

China's Economic Dip Is Moving Shoppers Online

McKinsey Digital October 2015



October 2015

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INTRODUCTION

Fear of a slowdown in China has raised concerns about consumer behavior and about the possibility that the retail boom is over. McKinsey's Ecommerce Sentiment Survey, conducted in September 2015, explored the attitudes of Chinese consumers in the aftermath of the summer stock market correction that saw many Chinese stocks lose a third of their value. We surveyed 1,200 consumers to learn more about how they are feeling about the economy and how their purchasing decisions might be affected by recent events.

The results indicate a more upbeat picture than most have expected. Chinese consumers are largely optimistic about the economy and its future direction. Some groups remain as enthusiastic as ever, while others plan to make adjustments in their spending habits, with a decided turn toward shopping more online.

WHAT SLOWDOWN?

For some segments of Chinese consumers, the recent economic turmoil appears to have had little impact. Heavy online shoppers, people in their 30s, and consumers living in Tier-1 cities are among the most optimistic: approximately 10% more consumers in these groups say they are confident about where the economy is heading and appear less jittery about the prospect of an economic slowdown in the immediate future (Exhibit 1).

Exhibit 1

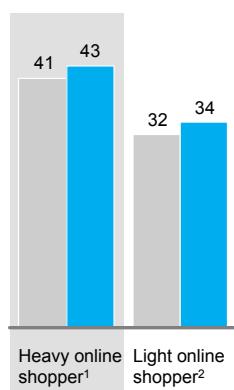
Heavy online shoppers, 25-34 year-olds and Tier 1 city dwellers are more optimistic about the economy

What do you think of the current state of the Chinese economy? What do you think about the outlook for the Chinese economy in the next 6 months?

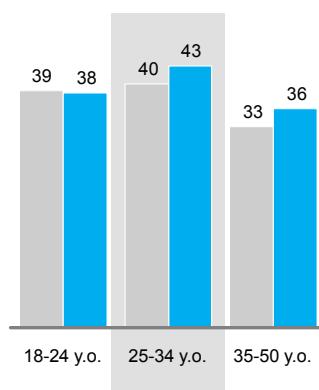
Percent of those who rate above 8 on a 1-10 scale

■ Current situation ■ Future outlook

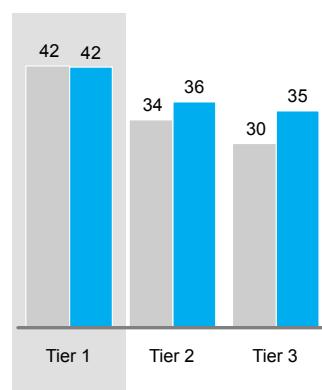
By type of online shopper



By age group



By city tier



¹ Once per week and above

² Less than once per week

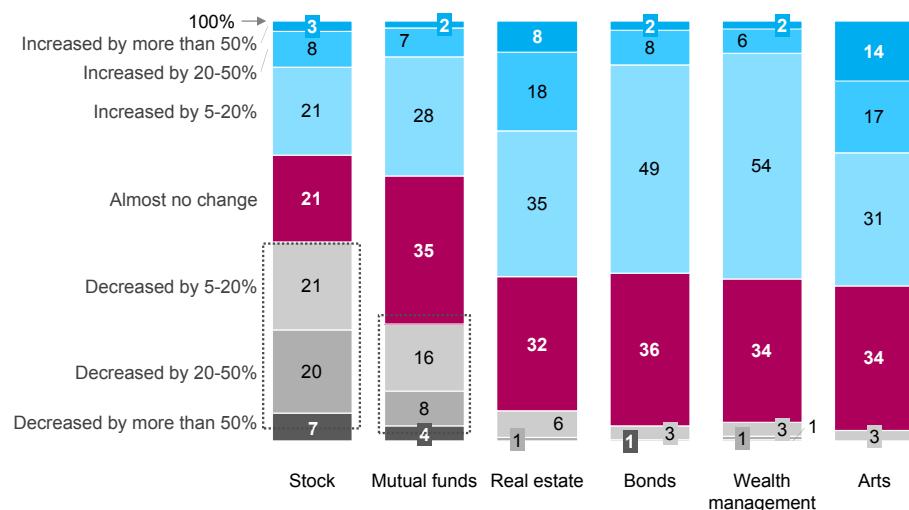
SOURCE: McKinsey China Ecommerce Sentiment Survey (September 2015)

Over 50% of those surveyed have taken a hit on their investments, whether they be stocks or funds (Exhibit 2), but many remain optimistic about the broader economy. 71% expect wages to increase this year, although only moderately compared to three years ago (Exhibit 3).

