

# China digital consumer trends 2019

Discovering the next wave of growth

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## Discovering the next wave of growth

China's rise as a global leader in ecommerce has been nothing less than stunning. This year, online retail sales are expected to swell to \$1.5 trillion, representing a quarter of China's total retail sales volume, and more than the retail sales of the ten next largest markets in the world—combined. (Exhibit 1)

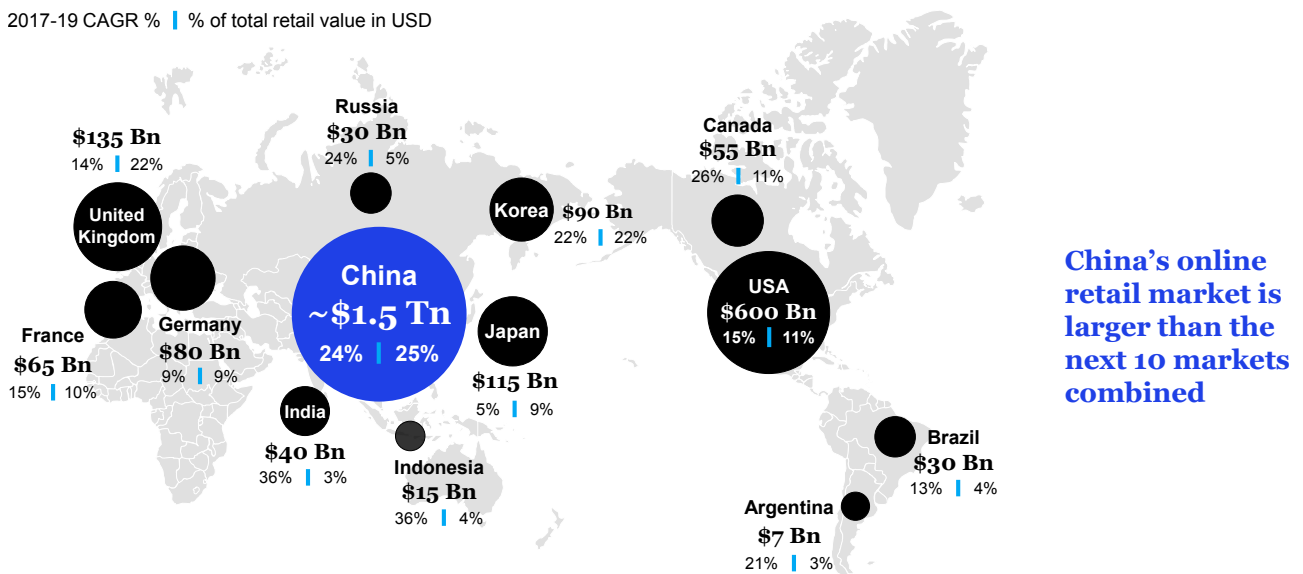
China's 855 million digital consumers—among some of the most avid users of mobile phones and social media in the world—represent one of the biggest prizes for global marketers.

Exhibit 1

### Online retail transaction value

2019 forecast<sup>1</sup>

2017-19 CAGR % | % of total retail value in USD



1. Online B2C and C2C market; Forecast for year-end 2019

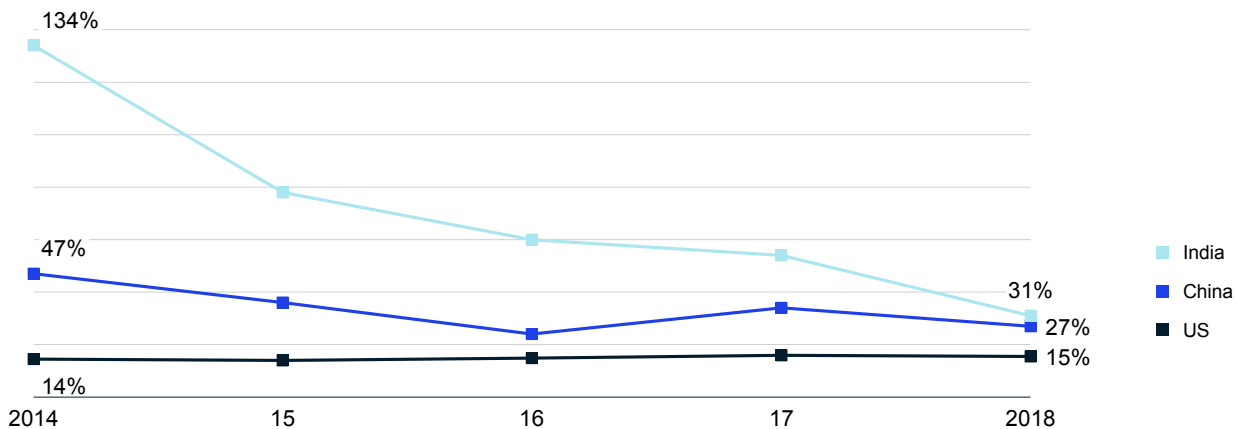
SOURCE: iResearch and MOFCOM for China; eMarketer; McKinsey China Digital Consumer Trends 2019

But things are getting a lot tougher: Growth of online retail sales is cooling, dipping from the heady 40 and 50 percent annual rates seen in the early part of the decade to 25 percent compound annual growth in the past few years. (Exhibit 2)

And an increasingly crowded marketplace has led to fierce competition between brands, pushing up the cost of acquiring new customers and retaining them. For example, the CPM (cost per 1,000 consumer impressions) of advertisements placed on Tmall's baby channel has increased on average by 60 percent since 2017.

## E-commerce gross merchandizing volume (GMV) growth

% year-on-year



SOURCE: McKinsey China Digital Consumer Trends 2019; eMarketer

These and other challenges—like the rising sophistication of Chinese consumers—are upping the ante for consumer-facing companies. Brands looking for the next wave of digitally-fueled growth in China are grappling with a number of thorny questions:

**Omnichannel shopping:** Looking beyond the hype, are initiatives like omnichannel retail services really taking off in China, and where should we place our bets to capture a return on our investment?

**Social media and commerce:** China is the land of social media, and some brands are already monetizing the attention they are generating through social channels. How can we tap into the trend? How can we start building relationships directly with consumers that enable us to collect more granular and actionable data on them?

**Lower-tier cities:** Most marketers have focused their attention on capturing consumers in high-tier cities. But with more than 50 percent of digital consumers residing in lower tier cities, how can we craft a value proposition that appeals to them?

**Key Opinion Leaders/Consumers (KOLs/ KOCs):** KOLs/KOCs wield a lot of influence, but how should we tailor our strategy to drive short-term sales while building the brand?

**Shopping events and discounts:** The major annual and semi-annual shopping events like Double 11 and 618 are playing an increasingly important role in driving sales. But what impact are these events having on our profitability, and

are there other ways to leverage these events beyond slashing prices?

