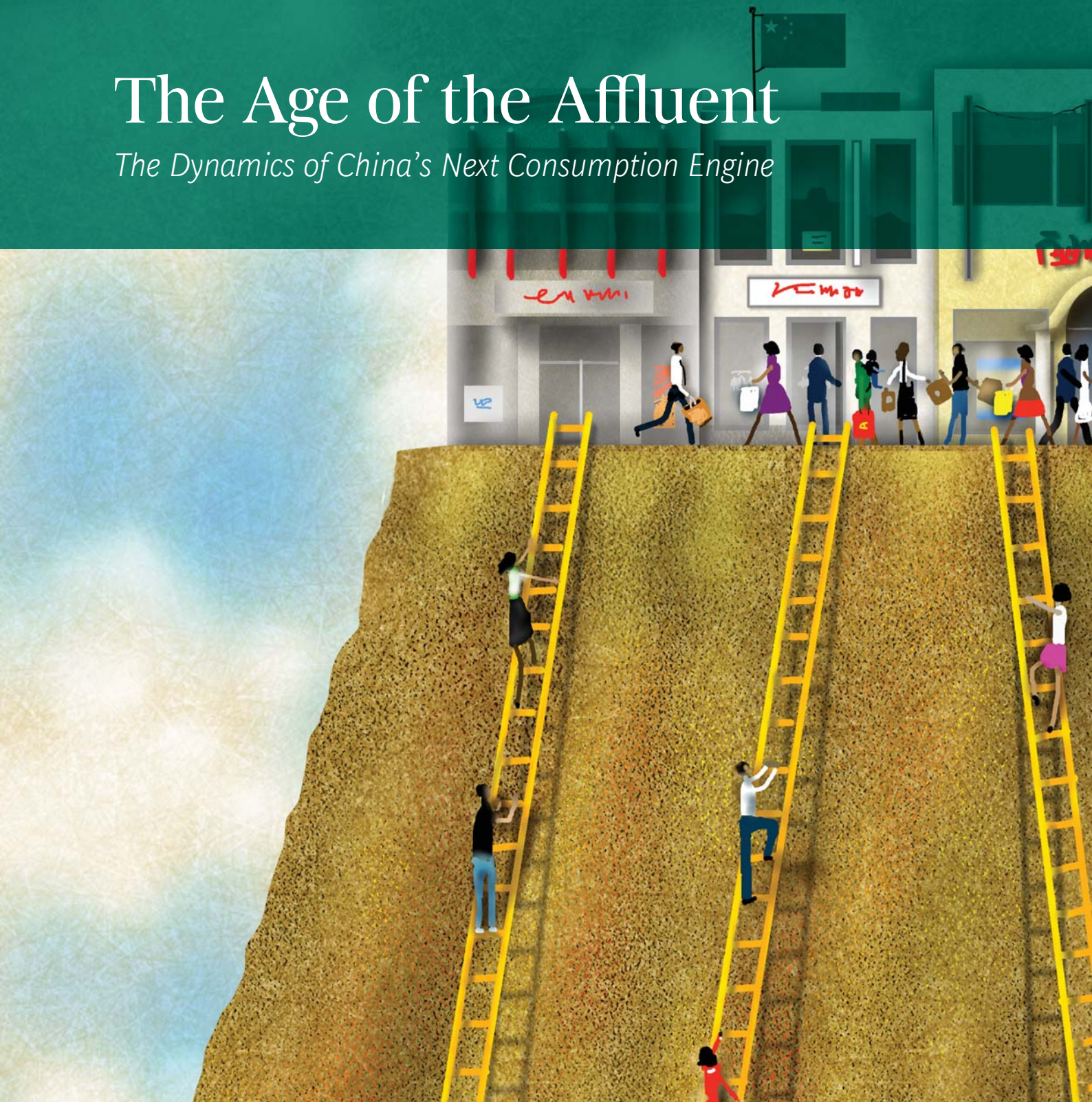


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THE BOSTON CONSULTING GROUP

The Age of the Affluent

The Dynamics of China's Next Consumption Engine



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The Age of the Affluent

The Dynamics of China's Next Consumption Engine

Vincent Lui, Youchi Kuo, Justin Fung, Jeff Walters, Hubert Hsu, and Carol Liao

November 2012

AT A GLANCE

Despite a slowdown, China is projected to soon become the world's second-largest consumer market. Today's affluent consumers will drive half of this growth. By 2020, this group is expected to be 280 million strong and account for 5 percent of global consumption. Companies must understand this unique and evolving group.

TRADING UP AND STANDING APART

Several attitudes and behaviors distinguish the affluent from the middle class. The affluent trade up for emotional benefits, seek status and recognition, demonstrate sophistication, pay more for convenience, and buy with a shrewd "investor's" eye.

A RAPID EVOLUTION

Four trends characterize this evolving class: more affluent are emerging in smaller cities, affluent women are becoming key decision makers, "veterans" of affluence are pursuing experiences, and the "sugar generation" is becoming a major force.

