I'd like to experience and compare products on my own	71%
I'd prefer that the merchant recommend suitable products for me	15%
I mainly purchase what influencers/bloggers recommend	8%
I mainly purchase what friends/relatives recommend	7%

Question: Which one of the following best describes your actual situation? (Single choice); N=6,000
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021

Figure 6: Consumers in lower-tier cities are more willing to compare different brands, even if they already have preferred brands

	I will often compare multiple brands even if I have a preferred one	I will always choose the brand that I favor
Fifth-tier cities	46%	54%
Fourth-tier cities	45%	55%
Third-tier cities	39%	61%
Second-tier cities	44%	56%
New first-tier cities	42%	58%
First-tier cities	40%	60%

Question: Which one of the following two better describes your actual situation? (Single choice); N=10,140
Data source: Accenture China Consumer Survey 2021

Four major trends in lower-tier cities

The unique characteristics of lower-tier cities and the consumers who reside in them have tremendous implications for the consumer goods categories, marketing strategies, and access channels that companies and brands should offer or develop.

In our survey, we focused on identifying consumer characteristics, purchasing tendencies and trends in lower-tier cities. Our goal? To provide insights that will help businesses prosper while also supporting consumers' pursuit of a better life.

Online appeal

The service potential

Domestic brands shine

Membership marketing has its rewards

Trend 01
Online appeal

Consumers in lower-tier cities rely more on online channels. Social media and live-stream platforms are now key components of their consumption journeys. For businesses looking to convert Web traffic into sales, it is critical that they build marketing programs that closely align with customer values.

In general, **consumers in lower-tier cities are more dependent on online channels and the smaller a city is, the more attention its consumers pay to online content providers.** 62% of survey respondents from lower-tier cities identify e-commerce platforms as their primary search channels. There are notable disparities even among the lower-tier cities. For example, consumers in fifth-tier cities are more inclined to search for product information on social media platforms such as Xiaohongshu and video clip platforms such as Douyin or Kuaishou.

Video clip platforms are, in fact, extremely popular across lower-tier cities. Only 10% of consumers claim to not use Douyin and Kuaishou. Further, the younger the consumers are, the longer they are likely to spend browsing video clips. Consumers aged 31-40 are more likely to share clips themselves. **Live-stream shopping is also highly accepted—especially among consumers aged 26 to 40.** 23% of respondents from lower-tier cities have tried live-stream shopping and enjoyed the experience; 26% have not yet tried it but would like to in the future. **Social media is becoming more and more influential among consumers in lower-tier cities.**
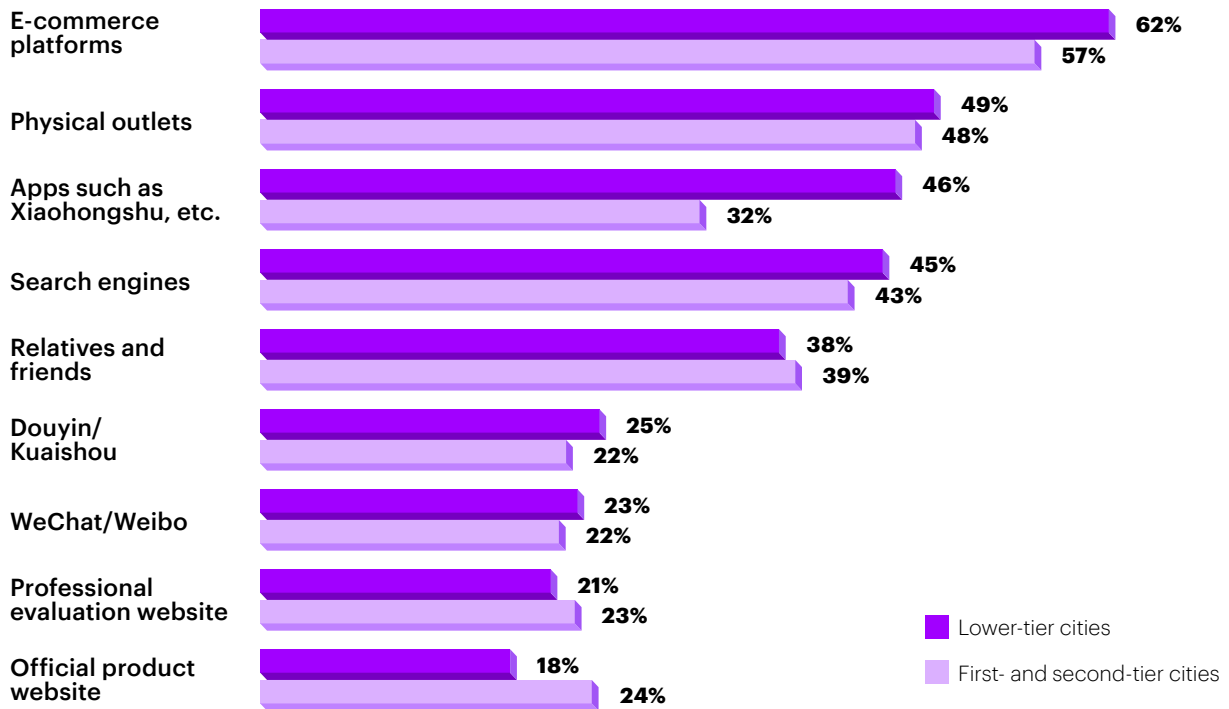
For businesses looking to tap the lower-tier city consumer market, a key enabler of success will lie in building marketing programs and product awareness in a way that aligns with users of these various online channels. There is an incentive for them to target consumers in this way. 85% of respondents from lower-tier cities expect e-commerce platforms to be their preferred shopping channels in the future. This sentiment is particularly strong in fourth- and fifth-tier cities. Comparatively, consumers in third-tier cities are more willing to visit shopping malls.

