OLIVER WYMAN

CHASING THE CHINESE DREAM

ASPIRATIONS AND DILEMMAS OF CHINA'S NEW AFFLUENT CONSUMER CLASS

AUTHORS

Bernhard Kotanko, Partner

Jacques Penhirin, Partner

Cliff Sheng, Partner

Pedro Yip, Principal

Jasper Yip, Engagement Manager

MARSH & McLENNAN COMPANIES

EXECUTIVE SUMMARY

The Chinese mass affluent class is achieving a new state of mind.

Given China's lucrative demographics, the mass affluent class (individuals with RMB 650,000 to 6 million investable assets) will be the driving force in shaping the Chinese consumer's 'New Normal'. A younger, more tech-savvy, and free-spending cohort than its Western counterparts, China's mass affluent population is expected to more than double from 15 million in 2015 to 33 million in 2020. Wealth is accumulating rapidly with investable assets projected to increase from RMB 21 trillion in 2015 to RMB 45 trillion in 2020. Personal consumption is expected to experience double digit growth, eventually accounting for over three-quarters of China's total consumption by 2020.

This paper aims to reveal the evolving aspirations of the Chinese mass affluent class, and to contrast that with the limitations and dilemmas they faced. While pursuing higher values beyond material goods, they are still grappling with basic needs. The paradox of aspirations and dilemmas means that businesses require a deeper understanding of Chinese motivations to succeed in capturing opportunities.

To this end, we conducted a survey with 1,000 Chinese mass affluent consumers. This report shares our perspectives on the evolution and implications for businesses:

Chapter 1 highlights **the shift in behaviours towards wealth and lifestyle.** Unlike ever before, the Chinese are growing comfortable with their finances and seeking to spend more and invest more, rather than to harbour savings. Money is going towards living better, not just having more.

Chapter 2 contrasts the optimism towards several **dilemmas faced by the Chinese mass affluent class** as they strive to upgrade their quality of life. As Chinese consumers reach for meaningful lifestyles and experiences, the underlying foundation of economic and social security is shaky. Discontent over cost of living is widespread and profound. Quality providers of wealth management and basic welfare are still largely lagging.

	ASPIRATIONS	DILEMMAS
Savings	It's not just about savings • Savings is falling and more money is being allocated to investments and consumption	Rising incomes but perceived wealth is not necessarily increasing • Insecurities about the future means savings is still a safe haven and unlikely to fall to western levels
Investments	Investor appetites are diversifying • Investors are more rational and demand more balanced, diversified asset allocation	Desire to broaden investing but untrusting of professional money management • Without professional wealth management, wealth is mostly illiquid and consumption power is in deadlock
Consumption	Rise of the experiential consumer • Consumers are seeking for meaningful experiences to elevate lifestyles	Striving to 'live well' but still uneasy about basic welfare • There is growing demand for upgraded options to social goods to improve well-being

Chapter 3 explains the **opportunities under the new paradigms of the Chinese consumer and investor.** We summarise several new themes that shape the way forward for consumer businesses and wealth managers to succeed in a new era of consuming and investing.

As the tastes of Chinese consumers and investors mature, companies need to be more creative and thoughtful in their approach. Opportunities for businesses are abundant, but no longer ubiquitous. Uncovering them requires closely following the changing desires of the new Chinese mass affluent class.

THEMES FOR WEALTH MANAGERS	TACTICS TO DEPLOY
Strengthen product supply	Enhanced product access and information, proprietary products
Innovate with product design	Fund-of-funds, ETFs
Sidestep trust issues	Robo-advisory

THEMES FOR CONSUMER BUSINESSES	TACTICS TO DEPLOY
De-commoditise products	Personalization, emotional marketing
Align distribution strategy	Omnichannel integration, flagship stores, global Chinese strategy
Shift to services	Adjacent services, on-demand access

1. WHAT'S CHANGING: REACHING HIGHER

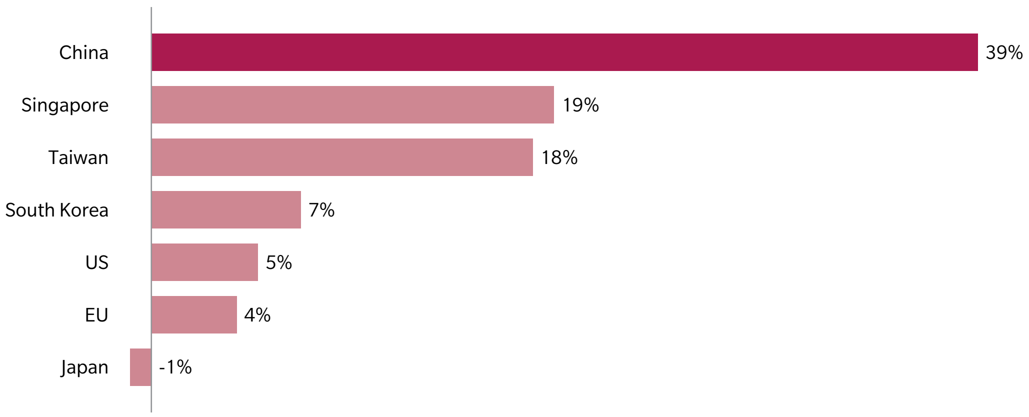
The evolution of China's consumers manifests itself in behaviours and attitudes around wealth and lifestyle. Our research shows that this new consumer class is forging new patterns of saving, investing, and consuming, to support a more sophisticated and urbanized way of life.

IT'S NOT JUST ABOUT SAVINGS

China has long been seen as a savings-rich economy. The Chinese savings rate, at 39 percent, is double that of Singapore and almost 8 times that of the U.S. (Exhibit 1). Share of savings actually increased as household incomes rose. This phenomenon is not all surprising if savings can be thought of as 'purchasing peace of mind for a what-if scenario' – the more you make, the more you can purchase.

