Winning the hearts of the Chinese consumer

Capitalizing on five trends to drive growth and high performance

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The perceptions and behaviors of consumers in China are changing fast—so fast, in fact, that businesses are finding it extremely hard to keep up.

Recent Accenture research provides insights into what these changes mean for businesses. It also suggests that within this fluid environment lie tremendous opportunities for companies looking to engage more effectively with their Chinese customers.

Navigating a fast-changing consumer landscape

For companies selling to Chinese consumers, investment in customer insight is a must. Nearly every major brand has set up operations in China and consumers are now bombarded with choices. This makes gaining a clear understanding of consumers and how they make their purchasing decisions a distinct competitive advantage.

To gain new insights into changing consumer behaviors, attitudes and expectations in China, Accenture conducted two research studies. In 2011, 330 consumers were surveyed, and in a similar study in 2012, over 500 consumers were surveyed, drawn from urban, middle-income segments.¹

The findings not only support Accenture’s previous examination of the changing dynamics of the consumer market in China (see sidebar), but also highlight five trends that Chinese and multinational companies can exploit to extend their reach and success in China. These trends illustrate how consumers are changing their approaches to:

1. Decision-making
The Internet is the most widely used channel through which customers in China gather product and service information. But it is the impressions of colleagues, friends and family that have the greatest influence on buying decisions.

2. Social media
The rise of digital technologies and social media has influenced consumers’ impressions of products and services and significantly affected their buying behaviors.

3. Loyalty
While consumers in China are somewhat loyal to businesses they frequent, they do shop around for the best deals and are swayed by better quality of goods and services. A low price is no longer the driver of customer satisfaction that it once was.

4. Expectation-setting
Expectations for fast and easy-to-access customer service are at an all-time high.

5. Innovation
Consumers in China would welcome the opportunity to take part in their providers’ innovation efforts.

Each of these trends sheds light on distinct opportunities for businesses to:

- develop a unique sales and service strategy,
- build strong customer enablement and channel integration capabilities, and
- focus on customer retention and growth.

By pursuing these opportunities, businesses will be in a better position to achieve high performance. They will be the ones that really know the customers. And they will be the ones that engage them with highly satisfying and differentiated experiences.
China's consumer market is anything but homogenous. Over the past three decades, changes in China’s social, economic, educational and work environments have converged to create a dynamic and fast-changing consumer market that is vast, highly diversified and unbalanced. One must gain insight on Chinese consumers out of this context.

Consider the following:

China's economic growth is driven less by consumption

China’s economic growth of approximately 9 percent annually over the past 12 years has been driven much less by consumption than by investment and export. Contribution to the GDP growth from consumption has been disproportionately low, with household consumption as a proportion of GDP decreasing to 34 percent in 2010 (from 46 percent in 2000), compared with 71 percent in the United States and 50 percent to 60 percent in most European and other BRIC countries. In its 12th five-year program, which sets out high level guidance for China’s social and economic development from 2011 to 2015, the Chinese government is striving to rebalance the economy by boosting domestic consumption. By 2020, consumption is expected to account for 45 percent of GDP. Whether Chinese consumers will be willing to spend remains to be seen. Due, in part, to the lack of a robust social security program in China, Chinese people have one of the highest savings rates in the world (38 percent of earnings). They are expected to continue saving for the next 10 or 20 years.

The income disparity is widening

In China, there has long been an income disparity between urban and rural residents. That income gap continues to widen. In 2000, the average disposable income of urban Chinese consumers was 280 percent higher than that of their rural counterparts. By 2011, the figure had jumped to 323 percent. The government launched a series of social and economic initiatives aimed at increasing the incomes for both rural and urban individuals by 7 percent by 2015. This resulted in 7 percent of households having annual disposable incomes of more than $25,000, compared to just 2.4 percent in 2010. The gap between urban and rural households is not expected to narrow (see Figure 1).