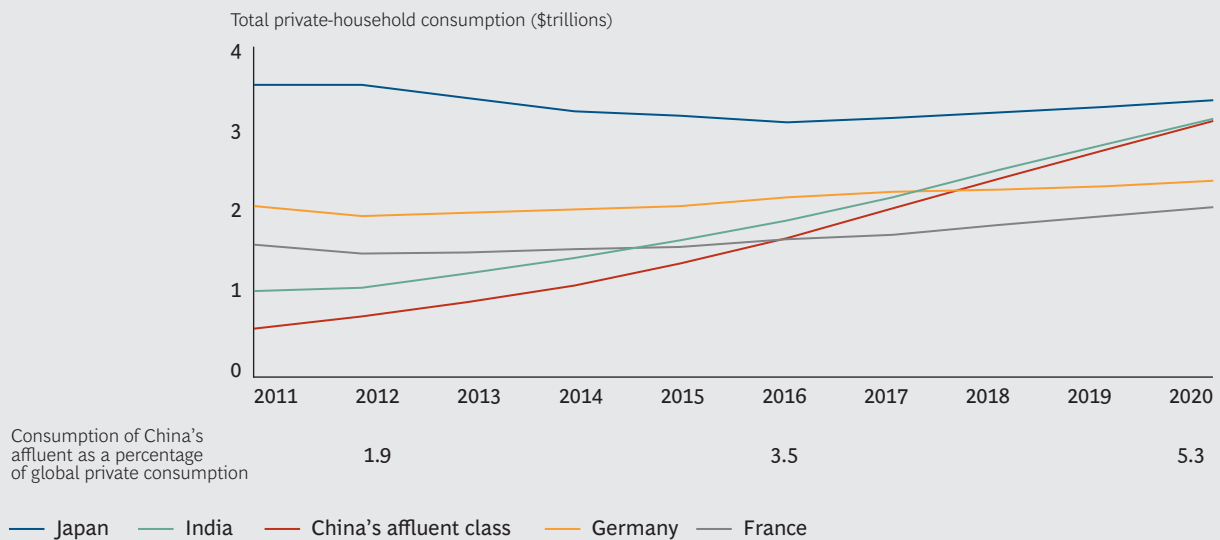
CAPTURING THE AFFLUENT OPPORTUNITY

To succeed, companies need to expand their marketing and sales reach, rethink their brands' value propositions, connect with the sugar generation, devise digital-media and e-commerce strategies, and cater to Chinese shoppers outside China.

AS CHINA'S ECONOMY HAS grown, much attention has been paid to its middle class and its high-net-worth (HNW) individuals. Less noticed has been its affluent population. Richer than the middle class but not as wealthy as the superrich, the affluent class has spending habits and attitudes that are distinct from both. At 120 million strong and with \$590 billion (RMB 3.7 trillion) of buying power, the affluent class is not yet as large as the emerging and current middle class combined, nor does it have the same spending muscle. But it is growing fast.

Overall, within the next three years China is projected to overtake Japan and become the world's second-largest consumer market. The affluent class is central to this rapid rise and will drive nearly half of this growth. As the incomes of today's middle-class consumers increase, many will join the affluent class, which will grow to be an even more powerful force of 280 million people, or 20 percent of China's population, by 2020. The spending of the affluent will grow fivefold to \$3.1 trillion. This will be equivalent to approximately 35 percent of China's total consumption and more than 5 percent of global consumption. It will also be nearly as much as Japan's total consumption, 28 percent greater than that of Germany, and three times more than South Korea's total consumption. (See Exhibit 1.)

EXHIBIT 1 | China's Affluent Class Will Consume as Much as Many Major Countries by 2020



Sources: BCG's Center for Consumer and Customer Insight; BCG's China City Income database; Economist Intelligence Unit.

The Affluent Consumers

We define China's affluent consumers as those who are purchasing premium products and services across a wide variety of categories. These consumers have annual household disposable incomes of at least \$20,000 (RMB 125,000); the average is nearly \$40,000.¹ (See the sidebar "The Growth of the Affluent Class.") We distinguish the affluent from HNW individuals on the basis of wealth. HNW individuals have accumulated more than \$1 million in financial assets, whereas the affluent have not.

Note that our definition does not follow some standards for global affluence but is instead based on relative income and purchasing power in China. Adjusting for

THE GROWTH OF THE AFFLUENT CLASS

By 2020, China will have 280 million affluent consumers, which will account for more than 30 percent of its urban population. The affluent class will grow from today's already sizable population of 120 million.

China is the only emerging market with a sizable affluent population. Even when considering only reported income, China still has 50 million affluent consumers.¹ This is more than India (7 million), Brazil (26 million), and Russia (10 million) combined.

We segment the Chinese affluent into two categories: the "lower affluent," those with annual household disposable incomes of \$20,000 to \$40,000, and the "upper affluent," those earning in excess of \$40,000. (See the exhibit "The Affluent Will Account for More Than a Third of China's Consumption by 2020.") By 2020, the upper affluent will comprise 108 million people or 40 percent of the total affluent population. That is almost the size of Japan's current population.

Our \$20,000 threshold represents the inflection point for sharply higher consumption across many product categories characterized by greater product differentiation. It also hap-

pens to be the average real disposable income of the top quintile of urban households today. This income level is 19 times higher, after adjusting for inflation, than it was in 1980 when many of the current generation of family breadwinners were born. By contrast, the average income in the top quintile of households in many developed countries (such as Germany, Japan, the U.K., and the U.S.) has remained more stable, growing at compounded annual rates of less than 2 percent over the past 30 years.

By the end of the decade, consumption per affluent consumer in China will reach an average of \$11,000, which is 5 percent higher than the global average per capita consumption. The affluent will drive 40 percent of consumption growth in China, with their share growing from 24 percent in 2011 to 35 percent in 2020.

Although the average per capita consumption for the Chinese affluent will reach \$11,000 by 2020, today's affluent spend \$5,000 per person per year or approximately \$15,000 per household. This is approximately 40 percent of the average affluent-household's disposable income. The affluent also set aside at least 35 per-

purchasing-power parity, the \$20,000 threshold for China’s affluent equates to an annual household disposable income of \$38,000 in top developed markets. This is comparable to the average median household income in many developed countries.