In an effort to find answers to these questions, McKinsey surveyed over 4,300 digital consumers from across four city tiers and rural areas in China, and from a range of ages and income levels. To better understand their digital behavior, we asked them questions about their digital activities, how they allocate their spending, and their purchasing decision journeys.

We complemented this field research with category specific expert interviews, as well as insights drawn from our experience working with some of China's most innovative and fastest-growing domestic and multinational consumer-facing companies. In this report, we explore five major areas of opportunity for consumer-facing marketers:

- 1. Digitally-powered physical retail innovation: Crafting an intentional strategy to tap into omnichannel behavior.**
- 2. Social commerce: Monetizing social attention and engaging with consumers through direct-to-consumer (DTC) channels.**
- 3. Small town youth: Identifying the next pocket of customer growth.**
- 4. KOLs / KOCs: Fine-tuning the levers of consumer influence.**
- 5. Sales events and discounts: Data-enabled pricing and promotions.**



# Digitally-powered physical retail innovation

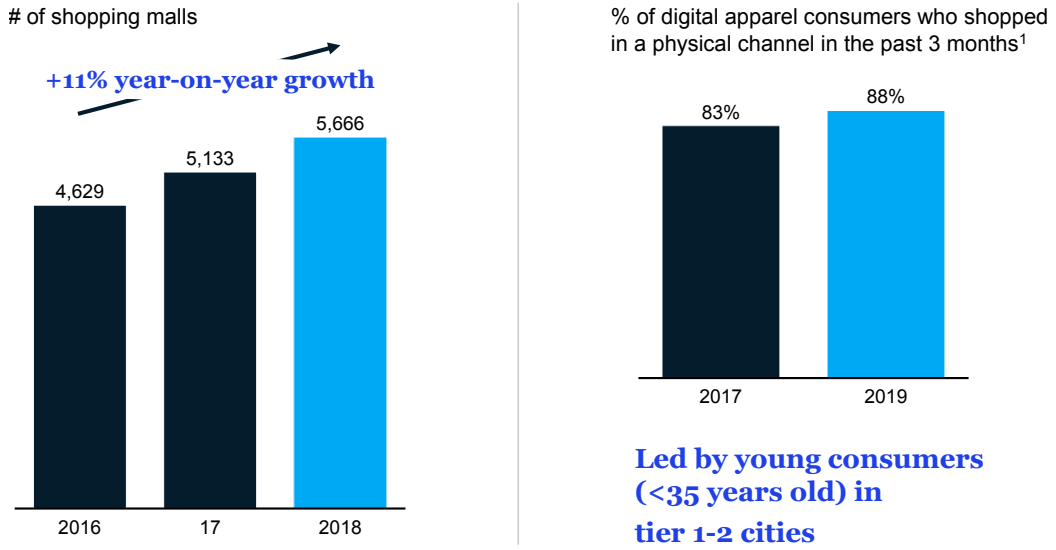
## Crafting an intentional strategy to tap into omni-channel behavior

In 2014, online retail sales in China were growing so fast they started to eat into the sales of traditional physical channels. Brands started to shutter stores, as customers flocked to digital channels. But since 2017, Chinese shoppers have made a noticeable shift back to physical stores, especially shopping malls and mono-brand retail stores. According to our survey, young consumers in tier 1 and 2 cities are leading the trend.

For example, 88 percent of online apparel consumers said they had shopped in physical stores in the past 3 months, compared to 83 percent in 2017. (Exhibit 3)

Exhibit 3

### Digital consumer shopping behavior across physical channels



SOURCE: iConsumer 2016 and 2017; McKinsey China Digital Consumer Trends 2019; Winshang

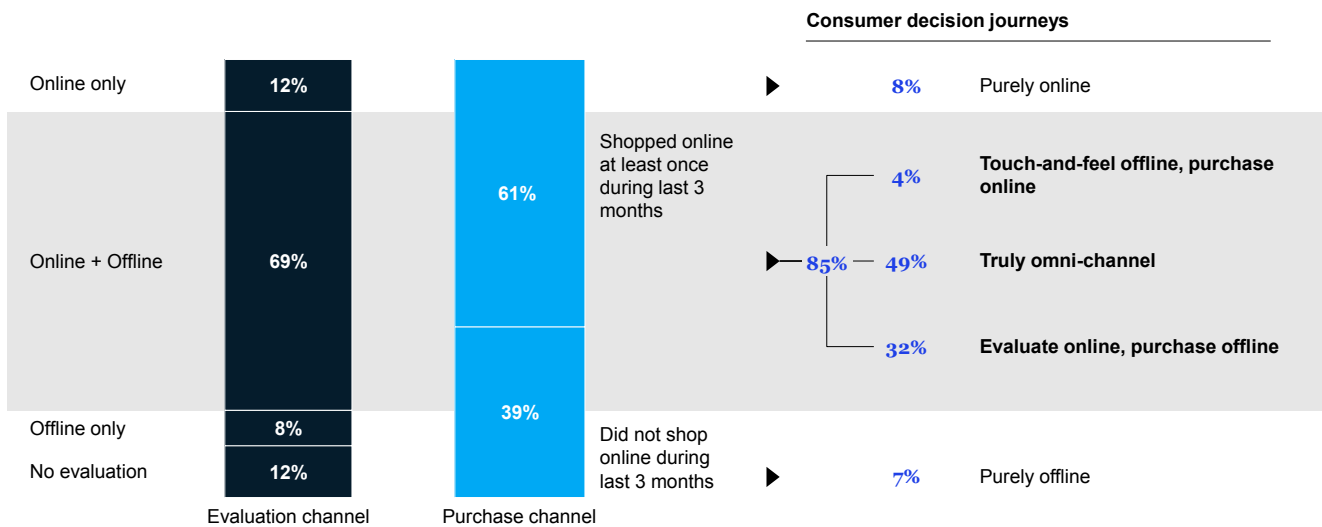
Sales figures support these findings. While overall sales in physical retail channels carrying multiple brands like department stores continued to lose share to online channels, mono-brand stores in China enjoyed a sizable uptick in sales, rising from just 2 percent year-on-year growth in 2016 to 8.3 percent in 2017.

Meanwhile, consumers continue to blur the boundaries between online and physical channels. For apparel, China's largest e-commerce category, 85 percent of shoppers now engage with both online and offline touchpoints, rising from 80 percent in 2017. (Exhibit 4)

Exhibit 4

### Omni-channel influence on purchasing decisions

Percentage of apparel shoppers who engage with both online and offline touchpoints



SOURCE: McKinsey China Digital Consumer Trends 2019

The in-store experience is key to the revival of physical retail. Despite the convenience of shopping online, some of the most fundamental needs consumers have can only be fulfilled by visiting a store. Seeing and feeling products firsthand; trying on and testing products; watching product demonstrations; and the immediate accessibility of products in the store: These are what distinguish physical shopping experiences from online ones.

