China’s Middle Income Consumers

Working in partnership to grow UK-China trade and investment.
China's middle income consumers, and their changing lifestyles and behaviours, will play a significant part in China's shifting emphasis from investment and export led growth towards consumption led growth. This report takes many of the commonly known perceptions of Chinese consumers, looks beyond the headlines, and offers practical advice on next steps to succeed in China. It will make essential reading for companies in the fashion, retail, automotive, real estate, tourism, education and healthcare sectors.

British companies have long been market leaders and pioneers around the world. Our reputation for excellence, innovation, design and ambition is well-recognised in China. As these discerning middle income consumers start to want to stand out from the crowd and enjoy the benefits of an improving lifestyle, the UK has a world-class offering to meet this growing consumer demand, from fashion, design, food and drink, to luxury cars, not to mention our world-famous tourist destinations, world-renowned education and healthcare services.

The China-Britain Business Council (CBBC), which has 60 years of first-hand experience in the Chinese market, is the leading organisation that helps British companies to develop their business with China. We have 10 offices in the UK and 13 across key locations in China, and the wealth of practical support and guidance we offer British companies is only an email or telephone call away. As business relations between our two countries reach new heights, there has never been a better time for British and Chinese companies to make use of the support offered by CBBC.

I hope this report helps you in understanding the opportunities that China's middle income consumers create, and helps to deliver the success your business aspires to in China.

Stephen Phillips
Chief Executive, China-Britain Business Council
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Foreword

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1. Introduction

1.1 Background to the report

This report is for UK companies entering or expanding in China who may have already heard a lot about headline trends of China’s rapid economic growth, urbanization and growing middle income population. It intends to provide some analysis and commentary on these key themes to help companies understand more about who these Chinese middle income consumers are, how and why they are changing, and about their lifestyles and buying behaviour.

It highlights their importance as China aims to move towards a consumption-led economy rather than investment- or export-led economy, and put this into context with the bigger changes China is going through and challenges it faces over the next decade. It also seeks to go beyond some of the key headline facts often reported:

• 160 cities in China with a population over 1 million
• 725 million people already live in China’s cities
• 260 million urban households (adding 100 million in next 10 years)
• GDP growth over 8% a year for last 10 years (2014 forecast: 7.5%)

It highlights the increasing diversity, complexities and opportunities in targeting China’s middle income consumers, and addresses some potential business opportunities for UK companies. It looks specifically at certain sectors, including luxury retail, e-commerce, healthcare, education, property, automotive, leisure and entertainment, and travel and tourism.

This report is based on CBBC’s extensive analysis of market data, our own research and observations on behaviour of middle income consumers in China and an in-depth review of studies by other experts and organisations. The report is divided into three sections:

• Section 1 looks at who these middle income consumers are
• Section 2 explores what they do and buy, particularly in the context of the above market sectors
• Section 3 considers some key points for UK companies and practical steps to take for China

1.2 Consumption-led economic growth

China’s middle income consumers will be an important driver of economic growth in the coming decade, as its aims to be a more consumption-led economy; continues its mass urbanisation plans; moves up the value-chain through a higher-skilled work-force; and aims to foster more innovation and entrepreneurship. This transition towards a consumption-led economy will create potentially lucrative opportunities for UK companies targeting at the growing Chinese middle incomes.

China currently has the fastest annual growth in household consumption worldwide, however investment in infrastructure and exports still drive economic growth, and household savings rates are growing faster than consumption rates.\(^1\) Consumption-to-GDP has actually fallen (40% in 2010 to 36% in 2012)\(^2\) and remains substantially lower than most of its Asian neighbours and Western countries.

![Consumption to GDP ratio compared with other major economies](chart.png)

Source: IMF
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\(^1\)Consumption-to-GDP
\(^2\)Source: IMF
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Although there is great potential for consumption led growth, many commentators have different views on the speed and levels to be expected.

Nielsen forecasts average household consumption could rise to 45-50% of GDP by 2020, but this requires the Chinese government to continue to make steady progress in expanding the service sector, reforming the financial sector and improving the social welfare system to help boost income and lower savings.

Household consumption-to-GDP ratio could rise to 45-50% by 2020

1.3 Challenges & pressures

China’s increasing elderly population is a challenge. The over 60s will account for over 30% of the population by 2040, and supporting them will put increasing financial demands on China’s middle income consumers.

China’s total workforce is currently declining at 3.5 million a year

China’s long-standing one-child policy has also created challenges. China’s total working population is declining annually by 3.5 million and will continue to shrink by 8 million a year after 2022. This inevitably has a limiting effect on output and consumption growth.

In 2014, China started to allow married couples (if one spouse is an only child) to have two children. This will add between 1-2 million new births a year, in an attempt to boost the long-term available workforce. A middle income employee’s salary therefore will often need to support a household that includes a spouse, young child and possibly four aging parents, putting demands and limitations on their spending power.

The middle income group is disproportionately affected by the boom in urban house prices, and many new, younger middle income consumers that have moved to the larger cities for better work, cannot afford to buy. As home ownership is still seen as a precondition for marriages in Chinese culture, it has longer-term implications on family structures and relationships.

China’s continued urbanisation exacerbates issues of pollution, environmental degradation, water supplies, food safety and healthcare. China is looking to imports to sustain its food demands, which has less benefit for its own economy and inflates global food prices. For example, rice imports have increased over 500% in the past four years, and wheat imports increased by nearly 200% in 2013 alone.
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China’s total workforce is currently declining at 3.5 million a year.