However, with rising levels of affluence, there is good indication that the Chinese mass affluent class is more assured about the security of personal finances and willing to look beyond savings. Despite the slowing growth of disposable income, they are optimistic about the future, with 58 percent of respondents perceiving that disposable income would increase over the next 12 months. For those who can afford it, the preference is overwhelming to spend more rather than save more (Exhibit 2). Our survey suggests that about two-thirds of **incremental income would be funnelled into consumption, leaving a combined savings/investment ratio of about 30 percent which is materially lower than the average Chinese savings rate of 39 percent**.

Exhibit 1: Household saving ratio by country/city (% of household disposable income, 2015)[1]



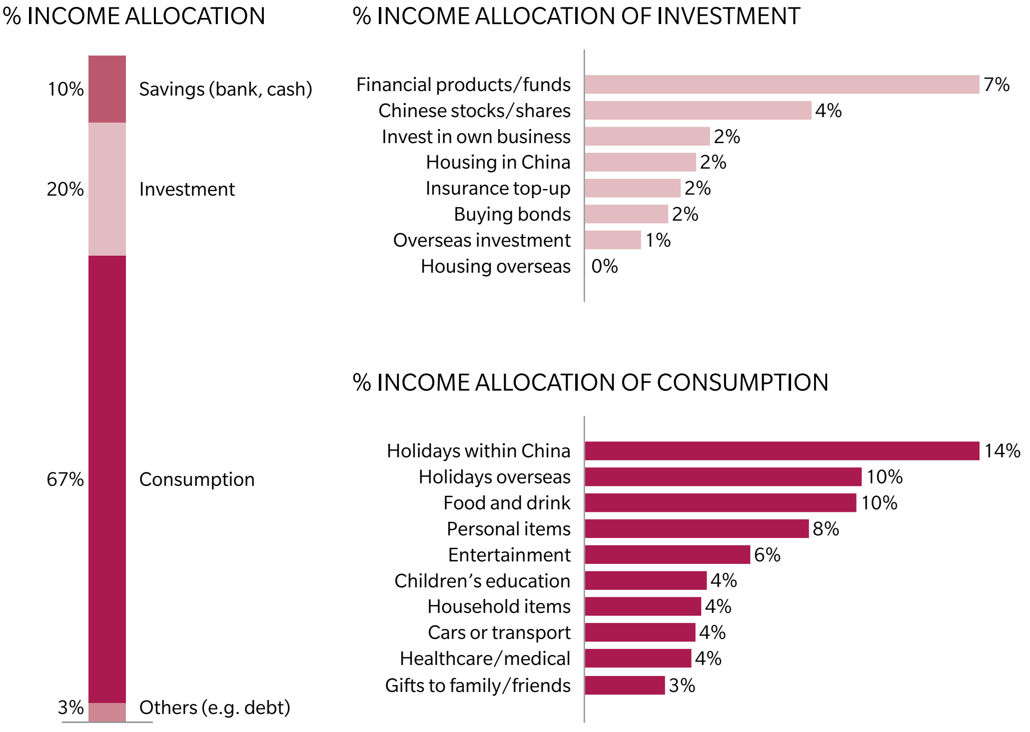
Source: OECD, Oxford Economics, Oliver Wyman analysis

1. OECD, Oxford Economics, Oliver Wyman analysis

As financial needs evolve, they are also saving in different ways. Investment products are increasingly favoured over traditional savings. Half of respondents have already increased allocation of income towards financial products and/or Chinese stocks, the top two categories, followed by insurance top-up (Exhibit 3). Respondents intend to allocate more incremental income to investments than savings (Exhibit 2).

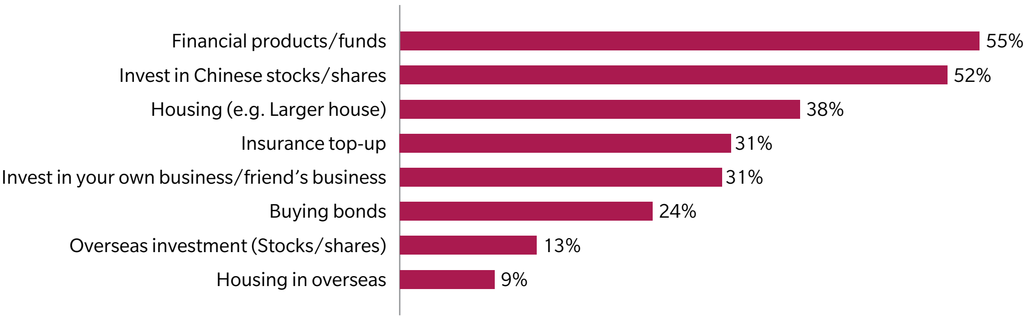
Traditional savings is gradually shrinking to make way for growing preferences towards more investing and consumption.

Exhibit 2: Allocation of additional income of RMB 10,000/month, 2016



Source: Oliver Wyman Chinese consumer and investor survey 2016, Oliver Wyman analysis

Exhibit 3: Increase in investments across asset categories (% yes, 2016)