Certain product categories are more suited for online marketing and sales than others. Our comprehensive analysis revealed that **consumers in lower-tier cities are more inclined to buy apparel and accessories, 3C digital devices, and beauty and skin care products online. Conversely,** they prefer to **buy food and beverages, household appliances, and medical and health care products via offline channels.**
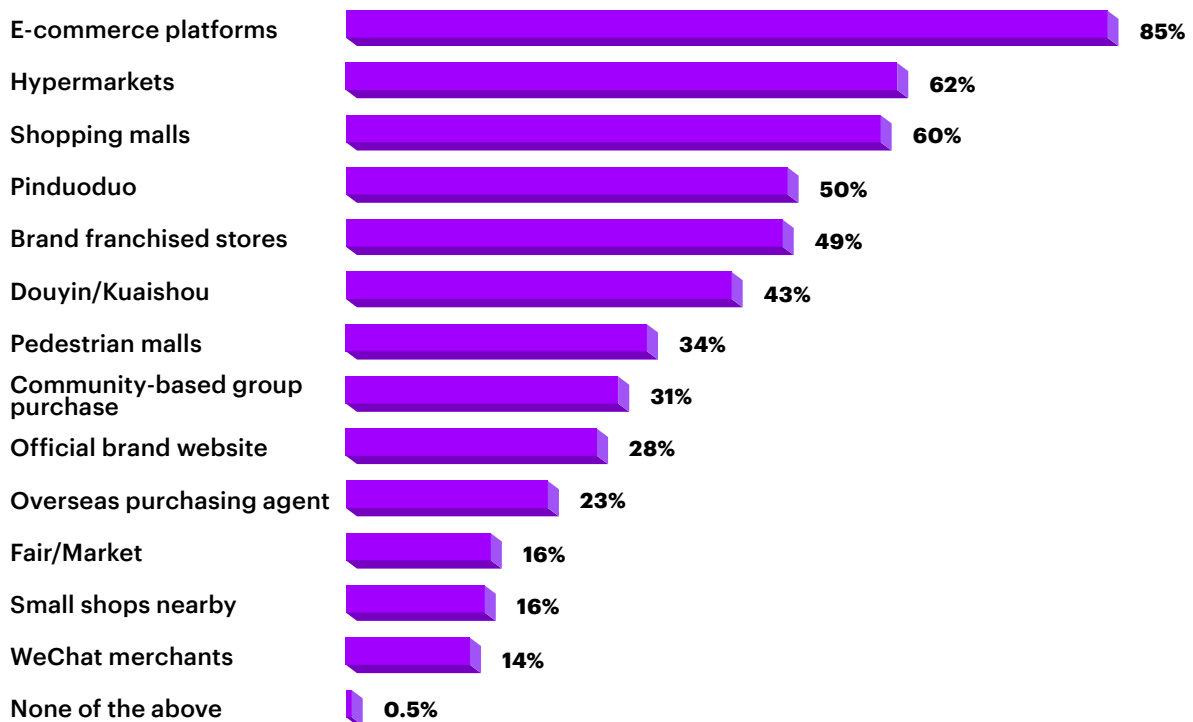
Offline channels in lower-tier cities are conventional, outdated and lack the distribution networks that exist in first- and second-tier markets. Online channels such as e-commerce help close the gap in the short term. They also have an edge when it comes to offering the product supply, quality and price that consumers in lower-tier cities want. In the future, the offline sales and marketing infrastructure in lower-tier cities will likely be upgraded. But online consumption will continue to grow, as will the number of online channels available to consumers. The result will be **a new retail model—one that not only integrates online and offline channels, but also reshapes the consumer experiences in lower-tier cities.**

Figure 7: Consumers in lower-tier cities are more reliant on online channels to obtain products or service information

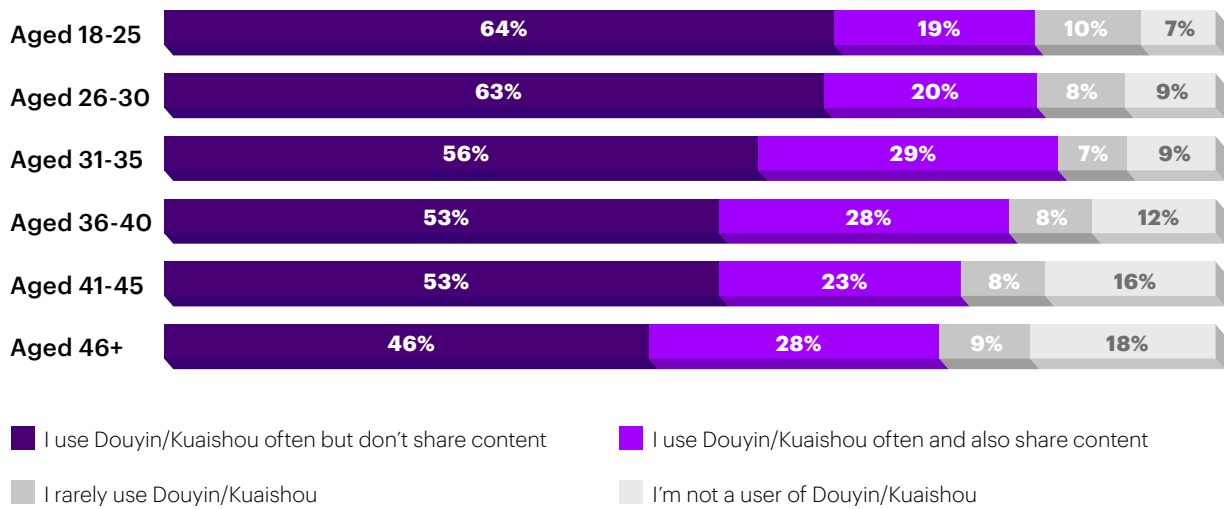| Channel	Lower-tier cities	First- and second-tier cities
E-commerce platforms	62%	57%
Physical outlets	49%	48%
Apps such as Xiaohongshu, etc.	46%	32%
Search engines	45%	43%
Relatives and friends	38%	39%
Douyin/Kuaishou	25%	22%
WeChat/Weibo	23%	22%
Professional evaluation website	21%	23%
Official product website	18%	24%

Question: When you have a clear purchase in mind, what methods do you use to access product/service information? (Multiple choice); N=10,140
Data source: Accenture China Consumer Survey 2021

Figure 8: E-commerce platforms will be the primary consumption channels in lower-tier cities in the future

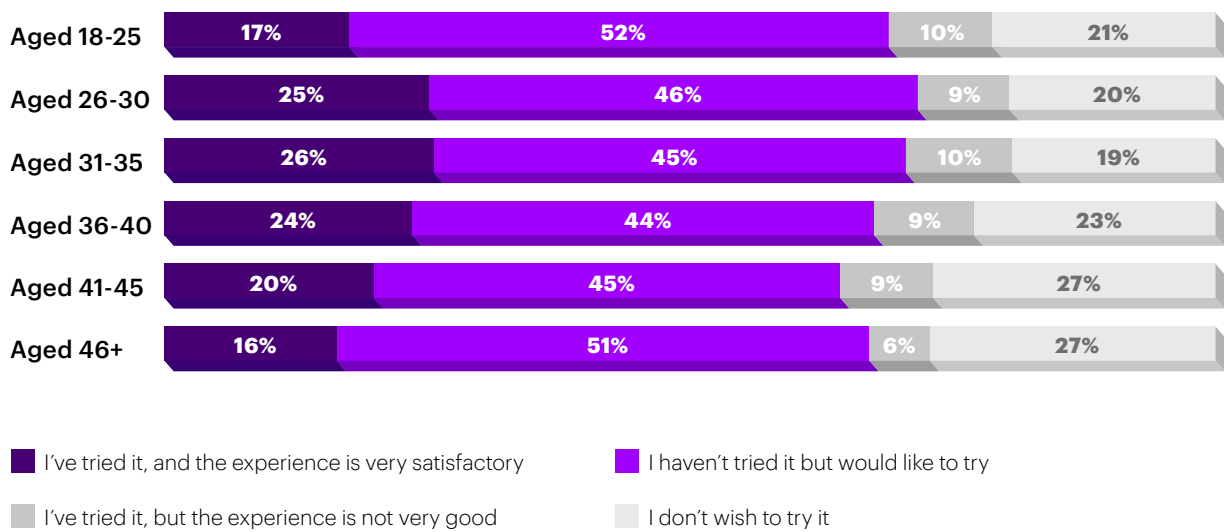| Channel	Percentage
E-commerce platforms	85%
Hypermarkets	62%
Shopping malls	60%
Pinduoduo	50%
Brand franchised stores	49%
Douyin/Kuaishou	43%
Pedestrian malls	34%
Community-based group purchase	31%
Official brand website	28%
Overseas purchasing agent	23%
Fair/Market	16%
Small shops nearby	16%
WeChat merchants	14%
None of the above	0.5%