China’s one-child policy creates a burden of elderly care and children’s education.

China’s property boom is affecting younger middle-income populations trying to get on the property ladder.

China’s urbanisation exacerbates health and environmental issues, the cost of water, food safety and prices.

For example, rice imports have increased over 500% in the past four years, and wheat imports increased by nearly 200% in 2013 alone.
2. China’s middle income consumers

2.1 Market trends

There are around 725 million people living in Chinese cities and this number is increasing every year. Average incomes are rising but so is the cost of living. An average urban employee earns around RMB 50,000 (£5,000) a year and average urban households disposable income is RMB 27,000 a year (£2,700) – a five-fold increase compared to 2000.\(^5\)

McKinsey defined China’s middle income consumers as those with a household disposable income between £6,000 and £23,000 a year, and CBBC believes that these numbers should soon be updated to around £10,000 to £30,000 a year. These middle income consumers have a disposable income at least twice and up to eight times the national average.

Already 260 million urban households and another 100 million in the next 10 years

The number of urban households has increased from around 160 million in 2002 to around 260 million in 2012 (100 million more in 10 years) and this will continue to rise, with around 360 million predicted by 2022.\(^6\) Around 70% of these urban households are already in the middle income brackets, amounting to 175 million urban middle income households.

Household consumption to triple in next 10 years, reaching £2.7 trillion by 2022

Driven by this rapid rise in urban middle income households, China’s household consumption is expected to rise from around £1 trillion in 2012 to around £2.7 trillion by 2022. Overall, middle income consumers will account for around 70% of total household consumption and the share of ‘upper’ middle income consumers will rise from 20% to 56%.

70% of all household consumption will come from middle income consumers

Source: McKinsey, annual urban disposable income per capita

![Number of urban households (million)](image)

Source: National Bureau of Statistics

![Average income (urban employee) (RMB)](image)

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![China’s household consumption (RMB billion)](image)

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China’s middle income consumers

2.2 Geographical distribution

Already 160 cities with a population of more than 1 million, and the top 41 cities account for 50% of China’s GDP

China has more than 160 cities with a population of greater than 1 million, and the top 41 first- and second-tier cities account for 23% of China’s population and over 50% of total GDP.7

In 2002, 40% of urban middle income consumers lived in Beijing, Shanghai, Guangzhou or Shenzhen, but this will fall to 15% by 2022. 85% of them lived in the eastern coastal regions in 2002, but this will also fall to 60% by 2022. China’s income distribution is slowly rebalancing towards the West and North, away from East and South China, and away from the first-tier and second-tier mega-cities to the medium and smaller sized cities.

Newcomers often mistakenly see China as one market, rather than multiple markets with a very diverse mix of lifestyles, cultures, languages, tastes and preferences, and consumer behaviour. Savings rates vary considerably. In first-tier cities, people save as much as 60% of their income while consumers in second- and third-tier cities are spending more.9 First- and second-tier city shoppers also tend to be less brand-loyal, choosing from a wider range of brands.

Those residing in smaller cities and inland areas are more traditional and conservative in their consumption compared to those in coastal areas, and they tend to be more price-sensitive and focused on functionality and durability. Whereas, consumers in coastal cities care more about brand reliability and consider emotional needs as important in their purchasing decisions.10

As China develops at different rates across its vast regions, companies should take time to consider which cities to target and undertake in-depth research into local areas. In the more developed cities, consumers are often more sophisticated and discerning in their spending as the market becomes more mature and competitive. Whereas, in cities that are seeing rapid growth, companies will have to overcome difficulties in distribution and retail, but the rewards may be relatively higher in these untapped markets.11

Slow rebalancing to West and North China and from megacities to smaller lower tier cities

Across China there is a diverse mix of lifestyles and consumer behaviour

> China’s top 41 cities account for:

- 23% of population
- 51% of GDP
- 50% of sales of consumer goods

First-tier “Big Four”
Four largest cities with highest income, large population base and largest GDP proportions

Second-tier (2a)
“Mainstream” (16 cities)
Relatively low income, but large population base

Second-tier (2b)
“Niche” (10 cities)
Wealthy consumers, but relatively small overall market size

Second-tier (2c)
“Climbers” (11 cities)
Large population, high income, and large GDP

Second-tier (2d)
“Chongqing” (4 cities)
Large population, high income, and large GDP

Source: Luxury China, Marketing Opportunities & Potential, Chevalier & Lu

Image: Map of China's top 41 cities with demographic and economic data.
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3. Changing lifestyles & behaviours

With growing purchasing power and more Western brand preferences, China’s middle income consumers are an obvious target market for UK brands. They have a stronger demand for imported household goods, clothing and food produce; they are increasingly pursuing car ownership; and are investing in private healthcare.

They are spending more money on leisure, entertainment and overseas travel; and they are gradually shifting from luxury brand-led purchases to choices based on product quality, unique designs, individualism, leisure experience and personal benefits.

This section considers various aspects regarding the middle income consumers’ saving, spending habits and consumer behaviour:

- Savings rates
- Luxury spending
- E-commerce
- Social media use
- Travel & overseas spending
- Leisure & entertainment
- Car ownership
- Property ownership
- Private healthcare
- Overseas education

3.1 Profiles & segmentation

China’s middle income consumers are typically younger than in many other countries, and this is reflected in their consumer behaviour and lifestyles with more than half under 45 years old.