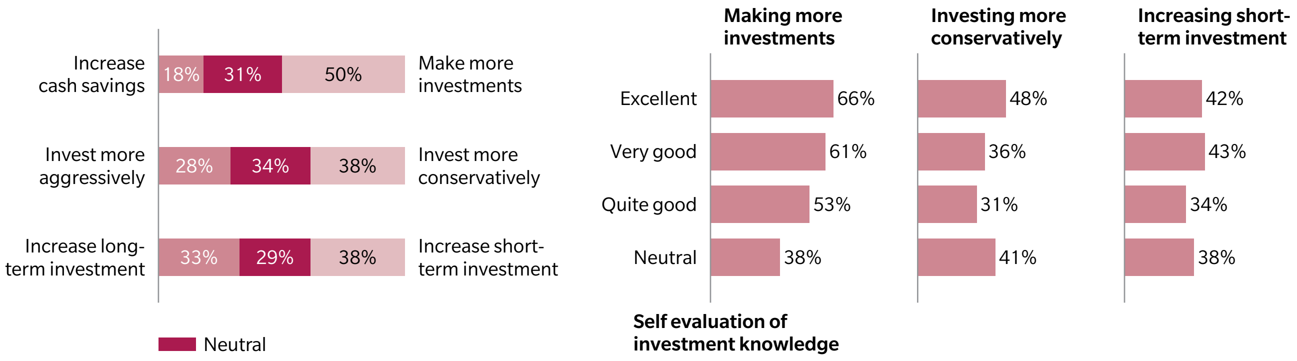
Source: Oliver Wyman Chinese consumer and investor survey 2016, Oliver Wyman analysis

INVESTOR APPETITES ARE DIVERSIFYING

Investor mentalities are changing. The mindset of the past has been very short-sighted, and the Chinese tended to trade much more frequently than global peers, and some even viewed trading as a hobby.[2] Having suffered vastly from stock market volatility in recent years, investment behaviour is tempering and there are increasing doubts over the chase of self-driven absolute returns, leading to more appetite for balanced asset allocation and risk diversification. While our research shows that there is greater near-term preference to invest more, the Chinese are also planning to do so more conservatively (Exhibit 4). This preference is even stronger for those that are most confident about their investing capabilities.

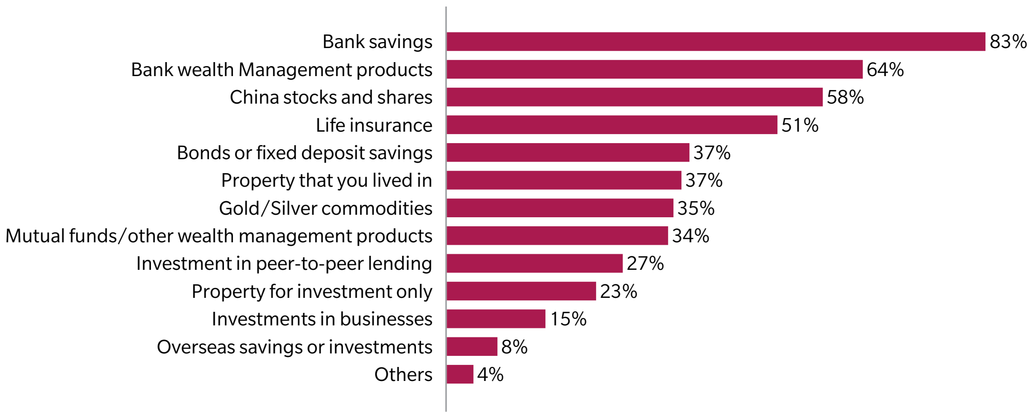
The mass affluent class has dabbled across different investment vehicles and hold a range of assets, with Chinese equities and bank wealth management products still being the most common (Exhibit 5). They are open to experimenting with financial innovations and have taken part in new Fintech vehicles such as online money market funds and peer-to-peer products. Development of financial markets is seeing new product options and investors are looking to rebalance portfolios.

Exhibit 4: Investment preferences in the next 12 months (% respondents, 2016)



Source: Oliver Wyman Chinese consumer and investor survey 2016, Oliver Wyman analysis

Exhibit 5: Penetration of different types of investment (% respondents, 2016)



Source: Oliver Wyman Chinese consumer and investor survey 2016, Oliver Wyman analysis

2. State Street Center of Applied Research Study

Wealth management has emerged as a professional service, but unlike mature markets the model is product-centric rather than advisory-centric. Online platforms are successfully catering to mass affluent appetites by providing breadth of product access across asset classes and facilitating choices, while exploiting low-cost distribution and efficient processing. These platforms leverage big data to analyse investor preferences and risk appetites to deploy targeted sales and marketing. For instance, Lufax and Ant Financial offer insurance, mutual funds, and quasi-fixed income products, and aspire to become "investing supermarkets". The convenience of 24/7 access, fast transactions, and diversified product selection available at low product commissions fees are particularly suited to investor preferences.

RISE OF THE EXPERIENTIAL CONSUMER

Compared to many western societies, the Chinese wallet is significantly more weighted towards spending on food and clothing[3]. However, the last decades of rapid modernization have enabled Chinese consumers to achieve a degree of material comfort, and now interests are shifting to higher needs for self-fulfillment. They are becoming more fun-loving and less infatuated with having more. Amongst our respondents, about 60 percent of respondents have increased spending on entertainment (sports, cinema, etc.) and domestic vacations, on par with food and personal items. Furthermore, about 30 percent of additional income would be allocated to entertainment and holidays, exceeding the incremental spending on personal and household goods.

Investment styles are becoming more rational and practical. Investors seek balanced asset allocation and desire information, breadth of choice, product access, and convenience at low costs.

We observe tremendous potential in categories associated with experiential events. New niches have sprung up and whole industries are evolving to ride the trend. For example, the dining sector reached an income of RMB 2,910.5 billion during the first ten months of 2016, representing a 10.9 percent year-on-year increase and the first time with double-digit growth in 3 years[4]. Accelerated growth in dining is a phenomenon fuelled by rising middle class and mass affluent spending power, ironically while high-end restaurants have been troubled following the anti-corruption campaign. The dining industry is seeing emergence of more diversified restaurant options, demand for ambiance and service personalization, and continued emphasis on food safety.