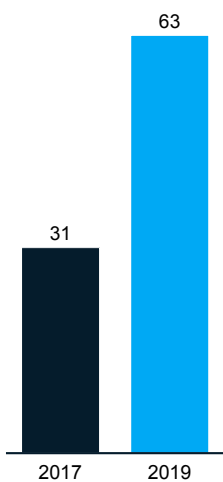
And increasingly, Chinese consumers are combining their experience shopping at physical retail stores with their online buying decisions. The proportion of consumers saying they use their mobile phones to research products while shopping in a store, what is often referred to as the “showroom effect,” has more than doubled to 63 percent in just the past two years.

If brands are worried about losing these information-hungry, mobile-savvy customers to competitors, another finding from our survey might help to allay those fears. With the right in-store experience, 80 percent of consumers who use their mobile phones in the store to research products end up buying products of the same brand, and more than 50 percent will even buy in the stores they visit as a showroom. (Exhibit 5)

Exhibit 5

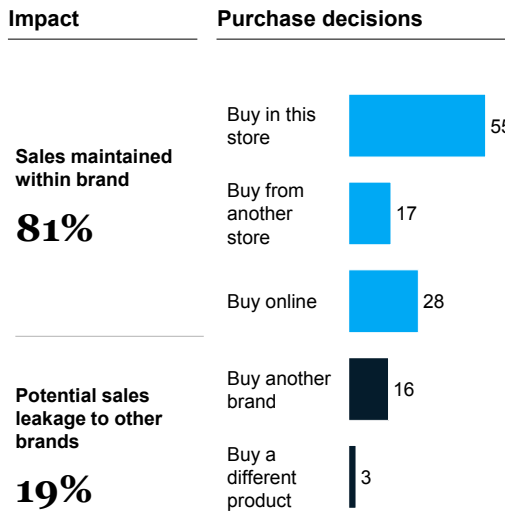
### Omni-channel presence in the “showroom effect”

**Shoppers who conduct mobile research in a physical store**  
Percent of online apparel shoppers







**Impact on final purchasing decisions**

Percent of online apparel shoppers who research online in physical stores



**Top 5 reasons for conducting in-store mobile research**

-  Learn more about product details
-  Check price
-  Check comments
-  Check popularity (sales volume)
-  Check for more convenient purchase method

SOURCE: McKinsey China Digital Consumer Trends 2019

The revival of physical stores is fueling another exciting trend with the potential to entirely reshape the shopping experience in China: Digitally-powered physical retail innovation. In just the past few years, the adoption of these

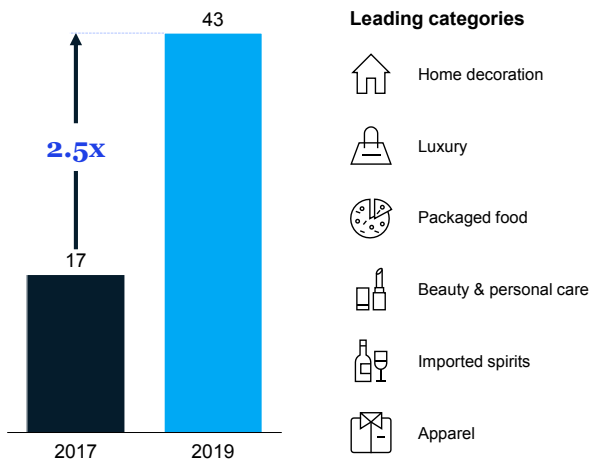
initiatives has exploded, with the share of survey respondents saying they have experienced such an initiative jumping from just 17 percent in 2017 to 43 percent in our latest survey. (Exhibit 6)

Exhibit 6

## Use case adoption of “digitally-powered physical retail innovation”

### Use case adoption rate

Percent of online shoppers who have tried at least one use case<sup>1</sup>



### Definitions of 3 use cases

<b>1</b>	<b>Omni-channel fulfillment</b>	<ul style="list-style-type: none"> <li>Shop online pickup offline</li> <li>QR code for online research &amp; purchase</li> <li>Check offline stock online</li> <li>Deposit online full payment offline</li> <li>Personalized delivery<sup>2</sup></li> </ul>
<b>2</b>	<b>In-store digitization (“Phygital”)</b>	<ul style="list-style-type: none"> <li>Mobile cashier</li> <li>Self check-out in store</li> <li>Face recognition</li> <li>Electronic price tag</li> <li>VR shopping</li> <li>AR shopping</li> <li>Digital interactive screen</li> <li>Robot services</li> </ul>
<b>3</b>	<b>New go-to-market model</b>	<ul style="list-style-type: none"> <li>Smart vending machine</li> <li>Product customization</li> <li>Unmanned store</li> <li>Crowdfunding</li> </ul>

1. Includes 5 categories for a comparison with 2017: consumer electronics, apparel, beauty & personal care, packaged food, fresh food

2. Delivery of multiple products of different colors, sizes, etc. The consumer keeps the ones she wants and returns the rest upon delivery

SOURCE: McKinsey China Digital Consumer Trends 2019

So what do we mean by “digitally-powered physical retail innovation”? We see the emergence of three distinct use cases: Omnichannel fulfillment, in-store digitization (also sometimes called “phygital”), and new go-to-market models.

### Omnichannel fulfillment

Consumer-facing brands now have the opportunity to take the integration of physical and online channels to an entirely new level with omnichannel fulfillment. It is especially attractive for consumers in smaller cities during major sales events such as Alibaba Group’s Double 11. Access to stores that are close to home or office, the chance to try-on products in the store, and the lack of delivery options mean physical channels have given these consumers another form of convenience they can’t enjoy online.