China’s middle class, by age demographics

Source: Forbes China, 2013

Consumer types most interesting to Western brands are progressive affluent spenders and trendy aspirers

Mintel clustered middle income consumers into four types: progressive affluent spenders (18% of respondents), trendy-aspirers (28%), value-led buyers (26%) and conservative spenders (28%). The progressive affluent spenders and trendy-aspirers are more likely to buy Western brands.

Over 70% of the middle income groups buy well-known international brands, with the progressive affluent spenders having the highest demand (84%) and conservative spenders at least 53%.

However, more than 80% of respondents claimed that quality is more important than brand name. Conservative spenders in particular think that designer brands and luxury consumption are wasteful and they are shifting towards pursuing domestic mid-market brands.

70% of middle income consumers buy well-known brands

Source: Mintel

Middle income consumer segments

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They are shifting from brand-led to more personal choices, experiential benefits, quality and design-led.

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3.2 Savings rates

For this middle income group, economic and family pressures encourage high savings rates. The need to ensure their family’s healthcare and education are amongst the top reasons why they save so much, and the emerging middle income citizens struggle to try to find a balance between conservative saving and spending their hard-earned money in order to reflect their new social status.

CBBC estimates that on average China’s middle income consumers save around 30% of their salary, which typically increases as consumers earn more. Even the lower middle income consumers aim to save a minimum of around 25% of their salary. The typical reasons for saving were children’s education, parent’s elderly care, property purchases, financial investments, marriage and family planning.

Mintel analysed what satisfies these Chinese middle income consumers and focused on three main factors for a happy life, namely a good work-life balance, a good circle of friends and family, and having enough time to unwind and relax - simple pleasures, family and job security.

Despite the desire to express their wealth, new found financial freedoms and self-identity, many are also prioritising a healthier lifestyle and are paying more attention to environmental and public welfare issues. Many are prepared to pay a premium for healthy food and private healthcare, and this opens up opportunities for companies with healthy/natural, environmentally friendly and sustainable products.

3.3 Luxury spending

Chinese consumers now account for around 30% of the global luxury market and China is forecast to become the world’s largest luxury goods market by 2020. They are also driving the global market, as two-thirds of total luxury spending by Chinese nationals is done overseas.

Domestically, Chinese middle income consumers already accounts for over 70% of the luxury-goods market, and more than 75% said they had bought a luxury item last year. A luxury item, for the majority, is priced between RMB 5,000-10,000 (around £500-£1,000) – that’s more than one month’s salary, and nearly 50% said they have spent one month’s salary on one luxury item, and a further 23% said they spent more than two month’s salary. The main items were handbags, clothing, jewellery, shoes and cosmetics.

One striking characteristic of luxury consumers in China is their youth, compared to elsewhere in the world. 45% of China’s luxury consumers are aged 35 or younger, compared to less than 30% in Western Europe.

A typical Chinese luxury consumer may be very status-conscious, and often shifts brands in response to social trends or changes in their personal status, and they therefore tend to be less brand-loyal. Often, the brand heritage, traditions and values may fail to appeal to Chinese consumers and foreign luxury brands need to appeal to changing local tastes, values and brand image.

As China’s middle income population growth shifts to lower tier cities, so does the growth in the number of aspiring luxury consumers. Their relatively low living expenses, often enables them to splurge on luxury goods. Bain & Company highlighted that two-thirds of the luxury sales growth is coming from new customers, particularly in lower tier cities.
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3. Changing lifestyles & behaviours

CBBC segments luxury consumer buyers into three simple types, based on their willingness to buy luxury items:

- **“Regular luxury buyers”**: account for about 20% of all buyers, who often have already bought many luxury brands, including UK brands, such as Burberry, Alfred Dunhill, Clarks, Vivienne Westwood, Alexander McQueen and Paul Smith. Most see them as status symbols and are willing to pay over twice a monthly salary on one item (up to RMB 40,000, or £4,000).

- **“Occasional luxury buyers”**: about 70%, who would mainly buy luxury items for special occasions, are subjective and rational in their purchase, more quality and design-driven, and often would regard luxury purchases as ‘too flashy’. They are willing to spend about one month’s salary on one personal luxury item. The majority are not familiar or knowledgeable about luxury brands, except the famous ones such as Burberry.

- **“Conservative buyers”**: 10% would never purchase luxury items and see them as a waste of money.

In 2013, Mintel looked at Chinese middle income consumers aged 20-50 years old (white-collar workers, earning at least RMB 8,000 (£800) a month in first-tier cities or RMB 6,000 (£600) a month in second or third-tier cities).

They highlighted that although Western products have a strong appeal, the middle income groups are becoming increasingly sophisticated and self-confident. Brands wanting to succeed in this market need to adapt to local tastes and preferences, rather than assuming that the interest in the West will be enough to guarantee sales.

As more middle income consumers are being exposed to Western culture, they are now more used to Western brands and products. They are increasingly not buying brands such as Starbucks, BMW and Apple to be associated with the West, but because they have become a part of the modern, Chinese middle income lifestyle.

**CASE STUDY**

**Burberry** has opened 78 stores in 36 cities in China, and apart from Shanghai, Beijing and Chengdu, it has a presence in many second-tier and third-tier cities.