The boom in travel and tourism is another example of consumers seeking meaningful experiences. Our recent survey supports that Chinese travel growth will persist – amongst all categories consumers are most willing to spend additional income on travel, both domestic and outbound (Exhibit 2). The Chinese are now more mobile than ever, with improved travel infrastructure, new airport openings and development of high speed rail, while coupled with rising incomes. The destinations are highly varied, seeing growth across a range including 'red tourism', historic communist sites, nature sites, and theme parks.

3. Euromonitor, CEIC, Goldman Sachs Global Investment Research
4. National Bureau of Statistics of the Peoples Republic of China

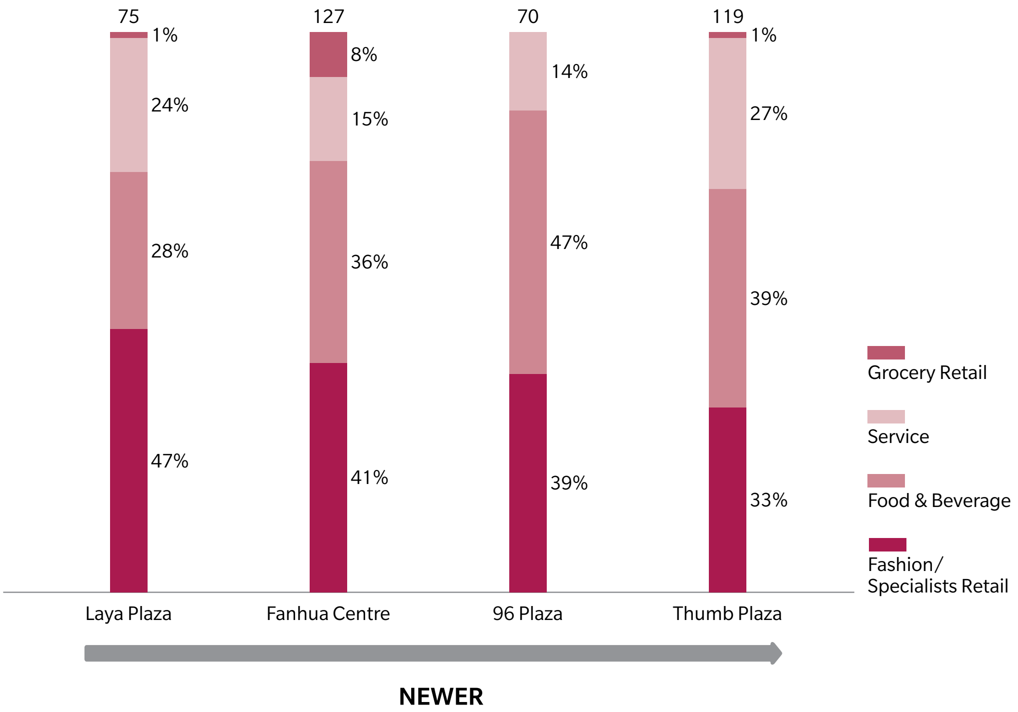
In our report *"The Changing Face of the Chinese Traveller"*, we discussed that outbound travel is now more experience-driven than material-driven. While nearly all travellers would shop during their trip, the predominant purpose for travel is sightseeing, and recreation or entertainment follows closely behind shopping as the third reason for travel.

Alongside the rapid growth of online channels, offline channels are positioned to provide consumers with sought-after physical experiences. The shift toward experiences in particular is demonstrated by the new model of Chinese shopping mall.

Consumers aren't just buying more, they are buying differently as needs elevate. They are seeking to upgrade lifestyles and willing to spend more on meaningful experiences.

In our report *"Mall or Nothing: Boom and Bust"*, we discuss the trend of new malls dedicating more space for entertainment and services over shopping, such as cinemas, dining, spas, hair salons, extended hours, etc. (Exhibit 6). Creating a one-stop destination and providing an alluring experience gives consumers a reason to dwell in shopping malls.

Exhibit 6: Shopping mall tenant mix in select Shanghai malls (# brands, %)



Source: Oliver Wyman analysis

2. WHAT'S MISSING: CHALLENGINGS WITH MEETING THE DEMAND

Amidst the positive drive for higher spending and broader investing, certain tension points exist. With rapidly rising wealth, the mass affluent class's demands are becoming more sophisticated but socio-economic developments have not always kept up to pace. We observe several dilemmas as they strive to upgrade their quality of life.

RISING INCOMES, BUT NOT PERCEIVED WEALTH

Rapid economic development has brought about a dilemma, where despite rising incomes many are uncertain about future quality of life due to mounting expenses. Though standard of living is increasing, the rate of improvement is tapering. According to our survey, expenditures have increased across all categories, with food and drink being ranked the highest and even more so in Tier 1 cities.

Urbanization is ushering people to higher tier cities and population density is skyrocketing. The mass affluent class is pressured by rising property prices and better housing is not always affordable. Rising inflation and depreciation of the currency also intensifies the situation.

Furthermore, shifting demographics as an aftermath of the 35-year one-child policy means that the burden of family rearing is only growing. Currently there are 3.4 working adults for every person aged over 60, but by 2030 the dependency ratio will decrease to 1.5. These factors have led to a sense of financial insecurity which undermines their view of personal wealth.

