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Entrepreneurship and Changing Consumption Patterns of the Young Wealthy in China

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INTRODUCTION

Research by our co-author Weihua Huang suggests that according to the *Hurun Wealth Report 2010*, in China there are at least 875,000 USD millionaires, 1900 RMB billionaires (with over EUR 110 million), and 140 Chinese have made over RMB 10 billion. Many of these are comparatively young – between 25 and 30 years of age. There is a great deal of hidden wealth in the Chinese economy, with a significant number of low-key billionaires keeping their heads below the parapet – and this includes some of the youngest. The average age of China's most wealthy inhabitants is only 39 years of age. On average, they are 15 years younger than their counterparts outside of China, and their wealth is growing more rapidly. The male to female ratio is 7:3, which is also very different from many other countries.

Beijing is home to more of China's rich than anywhere else, with 151,000 millionaires. Guangdong occupies the second position, and Shanghai is third. They made their money primarily as entrepreneurs in private business from the service, property and manufacturing sectors (in that order) and they are confident about China's economic outlook, despite the world economic downturn and soft-landing of China's long economic growth-spurt.

These young entrepreneurs represent a privileged class of young wealthy shopaholics. How do they spend their money? The consumption habits of China's young wealthy have been evolving and changing in recent times. They enjoy collecting luxury items and being connoisseurs... Chinese classical art, cars and watches... on average they own three cars and 4.4 luxury watches each. Travel, golf and swimming are their leisure activities of choice, and they take an average of 16 days' holiday a year. With regard to lifestyle, swimming is the preferred hobby of Tier 1 millionaires and tea tasting for Tier 2/3. In Tier 1 Chinese millionaires prefer collecting cars and watches while in Tier 2/3 the preference is for traditional Chinese paintings. The favoured fashion brands of Chinese millionaires in Tier 1 cities are Giorgio Armani, and Gucci and Boss in Tier 2/3. Chinese millionaires identify Cartier as the most preferred jewellery brand but among Tier 1 millionaires. Bulgari is also well liked and Montblanc is popular with Tier 2/3 city millionaires.

A research report from UBS AG showed that by the end of 2015, China's domestic consumption is expected to account for 15.6 percent of the world's total spending, jumping from 5.4 percent in 2011, with the result that China is becoming the world's second largest consumer market following the US. China's middle class (also exceptionally young compared with other countries) currently accounts for roughly 23% of the whole population, to reach 40% in 2020. According to *Euro-monitor International*, by 2020, China's middle class will expand to 700 million (the middle class in China is defined as households with an annual income between RMB 60,000 and RMB 500,000, divisible by around 10 to create approximations in USD, GBP and Euros). Many of these middle-class consumers are young, and are accumulating their wealth now, in real time.

This paper will also consider how Western businesses are cashing-in on these trends, looking at risks and opportunities in the China market, based on another co-author's recently published book, *The BRICS and Beyond*. The third co-author has added her insights from her doctoral studies on the development of Chinese multinationals and Chinese brands.

Primarily, the contribution of this paper is the provision of a literature review of recent articles – primarily from the Emerald database and supplemented with material published by audit and consulting firm KPMG, blue chip consultants McKinsey and the research-based *Economist Intelligence Unit*. This paper is basically a summary of the literature on young, wealthy Chinese entrepreneurs and the way they spend their wealth, and what others can learn from this.

FULL PAPER

This paper considers the rise of the young Chinese businessman or woman – working in entrepreneurial private sector businesses – and his or her changing consumption habits, as a result of increased wealth. The authors are looking at individual Chinese people rather than Chinese companies (or Western companies in which they might work). It is also focused on looking at young people, mostly under 30 but over 16, rather than Chinese children (although there is an extensive literature on the consumer habits of the under 16s in the PRC, and their ability to influence older/parental consumers – both parents and grandparents).

This study is also focused only on the PRC mainland – not on Chinese in Hong Kong, Singapore or Taiwan, and not on Chinese operating in Western countries – although again there is a very extensive literature here too.