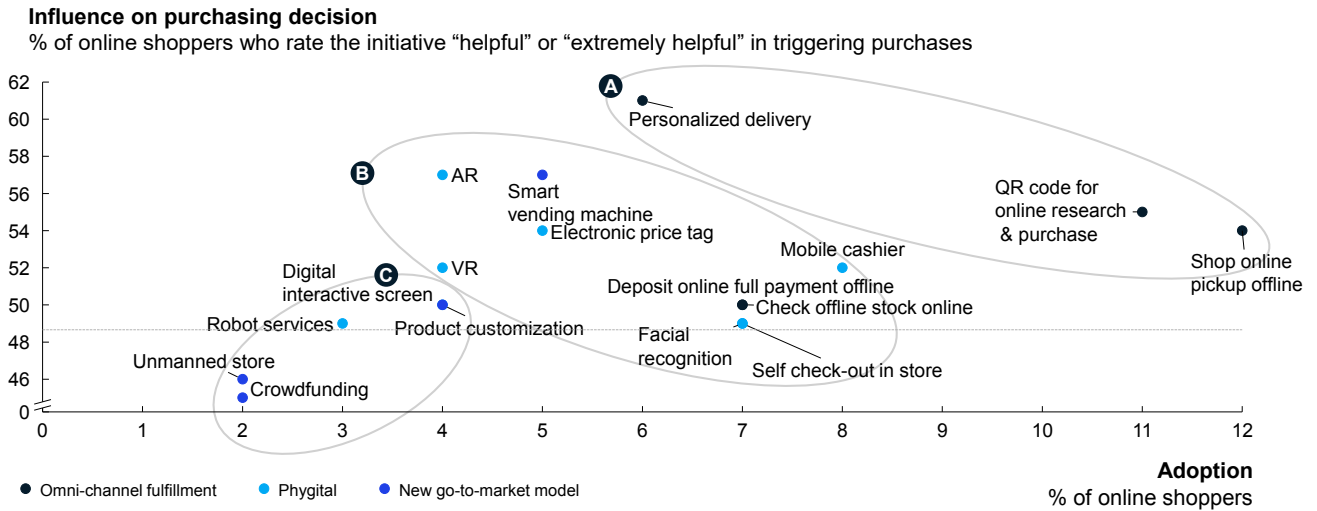
But while buying products online and then picking up in the store may be the most popular omnichannel initiative, only 12 percent of respondents in our survey said they’ve shopped in this way before. It certainly isn’t because consumers don’t want to shop like this: close to 50 percent of consumers have tried shopping like this before, but then stopped. So while the demand is there, the supply isn’t: Few brands and retailers offer this option, and for those that do, consumers have not been satisfied with their experience, with 40 percent saying the entire shopping and pickup process was too complicated.

Scanning a QR code in-store to access online information, and personalized delivery services that allow customers to try multiple products, are other examples of emerging modes of omnichannel fulfillment that could have a big influence on consumers’ desire to purchase a product. (Exhibit 7)



Exhibit 7

## Use case adoption and influence on purchasing decision



SOURCE: McKinsey China Digital Consumer Trends 2019

### In-store digitization

In-store digitization—sometimes referred to as “phygital”, a mash-up of the words “physical” and “digital”—is another interesting though still nascent category of retail initiatives. While just 4 percent of survey respondents told us they’ve tried an augmented-reality (AR) interaction at a store, 57 percent of them said it positively influenced their purchasing decisions, the highest of all such “phygital” initiatives. One example of an

AR application is the pilot being run by cosmetics brand MAC. In their flagship Shanghai store, interactive screens display real-time comments posted by key opinion leaders (“KOLs”) on social commerce app RED, while AR screens allow consumers to apply make-up products virtually.

## Social commerce

### Monetizing social attention and engaging with consumers through direct-to-consumer (DTC) channels

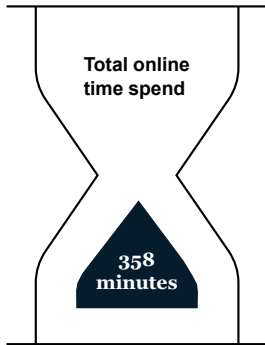
Chinese consumers are famously voracious users of social media. According to our survey, they spend as much as 44 percent of their time on social media apps, the majority of which, 33 percent, is spent on social applications such as WeChat and Weibo’s microblogging service.

Another 11 percent of their time is spent watching, sharing, and creating short videos on apps such as the immensely popular Douyin (known as Tik Tok in English) and over-the-top video streaming services like Tencent Video. (Exhibit 8)

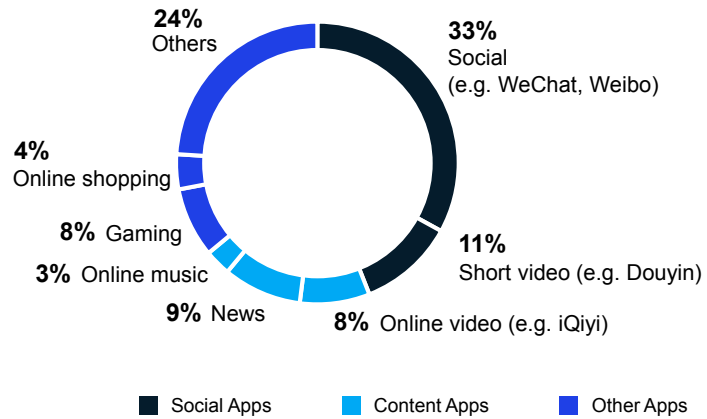
Exhibit 8

### Time spent online by digital consumers

**Total time spent online**  
minutes per user per day



**Social media & content account for 2/3 of total online time spent<sup>1</sup>**  
% of time spent by digital consumers on different online applications & activities



SOURCE: QuestMobile; McKinsey China Digital Consumer Trends 2019

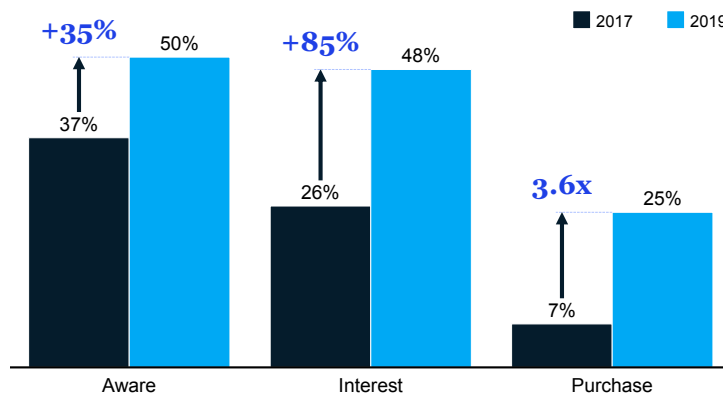
Increasingly, brands are converting the awareness they generate on social media into purchases, with 50 percent of survey respondents saying they had become aware of a product on a social platform. And awareness is converting into sales: 25 percent

of respondents said they had made a purchase directly through a social channel, an extraordinary increase of 3.6 times from just two years ago. (Exhibit 9)

Exhibit 9

### Influence of social media and content on the consumer journey

% of online shoppers who use social platforms to gain awareness / evaluate / purchase



Social is most important for **apparel, beauty, and package food** categories for engagement

SOURCE: iConsumer 2017; McKinsey China Digital Consumer Trends 2019

Notably, social platforms are emerging as drivers of impulse shopping and creating incremental demand. Social interactions, including interactions with KOLs, posting of user-generated content (UGC), and reading recommendations from contacts, motivated 40 percent of respondents to buy a product they had not originally intended to purchase.

Emerging social commerce players have been leading the trend. Pinduoduo, which built its success on social group buying, has consistently reported triple-digit revenue growth since its founding in 2015, while user-generated content (UGC)-based shopping app RED now vies for one of the top spots as China's leading social commerce channel.