Sources: National statistical offices, Euromonitor International, Accenture Analysis of urban consumers in China
Opportunity 1

Re-think your marketing channel strategy

Consumers in China rely on multiple channels to gain information about products and services. These channels range from direct mail campaigns to various forms of advertising to corporate websites. Yet, as illustrated in Figure 2, it is the online channel that customers turn to most often when looking for product or service information and second-most often when deciding whether to do business with a particular company. In 2012, the proportion of consumers doing research online topped 90 percent.

Figure 2. Usage and importance of marketing and sales channels among consumers in China

Note: China results from Accenture 2012 Global Consumer Behavior Survey.
Urbanization is accelerating and boosting consumption

With approximately 13 million people moving to cities each year, China is undergoing the largest urban migration in history. This urbanization is and will continue to be the main driver of China’s domestic consumption. In 1980, 190 million people (or about 20 percent of the population) lived in urban areas. Between 1980 and 2000, the proportion of urban dwellers had climbed to 36 percent. By 2015, it is expected that 60 percent of the population will reside in urban areas. Population growth is occurring most quickly in smaller cities and peri-urban areas of large metropolises. By 2020, there will be 70 to 100 cities in China with more than one million people.

Profound demographics changes are making the consumer market landscape more complex

As illustrated in Figure 3, China’s population is aging and the size of its workforce is shrinking slowly. The number of people over the age of 65 will increase by more than 51 percent from 2010 to 2020 and will account for about 12 percent of China’s total population. Thanks to the one-child policy, the workforce in China will be smaller by 2020. Given that the social security safety net won’t cover the majority of older residents, younger workers will be faced with a heavier burden to support the seniors.

Figure 3: Aging Nation

Sources: National statistical offices, Euromonitor International, Accenture Analysis
Social media is clearly contributing to the influence of "word-of-mouth" marketing on buying decisions in China. With the proliferation of social networking sites, it is now easier than ever for consumers to find out what colleagues, friends and family think about certain products and services. These opinions clearly matter to consumers in China. According to our 2012 research, 74 percent of Chinese consumers trust the comments about companies and brands that are posted by people they know. What’s more, their trust is growing; in our 2011 survey, 68 percent expressed that level of confidence in the social media opinions of people they knew. Interestingly, it is not just the opinions of friends and family that influence buying behaviors. In 2011, more than a third of Chinese consumers based their purchasing decisions, at least partly, on comments posted to social media sites by complete strangers. In 2012, that number climbed to nearly 44 percent. This explains the popularity of sites such as www.dianping.com, a Shanghai-based online city guide that allows users to rate restaurants and merchants in approximately 2,300 cities across China. By 2012, www.dianping.com had more than 48 million monthly active users posting some 20 million reviews on more than 1.5 million member merchants. The site reports more than 1.2 billion monthly page views—60 percent of which come from Dianping’s 40 million unique mobile users.

These findings suggest that to win the minds and hearts of consumers in China, Chinese and multinational companies should make their product and service information available via multiple channels that are seamlessly integrated to deliver a consistent experience. When it comes to influencing purchasing behaviors, however, it is recommended that businesses take a much more targeted approach and develop strategies specifically aimed at convincing consumers to advocate for their brands.

One factor ranked higher in importance when it came to influencing buying decisions: the opinions of people they know. As revealed in the recent Accenture research, “word of mouth” information has a tremendous effect—not only on helping consumers understand what products and services are available, but also on shaping their buying decisions. By contrast, advertising campaigns influenced purchasing decisions much less often.
The rise of online consumers marks a new frontier for growth

The prevalence of mobile Internet applications and smart phones are not only accelerating the rate of online consumption, but also profoundly changing consumers’ purchasing behaviors. By 2015, the number of Internet users in China will soar to more than 800 million from 513 million in 2011. Internet access is already ubiquitous in consumers’ daily lives for shopping and entertainment. Online shopping accounted for 3.3 percent of China’s retail sales in 2010 and will increase to 8 percent (with sales volume of more than $360 billion) by 2015 (see Figure 4).