Consumption Patterns

We have studied Chinese consumption patterns across more than 80 product categories over a number of years and found that for many categories, consumers’ spending does not increase in a linear fashion. Rather, unique inflection points exist. (See Exhibit 2.)

cent of their income for savings and 25 percent for investment and insurance, creating some attractive business opportunities for financial institutions.

NOTE

1. Most published income data in China, as in some other countries, are based on surveys in which respondents tend to underreport their income. The difference between reported and actual income is called grey income. To adjust for this, we started with estimates of actual

income from the National Economic Research Institute of the China Reform Foundation. Then we leveraged BCG’s rich set of proprietary research data to develop our own grey-income adjustment multipliers for different income levels. These multipliers of reported income range from 1.23 to 2.87, with higher multipliers for higher incomes, where grey income tends to be more significant. We then applied these multipliers to the various income levels in BCG’s proprietary China City Income database to estimate the affluent population nationally and by city.

The Affluent Will Account for More Than a Third of China’s Consumption by 2020

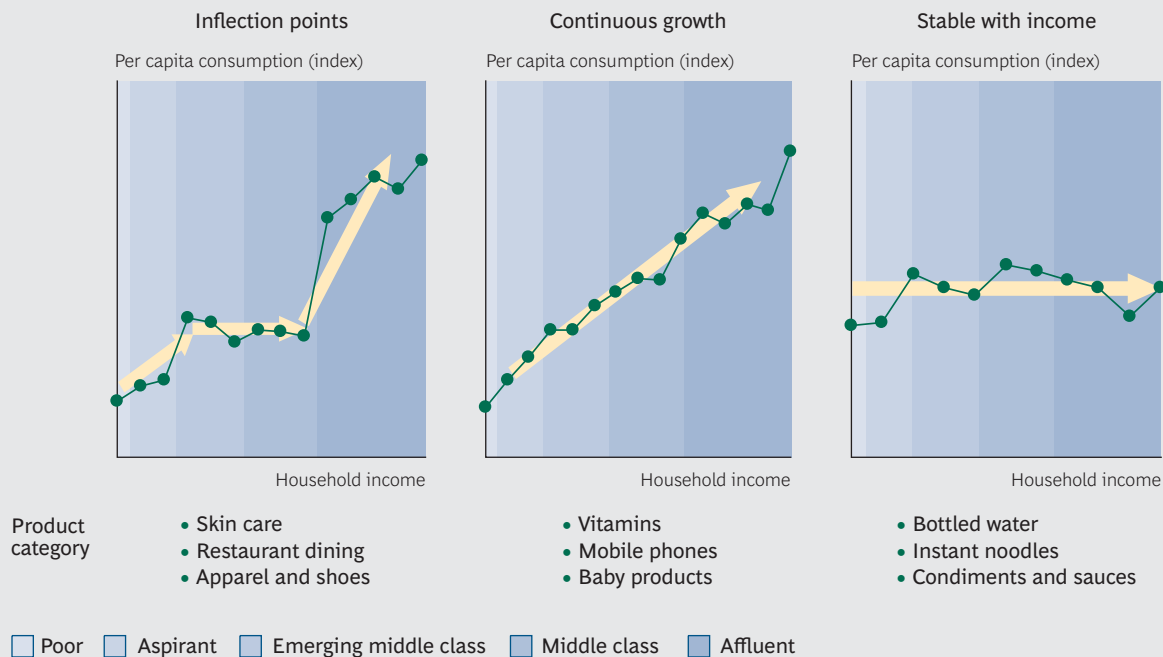
Definition ¹		Percentage of households		Percentage of private consumption	
		2011	2020	2011	2020
High-net-worth individuals	More than \$1 million in assets	0.1	0.3	3	7
Upper affluent	Urban-household annual disposable income is more than \$40,000 but less than \$1 million	3	8	9	15
Lower affluent	Urban-household annual disposable income is \$20,000 to \$40,000	6	12	14	20
Middle class	Urban-household annual disposable income is \$12,000 to \$20,000	8	14	14	15
Emerging middle class	Urban-household annual disposable income is \$8,000 to \$12,000	12	13	16	11
Poor and aspirants	Urban-household annual disposable income is less than \$8,000	22	12	18	6
Rural	Rural residents	49	41	25	25

Sources: BCG’s Center for Consumer and Customer Insight; BCG’s China City Income database.

Note: Columns may not sum to 100 percent as a result of rounding.

¹Disposable income thresholds are expressed in real 2010 U.S. dollars at an exchange rate of 6.3 (renminbi to dollars).

EXHIBIT 2 | Chinese Consumption Patterns Vary by Product Category



Sources: BCG's Center for Consumer and Customer Insight; BCG's Category Consumption database.

Note: The consumption patterns are summarized on the basis of annual spending per capita for fast-moving consumer goods and spending per capita in the past 12 months for durable goods.

Given the expected growth of the affluent class, the categories best positioned for takeoff are those with higher thresholds of affordability and those with greater product or service differentiation. Cars and overseas travel are prime examples, as are personal luxury goods, including watches, jewelry, apparel, leather goods, accessories, skin care, and cosmetics. The category of personal luxury goods is projected to expand fivefold to nearly \$190 billion by 2020 from today's \$40 billion.