They highlighted that they are not only focusing on sales growth, but also to elevate brand perceptions of Burberry for long term stability and growth. Instead of opening a lot of stores, they are targeting the right size of the stores in the right locations that represent its brand image. Luxury consumers in China are growing and evolving rapidly, and they want to stay away from big brands.

Burberry no longer focus on their check design, an iconic symbol in China, and are evolving their trench coat range as the backbone of the brand. “It is not something flashy; it’s classic, sophisticated and everlasting. Quality means a lot to Chinese consumers.”
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- **“Occasional luxury buyers”**: about 70%, who would mainly buy luxury items for special occasions, are subjective and rational in their purchase, more quality and design-driven, and often would regard luxury purchases as ‘too flashy’. They are willing to spend about one month’s salary on one personal luxury item. The majority are not familiar or knowledgeable about luxury brands, except the famous ones such as Burberry.

- **“Conservative buyers”**: 10% would never purchase luxury items and see them as a waste of money.

In 2013, Mintel looked at Chinese middle income consumers aged 20-50 years old (white-collar workers, earning at least RMB 8,000 (£800) a month in first-tier cities or RMB 6,000 (£600) a month in second or third-tier cities).

They highlighted that although Western products have a strong appeal, the middle income groups are becoming increasingly sophisticated and self-confident. Brands wanting to succeed in this market need to adapt to local tastes and preferences, rather than assuming that the interest in the West will be enough to guarantee sales.

As more middle income consumers are being exposed to Western culture, they are now more used to Western brands and products. They are increasingly not buying brands such as Starbucks, BMW and Apple to be associated with the West, but because they have become a part of the modern, Chinese middle income lifestyle.

**CASE STUDY**

**Burberry** has opened 78 stores in 36 cities in China, and apart from Shanghai, Beijing and Chengdu, it has a presence in many second-tier and third-tier cities.

They highlighted that they are not only focusing on sales growth, but also to elevate brand perceptions of Burberry for long term stability and growth. Instead of opening a lot of stores, they are targeting the right size of the stores in the right locations that represent its brand image. Luxury consumers in China are growing and evolving rapidly, and they want to stay away from big brands.

Burberry no longer focus on their check design, an iconic symbol in China, and are evolving their trench coat range as the backbone of the brand. “It is not something flashy; it’s classic, sophisticated and everlasting. Quality means a lot to Chinese consumers.”
3. Changing lifestyles & behaviours

3.4 E-commerce

China’s middle income consumers are very technologically savvy, with over 95% owning a smart phone and a computer, and 85% have experience of online shopping. Their purchasing of clothing, accessories and electronics is driving the growth of online retail. Nearly 60% of China’s online shoppers are aged under 30 years old, also often in second or third-tier cities, where in-store purchases are lower.

E-commerce fulfills often unmet demand from an increasingly sophisticated group of the younger middle income consumers who live far away from major shopping centres. On Chinese Singles Day (11th November) in 2014, Alibaba recorded total sales worth RMB 57.1 billion (£5.7 billion), up by 63% from 2013. And 43% of sales happened via mobile payments, doubling from 21% last year.

China’s e-commerce market will reach RMB 30 trillion (£3 trillion) by 2020, which will be larger than the US, UK, Japan, Germany and France markets combined.

E-commerce and m-commerce will continue to be powered by China’s middle income consumers, and these younger middle income urbanites have a strong demand for convenience, immediacy and cost savings, and they have access to online retailers through their mobile devices and credit cards to facilitate payments.

CBBC found that product quality is the most important factor for online products, followed by price, brand name, delivery, after-sale service, variety, payment methods and website design.

CBBC estimates that the average online spending by Chinese middle income consumers is about RMB 1,000 (£100) per month and more than half shop online every month. There is strong demand for imported products including food and beverages, clothing and cosmetics. Imported products account for around 25% of their total online consumption. CBBC highlighted a prime target segment of around 30% of middle income consumers who regularly shop online for imported products.

3.5 Social media

Social media is now an essential part of any brand’s marketing strategy in China, and China’s middle income consumers are eager to share information about brands they like and those they do not. This can work to a marketer’s advantage but may also devastate a company’s reputation. Consequently, there will be growing opportunities as well as challenges for retailers when trying to capitalise on these social media channels to strengthen their market position in China.

60% of Chinese middle income consumers make use of social media to share a good or not-so-good experiences and recommend products, while 63% have bought products recommended on sites such as Weibo or WeChat.

In fact, social media user reviews are top choice for online shopper information searches and recommendations, overtaking traditional word-of-mouth.

CASE STUDY

UK online fashion and beauty retailer ASOS launched asos.cn in November 2013. In its first five months, the Chinese site generated RMB 66 million in sales revenue.

In April the company made an alliance with the Midi Music Festival, China’s largest outdoor rock festival, and it provided fashion tips to music fans on Chinese social networks Weibo and WeChat. Those who participated in the social media campaign were entered into a lottery for prizes, and the campaign created a 120% increase in its followers on social media and a 300:1 sales to marketing cost return.