Question: Which consumption channel would you prefer in the future? (Multiple Choice); N=6,000
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021

Figure 9: Social media has a great influence on consumers in lower-tier cities

Aged 18-25	64%	19%	10%	7%
Aged 26-30	63%	20%	8%	9%
Aged 31-35	56%	29%	7%	9%
Aged 36-40	53%	28%	8%	12%
Aged 41-45	53%	23%	8%	16%
Aged 46+	46%	28%	9%	18%

■ I use Douyin/Kuaishou often but don't share content   ■ I use Douyin/Kuaishou often and also share content

■ I rarely use Douyin/Kuaishou   ■ I'm not a user of Douyin/Kuaishou

Question: How about your experience with platforms such as Douyin/Kuaishou? (Single Choice); N=6,000
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021
The percentage labels on the graph are shown as rounded integers

Figure 10: There is great potential in the new live-stream commerce channel in lower-tier cities

Aged 18-25	17%	52%	10%	21%
Aged 26-30	25%	46%	9%	20%
Aged 31-35	26%	45%	10%	19%
Aged 36-40	24%	44%	9%	23%
Aged 41-45	20%	45%	9%	27%
Aged 46+	16%	51%	6%	27%

■ I've tried it, and the experience is very satisfactory   ■ I haven't tried it but would like to try

■ I've tried it, but the experience is not very good   ■ I don't wish to try it

Question: How about your experience of purchase on live stream platforms (such as Douyin/Kuaishou)? (Single Choice); N=6,000
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021
The percentage labels on the graph are shown as rounded integers

Trend 02
The service potential

Product-related services before, during and after a sale have become increasingly important factors in the purchasing decisions of consumers in lower-tier cities. At the same time, lower-tier cities expect to see substantial improvements in the supply and quality of services in medical care, education and other areas. Product-as-a-service and service-as-a-product are, therefore, both gaining in importance.

Compared with their peers in first- and second-tier markets, consumers in lower-tier cities have significantly fewer medical care and educational services available to them. Standardizing services in these areas can improve not only the supply of services available, but also their quality. Our survey suggests that **the potential for the service-as-a-product market is huge.**

We found that 91% of consumers in lower-tier cities have purchased extracurricular education offerings. **Art lessons account for a noticeably higher share of consumption in fourth-and fifth-tier cities.** Additionally, our analysis of consumer behaviors shows that more than one-third of lower-tier city consumers have tried online medical care products and services (e.g., mobile registration, online consultation and online pharmacy, etc.) and found them useful. Another third are aware of such services and willing to give them a try. Public market data, which found that "**the overall proportion of users of Internet medical care has increased in the third- and lower-tier cities,** a remarkable trend of top-down transmission" also confirms our findings.
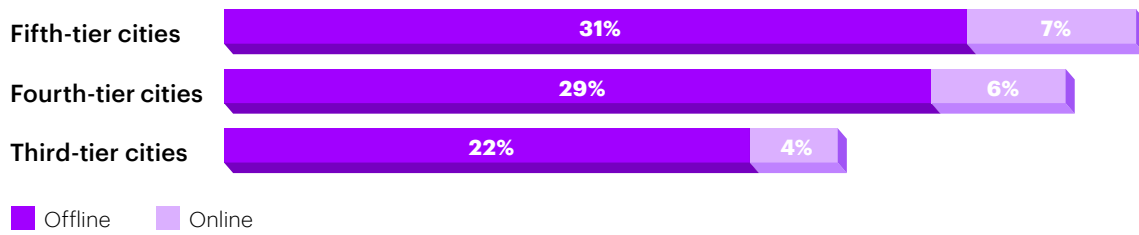
Another type of service—product service—has also grown in importance and has become an increasingly important determinant for consumer decision-making in lower-tier cities. Products originally sold in first- and second-tier cities have gradually become available in lower-tier cities. As people's living standards in lower-tier cities have gone up, so has the supply of consumer goods available to them. With more choices than ever, consumers in lower-tier cities are no longer focused only on a product's price or its perceived use value when they make purchases. Instead, **they assess a commodity on a variety of factors—its function, quality, service, price, brand and others—before buying.**

Consumers in lower-tier cities tend to have a lower appetite for risky purchases. They want assurances. For them, effective product services translate into improved consumer experiences. The pre-sale and in-sale product service, for example, enables consumers to get a full picture of a product's features, functionality and quality. This enhances their likelihood to buy. At the tail end of the transaction, effective after-sales services further consumers' trust in and loyalty to the product and brand.
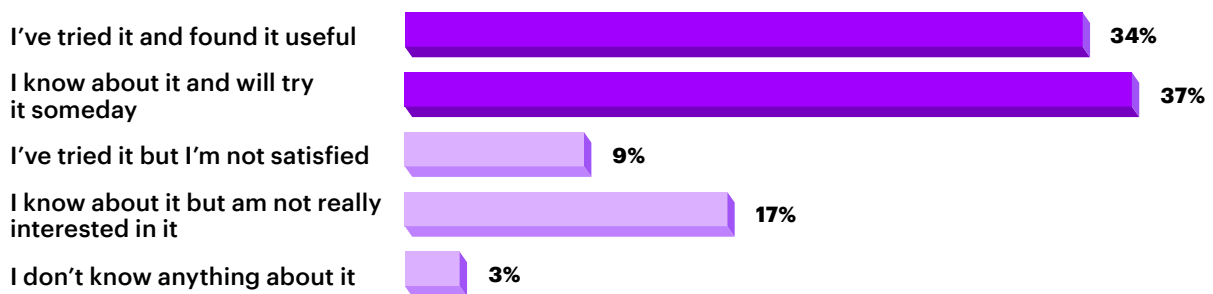
Businesses looking to grow their market share and sales in lower-tier cities should constantly improve the function, design and quality of their services. They should also continually expand and enhance their product-related services to better meet the needs of consumers.