Exhibit 2

Half of our surveyed consumers have taken a hit on their investments in the past 6 months

How has the value of your investment portfolio changed in the past 6 months? Percent

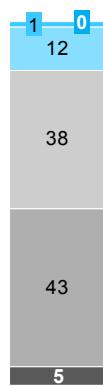


SOURCE: McKinsey China Ecommerce Sentiment Survey (September 2015)

Exhibit 3

71% still expect income to grow albeit at a much slower rate than 3 years ago; 84% expect to spend more

How will the economy impact your household income over the coming year? Percent



2012



2015

How will your household consumption change in the next 6 months? Percent



2015

SOURCE: McKinsey China Ecommerce Sentiment Survey (September 2015)

SPEND AND ENJOY, BUT CAUTIOUSLY

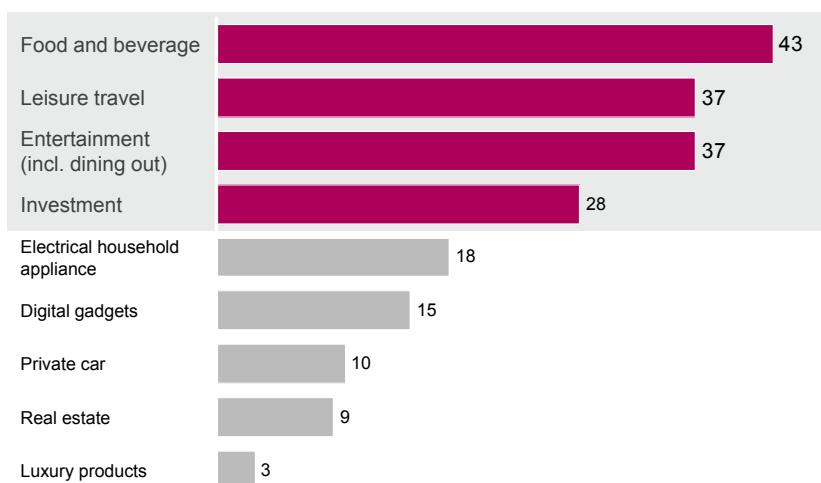
Survey respondents indicated that they planned to spend more on consumer staples like food (a net 43% say they will raise spending), and would scale back on luxury goods and durables like appliances, consumer electronics, and cars (only around 10% said they will spend more). But entertainment and leisure travel appear to be close to consumers' hearts, and they are not ready to cut spending in these areas (Exhibit 4).

Exhibit 4

Consumers expect to spend more on food and entertainment; and less on durables like consumer electronics

On which top 3 categories will you spend MORE in the coming 6 months?

Percent; net of categories where they will spend LESS



SOURCE: McKinsey China Ecommerce Sentiment Survey (September 2015)

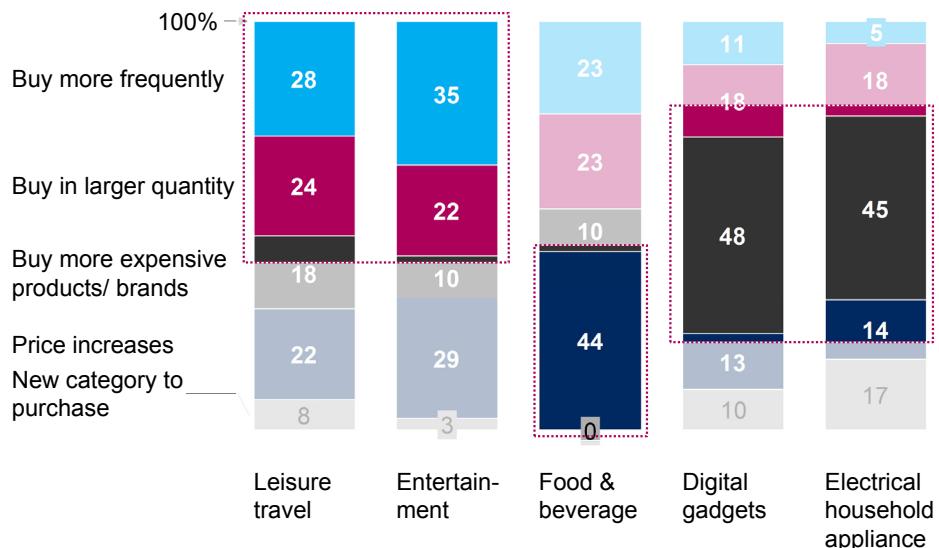
The forces driving these changes in expenditures differ widely by category. Price inflation is the primary reason cited for increased spend on food. On the discretionary spending side, Chinese consumers indicate that when they do buy durables, they will invest in more expensive brands or models (Exhibit 5). When it comes to entertainment, respondents seem intent to dine out, go to the movies, and travel more often, but they will not be trading up to more expensive offerings in these categories—Chinese consumers still want to have fun, but they will focus on smart spending to get the experience they want.

Exhibit 5

Spend is increasing for very different reasons, driven by inflation, frequency, and trading up for quality

How will you spend more for each category?