Source: KPMG: China’s Connected Consumers

<table>
<thead>
<tr>
<th>Information channels</th>
<th>Use online review of social media</th>
<th>Friends/Word of Mouth</th>
<th>E-commerce websites like Taobao</th>
<th>Brand’s official sites</th>
<th>Media Online platform</th>
<th>Brand Official news</th>
<th>Online display ads</th>
<th>Celebrities</th>
<th>Traditional media</th>
<th>Key Opinion Leaders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>39%</td>
<td>38%</td>
<td>36%</td>
<td>35%</td>
<td>33%</td>
<td>27%</td>
<td>21%</td>
<td>20%</td>
<td>20%</td>
<td>17%</td>
</tr>
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China’s e-commerce market will reach RMB 3 trillion (£3 trillion) by 2020, which will be larger than the US, UK, Japan, Germany and France markets combined.

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3. Changing lifestyles & behaviours

3.6 Travel & overseas spending

China outbound tourism grew from 10.5 million visits in 2010 to 97.3 million visits in 2013 (an 800% increase in three years)\(^{21}\) and visits are forecast to reach 112 million in 2014.\(^{22}\)

In 2013, China’s tourists spent RMB 1 trillion (£100 billion) overseas (35% increase on 2012), with the top 25% of outbound tourists spending an average of RMB 43,770 (£4,377) on each trip. Nearly half of the total is spent on consumer goods.

Four of the top five destinations are in Europe - France, the UK, Italy and Germany.

VisitBritain’s data shows the number of Chinese visitors to the UK reached 200,000 in 2013 (an increase of around 20% on 2012, and almost 200% on 2002).

Chinese tourists’ purchases in UK grew to £493 million in 2013 (70% growth from 2002),\(^{23}\) and Barclays estimated that this will rise to over £1 billion by 2017.\(^{24}\)

By 2017, China will be the fourth most important country for UK tourism

China is currently the 10th most important country for UK-bound tourism, based on spending, and by 2017, China will rise to the fourth most important country.\(^{25}\)

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**Top 10 destinations to visit in 2013**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>225</td>
</tr>
<tr>
<td>UK</td>
<td>196</td>
</tr>
<tr>
<td>Italy</td>
<td>194</td>
</tr>
<tr>
<td>Germany</td>
<td>157</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>128</td>
</tr>
<tr>
<td>Japan</td>
<td>126</td>
</tr>
<tr>
<td>US</td>
<td>124</td>
</tr>
<tr>
<td>Singapore</td>
<td>117</td>
</tr>
<tr>
<td>South Korea</td>
<td>116</td>
</tr>
</tbody>
</table>

Source: FT China Confidential survey

---

**Chinese Visitors to UK, 2002-2013**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Visits (000)</th>
<th>Total Spend (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>117</td>
<td>12</td>
</tr>
<tr>
<td>2003</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>2004</td>
<td>20</td>
<td>22</td>
</tr>
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<td>2005</td>
<td>31</td>
<td>28</td>
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<td>2006</td>
<td>41</td>
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<tr>
<td>2007</td>
<td>48</td>
<td>57</td>
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<tr>
<td>2008</td>
<td>57</td>
<td>70</td>
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<tr>
<td>2009</td>
<td>63</td>
<td>83</td>
</tr>
<tr>
<td>2010</td>
<td>81</td>
<td>97</td>
</tr>
<tr>
<td>2011</td>
<td>100</td>
<td>112</td>
</tr>
</tbody>
</table>

Source: VisitBritain

---

**Top 10 countries of tourism spend in the UK (£ millions)**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>2013 Spend</th>
<th>% of total</th>
<th>2017 Country</th>
<th>2017 Spend</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>£2,497</td>
<td>12.3%</td>
<td>USA</td>
<td>£2,926</td>
<td>10.8%</td>
</tr>
<tr>
<td>2</td>
<td>France</td>
<td>£1,543</td>
<td>7.6%</td>
<td>France</td>
<td>£1,798</td>
<td>6.6%</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>£1,290</td>
<td>6.4%</td>
<td>Germany</td>
<td>£1,568</td>
<td>6.2%</td>
</tr>
<tr>
<td>4</td>
<td>Australia</td>
<td>£1,074</td>
<td>5.3%</td>
<td>Australia</td>
<td>£1,856</td>
<td>6.0%</td>
</tr>
<tr>
<td>5</td>
<td>Ireland</td>
<td>£773</td>
<td>3.8%</td>
<td>China</td>
<td>£1,011</td>
<td>3.7%</td>
</tr>
<tr>
<td>6</td>
<td>Spain</td>
<td>£754</td>
<td>3.7%</td>
<td>Ireland</td>
<td>£774</td>
<td>2.9%</td>
</tr>
<tr>
<td>7</td>
<td>Italy</td>
<td>£734</td>
<td>3.7%</td>
<td>UAE</td>
<td>£756</td>
<td>2.8%</td>
</tr>
<tr>
<td>8</td>
<td>Netherlands</td>
<td>£633</td>
<td>3.0%</td>
<td>Italy</td>
<td>£753</td>
<td>2.8%</td>
</tr>
<tr>
<td>9</td>
<td>Canada</td>
<td>£577</td>
<td>2.9%</td>
<td>Spain</td>
<td>£750</td>
<td>2.8%</td>
</tr>
<tr>
<td>10</td>
<td>China</td>
<td>£549</td>
<td>2.7%</td>
<td>Russia</td>
<td>£750</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

Source: ONS, VisitBritain
3. Changing lifestyles & behaviours

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By 2017, China will be the fourth most important country for UK tourism

China is currently the 10th most important country for UK-bound tourism, based on spending, and by 2017, China will rise to the fourth most important country.
3. Changing lifestyles & behaviours

Consumer tastes and behaviours are changing and the Chinese middle income holiday-maker is increasingly choosing holidays for many reasons other than purely for shopping and sightseeing. Also, the internet is playing a greater role as Chinese travellers increasingly opt for self-organised travel.