Comparing today's per capita spending by the affluent on personal luxury goods with that of HNWI individuals showed that the former spend only 5 percent of what the latter spend. Nevertheless, because the affluent class is such a diverse and fast-growing consumer base, by 2020 we expect that it will account for 75 percent of the \$150 billion growth in the personal-luxury-goods market. By contrast, HNWI individuals will represent only 20 percent of this growth.

Categories related to personal care and lifestyle are also poised for takeoff. Spending on products in these categories sees a jump when consumers first enter the middle class. Then their spending levels out. When a consumer "graduates" to the affluent class, spending jumps again, often even more sharply; affluent consumers purchase larger quantities more frequently and at much higher price points.

The per capita spending in some of these categories will grow to be comparable to that in developed markets. For example, the amount China's affluent women will spend on facial care per year will triple from today's level to an average of \$125 per

adult female by 2020—40 percent higher than the projected \$90 per year for women in the U.S. Spending on in-restaurant dining (excluding quick-service restaurants) will also reach levels comparable to those in the U.S.: by 2020, China’s affluent will spend \$950 per person per year in this category.

Despite slowing GDP growth, China remains the most “consumption friendly” market globally, according to our annual multicountry consumer research. A full 37 percent of Chinese consumers plan to increase discretionary spending this year, compared with less than 10 percent of consumers in developed countries. This striking difference in spending plans is, to a significant extent, driven by the intentions of China’s affluent class.

Trading Up and Standing Apart

Most of the 120 million members of the affluent class graduated from the middle class during the past five years and did so through their own relentless hard work; many are entrepreneurs below the age of 45. The Boston Consulting Group surveyed and interviewed 3,000 affluent consumers, and several key attitudes and behaviors emerged that set these consumers apart from those below and above them in the income pyramid.

LOOKING FOR EMOTIONAL GRATIFICATION

A salient feature of the affluent class is its strong desire to trade up. These consumers are enthusiastic about shopping—particularly for the very best they can afford. Their spending is bolstered by their greater sense of financial security, which makes them less sensitive to price increases or negative changes in economic conditions.

Whereas middle-class consumers tend to seek tangible benefits and concentrate their spending on functional items, affluent consumers attach great importance to the emotional benefits they receive. Therefore, they spend not only on practical products but also on entertainment, items that enhance their lifestyle, and anything else that provides enjoyment or creates a sense of reward. As one interviewee told us, “It’s now about how to enjoy life and no longer about merely getting through life.”

This phenomenon can be seen in the popularity of imported sparkling water among affluent consumers in top-tier cities such as Beijing and Shanghai. Brands such as S.Pellegrino cost 15 times more than locally produced bottled water, yet it is not uncommon for affluent diners to order imported sparkling water when eating out. Many interviewees told us that they were first exposed to sparkling water during a trip to Europe and enjoy reliving that experience by having it with a meal in China.

Chocolate is another example. Sales of upscale boxed, assorted chocolates, such as Ferrero Rocher, have risen rapidly over the past couple of years, partly driven by gift giving. At the higher end, premium *chocolatiers*, such as Debaube & Gallais and Godiva, have been expanding in top-tier cities to cater to those looking to pamper themselves (or others) with a fine-chocolate consumption experience.

Despite slowing GDP growth, a full 37 percent of Chinese consumers plan to increase discretionary spending this year.

SEEKING STATUS AND RECOGNITION

As their income grows, Chinese consumers exhibit a strong desire to convey—even “celebrate”—that they have moved up the socioeconomic ladder. Buying brands that were once out of reach but are now affordable is the most effective way for the newly affluent to exhibit their status. Hence, these consumers are key entry-level buyers of personal luxury goods, among other products.

“Luxury goods symbolize the advances I have made in my career and social status,” said an interviewee. “Wearing well-known brand names gives me a big confidence boost,” declared another. These statements evince both self-celebration and the desire for greater recognition, another key driver of affluent consumers’ passion for luxury products.

Trading up is often triggered by the need to attend business and social events. In fact, this pressure is responsible for 80 percent of such purchases.

Additionally, China’s affluent often feel enormous social and peer pressure to “look good.” Trading up is often triggered by the need to attend business and social events at which affluent consumers influence, and are influenced by, the people around them. In fact, this pressure is responsible for 80 percent of such purchases.

“Luxury goods are a necessary tool for business,” commented an interviewee. “My clients talk to me with much more respect if they see me surrounded by luxury.” Another interviewee told us that he bought a new Mercedes-Benz because he felt embarrassed to drive his Buick to a class reunion. Similarly, many affluent consumers are also rapidly shifting their public-drinking habits from consuming domestic alcohol to ordering imported red wine when entertaining guests.

DEMONSTRATING GREATER SOPHISTICATION

In some ways, many middle-class consumers are only slightly more sophisticated than they were as aspirant and emerging middle-class consumers, relying to a great extent on domestic offline channels and brand-driven advertisements for their product information. By comparison, the affluent tend to be more sophisticated or westernized. They have greater exposure to outside influences and higher incomes to support a more sophisticated lifestyle. As an example, affluent consumers travel abroad much more than those in the middle class and have the experience of shopping in other countries. As a result, they have a greater awareness of global lifestyle trends and tend to become early adopters of new concepts in China.

Home renovation and decoration choices for affluent consumers, for example, may reflect their perception of a sophisticated international lifestyle. They may invest in purchases for enjoyment and leisure, such as an imported coffee machine, a digital movie projector and screen, an Xbox game console, or a Bose acoustic system. The affluent also seek out unique items, which they see as an expression of their personal taste and individuality as well as a confirmation of their refinement.