Figure 11: The lower a city's tier, the more willing its consumers are to take art lessons

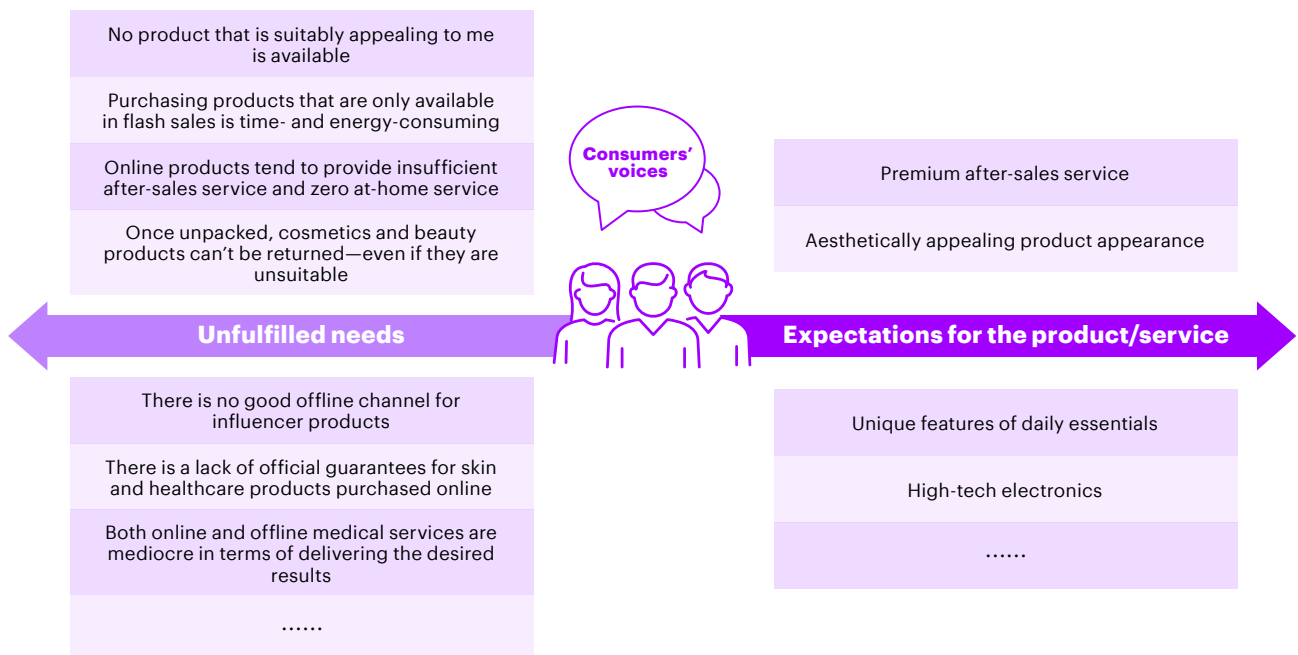|	Offline	Online
Fifth-tier cities	31%	7%
Fourth-tier cities	29%	6%
Third-tier cities	22%	4%

■ Offline ■ Online

Question: Have you ever purchased any art training offerings for your children? (Multiple choice); N= 3,781 = all respondents with children
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021

Figure 12: Online medical care services are well-accepted in lower-tier cities

I've tried it and found it useful	34%
I know about it and will try it someday	37%
I've tried it but I'm not satisfied	9%
I know about it but am not really interested in it	17%
I don't know anything about it	3%

Question: What is your opinion of or experience with online medical care products and services (e.g., mobile registration, consultation by phone, etc.)?
(Single choice); N=6,000
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021

Figure 13: Trustworthy after-sales service is one of the key factors in building brand trust, encouraging consumer purchase decisions, and increasing brand premiums in lower-tier cities

Consumers' voices

Unfulfilled needs

No product that is suitably appealing to me is available

Purchasing products that are only available in flash sales is time- and energy-consuming

Online products tend to provide insufficient after-sales service and zero at-home service

Once unpacked, cosmetics and beauty products can't be returned—even if they are unsuitable

There is no good offline channel for influencer products

There is a lack of official guarantees for skin and healthcare products purchased online

Both online and offline medical services are mediocre in terms of delivering the desired results

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Expectations for the product/service

Premium after-sales service

Aesthetically appealing product appearance

Unique features of daily essentials

High-tech electronics

......

Question: What product or service needs are not met in your daily consumption journey? What features are you willing to pay a higher price for while the basic functionality of a product is already met?
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021, Focus group in-depth interviews

Trend 03
Domestic brands shine

Due to channel constraints and their typically higher product prices, international brands have not yet established a significant competitive edge in lower-tier cities. This presents a tremendous opportunity for domestic brands that are able to give consumers in lower-tier cities what they want—namely, value for money and trendy designs.

In general, international brands have not yet developed significant brand competitiveness in lower-tier cities. There, consumers are more drawn to domestic brands—primarily due to their excellent cost performance. As opposed to first- and second-tier cities, domestic brands are very popular among consumers in lower-tier cities. This is due to a variety of reasons, including the limited availability and restrictions of overseas sales channels, comparatively less disposable income among lower-tier city residents, and the high quality of the domestic product alternatives that are available. In fact, our survey found that nearly 80% of respondents in lower-tier cities purchased domestic brands because of their outstanding cost performance.

Brand-name products are particularly popular among lower-tier city consumers in certain product categories: apparel and accessories, 3C digital devices, and beauty and skin care products. Taking the beauty and skin care category as an example, 52% of our survey respondents are willing to try Chinese brands such as Florasis, Perfect Diary and Colorkey. Nearly a third (32%) have purchased Chinese brands and are quite pleased with their cost-effectiveness. The proportion of consumers attracted to the domestic brands increases with age from 18 to 35. Also, the proportion of consumers who have purchased Chinese brands increases as the city tier level goes down.

Market sales data supports our findings. According to JD.com, "**there is an obvious rise in the number of orders placed for Chinese brands in categories such as cosmetics and personal care.** In respect to the distribution of orders for domestic brands across cities at different tiers, consumers in third- to sixth-tier cities have contributed to half of the orders, and **the growth rate of orders in low-tier cities is higher than that in first- and second-tier cities.**" Also, the Report on Cosmetics Consumption Trends in the Third- and Lower-tier Cities, jointly released by CBNData and Juhuasuan, pointed out that "in the third- and lower-tier cities, affordable cosmetics contribute more than 60% of the sales amount and reach over 90% of the consumers, with the growth rate and share escalating year by year."

What does all this mean for domestic brands? It means they can grow rapidly and compete in the broader market more confidently by understanding the needs and preferences of the lower-tier city consumers. These consumers value a product's cost-effectiveness, its appearance and the experience it enables. Companies that upgrade their proprietary brands and products to address these demands will continue building trust with consumers and expanding their loyal following of buyers.