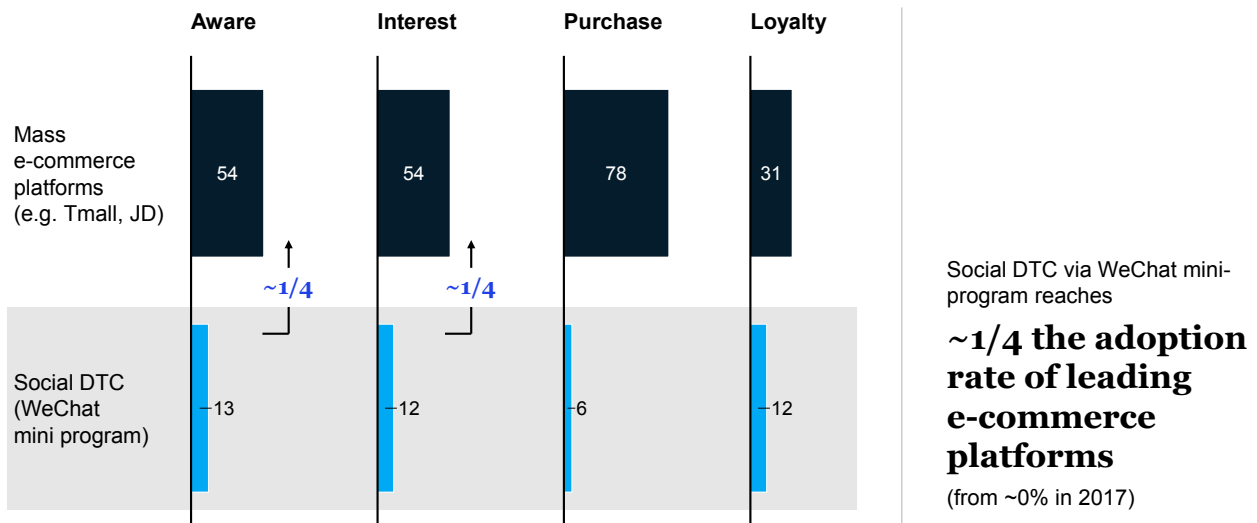
To tap into this trend, established e-commerce players have featured social elements prominently in the shopping journey of their consumers. For example, Taobao generated more than 100 billion RMB (USD 15 billion) in GMV from live streaming in 2018.

In addition to giving brands a platform to leverage social elements to build consumer awareness and engagement in third-party channels, social media now also offers new Direct-to-Consumer (DTC) channels to influence and engage with consumers. These are led by WeChat mini-programs, which have grown from nothing to driving one-fourth of the awareness in the digital consumer's decision journey. (Exhibit 10)

Exhibit 10

### Social direct-to-consumer (DTC) adoption

Percent of online shoppers using the channel



SOURCE: iConsumer 2017; McKinsey China Digital Consumer Trends 2019

It's still early days, and the playbook for success is still being written, but we've already seen 8 different use cases of brands leveraging WeChat mini-programs to drive sales, from attention-grabbing games and quizzes to one-off opportunities to purchase unique products from online and physical stores. (Exhibit 11)

For example, beauty brands including Estee Lauder, L'Oréal, and Shiseido offer samples of newly launched products through WeChat mini-programs. Home decoration retailer IKEA set up a membership center and launched pop-up stores using WeChat mini-programs.

## Emerging social DTC use cases for different product categories

EXAMPLES

### Counselling services

Provide tools, content, KOL counselling and service reservation as guidance

- MeadJohnson Nutrition
- Ping An

### Product trial / service reservation

Leverage product-trial to accelerate new product go-to-market

- Estee Lauder
- L'Oreal

### Gift card store

Leverage "gift card" function to acquire users and increase store traffic

- Starbucks
- Gucci
- Dior
- MAC

### Flagship/ Pop-up store

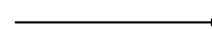
Setup e-commerce stores, either as always-on flagship store or time-framed/ event-driven pop-up store

- Nike
- Dior
- IKEA

Engagement ←



WeChat mini-programs



→ Commerce

### Games, quizzes, and tests

Create fun games, quizzes and personality tests to engage customers for the first time

- Gucci
- NBA

### Membership center

Strengthen online / offline membership engagement and profile management

- IKEA
- Starbucks
- Nespresso

### Referral program

Encourage members to refer new members via gamification and membership rewards

- Abbott
- Luckin coffee
- Jins

### Product personalization

Provide options for self design of products or reservation of personalized services

- Levi's
- MAC

SOURCE: McKinsey China Digital Consumer Trends 2019

To tap into this trend, super apps such as Alibaba's Alipay, as well as user-sharing apps like RED and Douyin, now also allow brands to interact directly with consumers through mini-programs.

# Small town youth

## The next pocket of growth

As online user growth in China's tier 1 and tier 2 metropolises like Shanghai and Beijing reaches a plateau, brands are actively looking for the next wave of growth. Our research points to the large pool of younger consumers in China's lower-tier cities and small towns. According to QuestMobile, tier 3 and below cities house 670 million mobile internet users, which is more than half of China's total. Of these, 72 percent are below the age of 35.

High online readiness of younger consumers in China's lower-tier cities represent a big opportunity. Based on our previous digital

consumer trends research in 2016, ecommerce spend in lower tier cities has caught up with that of top tier cities.

But serving these consumers requires understanding how they are different from their top-tier city counterparts, and then crafting offers that meet their needs.

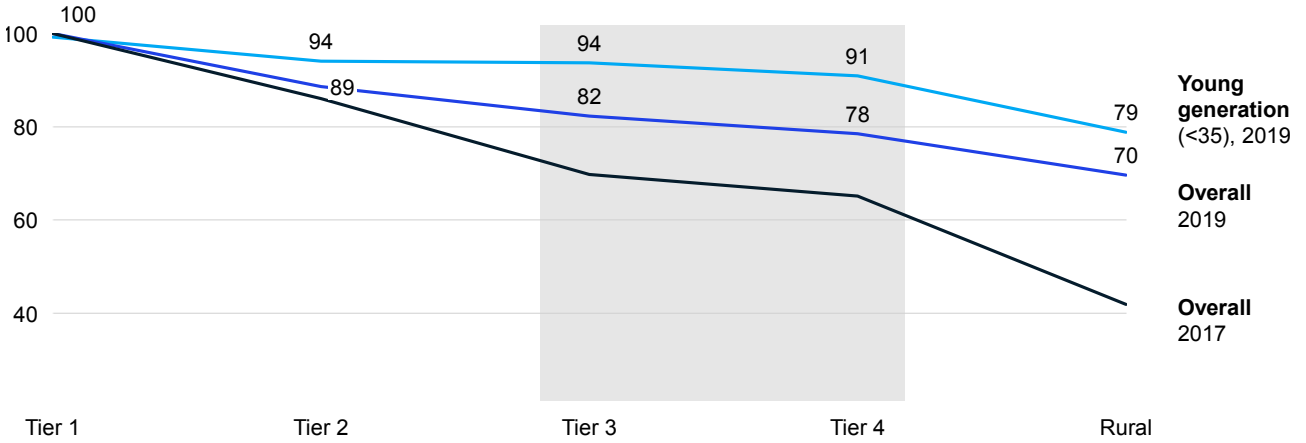
According to our survey, young consumers in China's lower-tier cities are almost as likely to shop online as their top-tier-city dwelling counterparts. (Exhibit 12)