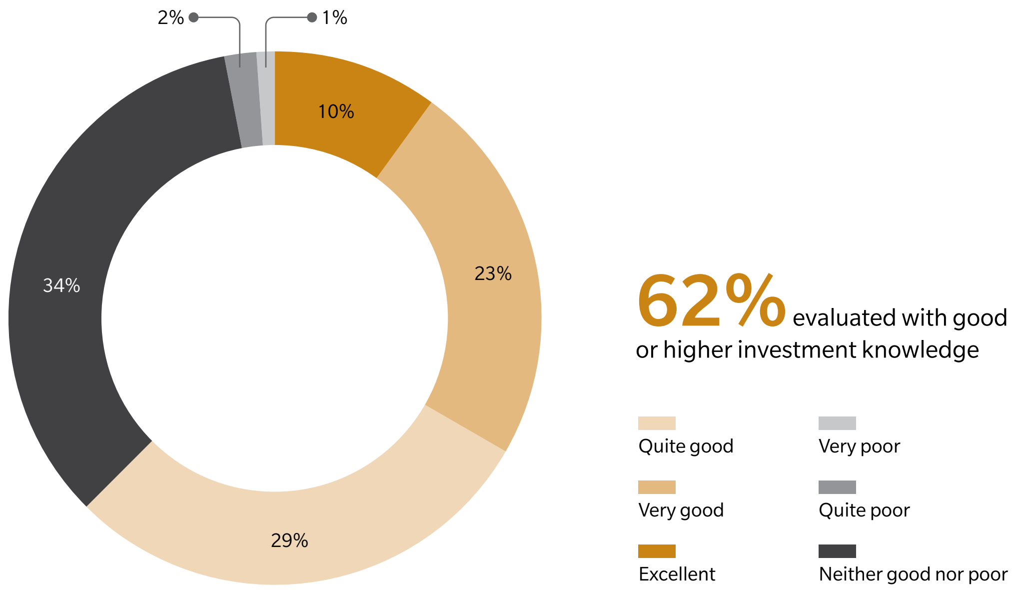
Given the future uncertainty, many still view savings as a safe haven. While the savings rate is trending downwards, it is unlikely to fall radically to match the western world.

As a result, the level of income that defines wealth is a moving (and surging) target. Many people are unsure of how to qualify their own wealth status. In a 2015 survey by Chinese Academy of Social Sciences, only half of the respondents with annual personal income of RMB 300,000 consider themselves as middle class, though this income level already sits at the 99th percentile of the Chinese population and near the top end of our mass affluent survey sample.

DESIRE TO BROADEN INVESTING BUT UNTRUSTING OF PROFESSIONAL MONEY MANAGEMENT

Most of the money is self-managed. In fact, the mass affluent class is fairly confident in their investing abilities. 62 percent of those surveyed evaluated themselves as having good or excellent investment knowledge (Exhibit 7). They are still sceptical about professional advisory and unwilling to pay for investment ideas and research, as fees are deemed high and not tied to performance (Exhibit 8). Chinese investors are not ready for a fee-for-advice wealth management model. A prior Oliver Wyman study revealed that advisory fees account for less than 5 percent of total China wealth management revenues, compared with about 30 percent in the United States. The wealth management industry is largely remained at a product selling oriented stage.

Exhibit 7: Self-evaluation on investment knowledge (% respondents, 2016)



Source: Oliver Wyman Chinese consumer and investor survey 2016, Oliver Wyman analysis

Exhibit 8: Willingness to use professional investment support (% respondents, 2016)

Source: Oliver Wyman Chinese consumer and investor survey 2016, Oliver Wyman analysis

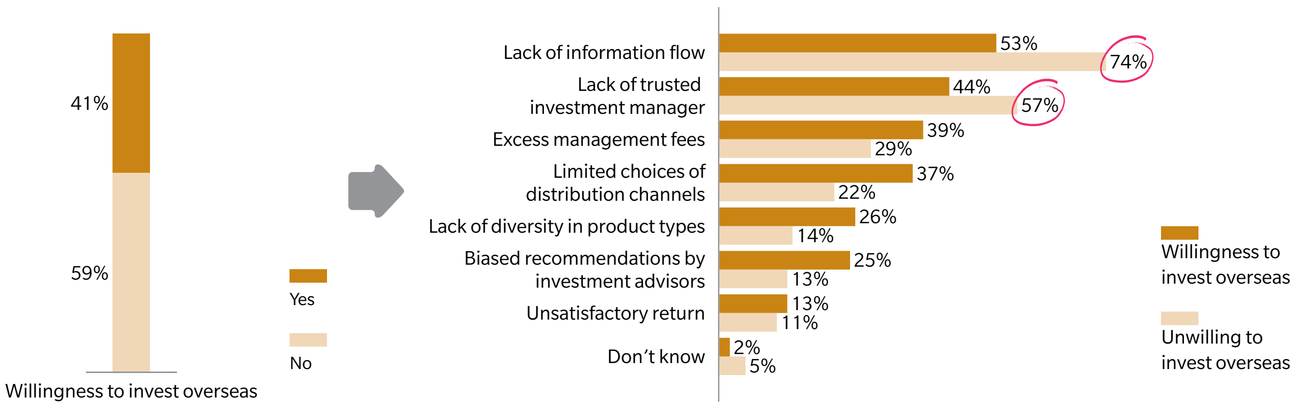
Volatility in domestic financial markets and currency depreciation has promoted interest in overseas investing for risk diversification. Though the Chinese government has introduced more controlled channels in recent years (Exhibit 9), cross-border investment remains low. In part this is due to the uncertainties with the government's wavering plans in liberating the capital controls, while at core the Chinese are fundamentally unsure of how best to invest globally. Our survey reveals that 59 percent of respondents are unwilling to invest overseas, primarily hindered by lack of information and trusted advisors (Exhibit 10). Excess management fees and limited choice of distribution channels are the next concerns. Those investing overseas are largely investors who view themselves as highly competent; respondents that doubt their capabilities tend to avoid cross-border investing altogether.