Before launching programs to engage Chinese consumers, businesses first need to understand these “basics” of operating in China and the larger context in which consumer preferences and behaviors are evolving. By taking these factors into consideration, companies can hone more effective marketing strategies and have greater confidence in their abilities to reach the customers they desire.

Sources: www.askci.com; Chinese Internet Data Information Center; Accenture analysis

Figure 4: The Rise of an Online Empire

Figure 5: Online Retail Growth in China

Source: China Internet network development report 2011 published by China Internet Network Information Center
Opportunity 2

Be social

Providers in China are delivering more satisfying marketing, sales and service experiences than they were five years ago. The overwhelming majority of customers attribute these improvements to an increased use of technology.

Chinese consumers’ embrace of technology is evident in two important ways. As mentioned earlier, more and more consumers in China are using online channels to interact with companies and gather information about the products and services they are considering purchasing. In fact, “online” is the most widely used channel for these purposes today; its importance in helping to shape consumer preferences jumped 10 percent in just the past year. Just 2 percent of consumers reported never using the Internet as a source of information about companies or the products and services they offer. Other research confirms the prevalence of online connections. According to research from the Pew Internet & American Life Project and the China Internet Information Center, 92 percent of Internet users in China “opt-in” to connect directly with brands. These findings are even more remarkable when one considers that the approximately 500 million Chinese currently engaged in frequent online activities represent just 40 percent of China’s total population. Put another way, less than half of China’s population already makes up 25 percent of the entire world’s Internet users.11 The potential to engage with additional consumers as they move online is enormous.

Equally important is the role that social networking sites are playing in influencing buying behaviors. Gathering information from people they know has the highest impact on consumers’ buying decisions in China. Social media makes sharing that type of information fast and easy. More than 90 percent of consumers use social media and micro-blog sites (known as “weibos”) to learn about companies’ products or service delivery at least a few times each year (see Sidebar: The power and influence of SinaWeibo). And a third of consumers engage in these information-gathering activities several times per week. When it comes to sharing their provider experiences and their opinions about a company’s products or services, consumers in China are also quite active. Nearly a quarter of consumers share their impressions several times a week. Only 20 percent of Chinese consumers never share their opinions via social networking sites.
Winning the hearts of the Chinese consumer
The impact of Chinese consumers’ use of social media in these ways is striking—and growing significantly. According to our research, significant numbers of Chinese consumers believed that:

• Their use of social media has increased their overall engagement with their current providers and brands.

• Social media has increased their awareness about products and services of providers they did not know.

• Comments—both positive and negative—posted on social media sites influenced their opinions about companies and brands and contributed to their decision to buy—or not buy—a particular product or service.

Clearly, one of the most important ways that companies can improve their engagement with customers in China is by taking full advantage of the social media channel. This calls for a clear understanding of social media’s potential and purpose for the organization. It also requires companies to enhance their analytics capabilities to identify and monitor customer-relevant sites and opportunities, categorize comments from consumers about their brands, assess competitors’ social media presence, and analyze performance metrics. With these skills, companies will be able to address any negative “chatter” that might arise quickly and, conversely, encourage and incent favorable exchanges. Most important, they will be able to improve their customers’ loyalty and continually develop an influential cohort of brand advocates.

Another (and often overlooked) component of an effective social media strategy involves identifying opportunities for companies to engage directly and proactively with consumers in a social networking context. Whereas 27 percent of consumers in mature markets never interact with companies via social media, in China that figure drops to just 11 percent. Given their higher-than-average reliance on social media, it is no surprise that consumers view businesses that have a presence in social networks quite favorably.
Opportunity 3

Create a personalized and relevant experience

It is increasingly hard to maintain consumer loyalty. It is even harder in China. Consumers’ perceptions and experiences with their providers have a direct bearing on purchasing decisions. Currently, fewer than one-third of consumers in China are satisfied with their providers. Approximately equal percentages feel a sense of loyalty and will recommend those providers to others. That means a huge number of consumers are willing to switch providers if the incentives are right.