Exhibit 12

### Digital consumers' online shopping adoption by city tier

Normalized; Tier 1 overall indexed to 100

% of digital consumers who shopped online in the last 3 months



SOURCE: iConsumer 2017; McKinsey China Digital Consumer Trends 2019

Online has provided lower tier cities accessibility to brands that lack footprints in their area, especially for premium and luxury brands that have not yet entered lower tier cities. Our recent research on luxury consumers suggests that luxury brands' current store footprint captures less than half of China's affluent households.

In some product categories, where access to physical stores is more limited, the online purchasing rate of small town youth can be even higher than consumers in higher tier cities. Data released by Tmall following the most recent "618" shopping holiday event showed a 50 percent increase in young luxury shoppers aged below 25, with 70 percent of them living in tier 3 and below cities. (Exhibit 13)

Exhibit 13

### Digital consumers' online trading-up behavior by city tier



SOURCE: iConsumer 2017; McKinsey China Digital Consumer Trends 2019

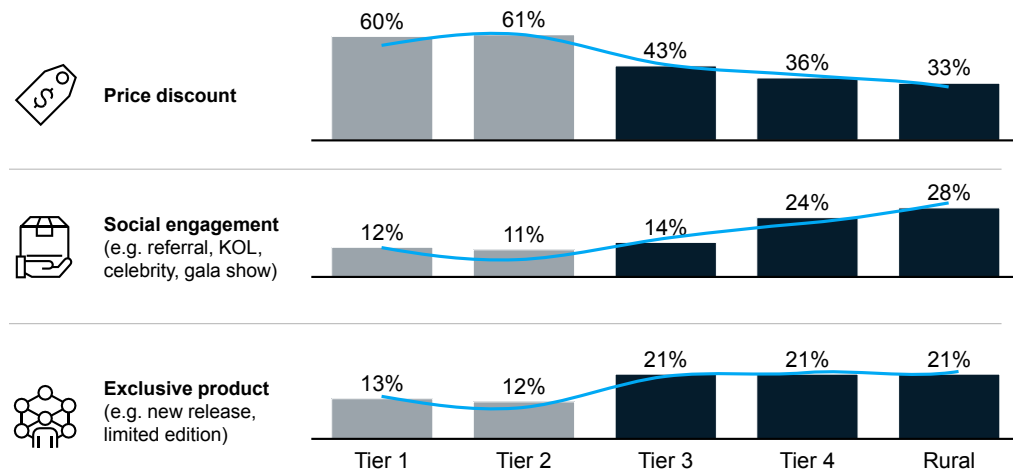
Living costs are lower in lower-tier cities, allowing them to enjoy a much more relaxing lifestyle as consumers in larger cities. They have a lot of time on their hands: Consumers in smaller cities tend to leave work and go home at 5 or 6 pm, and they spend a lot less time commuting to and from work than their counterparts in larger metropolises.

While younger consumers in smaller cities are also price sensitive, they tend to be less discount-driven. Small-town youth still rank price discounts at the top of their list when considering a purchase, according to our survey. But price doesn't determine everything for them. They value social engagement, which could come in the form of referral programs or endorsement by KOLs/KOCs, and special edition products. In fact, they value these things more than their counterparts in tier 1 and tier 2 cities. (Exhibit 14)

Exhibit 14

### Top buying factors for Double 11

% of online shoppers across different categories



SOURCE: McKinsey China Digital Consumer Trends 2019

# KOLs and KOCs

## Fine-tuning the levers of influence

Like in other markets, content marketing plays a major role in generating brand and product awareness in China, but the type of content that impacts a customer journey varies according to category and brand. Survey respondents told us that content projecting professional knowledge is “critical” when purchasing imported spirits, mom and baby products, consumer electronics, OTC

pharmaceuticals and nutrition products, and home decoration items. (Exhibit 15)

In OTC pharmaceuticals and nutrition products, 70 percent of those aged 55 and over said professional channels including hospitals, clinics, and doctors were helpful when evaluating a purchase.

Exhibit 15

## KOL/KOC's influence on digital consumers

### Professionalism-driven categories

**>50%** of consumers rate "professional knowledge" critical for decision making



Imported spirits



Mom & baby



OTC & nutrition



Home decoration

### Entertainment-driven categories

**~55%** of consumers gain awareness through entertainment-related content



Beauty & personal care



Packaged food



Apparel

SOURCE: McKinsey China Digital Consumer Trends 2019

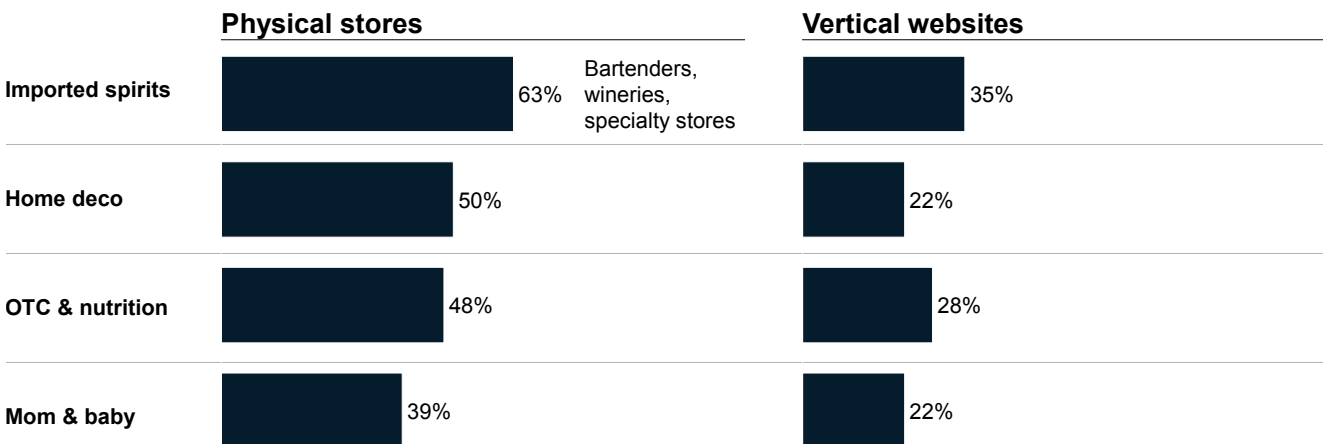
In the mom and baby products category, 57 percent of respondents say that professional content is important, while two-thirds say that information they collect from vertical websites such as Babytree, influences their purchasing decisions.