An offering from some Peninsula hotels provides more evidence of affluent consumers’ desire to enjoy, and learn about, the “good life.” The company recently launched the Lifestyle Academy at its Hong Kong, Shanghai, and Beijing properties to teach the newly affluent table etiquette, as well as how to order food and how to host dinner parties, among other skills.

PAYING MORE FOR CONVENIENCE

As in any modernizing and urbanizing country, the pace of life in China is constantly accelerating. More than half of our affluent respondents stated: “I never have enough time.” Thus, consumer products and services that offer convenience or provide time-saving solutions are becoming increasingly popular.

For example, affluent consumers have much less time to pore over the offerings from thousands of individuals on Taobao, the leading and long-standing e-commerce marketplace. They also have less time to deal with faulty merchandise. Increasingly, they are opting to pay slightly higher prices on business-to-consumer websites to save time and to have the peace of mind that comes with purchasing quality products. (See *The World’s Next E-Commerce Superpower: Navigating China’s Unique Online-Shopping Ecosystem*, BCG report, November 2011.) Consequently, e-commerce is shifting from the still dominant marketplace model to one that is increasingly business-to-consumer. The latter accounts for 18 percent of the total value of online transactions today and is set to increase to 40 percent by 2015.

MAXIMIZING “RETURN ON INVESTMENT”

Despite the security that their disposable income brings, the affluent are not worry-free. Unlike HNW individuals, the affluent still compare brands and prices before making a purchase, and they still prefer saving to spending. They also say that they feel “the financial pinch” from time to time.

Many affluent, in fact, view their spending decisions through a “return on investment” lens. Luxury for them is an important investment. They need to “justify” their spending and make sure that they are making the “right” purchases.

The affluent are therefore unwilling to pay more for products that do not generate good “returns.” There is a similar unwillingness to pay a premium for products that do not meet their definition of luxury. In this respect then, the affluent can be quite shrewd shoppers. Additionally, the affluent are more likely to purchase items such as wristwatches that visibly convey their new-found status and less likely to trade up on functional or less-visible items. For example, 72 percent of affluent consumers bought mass-market casual wear during the previous 12 months, while only 15 percent bought mass-market bags and accessories.

Maximizing return on investment is critical to “wealth preservation,” a key objective for the affluent. Purchases that feel like investments because they may appreciate in value—even though many affluent consumers seldom resell items—are much more compelling and easy to justify. Products such as fine wines, luxury watches, or special-edition handbags are highly appealing. Recommendations from connoisseurs often boost sales of premium and even midrange products.

A Rapid Evolution

By 2020, China will have 160 million additional affluent consumers. As that number swells, the characteristics of this pool of consumers will become more complex and diverse. This is primarily because of four trends currently emerging.

Increasingly, the affluent are opting to pay slightly higher prices on business-to-consumer websites to save time and have the peace of mind that comes with purchasing quality products.

A GREATER NUMBER OF AFFLUENT CONSUMERS ARE RESIDING IN LOWER-TIER CITIES

As China’s lower-tier cities—those outside the top 40 and mostly located in China’s inland and western regions—continue to develop, the affluent class will see an ongoing infusion of new members. In fact, roughly 75 percent of future affluent consumers will come from lower-tier cities. Companies will need to have a presence in more than 500 cities (compared with 280 cities today) in order to reach a majority of affluent consumers. Companies must prioritize how they expand their reach—including their marketing and retail presence—so they can educate these newly affluent consumers about their brands and products.

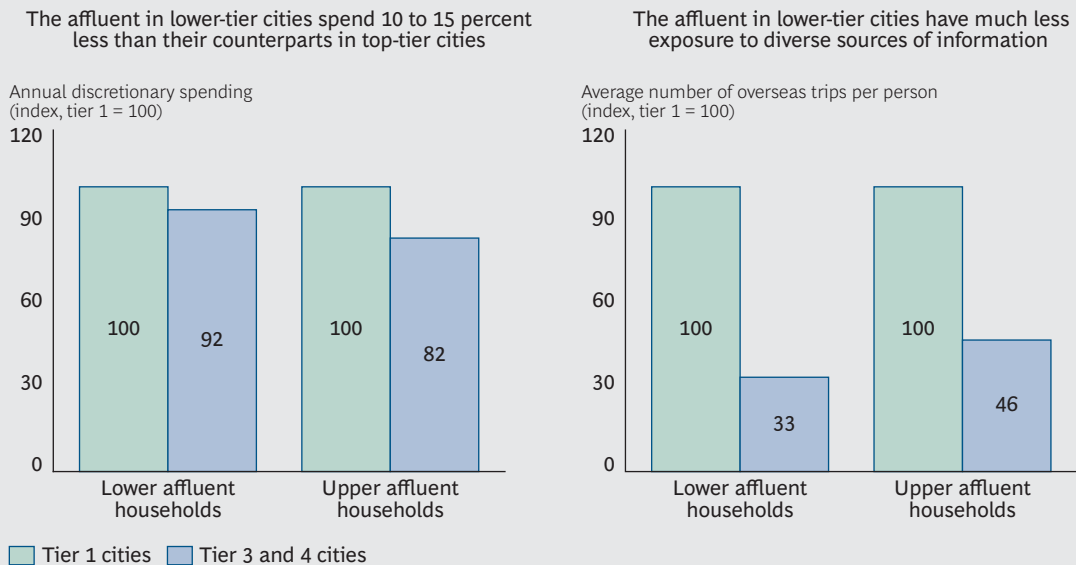
Although affluent consumers from lower-tier cities have many of the same attitudes toward luxury—and desire many of the same premium products—as their peers in top-tier cities, the amount they spend is much lower. This is due to less brand awareness, less exposure to product information, and less availability at local retail stores. As a result, this segment offers much more headroom for growth. (See Exhibit 3.)