The new Chinese middle income tourists are more internationally aware, experienced travellers and well-educated. They often rely on social media to collect information, and are increasingly comfortable to book their own flights and make their own accommodation arrangements. These trends will create more opportunities for lesser-known destinations that have not attracted much Chinese attention so far.

CBBC estimates that around two-thirds of middle income consumers have travelled overseas in the past three years, averaging one trip per year and on average spending around RMB 20,000 (£2,000) per trip.

They are becoming more independent travellers, and choosing destinations for many other reasons rather than just for shopping.

3.7 Leisure & entertainment

In terms of leisure spending, Mintel highlighted four different middle income consumer types in terms of their income and lifestyles: affluents, stressed-outs, chill-outs and entrants.26

- **Affluent types**: have higher incomes, mostly married, 35-45 years old, and more likely to be living in first-tier cities. They are interested in a variety of activities, children-oriented and are willing to spend more time on dining out and on day trips.
- **Stressed-out types**: are typically aged 20-35 years old and also living in first-tier cities, but earning average monthly incomes. They have high financial pressures and are trying to save a high proportion of their salaries. They have less time for leisure activities, but do enjoy dining out and undertake a wider variety of activities compared to other types.
- **Chill-out types**: are typically lower middle income consumers, who are more likely to still be single, and disproportionately live in the cheaper second-tier and western/central Chinese cities, such as Chengdu, Xi’an and Hefei. They don’t spend a lot on leisure activities and have the least varied interest of entertainment activities. They enjoy more local, traditional leisure activities - time with friends, relaxing, chatting and drinking tea.
- **Entrant types**: are typically lower middle income consumers, who are younger or recent arrivals in the first-tier cities. They spend the least on leisure activities as they are usually working hard on their careers, and trying to avoid any extra living expenses. They prefer to stay at home, eat at home, and/or doing in-home activities (e.g. TV, music, internet, movies or computer games).

Understanding the differences between these major consumer types helps producers and service providers to tailor their offerings around particular target groups more effectively.
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3. Changing lifestyles & behaviours

CBBC also segments these middle income consumers into five different types, in terms of their lifestyles, leisure activities and preferences: stay-at-homes; family-oriented; balanced lifestyles; healthy lifestyles; and socialites.

Chinese middle income groups are generally family-oriented, and CBBC found that one third of them spend the majority of their time with children or at family gatherings.

There is a growing trend among middle income consumers in China of pursuing a healthy and balanced lifestyle, especially in large urban cities where it can be a way of escaping their increasingly heavy workloads. In contrast with older generations, who mostly worked for the sake of financial security, younger generations are living to appreciate life and increasingly focusing on leisure activities. They are spending a higher proportion of their income in the services industry, including entertainment, restaurants, travel and fitness.

Both healthy and socialite types often prioritise keeping fit. They are willing to pay for gym memberships and may even employ personal trainers. There is also growing interest in outdoor activities and frequent short distance trips out of the city. According to the China Textile Commerce Association, retail sales of outdoor sports equipment are booming – nearly 40% annual growth between 2004 and 2013. Outdoor apparel, shoes, backpacks equipment and accessories are all popular, and foreign brands accounts for about half of total sales.

3.8 Car ownership

The explosive growth in sales in the last decade has transformed China into the world’s largest car market, with annual car sales of 18 million and 250 million cars on the road. Owning a car is now becoming the norm for China’s middle income population – 71% of middle income consumers said they already own a car. In the past, car ownership was perceived as a status symbol, for the younger generations it is increasingly considered a practical lifestyle too or an expression of their independence.

China still has huge growth potential, as there are only around 70 cars per 1,000 of population in China compared to 500 cars per 1,000 in the UK. Most growth in car ownership is coming from third and fourth-tier cities in China, accounting for 70% of potential car buyers next year (over half will be first-time car owners). Half of the car owners in China are under 35 years old, and 34% of those aged under-25 years old said that they plan to buy a car in the next 12 months, whilst Chinese female car purchasing intentions have increased dramatically.

Car ownership is lower in first-tier cities (Beijing, Shanghai, Guangzhou and Shenzhen), perhaps because of the convenience of public transport, traffic congestion and parking costs in higher-tier cities. In first-tier cities, only around 40% owned a car, with another 25% planning to buy one in the next two years.

Consumers also have to buy a licence plate, which are limited in new issues each year in many large cities. A Shanghai license plate is often described as “the world’s most expensive sheet of iron”. Prices have increased by over 200% in the last decade to over RMB 90,000 (£9,000) in April 2014.

CBBC found that a middle income consumer would spend on average RMB 250,000 (£25,000) on a new car, and none of them saw it as a status symbol, but rather a practical purchase.

Also among those who currently do not own a car, around one half plan to buy one in the near future. Foreign car brands are increasingly popular in the Chinese market, however many are put-off by high prices and taxes.
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3. Changing lifestyles & behaviours

3.9 Property ownership

Housing is a big concern for the middle income consumers. With escalating house prices, Chinese consumers are worried about saving enough money to buy one, whilst owners worry about a property price crash.