When it comes to channel engagement, physical stores and vertical websites are most influential in generating awareness for categories which rely on information delivered by industry professionals. For example, 80 percent of survey respondents said vertical websites like Jiuxian and 1919, as well as off-line touchpoints like bartenders and tasting events, influenced their awareness of imported spirits. (Exhibit 16)

Exhibit 16

## Professional-driven categories: physical stores and vertical websites

% of digital shoppers gaining brand/product awareness through the channel



SOURCE: McKinsey 2019 McKinsey China Digital Consumer Trends 2019

While content delivered by industry professionals influences consumers in some products categories, in other categories, like beauty and personal care, packaged food, and apparel, celebrities still exercise considerable sway.

For these categories, building a presence on social platforms such as Weibo, Douyin and RED is critical. Social media channels like these

are now the leading source of information for packaged food shoppers, particularly among young consumers. Brands such as Three Squirrels drive sales of some of their bestselling snack food products through short video cartoons of squirrels placed on Douyin. L'Oréal sold 30,000 bottles of facial essence in a single hour when it launched a social commerce promotion with Chinese popstar Xukun Cai on Weibo.

# Sales events and discounts

## Data-enabled pricing and promotions

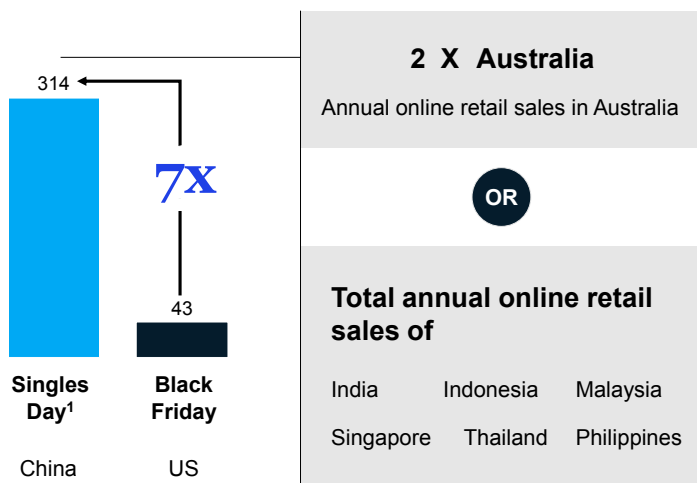
Discount driven sales events have dominated news headlines for several years now. Last year, GMV generated during Double 11 was 7 times that of Black Friday in US, and exceeded the combined annual online retail markets of India and most

of Southeast Asia. This year, JD.com generated \$29.3 billion GMV (including sales made during a 10-day pre-sale period) during the 618 mid-year shopping festival, up 27 percent on 2018. (Exhibit 17)

Exhibit 17

### Impact of promotional events

**2018 "Double 11"**  
GMV, RMB billion



**2019 "6/18"**

<b>JD.com</b>	<b>201.5 Bn</b>	RMB GMV, +27% YoY
<b>Tmall.com</b>	<b>13 Bn</b>	Sales triggered by live streaming
<b>Pinduoduo</b>	<b>70%</b>	Orders from Tier 3 & below cities
<b>Suning.com</b>	<b>+230%</b>	GMV growth in rural markets

1. Total GMV for all platforms on "Double 11"

SOURCE: Alibaba Group, press search, eMarketer for other countries and regions; McKinsey China Digital Consumer Trends 2019



Yet while the size of the holiday sales opportunity is undeniable, the events have so far been characterized by fierce discounting that has engulfed brands large and small alike. For mom & baby, beauty and personal care products, and apparel, the average discount level on Tmall on Double 11 can reach 30 percent.

This strategy has proved successful in increasing sales of the top 10 brands by between three and five times the level of typical days, leaving little space for smaller brands to compete. (Exhibit 18)

Exhibit 18

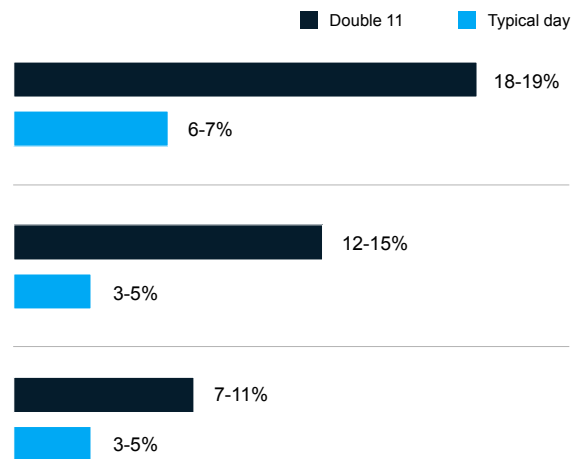
### Impact of promotional events

#### Discounts by top brands on “Double 11”

Tmall example

		Tmall.com	
<b>Mom &amp; baby</b>	<b>Avg: 33%</b>	Balabala	45%
		GB	41%
		PurCotton	37%
<b>Beauty &amp; personal care</b>	<b>Avg: 30%</b>	Chando	48%
		L'Oreal	31%
		Semir	51%
<b>Apparel</b>	<b>Avg: 30%</b>	GXG	38%
		Peacebird	33%

#### Sales of top 10 brands as % of category sales on Double 11 vs. typical day



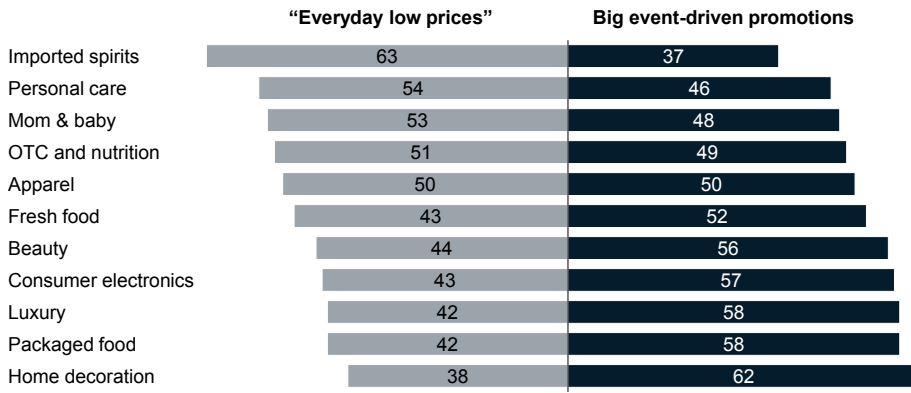
SOURCE: VENN Singles Day report, expert interview; McKinsey China Digital Consumer Trends 2019

These shopping events have dented margins for some brands. Brands need to think about offering price discounts but at less discounted levels than those once-a-year or twice-a-year events. Our research suggests buyers of big-ticket luxury and home decoration items want deep discounts on sales days. However, in categories which favor repeat purchases, such as imported spirits and personal care, consumers prefer consistently low prices. (Exhibit 19)

Exhibit 19

### Consumer preference for different pricing models by category

Percent of “Double 11” shoppers



Consumers prefer “everyday low prices” for high-frequency, replenishment-driven categories

Consumers like “big discounts” for low-frequency, large ticket, non-necessity products

SOURCE: McKinsey China Digital Consumer Trends 2019

As sales strategies for Chinese shopping holidays evolve from leveraging digital apps to tapping into retail channels, marketers will need to develop a far more nuanced understanding of which categories demand discounts, and which can sustain more rational pricing.