This paper aims to suggest insights into Chinese business thinking from which Western businesses can learn, especially when targeting the Chinese market with specific Western brands, and planning possible long-term scenarios for brand development in this context – and even for attracting Chinese entrepreneurial wealth offshore.

China's rich young entrepreneurs: the private sector in China is now growing to the extent that it represents 65% of Chinese GDP and 56% of tax revenues, according to Jiang and Iles (2011). This sector is still regarded as slightly artificial - it's not natural to be an entrepreneur in China, and entrepreneurial private businesses are still fairly rare; those private firms which experience rapid growth are creating unique value in the market and are something beyond the norm, suggest Zhang, Yang and Ma (2008). However, these Chinese private entrepreneurs are making their mark, and are changing the marketing practices of the past, especially with their interest in flexible pricing and emphasis on bargaining (Vanhonacker, Zweig and Chung, 2007).

The private sector in China, long restricted and underdeveloped, now has a chance to take off through improved distribution, suggest Chow and Tsang (1994) in "Distribution Reform in China: An Analysis of the Private Sector Development". Meanwhile, we have new measurement tools, such as through Wan-Yu Chen, Calvin S. Weng and Hui-Ying Hsu's (2010) efforts in creating "the Chinese Entrepreneur Aptitude Scale". Private enterprise in the Chinese economy still faces difficulties due to the weak and hostile institutional environment, lack of property

protection and the ongoing risk of property confiscation. This is exacerbated by the under-developed credit system (Feng and Wang, 2010). In "How private enterprises establish organizational legitimacy in China's transitional economy", the authors emphasize the continuing importance of connection with government officials – *guanxi*s still time-honoured. Some Western students think this might be another form of 'relationship marketing' as in the West – but really it's very different. This traditional Chinese attitude is still very important, suggest Wong and Tam (2000), in "Mapping relationships in China: a dynamic approach".

In measuring the Chinese entrepreneurial mindset, there is an ongoing debate between the importance of psychological variables or external environment pressures, argue Taormina and Lao (2007), in "Measuring Chinese entrepreneurial motivation: personality and environmental influences", who suggest that generally it could be the latter, assessed on achievement, striving, social networking, optimism and the perception of a favorable business environment. The authors found that psychological issues are more important for *potential* entrepreneurs, and the environment is more important for *established, successful* entrepreneurs. These two issues would seem to explain the majority of reasons for people to become entrepreneurs in China.

The Confucian belief of a single despot and the closing-off of China from the rest of the world would seem to have thwarted innovation and creativity and thus entrepreneurship in China for many years, according to Kriz (2010). In "The challenge to rekindle China's innovative spirit", the author discusses how China has depended on low cost and imitation in the past. This has been true in the past, but is now changing. Certainly, it can be difficult for Chinese entrepreneurs to develop brands in the same way that Western companies do, consider Hollows and Clegg (2006) in "Brand development: institutional constraints on Chinese businesses". Thus, many Chinese entrepreneurs use Western brands to get started, and only then can develop their own brands, or hybrids. This is not the greatest strength of Chinese business, and still has a long way to go. However, many Chinese entrepreneurial businesses start off being localized, especially the internet-based firms. For example, Chinese online gaming is becoming more localized, with more interest in local than foreign sites (Kshetri, 2009), in "The evolution of the Chinese online gaming industry". Chinese consumers (see below) also prefer their own internet enterprises – but there is still a big influence of foreign business.