The housing market for China’s existing middle income populations in many cities has already reached saturation. A few years ago, The Boao Review said that 95% of middle income households claim to already own a property, and nearly 20% owned two or more. Also, interestingly, they highlighted that only around 25% have a mortgage to pay off.

Property prices have continued to rise as the new emerging middle income consumers, typically younger, continue to fuel demand for purchasing residential properties. This demand is also a consequence of China’s urbanisation trends, newcomers continue to arrive in first-tier and second-tier cities from lower-tier cities looking for better career opportunities. CBBC has found that today, still over two-thirds of middle income consumers already own a property, with average mortgage payments around a third of their income.

The middle income consumers are also aspiring for bigger living spaces. The average living space in urban areas will rise from around nearly 4 m$^2$ per person to nearly 6 m$^2$ over the next 30 years, which would require an extra 4 billion m$^2$ of living space. This will obviously also provide increased demand for home furnishings and potential opportunities for UK companies.

CBBC sees diverse perceptions about property prices and buying property, as the majority of first-tier city dwellers see owning a property as a very big financial burden, whilst much fewer have the same view in lower-tier cities.

James Macdonald, Head of Savills Research China said there are opportunities for UK companies in the property management services sector as Chinese companies are starting to understand the value of maintaining properties. There is also great potential for China’s outbound property investment in the UK as more and more affluent Chinese look for access to education, healthcare, permanent residency and citizenship.

Richard Ren, VP of Corporate Affairs for B&Q China said its targeted consumers are mostly white-collar workers who earn a reasonable disposable income and aspire to a high quality life. Chinese consumers care about price, but it is getting less important nowadays; quality comes to be the priority for most Chinese consumers. The biggest challenge in the Chinese market is uncertainty. Foreign companies are subject to more strict regulations than local entities, resulting in significantly higher operating costs. Therefore, the competition is unfair to some extent.
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The middle income consumers are also aspiring for bigger living spaces. The average living space in urban areas will rise from around nearly 4 m² per person to nearly 6 m² over the next 30 years, which would require an extra 4 billion m² of living space. This will obviously also provide increased demand for home furnishings and potential opportunities for UK companies.

CBBC sees diverse perceptions about property prices and buying property, as the majority of first-tier city dwellers see owning a property as a very big financial burden, whilst much fewer have the same view in lower-tier cities.

James Macdonald, Head of Savills Research China said there are opportunities for UK companies in the property management services sector as Chinese companies are starting to understand the value of maintaining properties. There is also great potential for China’s outbound property investment in the UK as more and more affluent Chinese look for access to education, healthcare, permanent residency and citizenship.

Richard Ren, VP of Corporate Affairs for B&Q China said its targeted consumers are mostly white-collar workers who earn a reasonable disposable income and aspire to a high quality life. Chinese consumers care about price, but it is getting less important nowadays; quality comes to be the priority for most Chinese consumers. The biggest challenge in the Chinese market is uncertainty. Foreign companies are subject to more strict regulations than local entities, resulting in significantly higher operating costs. Therefore, the competition is unfair to some extent.
3. Changing lifestyles & behaviours

3.10 Private healthcare

For Chinese citizens, another big concern is healthcare, but, the Chinese healthcare market is still under-served. China’s aging population and increasing rates of chronic disease are putting strain on the Chinese healthcare system. Therefore, there are many opportunities for both foreign and domestic private sector companies to fill the market gap, as government spending alone will not be sufficient to meet the rising healthcare demand in China.

China’s middle income consumers are typically younger (compared to most developed markets) and well educated, and their higher standards of living greatly contribute to personal health awareness among the urban middle income population.

Burson-Marsteller and Kantar Health said that they see health as a priority and view Western hospitals and foreign-trained doctors as the preferred choice for medical check-ups, vaccinations and preventive care. Previously, spending on private healthcare would be seen as a luxury but is coming to be regarded as a standard cost of living for the new middle income consumers. China’s growing urban middle income population is demanding customer-friendly healthcare, higher quality services and the opportunity to receive patient-centred healthcare.

CBBC found that middle income consumers still have diverse views on private health care, with those that are positive citing better facilities, personal privacy, higher medical standards, better service quality, environment, convenience and shorter waiting times.

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Source: CBBC

China is now the world’s third largest market for pharmaceutical sales (estimated value of RMB 400 billion, or £40 billion) and will rise to second place by 2020 with a total value of RMB 2.9 trillion (£290 billion).

China targets for 20% of all patients to go to private hospitals by 2015

Those that are negative cited high prices, distrust in private clinics as well as limited availability (typically in lower-tier cities) and lack of insurance coverage. Important factors for them to choose private facilities were the quality of staff, facilities and hospital environment are ranked as the top criteria for paying for private healthcare.

This middle income group creates a potentially lucrative market for private healthcare companies at the urban premium-care and specialist levels. Traditionally there has been a distrust of private clinics, however this image is changing, and the new middle income families increasingly value convenience and privacy, and Chinese returning from overseas are used to using private facilities.

China is now the world’s third largest market for pharmaceutical sales (estimated value of RMB 400 billion, or £40 billion) and will rise to second place by 2020 with a total value of RMB 2.9 trillion (£290 billion). The middle income population expansion is not just stimulating the pharmaceutical or private hospital sectors, but also dental services, cosmetic specialties, rehabilitation services and elderly care.