Negative experiences can be particularly detrimental to customer relationships. Retailers, banks and Internet service providers were most susceptible to losing customers due to poor service. But no industry is immune from customer churn. With word-of-mouth and social media playing such dominant roles in shaping customer preferences, one negative experience can quickly “go viral” and influence the purchasing decisions and brand affinities for tens of thousands of consumers. This was borne out by our research, which revealed that 97 percent of Chinese consumers told others about a bad customer service experience in 2011 and 52 percent posted comments about the negative experience online.

Loyalty programs can help stem the tide of customer defection and negative commentary. As illustrated in Figure 6, such programs have been effective in persuading Chinese customers to maintain their provider relationships across all industries. Loyalty programs offered by cell phone companies are most popular, followed by programs of banks and Internet service providers. These programs also tend to be the most successful; 75 percent of cell phone customers, for example, reported that their provider’s loyalty programs discouraged them from switching to another carrier.
Importantly, half of our survey respondents noted that loyalty is driven by factors other than financial incentives. These included open and honest communications, the availability of opportunities for consumers to take part in designing or improving products and services, and the provider’s commitment to corporate social responsibility.

Companies should take all these factors into consideration when developing customer loyalty and retention strategies. They should also consider applying predictive retention analytics and other forms of analyses to determine the root causes of customer attrition among their Chinese consumers. Having such capabilities in place will make it easier for them to not only protect and extend their market share, but also develop strategies and offerings that will attract new customers.
Opportunity 4

Exceed expectations

Accenture’s global research indicates that consumer expectations for better customer service are at an all-time high, especially in emerging markets. This is certainly evident in China, where 67 percent of survey respondents acknowledged their expectations of providers were higher or much higher than in the previous two years.

So, what do Chinese consumers really expect of their providers? According to the survey results, customers want to conduct their business with providers in a fast and hassle-free fashion. This means there are basic service expectations that cannot be compromised: speed of customer service; ease of obtaining information and service; and agents’ product and service knowledge and experience. More than 60 percent of consumers in China also reported they liked it when a company provided special treatment for more valuable customers.

To gain a better understanding of how consumers in China judged their providers on meeting expectations, the Accenture survey asked respondents to cite what they considered the most important components of customer service (see Figure 7). Polite employees, a service experience that matched the company’s promise, and reasonable wait times for service made up the top three responses. In these areas, 80 percent or more of consumers were satisfied with the service performance of their providers. The notable exception was in the area of “waiting to be served,” which generated the highest level of dissatisfaction.

Survey respondents also described what they valued most in their business relationships. Top answers included the ease with which customers can conduct business and the quality of customer service. Also important was a company’s broad range of products and services, which emerged in the 2011 survey as an important driver of customer satisfaction. Conversely, several factors that historically had been drivers of customer satisfaction diminished in importance. These included the quality of a business’s products or services, the tailored customer experience delivered, and pricing. This is not to say, however, that these factors no longer matter. Indeed, they do. The difference is at least partly due to the fact that these factors now tend to be assessed as part of a holistic customer experience, as opposed to stand-alone determinants of satisfaction. In the area of pricing, for instance, customers in China made it clear that they would not compromise on customer service or product quality in exchange for lower prices. One reason low pricing has diminished in importance as a driver of satisfaction is that consumers in China, now exposed to many brands via many channels, recognize that saving money is less important than the value they receive from the product or service they purchase.
Finally, the survey asked consumers to describe what factors contributed most to negative customer experiences. Frustration levels were particularly high among consumers who felt they were delivered something other than was promised or had to contact customer service agents multiple times for the same reason. Naturally, multinationals and Chinese companies want to avoid creating a negative impression that cause their consumers—and, by extension, the larger marketplace—to flee. Instead, they want to give their customers what they want—and more than they expect—via a differentiated sales and service strategy. This can be accomplished in several ways. For example, by building capabilities in predictive modeling and analytics, companies will find it easier to generate valuable customer insights, recognize “moments of truth” that contribute to (or erode) loyalty, adapt to customers’ behavioral patterns, and develop offerings tailored to meet the needs of specific consumer segments. And by enabling customers through channel integration and automated self-service features, businesses will be better positioned to provide a holistic customer experience, reduce the cost to serve their customers, improve service and distinguish themselves from the competition.
Opportunity 5