WOMEN ARE BECOMING KEY DECISION MAKERS, AND MEN ARE EMBRACING NEW CATEGORIES

Gender consumption patterns will change. Brands will need to adapt and refine their product and service offerings to better serve the gender that they may be less accustomed to addressing.

More specifically and most important, affluent women are becoming more self-confident and independent than they have been, even more so than men. For example, more women than men agreed with the following statement: “I always decide what

EXHIBIT 3 | The Affluent Consumer Market in Lower-Tier Cities Has Headroom for Growth



Sources: BCG’s Center for Consumer and Customer Insight; BCG’s China City Income database.
 Note: Spending includes the purchasing of apparel, skin care, cosmetics, watches, and jewelry.

to buy by myself, no matter what others might think.” Women have also become key decision makers for luxury purchases. In fact, their spending on personal luxury goods—a category historically dominated by men—has increased from 25 percent in 2010 to 46 percent today. We expect it will continue to rise as the affluent become increasingly important.

As men cross the affluence threshold, they are generally becoming much more concerned about their appearance. They make purchases related to personal care more frequently and, on average, spend more per purchase, so there is a significant uptick in their consumption in these product categories. In facial care, for example, the per capita spending of men increases fourfold when they become affluent consumers.

Moreover, men increasingly rely on word-of-mouth recommendations, especially for apparel and personal care products. So in addition to women’s growing importance as affluent consumers, they will become more important as influencers for reaching affluent male consumers.

THE VETERAN AFFLUENT ARE PURSUING EXPERIENCES

The consumption patterns of the affluent change over time as they become wealthier and more confident. They begin to spend more not only on premium and luxury brands and bigger-ticket items but also on products and services that enhance their lifestyle, such as travel, entertainment, and personal services such as spa treatments.

This is not to say that “veterans” of affluence no longer care about material items. They still tend to buy items that visibly convey their status. Like the newly affluent, they want recognizable designs and logos, though perhaps more discreet versions. However, as they grow more comfortable as affluent consumers, they value and demand intangibles, such as excellent service at the point of sale.

This gradual evolution from buying products that symbolize affluence to being affluent can be seen in the overseas shopping experience. For the affluent, their main motivation is often not lower prices (many items, especially luxury goods, are cheaper overseas owing to higher duties and taxes in China). Rather, the affluent are looking for the latest merchandise, greater product variety, reliable product quality, and the professional in-store service and product knowledge offered in overseas retail outlets. The experiential factors are especially important in categories such as apparel; consumers can be won over by knowledgeable sales representatives who function as “stylists” and give fashion advice to their clients.

As today’s affluent settle into their wealth, the average length of their affluence will increase from fewer than five years to eight years. In other words, nearly half of the affluent population will be veterans by 2020. (See Exhibit 4.)

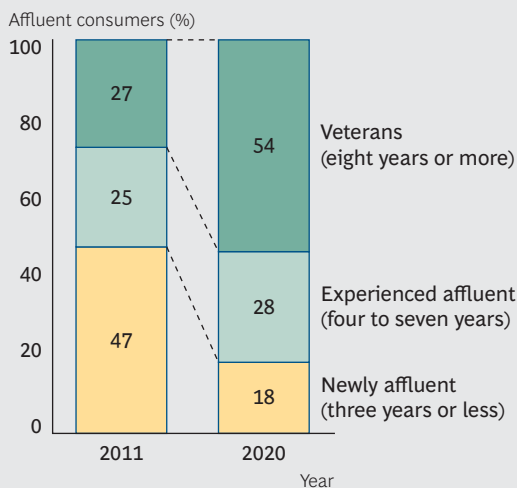
THE SUGAR GENERATION IS GAINING BUYING POWER

An important subgroup of the veterans of affluence is what we call the “sugar generation.” These are the children of current affluent consumers. At present, the

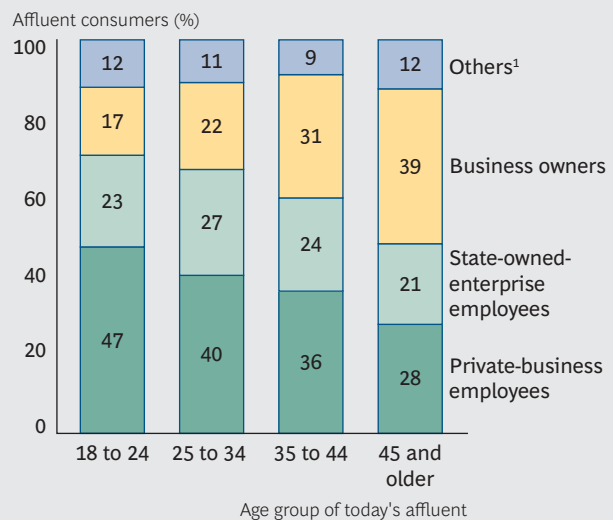
“Veterans” of affluence buy items that visibly convey their status, but they also value and demand intangibles, such as excellent service.

EXHIBIT 4 | Nearly Half of the Affluent Population Will Be Veterans by 2020

By 2020, half of all affluent consumers will have a long wealth history



The profile of the affluent class will evolve as the younger generation joins



Sources: BCG's Center for Consumer and Customer Insight; 2012 affluent-consumer research; BCG's China City Income database.

Note: Columns may not sum to 100 percent as a result of rounding.