Exhibit 9: Cross-border investment channels

		NEW (2015)	NEW (2014)	
MAINLAND	INVESTORS	• Mainland **retail** and institutional investors	• Mainland **retail** and institutional investors	• Mainland **institutional** investors who satisfy the eligibility requirements • Mainland retail investors then buy products issued by these institutional investors
	CHANNELS	Mutual recognition of publicly offered funds	Stock Connect	QDII
OFFSHORE	PRODUCTS	• General equity funds, bond funds, mixed funds, unlisted funds or physical index-trading exchange traded funds domiciled in Hong Kong	• Eligible stocks listed on the Main Board of the HK Stock Exchange	• Depending on the categories of QDII institutions, QDIIs may invest in – Money market instruments – Equity products – Mutual funds – Structured products
	QUOTA	• Aggregate quota: RMB 300 billion (US$ 48 billion)	• Aggregate quota: RMB 300 billion (US$ 48 billion) • Daily quota: RMB 13 billion (US$ 2.08 billion)	• Each QDII is granted a specific quota • No cap on the aggregate quota

Source: Oliver Wyman analysis

Exhibit 10: Willingness to invest overseas (% respondents, 2016)



Source: Oliver Wyman Chinese consumer and investor survey 2016, Oliver Wyman analysis

Without uptake of professional investment advisory, achieving strategic asset allocation will be challenging for the mass affluent class, whose financial sophistication is generally still nascent. The situation is likely to be aggravated by the shortage of quality financial assets available for investment in the current market. Wealth structures are already structurally imbalanced with heavy allocation towards illiquid, non-financial assets. The China Household Finance Survey by the Southwestern University of Finance and Economics suggests that the share of allocation towards property investment is as high as 79.5 percent, whereas only 10.8 percent are attributed to financial investments. The preference for property assets extends to overseas allocation. In the first 9 months of 2016, the accumulated Chinese non-financial investment overseas was RMB 883 billion, representing 53.7 percent year-on-year growth.[5]

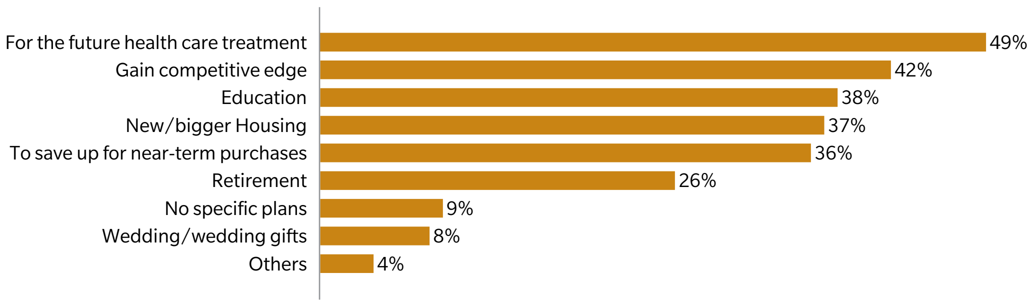
With the lack of professional support in sourcing and placing assets, wealth may well continue to be illiquid and the vast majority of consumption power may be stuck in deadlock. Product-centric offerings will gain better traction.

STRIVING TO 'LIVE WELL' BUT STILL UNEASY ABOUT BASIC WELFARE

While increasing spending towards affluent lifestyles, Chinese consumers are growing more acute with its demands around welfare. In a 2015 study conducted by the Chinese Academy of Social Sciences, 62.9 percent of the middle class felt that the level of social welfare protection was too low and ineffective. The insufficient public safety net is driving consumers to allocate money differently. These concerns extend to mass affluent consumers. Our survey reveals that future healthcare treatment is the top reason for setting money aside, and education follows closely behind as the third reason (Exhibit 11).

Concerns are about both affordable access and quality of service. Despite the government pushing on healthcare spending, support to alleviate the financial burden is evidently inadequate. Patients today have few financing options outside their own pocket, as insurance and employee benefits are insufficient and subsidies or loans are not universally accessible. Relative to mature markets, there is a clear discrepancy in resources allocated to healthcare. China has 22 doctors for each 10,000 in population, and only 30.6 percent

Exhibit 11: Reasons for investing (% respondents, 2016)



Source: Oliver Wyman Chinese consumer and investor survey 2016, Oliver Wyman analysis

5. Ministry of Commerce of People's Republic of China press release (商务部召开例行新闻发布会), 18 October 2016

of Chinese doctors have a Bachelor's degree or higher – compared to 27 and 100 percent in the United States.[6] Qualified doctors and quality healthcare equipment is not only in scarce supply but also highly concentrated in the largest hospitals of the Tier 1 cities. There are vast capacity issues at the top hospitals and waiting lists are extensive.

The scepticism towards the local quality of care is fuelling a rising medical tourism market, which is growing at a faster rate than the tourism industry. A phenomenon that used to be seen amongst the Chinese high-net-worth is now moving mainstream amongst the mass affluent. Rising incomes and growing information flow have enabled the more affluent Chinese to consider overseas options for anything from wellness services to medical care and treatment for critical illnesses. The top 5 destinations, in order, are Japan, Korea, US, Taiwan, and Germany.[7]

Similarly, those who can afford the expense may look overseas for education. In 2015, over 500,000 students were studying abroad, representing a 13.9 percent increase from 2014, and this trend is accelerating. It is an expensive option to study abroad as over 90 percent of these students were self-funded.[8] As wealth grows, sending children overseas is becoming increasingly a viable option. Those who leave are now more inclined to come back – for every 10 overseas students, 8 are returning after graduation in 2015 versus only 3 in 2006.[9]

The perception that the Chinese consumers will indiscriminately buy more goods is a myth. As they search for 'experience goods' to elevate lifestyles, they are at the same time seeking upgraded options to social goods to improve well-being.

6. Essence Securities research, 出境医疗风正起，新视野打开新格局
7. Ctrip
8. Ministry of Education of the People's Republic of China
9. Ministry of Education of the People's Republic of China

3. WHAT IT MEANS FOR YOUR BUSINESS

As Chinese mass affluent consumers embark on a new era of spending, it is now the time to capture the opportunity. For the first time in the last decade, consumption momentum is accelerating but paralleled by cooling sentiments around the economy. Selling today is more challenging. Successful models are constantly being reinvented and new opportunities are waiting to be unlocked.