Pursue consumer-driven innovation

Amar Bhidé, an economist from Tufts University, is noted for being among the first to say that in today’s global economy what matters is not where an idea comes from, but how fast a country’s firms and consumers are willing to try it out.\textsuperscript{12}

Bhidé dubbed this propensity for consumers to welcome new products and services “venturesome consumption” and noted that the willingness of consumers to try new products and services may be an important component of innovation. Operating in markets with large numbers of venturesome consumers, therefore, serves manufacturers quite well. That is because adventurous consumers can be valuable sources of innovation and inspiration for enterprises. And by offering feedback on innovative products and services, they shed light on their behaviors and preferences, which can lead to the next innovation.

All of this is good news for companies operating in China. According to our 2011 research, Chinese consumers are surprisingly venturesome. They are more than willing to try new things—and this openness to new experiences can inspire companies to launch new products and services. Few companies have taken better advantage of Chinese consumers’ venturesome spirit than KFC. The fast food company, which now has more than 4,000 outlets across China, distinguished itself in the Chinese market by understanding that those consumers (and their palettes) would be very different from KFC consumers (and palettes) in other parts of the world. With that insight, it adapted its menus to local tastes. Today, KFC customers in China can order buckets of “original recipe chicken” just as easily as KFC customers can anywhere in the world. But in China, they can also order fried dough sticks, egg tarts, shrimp burgers, soy milk drinks and a number of new food products launched on an ongoing basis to appeal to regional preferences.\textsuperscript{13}

The strategy has paid off handsomely in terms of revenue growth and customer loyalty. Nearly a third of KFC customers in China visit the shops specifically for the chance to try new products\textsuperscript{14} such as youtiao, a sort of Chinese donut, or a twister sandwich, which is based on a traditional preparation of Peking duck.\textsuperscript{15}

Our research confirmed that consumers also are very interested in participating in innovation efforts for a company, in either online formats such as idea portals or provider discussion forums or offline via focus groups or product trials (see Figure 8). In fact, they consider opportunities to participate in designing and improving products and services to be a key factor in determining their loyalty to a particular company.

Despite the forays of a few companies like KFC, the vast majority of companies do not yet offer products tailored to unique consumer preferences, much less an environment that engages consumers or encourages collaborative design or crowd-sourcing. Most customers from China did not personally participate in innovation efforts for a company online or offline in the past two years. This will certainly change. With China’s young, connected population, the potential to engage consumers in technology-enabled innovation programs is significant.

Figure 8. Consumer interest in participating in innovation efforts is high

<table>
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<th>Interested in participating</th>
<th>Not at all interested</th>
<th>Not very interested</th>
<th>Somewhat interested</th>
<th>Very interested</th>
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<td>57%</td>
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<tr>
<td>offline</td>
<td>2%</td>
<td>51%</td>
<td>30%</td>
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</tbody>
</table>

Note: China results from Accenture 2012 Global Consumer Behavior Survey.
From opportunity to action

The trends identified by Accenture’s 2011 research confirm that Chinese consumers are a heterogeneous and increasingly demanding lot. They actively seek out information, as well as opinions of others, before they buy. They have clear expectations of their providers—and will quickly move on if those expectations are not satisfied. And they want to be engaged in different ways—notably, through programs that allow them to participate in product or service development and design.