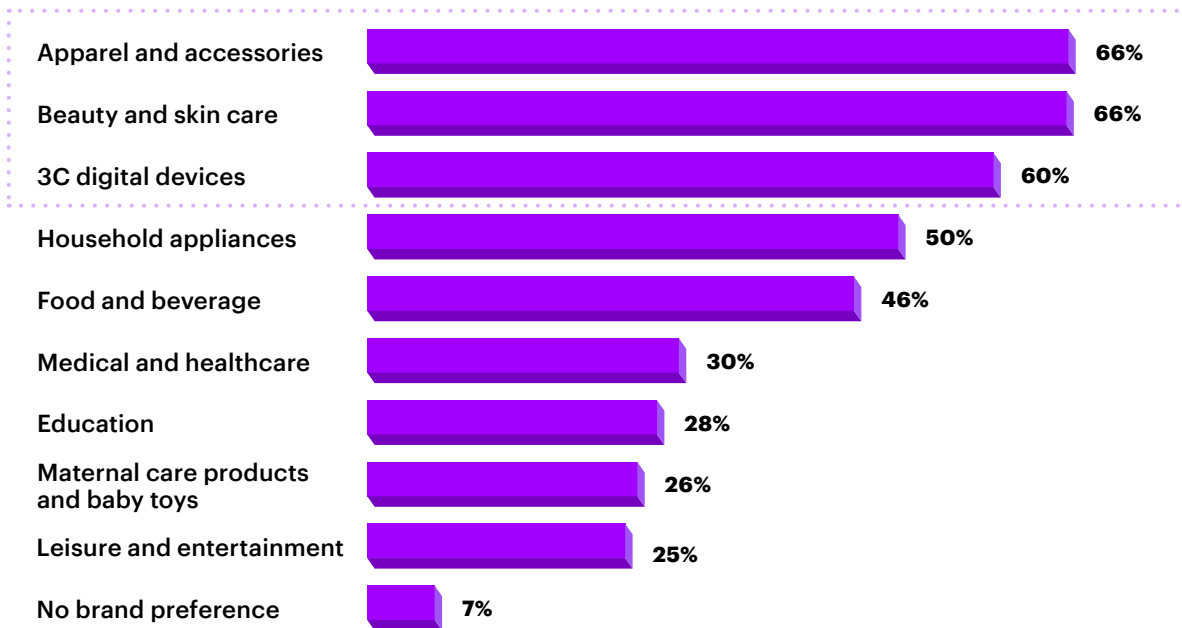**Figure 14: Consumers in lower-tier cities are more supportive of domestic brands**

Question: In which of the following categories would you prefer to choose domestic brands? (Multiple choice); N=10,140
Data source: Accenture China Consumer Survey 2021

Figure 15: Excellent cost performance (i.e., value for money) attracts consumers in lower-tier cities to domestic brands
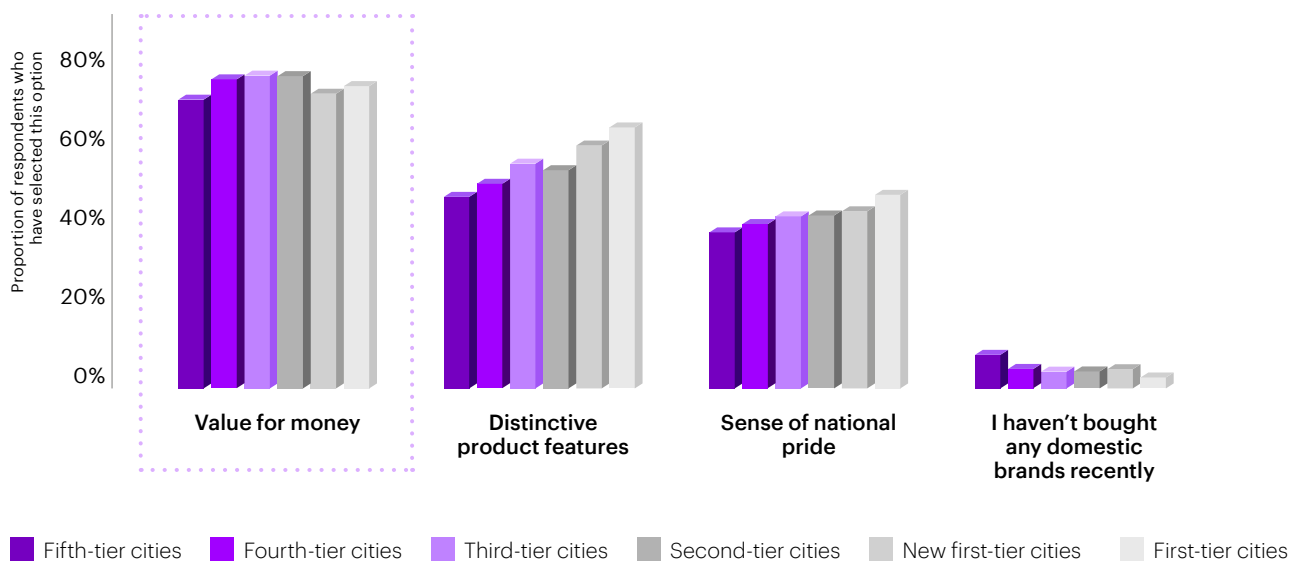

Question: Please state the main reason that prompts you to buy domestic brands. (Multiple choice); N=10,140
Data source: Accenture China Consumer Survey 2021

Figure 16: The three major categories for which the brand's name matters in lower-tier cities are apparel and accessories, beauty and skin care products, and 3C digital devices

Category	Percentage
Apparel and accessories	66%
Beauty and skin care	66%
3C digital devices	60%
Household appliances	50%
Food and beverage	46%
Medical and healthcare	30%
Education	28%
Maternal care products and baby toys	26%
Leisure and entertainment	25%
No brand preference	7%

Question: Which of the following categories do you prefer brand names? What about domestic brands? (Multiple choice); N=6,000
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021

Figure 17: The lower a city's tier, the more supportive its consumers are of domestic cosmetic brands
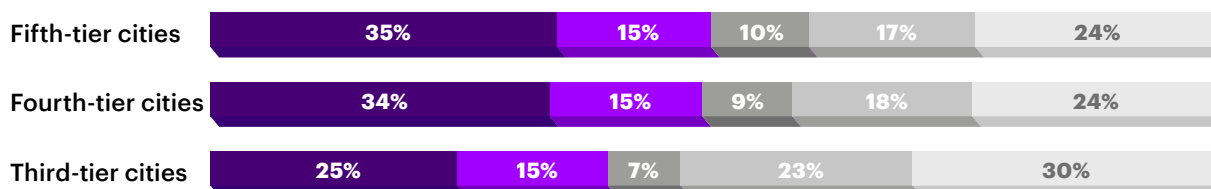
	I've tried it and found it cost-effective	I am aware of it and will try it some day	I've tried it but I'm not satisfied with the product quality	I am aware of it but am not really interested in it	I don't know much about it and have never heard of it
Fifth-tier cities	35%	15%	10%	17%	24%
Fourth-tier cities	34%	15%	9%	18%	24%
Third-tier cities	25%	15%	7%	23%	30%

Question: How about your experience with domestic influencer skin care and cosmetics products (such as Perfect Diary, Colorkey, and Zhiben, etc.)? (Single choice); N=6,000
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021
The percentage labels on the graph are shown as rounded integers

Trend 04
Membership marketing has its rewards

Consumers in lower-tier cities value the practical benefits of offline membership programs and are easily motivated by small incentives. Businesses can increase sales conversion rates and lower customer acquisition costs by leveraging affiliate marketing strategies and consumer incentives.

Consumers in lower-tier cities tend to join membership programs for the practical benefits and price discounts they offer. Nearly two-thirds (64%) of our survey respondents indicated that they would apply for a merchant's membership club to gain discounts, redeem gifts and take advantage of preferential offers.