Promoting a spending economy involves shifting the full Chinese wallet – releasing savings and balancing investments to free up liquidity and unleash spending power, and developing consumer products and services that fulfil maturing tastes. Alongside policy changes to restructure the economy, consumer businesses and wealth managers can seize the opportunity to catalyse the full potential of the Chinese consumer.

IMPLICATIONS FOR WEALTH MANAGERS

Wealth managers should consider three themes to capture the emerging investing opportunity:

- Strengthen product supply
- Innovate with product design
- Sidestep trust issues

STRENGTHEN PRODUCT SUPPLY

Wealth managers will need a staged approach to evolve market demand towards the investment advisory model of mature markets (Exhibit 12). Unlike mature markets where there exists an abundant supply of diversified products catering to various levels of financial literacy and needs, China's investment products are less sophisticated and more commoditised. Rather than centering the offerings on advisory, Chinese wealth managers add value by providing access to unique products.

Competitive advantage in the near term will remain supply driven. **Providing information to facilitate selection of vanilla products at low costs** will be keys to success. A next-stage catalyst will be for money managers to **upgrade sourcing and in-house product structuring capabilities.** This will enable customisation of investment products and develop proprietary assets as an inimitable edge. Wealth managers can further complement products with services to enhance the proposition, for example, providing tools for account administration and reporting.

For example, Ant Financial started with YuEBao, a money market product, to provide users with interest on idle cash. Later, it expanded offerings to include mutual funds, insurance, ABS products and more, which offered higher returns to prevent loss of idle cash to other channels. Top online wealth management platforms are continually deepening their understanding of customers and upgrading capabilities to meet evolving demand.

Exhibit 12: Stages of wealth management development in China

	CHINA VM V1.0 China Today	**CHINA VM V2.0** **Short to mid-term:** Future of China	**CHINA VM V3.0** **Long-term:** Similar to mature markets
Investor characteristics	• Seeks absolute return • Believes their investment ability is as good as professionals	• Wants diversification (product types and origin) but lack knowledge • Still skeptical about professional AMs	• Seeks overall portfolio/asset allocation • Fully aware of risk-return concepts
KSFs for FIs	• Compete on scale: channel, # of RMs • Manufacture high yield financial products	• Provides access to – Information – Vanilla product • Ensures low cost	• Provides wide range of sophisticated products • Truly customer-centric

Source: Oliver Wyman analysis

INNOVATE WITH PRODUCT DESIGN

An entry point to professionalising investing could be embedding the concept of strategic asset allocation into product design. **Fund-of-funds can be the launch pad for achieving asset allocation.** These cater well to the mass affluent class's overall passive investment profile and can fulfil a range of investment objectives at a small fraction of traditional advisory fees. Fund-of -funds are new concepts and highly anticipated as hot products in 2017. More than 30 new funds from Guangfa, China Universal Asset Management, Noah, and 18 other fund management companies are being reviewed in early 2017, and boast a rich product selection, from diversified, to quantitative, to retirement focused. Those that excel at product development are likely to enjoy first-mover advantage.

Another example is cross-border exchange-traded funds (ETFs), where the funds can be structured to track a range of underlying offshore assets (bonds, stocks, commodities, etc.) and deploy various investment strategies (hedging, leverage, etc.). ETFs offer liquidity and transparency, while being cost effective. The Chinese ETF market is still under-developed and under-penetrated, but our research suggests that interest is growing particularly with more affluent households. Cross-border ETFs can be executed through the QDII, Mutual Recognition of Fund schemes, as well as the Stock Connects.

SIDESTEP TRUST ISSUES

Trust issues can be tackled through wealth management solutions that minimize reliance on individual advisors. **Robo-advisory offerings can provide automated self-service tools for investment research, portfolio construction and rebalancing, and reporting.** These are complemented with light-touch advisory support via phone, live chat, or email.

A robo-advisor would help investors build their portfolio according to a survey of investment preferences. With more data being captured, algorithms are able to more systematically and accurately develop investor profiles and understand risk appetite. The model then creates a match between the investors and products, based on a set of pre-developed but actively managed portfolios. Various formats are emerging in China but yet to reach tipping point with the mass affluent class (Exhibit 13), with traditional financial institutions such as Tianhong Fund and Huatai Securities itching to venture into the space.

Exhibit 13: List of major Chinese robo-advisory platforms

	Product type										
Platform	Global ETF	China ETF	QDII	Mutual fund	Govt bond	Comd./ Futures	U.S. shares	A-shares	Fee	Minimum inv. req.	Approach
Clipper Advisor (蓝海智投)									0.5% of AuM	US$50 K	Modern asset/portfolio allocation theory
MiCai (弥财)									0.5% of AuM	US$5 K	NA
Caigin (财鲸)									0	US$500	NA
iToumi (宜信投米RA)									0	US$500	Modern asset/portfolio allocation theory
WQUANT (微量网)									Fee for strategy	0	3rd party providing trading strategy
ZiPeiYi (资配易)									NA	NA	NA
Innovane (胜算在握)									Member-ship	0	Volatility pumping
JUAICAI (聚爱财Plus)									20% of return	RMB 3 K	Mean-variance, Black Litterman, Risky Parity
Danjuan (雪球蛋卷基金)									0.5% of AuM	RMB 10 K	NA

Overseas investment – focused platforms

Product focus

Source: China Securities, Oliver Wyman analysis

IMPLICATIONS FOR CONSUMER BUSINESSES

We see three themes that would differentiate businesses in the new consumer era, and accordingly a set of tactics to deploy:

- De-commoditise and emotionalize your proposition
- Align distribution strategy
- Shift to services

DE-COMMODITISE AND EMOTIONALIZE YOUR PROPOSITION

Brands need to craft propositions that highlight experience building and non-commodity offerings. **Consumers are more interested in buying 'personal signifiers' – items that 'make *others* feel good about *me*'. One tactic to deploy is personalisation.** An example of this would be NIKEiD, which enables customers to create their own Nike gear online by selecting shoe colour, design and performance features. The enhanced customisation not only created a tailored product, but also lifted Nike's profit margin by channelling customers directly to the online sales platform and eliminating the conventional retailer. With the aid of technology, customisation can be executed at low costs while leveraging existing product lines to bring added experience.