If entrepreneurship in China is lagging, can entrepreneurship be taught from scratch? This is asked by Dana (2001) in "The education and training of

entrepreneurs in Asia", and many other authors. **Entrepreneurship education** is now starting in China in a big way. For example, specific courses are offered jointly between the ILO and the China Youth University for Political Sciences in Beijing, explains Millman, Matlay and Liu(2008) in "Entrepreneurship education in China: a case study approach". Students' internet-based entrepreneurial intentions were studied in a related article by Millman, Li, Matlay and Wong, (2010), in their study "Entrepreneurship education and students' internet entrepreneurship intentions: Evidence from Chinese HEIs". This is influenced by gender, household income levels, student status, the student's experience in having taken IT courses, and the tendency of internet shopping frequency as students. Many forms of entrepreneurship – including fashion entrepreneurship – have become a full university subject in China, thanks to imported British courses run by the British Council in China. However, this is not without challenges. Shi, Chen, Gifford and Jin (2012), in "Fashion entrepreneurship education in the UK and China", discuss their findings that Chinese students generally seem to lack entrepreneurial skills, and are looking for a job rather than being entrepreneurs. In particular, the Chinese students show an alarming lack of interest in business ethics...

Why might Chinese students be interested in entrepreneurship, and does this relate to the work of Taormina and Lao (2007) quoted above? Psychological self-efficacy is the strongest factor behind students wanting to set up their own entrepreneurial businesses, suggest Pruett, Shinnar, Toney, Llopis and Fox (2009), in their study "Explaining entrepreneurial intentions of university students: a cross-cultural study". So, basically, the answer is yes, the reasons are the same – as these are potential rather than actual entrepreneurs. Surveying students from the USA and Spain as well as from China, the authors found that cultural and social dimensions were less important, and there was more similarity between the youth generation across cultures. It was less important where you came from, than who you were and the group with whom you identified. According to McKinsey, the number of Chinese graduates is increasing rapidly, with 245 million graduates in the labor force – and many are interested in being entrepreneurs. This is compounded by the 75 million unemployed young people (aged 15-24) in China – who may see entrepreneurship as a way out of unemployment (2012a). This is discussed further in an EIU report on HR in China (2012b) and by the recruiting firm Manpower (2010).

So – a new elite of professional, young wealthy individuals is being created in China – and how are they influencing consumer behavior?

China's rich young consumers: aKPMG report looking at China's 12th five-year plan of April 2011 (2011b) not only looks at the importance of creating new jobs and raising domestic consumption but – of most interest – is concerned with trying to reduce wealth disparity. How can there be too many rich people in a Communist country? This may not appear to make sense. But the few young super-rich and many young fairly-rich in China (mostly gained through entrepreneurship and private business) are driving new consumption patterns.

How wealthy are Chinese? Is asked by Wu (1997) in "Wealth and spending patterns in China: Empirical evidence from household surveys". This question is partly answered in a McKinsey report "Consumer and Shopper Insights" (2012b), in looking at the 2020 consumer in China, there will be more consumers, in more places, with more discretionary income – and they will be younger, and with a higher proportion of women. And they are changing their approaches to shopping.

Attitudes to having more money – representing vanity and materialism – are particularly influencing young Chinese consumers towards what they perceive as Western ideals of individualism and hedonism (Durvasula and Lysonski, 2010). In "Money, money, money - how do attitudes toward money impact on vanity and materialism? - the case of young Chinese consumers", the authors consider that materialism in China is affected by power and prestige and anxiety dimensions. Money permits not just status and possessions but power and control over others, leading to increased materialism and vanity. Marketers should position their products based on the possession of money by these wealthy young consumers and their use of money to indulge hedonism, which is especially attractive to young Chinese. Compulsive shopping is now becoming a real problem in China.

In "A consumer paradigm for China", consulting firm McKinsey (2009) suggests that overall, consumption and spending is very low in China compared with the rest of the world – which brings into sharp relief the high levels of luxury consumption by the young wealthy. Marketing to these young rich people is changing the face of marketing generally in China, suggest Spero and Stone (2004), and is likely to keep changing. In particular, the global teenage lifestyle in Asian society varies according to each generation, and each generation has its own unique global youth culture, explains Wee (1999). China has its own variations here – quite different from Japan and South Korea, for example.