Among survey respondents who are already members of buying clubs, nearly four out of five (78%) stated that they were attracted primarily by the discounts available to them. This is the primary reason for joining membership programs for consumers in all cities. But there are some city-tier disparities. For example, the proportion of consumers who value exclusive membership content is higher in fifth-tier cities than in third- and fourth-tier cities. This is reflected in the fact that the lower-tier a city is, the higher the proportion of purchases of game memberships and renewals.
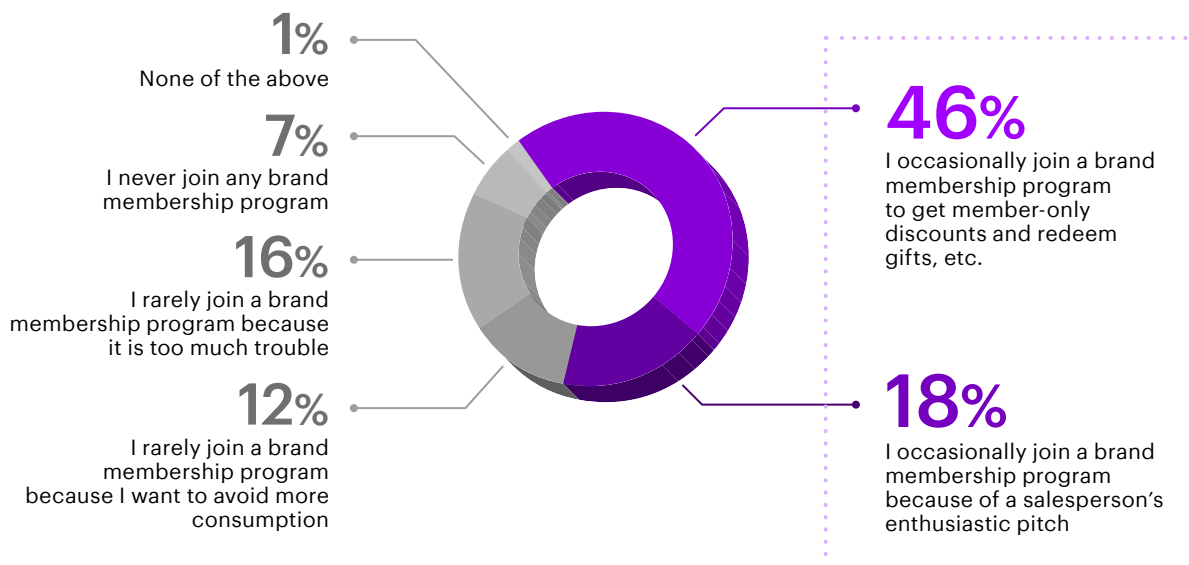
With abundant leisure time and a desire to pursue entertaining experiences, consumers in lower-tier cities are more than willing to pay for video platform and gaming memberships. According to our findings, video membership is the most-purchased

membership product of consumers in lower-tier cities, followed by game membership and renewals. 70% of our survey respondents have paid for memberships to video and game platforms. **The lower-tier a city is, the higher the proportion of gaming membership purchases and renewals there are.**

Rewards and sales incentives can significantly boost the chances that users in lower-tier cities will share their experiences and recommend certain products, thereby improving sales conversions for businesses and also reducing customer-acquisition costs. Our survey results showed that 30% of respondents are willing to share their shopping experiences via online platforms, primarily because they receive rewards from the merchant after sharing. Even more tellingly, over 81% of respondents in lower-tier cities expressed their willingness to recommend products to others in exchange for sales incentives.
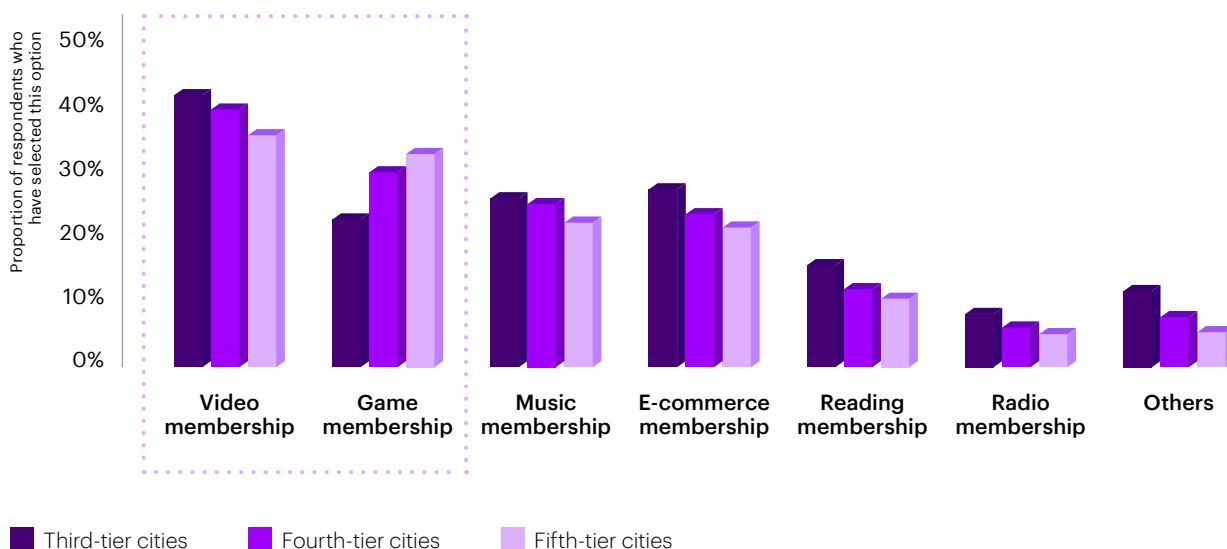
In short, consumers in lower-tier cities value the practical benefits of membership programs and are easily motivated by small incentives. Leveraging affiliate marketing strategies is an important way for businesses to generate sales and consumer action in lower-tier cities.

Figure 18: Nearly two-thirds of consumers in lower-tier cities join offline brand membership programs
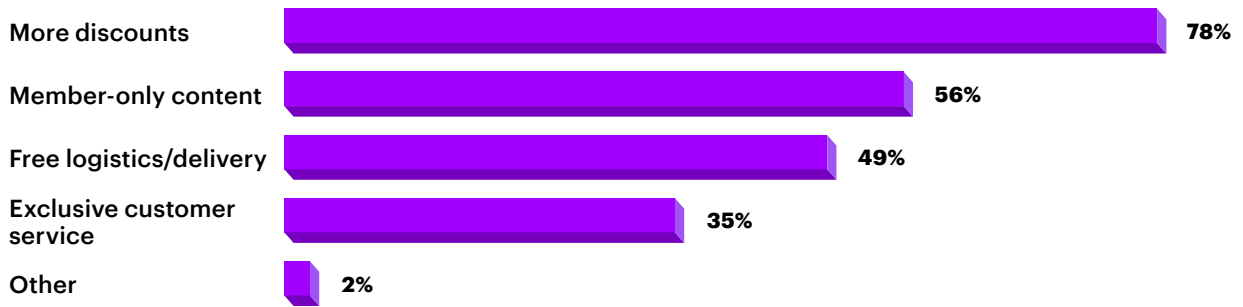

1%
None of the above

7%
I never join any brand membership program

16%
I rarely join a brand membership program because it is too much trouble

12%
I rarely join a brand membership program because I want to avoid more consumption

46%
I occasionally join a brand membership program to get member-only discounts and redeem gifts, etc.