The government has targets for 20% of all patients to go to private hospitals by 2015, and has policy initiatives to support this aim (100% foreign-owned hospitals in the Shanghai Free Trade Zone and incentive policies on land use, tax and investment payback conditions). Pilot projects are also under way to allow doctors to practice in multiple locations, including private hospitals.
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There are many opportunities for foreign and domestic private hospitals

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3. Changing lifestyles & behaviours

3.1 Overseas education

Over the past 10 years the number of Chinese students studying overseas has more than tripled. In 2012, a total of 400,000 Chinese students went abroad to study (an increase of 18% from 2011), and by 2017 China will overtake the US as the world’s largest source of overseas students.

Most striking, is the rise among lower-middle income families, with students from such families only accounting for less than 5% of Chinese overseas students in 2009, but over 30% in 2010, reflecting the growing and increasing aspirational middle income consumers.

Most of these lower-middle income parents are counting on their only child to support them in their retirement, and are willing to spend vast amounts of their savings on sending their child to study overseas, with 95% of the 400,000 Chinese students overseas being self-sponsored.

According to Forbes China, 75% of China’s middle income group wants their children to study abroad. The UK is the second most popular destination after the US, and Chinese enrolment in higher education in the UK grew from 47,000 in 2007 to 84,000 in 2013 (an 80% increase).

Dr. Fan Youqing, Professor at the University of Nottingham Ningbo China said its Chinese students commonly come from families with their parents who are entrepreneurs, white-collar workers or government employees who were typically born after the 1960s and received higher education.

Currently there is limited interaction between domestic universities and Sino-foreign universities, but the situation is expected to change completely after 10-15 years.

There will be more cooperation in the higher education sector and differences between domestic and foreign universities are likely to be minimised. Therefore they see more market competition in the near future.

4. Summary & considerations for UK companies

4.1 Summary of the key points

China’s remarkable economic growth has created a huge new middle income population, and as mass urbanisation continues at globally unprecedented rates, private consumption in these urban households will triple in the next decade.

There will also be much higher numbers of middle income consumers in lower-tier cities and currently less urbanised West and North China regions. However, China’s consumption-to-GDP ratio is still far behind other leading economies, and many commentators highlight that the traditional investment and exports led growth model needs a shift more to a consumption-led one, and this large middle income group will hold the key to this transition.

Companies targeting these middle income consumers will need to understand their needs, preferences and expectations. They are typically younger than other countries’ middle income types (under 40) and have a strong preference for seeking out new products and adopting modern, often Western, lifestyles.

They should not be seen as one group, as their lifestyles and consumer behaviour vary across this vast and diverse country. Companies must undertake careful market research and analysis to align their products, brand and marketing strategy to best fit with different locations and sub-segments.
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4. Summary & considerations for UK companies

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Unprecedented change through China’s mass urbanisation

Expansion in West and North China regions, and lower-tier cities

Middle income consumers are younger than other countries

They are becoming increasingly diverse in their consumer behaviour

China’s remarkable economic growth has created a huge new middle income population, and as mass urbanisation continues at globally unprecedented rates, private consumption in these urban households will triple in the next decade.

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They are becoming less brand-led, less brand-loyal and more discerning. They are very technologically-savvy, regularly shop online, using social media and making mobile phone payments. They are also more discerning about buying luxury products, quality-driven and price sensitive, rather than brand-led. Many are in fact changing from big-brands to niche, exclusive brands, and this is creating more opportunities for new brands to enter the market. They often hold foreign brands in high esteem and offer many potential business opportunities ranging from fashion, food, household and luxury goods, to cars, private healthcare, overseas education and travel.

However, China still faces substantial challenges, which often disproportionately affect these middle income consumers. The long-standing one-child policy is creating financial pressures, as they need to support increasing numbers of elderly parents. Also there are pressures from rising property prices, growing competition for higher-income jobs, price inflation and the knock-on effects of urbanisation on their environment, health, welfare and stability.

4 Summary & considerations for UK companies

4.2 Considerations for UK companies

Outlined below are some of the key considerations and questions to ask before developing a market entry or business development strategy for China. CBBC can help you at every step learning about and targeting these middle income consumers in China.

- Undertake some dedicated and specific market research – consumer trends, perceptions, tastes and preferences
- Understand the competition and their relative strengths
- Explore entry barriers, regulations, logistics, IP, customs and tax
- Visit various locations yourself (not just Beijing or Shanghai) and spend time learning the market
- Utilise local contacts, networks, advisers – who know the market
- Segment this target group into focused sub-segments by location, and also by behaviour, attitude and lifestyle
- Focus – target smaller sub-segments, and develop plans on how best to reach them and serve them
- Explore various channels to market and business models
- Consider working with partners, distributors and agents
- Explore China’s e-commerce channels and opportunities
- Consider specific needs of China’s middle income consumers that need you to alter the product/service offering
- Focus and emphasise product/service differentiators in China – such as quality, novelty, customer services and after-sales
- If you can’t compete on price, then don’t compete on price
- Don’t rely on ‘foreign or British’ brand superiority – have a clear message for the middle income consumers
- Develop a social media plan, have China specific promotions, discounts, VIP range/services and loyalty schemes
- Invest in learning about this large and diverse group of consumers – who will buy your product/service and why?

More information and advice is available from CBBC regarding specific market sectors. Please contact one of our offices in the UK or China (information overleaf).
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Note: Exchange rate used RMB 10 = £1.00

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