¹Includes professionals, civil servants, and freelancers.

sugar generation makes up only 10 percent of the affluent population, but it will comprise more than 30 percent in five years.

The sugar generation is so named because its members have lived “sugarcoated” lives. Born in the 1980s and 1990s, they are typically from one-child families and have parents and two sets of grandparents to dote on them. Although children born into one-child families are said to be burdened by the likelihood of supporting multiple aging family members, parents of the sugar generation are affluent enough, and prudent enough, to be more than self-sufficient in retirement.

As a result, the members of the sugar generation have a more individualistic mindset, especially compared with those of older generations who came of age in a different socioeconomic era. The younger affluent strive to enjoy what life has to offer and are very comfortable consuming. They are also highly articulate about their emotional needs and view brands as tools for expressing their individuality. Therefore, they demand more from brands and may turn away from well-known or established brands, leaving opportunities for new and niche brands.

Because of their strong desire to be unique, consumers belonging to the sugar generation are tending to look for purchases that set them apart. Their identity is a work in progress, and they are choosing brands to reflect their current image. As a result, their brand choices are fragmented and in flux. The top five skin-care brands account for only 42 percent of overall skin-care spending by the sugar generation, compared with 83 percent by the previous generation. Moreover, the consumers of the sugar generation often do not like to use what their parents use;

they are actively seeking out new products and brands. Going forward, the sugar generation will be a force to contend with.

Capturing the Affluent Opportunity

China's affluent market is still in the early stages of development. Over the next eight years, 160 million newly affluent consumers are set to emerge. Many will be from lower-tier cities, and many will be women. The newly affluent will seek out brands that resonate with them—brands that address the unique and evolving motivations and emotions that drive their spending. This emerging group of consumers makes it critical to understand the shifting affluent landscape and act upon the implications sooner rather than later.

However, the competition is also intensifying, and consumers are rapidly becoming more knowledgeable about brands. For example, in 2009, only 22 percent of luxury goods buyers could correctly name more than three luxury-fashion brands without prompting. Three years later, that percentage has increased to more than 60 percent. The savviest brands will work quickly to strengthen their presence among affluent consumers over the next three to five years. We believe there are six primary levers companies can pull to capture the affluent opportunities that lie ahead.

MANAGE EXPANSION TO REACH THE AFFLUENT IN LOWER-TIER CITIES

In the process of expanding their reach, companies need to maintain the values and consistency of each of their brands. This requires having the right organization structure and the ability to attract, train, and retain talent, which is often particularly challenging in smaller cities.

Companies also need to adopt a more regional or local approach in order to market their brands more effectively to the affluent. This entails building a marketing and sales talent pipeline in lower-tier cities, which in turn requires systematic training programs to develop local resources. These efforts will help to maintain a consistent brand image and retail experience.

APPEAL TO THE AFFLUENT WITH A UNIQUE VALUE PROPOSITION

Successful brands will develop unique value propositions that address the needs or capture the imagination of the affluent. These propositions must be coupled with local marketing messages—messages that are different from those used elsewhere in the world—in part because of the relative youth and newness of China's affluent.

These value propositions will also need to be periodically refreshed, evolving with the affluent as they grow more sophisticated. This will require careful management of the corresponding marketing messages; what resonates with today's affluent may not appeal to tomorrow's consumer.

Häagen-Dazs has done many of these things well so far. It has built a premium brand in China—117 stores across 29 cities—by understanding local needs. It appeals to the sense of aspiration by positioning itself as the ultimate in desserts, continually offering new and elaborate concoctions that are available only in its sit-down restaurant-style shops and pricing pints at \$14 in retail outlets.

Over the next eight years, 160 million newly affluent consumers are set to emerge. The savviest brands will work quickly to capture the opportunities that lie ahead.

Häagen-Dazs has also exploited the enthusiasm for face-giving gifts among affluent Chinese. (Preserving or enhancing “face”—akin to maintaining social status or respect—is critical in China.) The company has developed premium offerings such as specially designed Chinese New Year gift boxes.

Hai Di Lao, a hot pot chain that was established in 1994 and that has more than 60 restaurants nationwide, is another great example of catering to affluent consumers’ growing demands for a memorable service experience. Hai Di Lao focuses on providing a level of customer service well above the norm. While customers wait for a table (lines of an hour or more are common), they can enjoy a complimentary shoeshine or manicure. Staff also proactively provide special protective pouches to prevent cell phones placed on tabletops from getting splashed with soup or sauces. Hai Di Lao continues to add new services. And it is because of these services that consumers are more than happy to pay an average 50 percent premium over other hot-pot restaurants.

For companies targeting the sugar generation, an effective brand-portfolio strategy may be one that has an appealing niche brand.

CONNECT WITH THE SUGAR GENERATION

For the coveted sugar generation consumers, brands serve as a means of self-expression. So when a brand becomes too common or too easily available, sugar generation consumers will shift away from it. Indeed, we have already observed that certain brands are beginning to lose their appeal among these younger consumers.

However, what constitutes a challenge for the best-known brands is an opportunity for more niche brands. For example, over the past ten years, Balenciaga regained its reputation for style and is currently perceived by the sugar generation to be a unique, cutting-edge brand with a distinctive personality. Our data show that Balenciaga’s penetration among members of the sugar generation is three times higher than it is among those of the same age group but with a shorter history of affluence.

For companies targeting the sugar generation, then, aggressive expansion may not always be the right approach. Rather, an effective brand-portfolio strategy may be one that has a brand with the broad reach needed to address newly affluent consumers and a niche brand that appeals to the sugar generation.