18%
I occasionally join a brand membership program because of a salesperson's enthusiastic pitch

Question: What is your attitude towards offline merchant membership? (Single choice); N=6,000
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021

Figure 19: With more free time on their hands, consumers in lower-tier cities are more willing to pay for entertaining experiences

Proportion of respondents who have selected this option

■ Third-tier cities   ■ Fourth-tier cities   ■ Fifth-tier cities

Question: Which of the following online platform paid membership(s) did you actively purchase? (Multiple choice); N=6,000
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021

Figure 20: Consumers in lower-tier cities value the practical benefits of a membership

More discounts	78%
Member-only content	56%
Free logistics/delivery	49%
Exclusive customer service	35%
Other	2%

Question: What kind of additional benefits do you expect as a paid member of the platform? (Multiple choice); N=6,000
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021

Figure 21: Sales incentives have a significant impact on consumers' willingness to recommend products in lower-tier cities

19%
Unwilling

81%
Willing
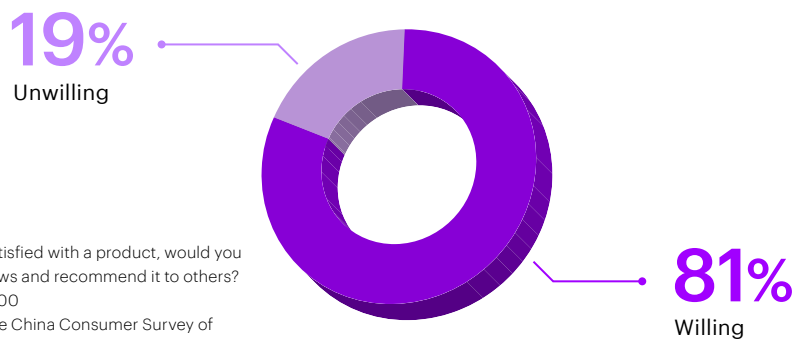
Question: If you are satisfied with a product, would you like to share your reviews and recommend it to others? (Single choice); N=6,000
Data source: Accenture China Consumer Survey of Lower-tier Cities 2021

Figure 22: The main appeals and motives of consumers joining a membership in lower-tier cities

I use JD.com often, so it is more convenient to purchase a membership.

Members enjoy free delivery, exclusive discounts, and cost-effective platform-based promotions.

JD.com PLUS membership

I get exclusive customer service, discounts, and associated memberships in other platforms, such as Ele.me, Youku, and travel and accommodation platforms, as well as rebates for my Taobao membership.

Ali 88VIP membership

I pay 15 yuan for a coupon plan worth 30 yuan on a monthly basis, which is very cost-effective.

Meituan membership

I need to be a member to listen to some of my favorite songs.

KuGou membership

Only PSN members can connect to the international server.

There are also game discounts and products I can experience via free trials.

PSN membership

Data source: Accenture China Consumer Survey of Lower-tier Cities 2021, Focus group in-depth interviews

How can businesses win in lower-tier cities?

The unique characteristics of lower-tier cities (and their residents) present a number of challenges for businesses—from developing the right products and marketing strategies to achieving operational efficiencies. To compete effectively, businesses must view lower-tier cities as dynamic, evolving markets and develop a deeper understanding of the needs and behaviors of the consumers that live there.

Succeeding in lower-tier cities will test the abilities of a business to achieve high performance and sustainable growth. Accenture proposes three winning strategies for businesses to do just that.

Continual Product and Service Innovation

Lower-tier cities do not represent a market for replicas of products that sell in first- and second-tier cities. They exhibit their own unique consumption preferences and behaviors. A business, therefore, needs to develop an in-depth understanding of lower-tier city consumers and never stop innovating its products. At the same time, it should improve local services and optimize consumer experiences. That's how it will increase brand loyalty and win in the competition for the minds (and wallets) of consumers in lower-tier cities.

Deeply understand consumers in lower-tier cities and use those insights to continually innovate products and services

A business should focus on developing services and products suitable for lower-tier city consumers, while also improving its product quality and customer experiences.

For example, JD Health uses live broadcast and video conferencing service to provide skill training and remote assistance for grass-roots medical workers across the country. It is also using its Internet-enabled capabilities to help improve the quality of medical diagnosis and treatment, so that rural residents can have access to convenient, cost-effective and safe medical and healthcare services.

In first- and second-tier cities, buyers of power banks (i.e., battery rechargers) consider portability and design to be essential features. In contrast, power bank consumers in lower-tier cities care less about portability and more about charging capacity. In fact, large-capacity power banks account for 65% of the total power bank sales volume in third- and fourth-tier cities. In response to the lower-tier city consumers' demand for more charging power, Taote adjusted its product strategy and manufacturing specifications to provide a product line specifically designed to meet their needs.

Optimize consumer experiences, improve local services and increase brand loyalty

Although consumers in lower-tier cities are increasingly demanding excellent service experiences, businesses still seem to be trapped in a price war. Lower-tier cities continue lagging first- and second-tier cities in terms of commodity supplies, logistics and delivery, and after-sales service experiences.

Consumer electronics provider Oppo has formulated a strategy of "integrated sales and services" for lower-tier cities. It has turned franchised stores into after-sales service outlets, where consumers can not only purchase products, but also get repairs and other after-sales services at the same location. This strategy has enabled Oppo to improve its customer satisfaction levels, as well as its in-store sales.

To succeed in lower-tier city markets, businesses should focus on strengthening their after-sales service and customer support systems, optimizing customer experiences wherever they can, and building brand trust to facilitate consumer decision-making. At the same time, they should build on local service resources and take advantage of the ubiquity of online channels to create a seamless online-offline service experience. The goal should be to showcase their excellent and comprehensive services at every turn.

Differentiated Consumer Experiences

E-commerce platforms and social media are growing more and more influential in lower-tier cities. As emerging online channels, such as live-streaming, gain traction, businesses should set up online distribution channels and remodel consumer interactions to engage the ever-expanding online customer base. Also, since consumers in lower-tier markets enjoy the benefits and convenience of membership programs, businesses should design and build an appealing member marketing system to retain customers and stimulate their consumption.

Interact with consumers through online channels to grow the user base and increase traffic, conversions and sales

The online environment enables merchants to interact with consumers in myriad ways: through social media and content-based entertainment channels such as mini programs, video clips and live streams; through interactive games; or through the online delivery of live coupons, and flash sales. These channels and offerings not only meet the emotional and social needs of consumers, but also serve to expand the consumer base and improve engagement.

For example, JD.com Spike is a feature on the homepage of the JD.com app that acts as a customized marketing channel for popular products. It provides daily specials and flash sales for price-sensitive consumers in lower-tier cities looking to buy in-vogue products at a lower cost. Cash prizes, coupon-granting games, and live-stream wanghong (or celebrity influencer) recommendations are some of the ways JD.com drives up the number of site visitors and their engagement.