# Implications for brands

As competition intensifies and consumer preferences and buying behaviors continue to evolve, brands should consider pursuing a number of actions that will help them discover—and tap into—the next wave of growth in China:

## **1. Break-down the silos separating online and physical channels**

As consumers seek a more seamless shopping experience across online and physical channels, brands will need to define what the omnichannel journey looks like for them. This might include enabling consumers to buy products online and picking them up in the store, or placing “showroom screens” in the store that help consumers make more informed decisions.

Turning this omnichannel vision into a reality, however, will require brands to break down the silos in their organization that are keeping online channels from fully integrating with physical ones.

Brands should assign clear owners to oversee and drive the integration between the online and physical channel teams. They should introduce KPIs and incentives that encourage everyone to contribute towards building the whole brand, and not just focus on sales they generate within their own channel or stores. Some brands, for example, double-count omnichannel revenue and credit their online and physical retail teams, as long as each contributes to stimulating consumer engagement. Some brands also incentivize inventory sharing when orders are placed that require a transfer of inventory from one store to another.

Brands will need to pilot new incentives and organizational approaches in their self-owned stores before rolling them out to their franchise outlets.

## **2. Embed social media engagement capabilities into your organization**

As social media exercises greater sway over consumer decisions, marketers are gradually shifting resources and attention away from traditional marketing tools to social based

marketing channels and formats, such as user-generated content and short videos.

Brands that have cracked the social media engagement code are building up their in-house capabilities even as they continue to outsource some functions to digital agencies. They’re forming social media “war rooms” that are singularly focused on creating and disseminating content, monitoring and engaging with their users, and collecting and analyzing data that they then feedback into their social media marketing plans.

Global brands that do this right are granting more autonomy to their local teams in China, who are closer to consumers, have a better grasp of local market trends, and understand and speak their language and can interpret subtle cultural cues.

Empowering the team on the ground also gives them the freedom and flexibility to create new content and engage with consumers at a far faster pace than what traditional marketing campaigns require. Instead of the usual monthly or quarterly marketing splashes around new products, today’s savvy social marketers are cranking out new videos on Douyin on a daily basis, and responding to comments and content uploaded by users in realtime.

## **3. Tailor products and in-store shopping experiences to consumers in lower tier cities**

Until recently, most global brands devoted the bulk of their marketing resources to cracking China’s largest cities like Shanghai or Beijing. If they hope to tap into the growth opportunities represented by the new breed of young consumers emerging in China’s lower tier cities, however, brands will have to spend more time understanding what they want, and craft online and in-store shopping experiences that address their needs.

In the cities with the highest growth potential, brands should consider establishing a physical retail presence that reinforces their brand image and allows them to deepen penetration of consumers in lower tier markets. This will likely mean creating an omnichannel experience that

is embedded with social elements, and may entail the launch of experience centers and showroom stores.

Brands should leverage data they have on consumers in lower tier cities to provide insights into what they are looking for, and to identify the most promising markets. Data could come from direct-to-consumer (DTC) touch points such as retail stores or WeChat mini-programs. Brands could also collaborate more closely with the digital platforms that hold the keys to data on consumers, data that can provide valuable insights on how to engage the consumers there.

#### **4. Take a more proactive—and nuanced—approach to cultivating KOLs and KOCs**

KOLs and KOCs wield tremendous influence over consumer decisions and an endorsement by a celebrity or a community leader can still move product off the shelves and out of warehouses—and quickly. But with the rising sophistication of Chinese consumers, brands need to take a far more nuanced approach to managing KOLs and KOCs if they want to engage more effectively with consumers and maximize the impact from their marketing budgets.

As aspirational figures, KOLs may have the power to quickly generate massive brand awareness, but their interaction with consumers is generally one-way. KOCs, by contrast, may have much smaller followings than KOLs, but they generally engage in a much more two-way and peer-like manner with consumers, and thus more personalized engagement by them may in fact trigger higher conversions.

Brands may therefore need to apply an integrated, hierarchical approach to managing KOLs and KOCs. One home appliance brand in China collaborates with several leading interior designers who act as KOLs for the brand, while at the same time cooperating with hundreds of moderators of community WeChat groups, who serve as KOCs.

Brands will also need to refine the way they measure and reward success, by creating and tracking a new set of KPIs and incentives. So

instead of simply monitoring traditional exposure metrics like sales conversions, brands should track KPIs that measure things like response rate and speed on WeChat groups, WeChat membership retention rates, and the quality of discussion.

And, in addition to the usual monetary incentives, brands could create new KPIs that allow them to monitor and tap into the need among KOCs for a sense of belonging and pride through association with the brand.

Beyond monitoring and measuring, brands will need to take a far more proactive approach to managing their relationships with KOLs and, especially, KOCs. Brands will need to equip them with a more comprehensive toolkit of well-designed marketing materials and talking points, and supported by training sessions that educate them about the brand's heritage. And by digitizing lead and commission management, brands can make it easier for KOLs and KOCs to serve as brand ambassadors.

#### **5. Develop data-driven pricing and promotions**

Many brands join in on the discounting frenzy that takes place during the several major online shopping festivals hosted by the large ecommerce platforms. Some brands, however, are now starting to question the impact these events are having on sales and profits, and are trying to figure out how to best leverage them.

In order to rationalize pricing decisions, brands need to use data-driven insights to dig deeper into what consumers in their product categories really want, which can differ according to consumer demographics, shopping platforms or channels, and shopping occasions.

Brands can immediately tap into the consumer data they collect through direct-to-consumer (DTC) channels, or from platform-provided tools such as Tmall DataBank.

They should also build in-house analytical capabilities and hire data scientists and data translators who can turn the data they collect into insights that will help them refine their pricing strategy.

## How we conducted the China digital consumer trends survey

In the spring of 2019, we conducted an in-depth survey of more than 4,300 digital consumers across four city tiers and rural areas in China, and covering a range of ages and income levels. To better understand their digital shopping attitudes and behavior, we asked them questions about their decision journeys across digital and physical touchpoints.

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