LEVERAGE WORD OF MOUTH THROUGH DIGITAL MEDIA

The affluent differ from middle-class consumers in that they not only like and trust word-of-mouth recommendations but also actively advocate for brands they like and seek advice on new brands to try. While middle-class and emerging-middle-class consumers are mostly concerned about price, the affluent are strongly drawn to “brand stories.” For example, the affluent scour the Internet for reviews and comments about interesting products. And when they do their online research, they are more likely to turn to user-generated content than official company websites.

To tap the power of these Internet-savvy shoppers and advocates, companies are embracing digital media in China and finding new and innovative ways to communicate with the affluent. For example, in 2010, Lancôme launched Rose Beauty, the first Chinese beauty-oriented online social network, which now has 4 million

subscribers. Users review and discuss beauty topics, including competing products. Lancôme suggests new topics, responds to consumers, and otherwise manages the perception of its brand and products within these conversations.

Vancl.com, China's leading online-clothing retailer, builds relationships with consumers through Weibo, a Twitter-like microblogging platform. Vancl.com has more than 400,000 followers or fans. It takes the subtle and unconventional approach of encouraging casual chatter on topics of general interest rather than pushing its products or any brand message.

Even global high-fashion luxury brands are leveraging social media in China. Burberry, for example, streamed its Milan runway show live on Youku (a Chinese online-video portal similar to YouTube) and attracted more than 1 million views.

Digital strategies are also employed outside the luxury, fashion, and beauty sectors. Starbucks, for example, engages with consumers using Starbucks' mobile applications, which allow users to check menu items and promotions, find a store, and make a Weibo post. To deepen the level of social interaction, Starbucks is now experimenting with having its fans engage through *Weixin* (WeChat), a mobile-messaging application that has more than 200 million users. As part of the experience, users can receive exclusive updates and offers from Starbucks.

DEVISE AN E-COMMERCE STRATEGY

According to our research, 60 percent of affluent consumers shop online and across multiple categories (compared with less than 40 percent of middle-class consumers). Moreover, the affluent have shifted a significant portion of their spending from brick-and-mortar stores to online channels. For example, 32 percent of skin care consumers have purchased online, and they claim that 20 to 30 percent of their total skin-care spending is now online. As noted earlier, online shopping habits are shifting from the traditional marketplace model dominated by Taobao to business-to-consumer platforms.

Before jumping into e-commerce, however, companies must first develop a customized online strategy that accounts for the unique behaviors, demands, and challenges of China's e-commerce shoppers, and in particular, of its affluent. (See *The World's Next E-Commerce Superpower: Navigating China's Unique Online-Shopping Ecosystem*, BCG report, November 2011.)

PROMOTE AND SELL TO CHINESE OVERSEAS TRAVELERS

Traveling overseas to shop, or shopping while on overseas vacations, especially for premium products, is obviously a significant trend that will most likely persist in the coming years for the reasons we discussed earlier. Indeed, for some time now, luxury brands have been hiring more and more Chinese-speaking staff to work in their stores outside China.

To take advantage of this phenomenon, retailers and brands need to stay on top of affluent-traveler trends and devise strategies to more effectively serve and capture the attention of these overseas shoppers. In many cases, the brand exposure and experiences affluent consumers have while traveling leave a deep impression and

Sixty percent of affluent consumers shop online. Moreover, they have shifted a significant portion of their spending from brick-and-mortar stores to online channels.

help to build brand credibility. Many affluent consumers told us that their impression of a foreign brand's quality was completely changed after visiting an overseas flagship store located in a prominent and prestigious area. Providing a memorable customer-service experience in overseas stores—and investing in prominent advertising, local-language assistance, and overseas retail locations—not only boosts overseas sales but also impacts sales in China. Affluent travelers take note of what they see and experience, and they continue to seek the brands they admire when they return home.

THE AFFLUENT CLASS will be a crucial driver of the growth of China's consumer market over the next decade. As more members of the middle class become affluent, however, the characteristics of this class will evolve. They will become more complex and diverse as more affluent consumers live in lower-tier cities, as the current affluent become veterans, and as the brand-savvy sugar generation becomes a larger portion of this class.

To benefit from these trends, companies need to consider how to best connect with affluent consumers. Businesses must expand their footprint, fine-tune their brand message, and offer an engaging experience. Digital-media and e-commerce strategies must tap into the affluent's trust of new media and increasing preference for online shopping. And companies must stay on top of overseas-shopping trends.

The affluent opportunity promises great rewards for those companies that can quickly adapt to and evolve with this dynamic consumer class. The age of the affluent is here.

NOTE

1. All income data in this report are in 2010 real values.

For Further Reading

The Boston Consulting Group has published other reports and articles related to the affluent Chinese consumers, including the following:

The \$10 Trillion Prize: Captivating the Newly Affluent in China and India

A Harvard Business Review Press book by Michael J. Silverstein, Abheek Singhi, Carol Liao, and David Michael, October 2012.

Luxe Redux: Raising the Bar for the Selling of Luxuries

A Focus by The Boston Consulting Group, June 2012

China's Digital Generations 3.0: The Online Empire

A report by The Boston Consulting Group, April 2012

The World's Next E-Commerce Superpower: Navigating China's Unique Online-Shopping Ecosystem

A report by The Boston Consulting Group, November 2011

Dressing Up: Capturing the Dynamic Growth of China's Fashion Market

A Focus by The Boston Consulting Group, July 2011

Taking Off: Travel and Tourism in China and Beyond

A report by The Boston Consulting Group, March 2011

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