Create a membership program and member marketing strategy that promote consumer retention and consumption

With the great affinity consumers in lower-tier cities have for membership benefits, businesses should develop or refine membership operations to enhance stickiness. Merchants can build on their own product or service features, join up with popular content-based entertainment and e-commerce platforms through affiliated marketing schemes, and launch specialized campaigns and services to attract, engage and retain users.

The magic of co-branded membership schemes such as Taobao 88VIP and NetEase Yanxuan is clearly visible in lower-tier cities. By purchasing a Taobao 88VIP membership, one can enjoy a package of incentives, including coupons for large discounts during the November 11th shopping carnival and the one-year memberships to four lifestyle platforms: Youku, Xiami Music, Ele.me and Taopiaopiao. According to Alibaba, the 88VIP scheme has attracted new users and improved the engagement levels of its members. Every 100 88VIP members translates into 38, 32 and 27 new users for Youku, Ele.me and Taopiaopiao, respectively. Critically, the average revenue per user (ARPU) has also soared by 4X to 5X, confirming the value Alibaba places on user stickiness.

Accelerated Digital Transformation

Lower-tier cities cover a vast territory and exhibit large geographical differences. Succeeding in this environment (while keeping operating costs in check) depends on having a highly efficient and digitally enabled supply chain. But the need for digital transformation isn't limited to the supply chain. New digital capabilities are needed in many areas to help companies keep pace with the ever-changing needs of consumers—and outpace the steady stream of emerging competitors. Only by building their digital capabilities can businesses lay the data foundation that is necessary for ongoing product quality and customer service improvements. Only by transforming digitally can businesses take the lead in lower-tier cities.

Build a data center and create an intelligent operating model across R&D, manufacturing, supply chain, marketing, and sales and services

In 2019, Jala Group initiated a three-step digital transformation focused on building its online business, its digital operations and its intelligent marketing capability. A key project of the cosmetic company's digital renewal involved building a data center that underpins the company's strategy to position "business as data, data as a product, and product as an operation".

The Group has already successfully digitized multiple functional areas of the business, including consumer insight generation, product R&D, content creation, intelligent marketing, production management, quality management, logistics, sales management and membership management. By going digital, Jala Group has shortened the average time of order processing to two hours, and the delivery of goods to stores to 45 hours. It has made 95% of its inventory available via online channels. It has digitally enabled 100% of its in-store counters and moved 78.3% of its stores to the cloud. Even 70% of its beauty advisors now offer online consultations.

As of 2021, Jala Group's revenue from digital offerings accounted for 88.9% of its total revenue, a year-on-year increase of 49.7%. And its online retail sales made up 50.6% of total sales, a year-on-year increase of 32.5%. Chando, one of Jala's brands, generated 94.7% of its revenue and 53.6% of its retail sales from digital channels.

As Jala Group demonstrates, digital transformation—anchored in a strong data foundation—can help companies improve their operational efficiencies, reduce supply chain costs and enhance consumer experiences. In short, digital is the key to building lower-tier city market competitiveness on an ongoing basis.

About the Research

Accenture China Consumer Research of Lower-tier Cities 2021

Research Background: In order to study the changes in the trends of China's consumer market, Accenture carried out a series of surveys in both higher-tier and lower-tier cities through a combination of quantitative and qualitative tools. This report focuses on lower-tier cities.
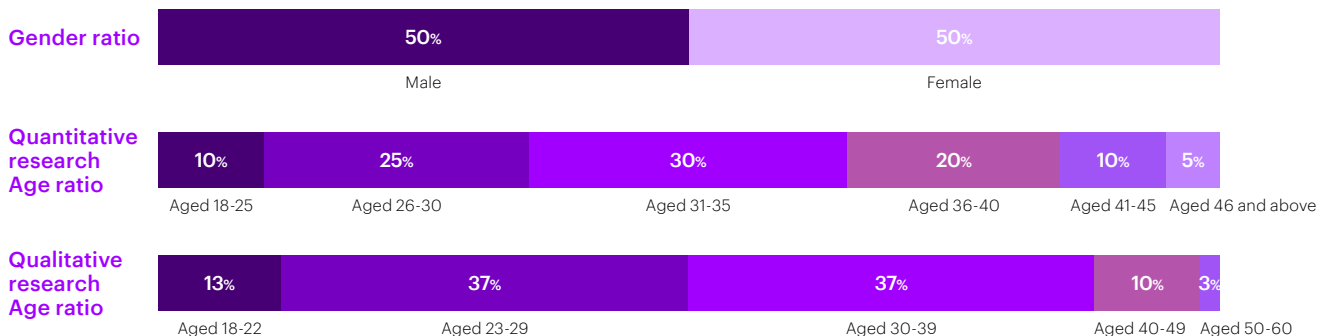
Research Purpose: Based on the comparative analysis of the survey data of higher-tier and lower-tier cities, we have strived to gain insights into the consumption mindsets, decision-making patterns, and product and channel preferences of consumers in lower-tier cities. Our goal was to generate recommendations for businesses looking to win in lower-tier cities.

Research Subjects: Consumers in China's lower-tier cities, especially the third-, fourth-, and fifth-tier cities.

Research Methodology: A combination of quantitative and qualitative research tools, including an online survey and in-depth interviews with focus group.

In this research, Accenture designed the questionnaire for the survey, but did not collect nor touch the personal data of customers. Instead, Accenture selected a qualified market research firm to collect feedback from customers, on which it generated insights.

Overview	Quantitative research	Qualitative research
Research subjects	Consumers in China's third-, fourth-, and fifth-tier cities	Consumers in China's third-, fourth-, and fifth-tier cities
Questionnaire / Research coverage	Third-, fourth-, and fifth-tier cities nationwide, with a population ratio of **2:4:4**. A total of 6,000 valid samples were collected.	Third-, fourth-, and fifth-tier cities nationwide, with a population ratio of **1:1:1**. An online in-depth interview was conducted with 30 consumers.
Time of questionnaire delivery	July 2021	May 2021

Gender ratio

50%	50%
Male	Female

Quantitative research Age ratio

10%	25%	30%	20%	10%	5%
Aged 18-25	Aged 26-30	Aged 31-35	Aged 36-40	Aged 41-45	Aged 46 and above

Qualitative research Age ratio

13%	37%	37%	10%	3%
Aged 18-22	Aged 23-29	Aged 30-39	Aged 40-49	Aged 50-60

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Team and Acknowledgements

Steering Committee for the Accenture Chinese Consumer Insights 2022

Robert Hah
Managing Director, Strategy & Consulting Lead, Accenture Greater China

Lower-tier Cities Report Executive Sponsor

Zhang Xun
Managing Director, Strategy & Consulting, Accenture Greater China
xun.zhang@accenture.com

Research and Authors

Wang (Right) Chen
Director, Strategy & Consulting, Accenture Greater China
right.chen.wang@accenture.com

Xiang Yubin
Consultant, Strategy & Consulting, Accenture Greater China

Wei Wensi
Consultant, Strategy & Consulting, Accenture Greater China

Program Management

Alice Zhang
Marketing & Communications Manager, Accenture Greater China

Acknowledgements (in alphabetical order of names)

Chen Xuyu, Daisy Wang, Deng Ling, Steven Maass

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