Percent



SOURCE: McKinsey China Ecommerce Sentiment Survey (September 2015)

SMARTER SHOPPERS MOVE ONLINE

The move from in-store to online purchasing is set to accelerate: 84% of respondents said they would buy more online in the next 6 months. Chinese consumers agree widely that online is the smarter way to spend: 62% noted price as the number-one reason to buy online (Exhibit 6).

In particular, food, entertainment, leisure travel, and investment spend will shift even more to online (with over 50% of respondents citing larger online spend in the next 6 months), driven by price, range, and convenience. Although consumers do not plan to cut down in these areas, they intend to make these purchases in a smarter way. Leisure travel in particular is likely to see significant online growth from a relatively low base (Exhibit 7).

The shift to online purchasing is more muted for durables: consumers are no longer looking for quantity but for quality in these categories. The bargain hunter paradise that is the Internet in China still appeals to consumers, but not significantly more than in the past for these items.

Exhibit 6

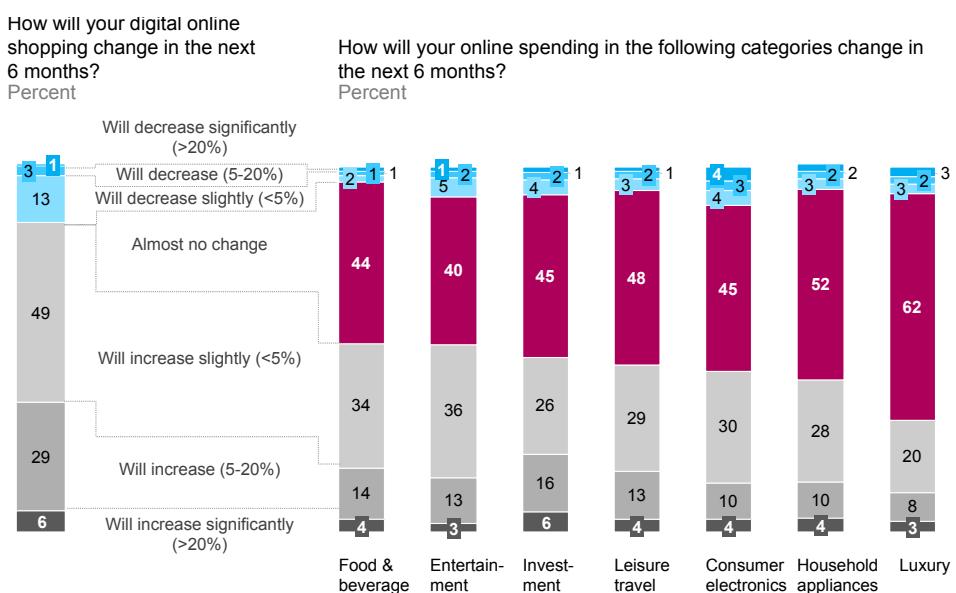
50% cited economic outlook will drive them to spend more online, as they look for price, range and convenience



SOURCE: McKinsey China Ecommerce Sentiment Survey (September 2015)

Exhibit 7

Food and entertainment will see bigger online spending increases especially compared with durables like consumer electronics



SOURCE: McKinsey China Ecommerce Sentiment Survey (September 2015)

IMPLICATIONS

These changing consumption patterns mean companies must rethink their strategy to capture the full China potential.

Companies selling durable goods in China may need to rethink their product strategy and pricing as consumers buy less frequently, but ‘buy quality’ when they do spend. Winners might be those that re-engineer their business models from one-off device sales to ongoing revenue streams as users hold onto the same device for longer periods.

Companies offering entertainment and leisure travel services must upgrade their digital assets to offer the best web and mobile shopping experience. Content and social marketing rather than simple advertising placement will become more important to win over discriminating consumers. O2O (online to offline) platforms like Dianping and Ctrip will become even larger channels as consumers hunt for deals; companies will need to accept the changing rules of the game and collaborate to stay relevant and top-of-mind for consumers.

Brands and retailers will need to find smarter ways to spend and acquire customers. Big Data collaboration with ‘data owners’ like Baidu, Alibaba, Tencent (collectively known as BAT) will become a new competitive advantage for early adopters.

Finally, even after the recent stock market correction, Chinese consumers still appear keen to put their money to work, with online as a growing channel. Substantial upside exists for banks, insurers, brokers, and wealth managers who can marry their own digital distribution with third-party platforms like BAT.

China’s workforce is still relatively young, and unencumbered by memories of severe economic downturn. Wages are still increasing, and many consumers are holding tight to their middle-class aspirations. Although some plan to cut spending, many more plan to spend more, but smarter. Consumers seem surprisingly unbothered by recent bumps in the economic road. However, changing consumption patterns mean companies will need to rethink product, marketing, and partnership strategies to stay fully vested in the China upside.

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McKinsey Digital
October 2015
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