Accenture identified five key opportunities through which companies can use these emerging trends to satisfy shopper demands and create meaningful experiences that attract more—and more valuable—customers. Taking optimal advantage of these opportunities require that providers put themselves in the shoes of the customers they want to reach. But merely adding customer-centricity to a vision statement isn’t enough. Achieving customer-centricity requires rethinking the way business is done. And this, in turn, requires a holistic approach that encompasses everything from analytics-based insights to multi-channel marketing strategies.

So what exactly can companies do to win the minds and hearts of consumers in China and grow their businesses? Specific initiatives will naturally vary from one business to another. But we believe there are several actions that all companies can take right now to bolster their success in the Chinese marketplace.

Develop a customer experience blueprint

High-performance businesses know that the most satisfying customer experiences don’t just happen. They are carefully planned, consistently presented and continually refined to deliver on the brand’s promise across channels and throughout the customer lifecycle. A “customer experience blueprint” can help companies deliver memorable experiences, maintain relevancy and reinforce their brand’s value proposition. To create such a blueprint, they first need to define the “big picture” by establishing a strategic vision. Next, they need to define what “good” looks like on the ground, outlining the ideal customer experience blueprint at the tactical level—making clear for employees the step-by-step path customers are expected to follow. The blueprint—which many companies choose to revisit annually—can reveal changes that will ease customer access, and may offer insights into how to introduce the necessary improvements and connect customer-facing and non-customer-facing functions.

Pursue outside-in innovation

If businesses don’t listen and respond to their customers, chances are they will be less successful at anticipating new needs and demands. Customers are quite eager to share their opinions and are increasingly looking to do so via imaginative, high-quality experiences. Failure of companies to adapt to this new reality means not only lost business, but also a growing gap in product development. One of the most effective ways to access their customers’ insights is by taking advantage of their willingness to participate in innovation programs. Business-to-consumer firms should, at a minimum, build or strengthen opportunities that encourage involvement of consumers in product design and testing. Particularly ambitious companies may even want to make innovation an essential part of the customer experience. The potential pay-off is enormous in terms of new ideas, meaningful feedback to new products and services, and enthusiastic consumer support and loyalty.

Companies that pursue these actions with the goal of delivering satisfying and profitable customer experiences are more likely to achieve superior financial performance. Leading organizations are already moving away from one-size-fits-all marketing models to more precisely match customer experience with customer value. Those that crack the code on how to operationalize a differentiated experience will benefit from greater consumer loyalty, customer acquisition and retention, and growth.
Winning the hearts of the Chinese consumer
Conclusion

To capitalize on the potential of China's consumer market, companies need to understand who their Chinese consumers are, what they want and expect from their providers, and how they go about making their purchasing decisions. Armed with such insights, Chinese companies and multinationals, alike, will be able to create a differentiated sales and service strategy that will, in turn, enable them to acquire, engage and retain more customers.

Accenture’s recent research into the behaviors, attitudes and expectations of Chinese consumers showed there are significant opportunities for companies looking to capture a greater share of the lucrative Chinese market. Individually, these opportunities can help businesses create a more engaging and rewarding experience for their customers. Together, they provide a roadmap for high performance.

Reference

1. Accenture has conducted annual Global Consumer Research project for eight years in a row. The research surveyed more than 10,000 consumers in 27 countries and across 10 industries, and was carried out on a country-by-country basis to generate findings that would be helpful to businesses looking to penetrate specific markets. More than 300 consumers from China participated in the 2011 survey and over 500 in 2012. For additional overall consumer behavior findings by country and industry, see the 2011 Global Consumer Research Key Findings at http://www.accenture.com/us-en/Pages/insight-acn-global-consumer-research-study.aspx


3. The World Bank, "Household Final Consumption Expenditure, etc. (% of GDP)," http://data.worldbank.org/indicator/NE.CON.PETC.ZS


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Greater China

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