Marketers should create memorable and magnetic experiences to entice the consumer. This will require a new focus on creativity. *'Sell dreams'*, and not substance. It is not just about the product, but interesting, imaginative experiential events activated by the product that speak to the aspirational status (e.g. luxury) and desired lifestyle (e.g. travel). *'Sell empathy'* for goods that speak to insecurities around personal and family welfare.

For example, Chanel marketers are masterful at storytelling. In China, Chanel has leveraged exhibition tours with special Chinese elements *("Culture Chanel"* and subsequently *"Little Black Jacket")*, and its movie *"Coco before Chanel"* to showcase the legend of Coco Chanel and a tale of heritage. The story of Coco is inspirational – it is about her view of the world and how she moved mountains to revolutionize the fashion industry. Coco's identity has an elusive appeal with customers as it taps into dreams around strength, prestige, and a life philosophy. With a compelling narrative, Coco's legacy has created an emotional connection with customers.

ALIGN DISTRIBUTION STRATEGY

In the increasingly dynamic and fragmented retail environment, selling 'experience' has profound implications for distribution models. **Delivering an integrated omnichannel experience requires broadening experience building across the full customer journey, all segments, and from physical to digital touchpoints.** We already see this from ecommerce retailers moving offline, including a prominent US$2.6 billion plan from Alibaba to take department store chain Intime private. Online platforms are experimenting with physical formats to remove friction points in the shopping journey by providing the necessary tactile experience (e.g. product trial) and in-person engagement (e.g. personal touch). The winners are not simply treating brick-and-mortar as showrooms, but instead creating an end-to-end high-touch to virtual brand experience while using sophisticated digital systems such as automatic check-out, dynamic pricing, and in-store data tracking to enrich and embed online-offline analytic. Alibaba has also advanced a strategic partnership with Bailian Group, which has 4,700 stores across 200 Chinese cities, to enhance technology and analytic leveraging the joint O2O platform.

Despite growing uptake of online sales, shoppers can be brought back into brick-and-mortar, but store activation will require creativity. Stores need to facilitate imaginative experiences to make the trip worthwhile. **Flagship stores could be positioned as experience centres for the brand.** Burberry's 3-storey flagship in Shanghai's Jing An district creates a theatrical brand experience through multi-sensory digital technology, including audiovisual experiences with 40 video screens and 130 speakers in-store, and use of radio-frequency identification on select clothing to trigger display of runway and product videos on fitting room mirrors that are screens when activated. More recently, the new Shanghai flagship store of DJI, a producer of drones, features a flight cage for drone demonstration, a gallery showcasing aerial images, and a projection screen to showcase the brand story.

As consumers shop more and more overseas, brands need to follow their customers and develop a 'Chinese strategy' and not just a 'China strategy'. Our survey shows that brands are still lacking the ability to provide a tailored shopping experience for Chinese travellers. 47 percent of respondents are dissatisfied with the lack of willingness to speak Putonghua and 43 percent are unhappy about the level of Putonghua fluency when shopping in overseas retail stores. Aside from service quality, business units need to be re-aligned to tailor the Chinese strategy for overseas retail – the overseas team is not likely to be the best at offering the Chinese perspective. Finally, richer data and enhanced technology paves way for new ways to follow the trail of the travelling Chinese consumer. Analysis of transactional and digital footprint data can generate deeper insights for improved customer targeting.

SHIFT TO SERVICES

Players who traditionally think of themselves as consumer package goods (CPG) companies or retailers should consider adjacent services that reinforce what they traditionally sell. Reinventing the proposition can be a means to strengthen a position in the current category or advance a position into an entirely new market. Anheuser-Busch InBev, a global leader in beer brewing, is cultivating China's demand for expensive craft beer. While planting its craft brands in Chinese distribution networks, it has also recently acquired a stake in Boxing Cat Brewery, a budding craft brewer in China.

The proposition can be transformed by selling on-demand access rather than the product itself. Nothing can be more Chinese than buying a bike, but even this is becoming a service rather than a product. With the vast penetration of mobile, bike sharing applications such as Mobike have taken off. They enable the convenience of identifying and accessing a nearby bike anywhere and anytime, and the flexibility of drop-off at many parking spots right by destinations – all enabled by mobile GPS and mobile payment.

* * *

In the end, there is real evidence that the Chinese mass affluent class will deliver to the promise of a bigger spending economy. The new consumer class will behave much differently from its western counterparts. Winners will be the ones that ride the tailwinds of change and understand the deep motivations and desires of the Chinese consumer.

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting. With offices in 50+ cities across nearly 30 countries, Oliver Wyman combines deep industry knowledge with specialised expertise in strategy, operations, risk management, and organisation transformation. The firm has more than 4,500 professionals around the world who help clients optimise their business, improve their operations and risk profile, and accelerate their organisational performance to seize the most attractive opportunities. Oliver Wyman is a wholly owned subsidiary of Marsh & McLennan Companies [NYSE: MMC]. For more information, visit www.oliverwyman.com. Follow Oliver Wyman on Twitter @OliverWyman.

ASIA PACIFIC

+65 6510 9700

EMEA

+44 20 7333 8333

AMERICAS

+1 212 541 8100

OLIVER WYMAN