China's confident consumers are causing rapid change in marketing practices to secure their on-going interest – brand awareness is rising, but there is no brand loyalty – these mostly young Chinese keep changing their consumer choices, according to a McKinsey report of November 2011. This is even more likely to be the case in the “Champs” – the term used for China's fastest-growing cities, studied in a report from the EIU's Access China Service (2010), which reveals that 20 of the fastest-growing cities in the central provinces of China are set to expand population-wise by 27% to 85m in the next decade, whilst the population in China's richest cities is set to grow by a more modest 19%. A subsequent study (2012a) looks at the 13 megalopolises (up from three in 2000) and the rise in urbanization (now over 50%). And China is not an homogenous market across all seven regions, argue Cui and Liu (2000), who suggest that attitudes to purchasing power, lifestyles, media use, consumption patterns vary a great deal. In "Regional market segments of China: opportunities and barriers in a big emerging market", the authors find a great difference between the coastal and inland regions in particular.

In a KPMG report on Luxury Experiences in China (2011a) we see that Chinese consumers are increasingly influenced by emotive factors such as experience and self-reward, as well as status-seeking and needs-based factors. A new wave of luxury collecting, including of fine wines, art and jewels is a feature of these new discerning shoppers, who do much of their research on the internet, but do their shopping in heavily-branded stores. A typical wealthy young Chinese consumer can recognize between 50-60 brands, and increasingly favors European brands, particularly Swiss watches and French fashion.

It is important to study Chinese consumers' value profiles in specific market segments, argue Ramasamy, Au and Yeung (2010), quoting research that the most important values in China (secure country, friendship, peace, wisdom and freedom – all terminal values; and ambition, honesty, intelligence, broadmindedness, independence and being cheerful and polite – all instrumental values) should be taken into account in marketing decisions. By contrast, the authors, in their study "Managing Chinese consumers' value profiles: a comparison between Shanghai and Hong Kong", consider the contrast between values which are not apparent among Chinese consumers, such as religion and salvation, equal opportunities, being courteous, being forgiving, being obedient and having courage and imagination.

Consumer values and consumption patterns can be inconsistent and contradictory in China – and different strategies are needed for different segments, suggest Lin and Wang (2010). This challenges the conventional view that Chinese have preserved homogenous values. In "The heterogeneity of Chinese consumer values: a dual structure explanation", the authors point out that probably the only way in which Chinese consumers are still traditional is the fact that most of them still save 30% of their incomes. Watch this space!

Buying Western goods: the Chinese are interested in buying Western goods – to a point. The brands must be appealing, the products OK, and the marketing geared towards Chinese expectations. The well-known Swedish basic furniture maker, Ikea, uses a different marketing strategy in China than elsewhere. The products might be fairly standardized, but the way they can be sold isn't – it can't be. The Chinese must be able to appreciate that modifications have been made to adjust to their culture, explains Ulf Johansson and Åsa Thelander (2009).

A new generation of brand-conscious individuals is coming through in mainland China – where consumers were previously regarded as collective and homogenous, argue Ye, Bose and Pelton (2012) in their study, "Dispelling the collective myth of Chinese consumers: a new generation of brand-conscious individualists". They are now self-conscious and gender-conscious, much more than ever before, and exhibit a need for uniqueness. Brand-consciousness leads to positive brand perception. The uniqueness of brands must be emphasized, and ideally associated with a positive self- and gender-image, lifestyle and fun.

In terms of buying cars and cameras, young Chinese consumers are still interested in country of origin of the products they buy – but this doesn't have a direct impact on the perception of product quality or purchase intention – many Chinese like hybrid products (Wong, Polonsky and Garma, 2008), in "The impact of consumer ethnocentrism and country of origin sub-components for high involvement products on young Chinese consumers' product assessments."

In some areas, consumer choice is highly country-specific. Chinese fans of English premier league clubs show strong brand awareness and have a very clear view of perceived quality, as explained in Bodet and Chanavat's (2010) qualitative study, "Building global football brand equity: Lessons from the Chinese market". Given a clear interest in Western brands, there are two types of young consumers in China, consider Rawwas, Patzer and Klassen (1995) in "Consumer ethics in cross-

cultural settings: entrepreneurial implications". There are those consumers who exhibit sensory innovativeness – and those who are more persuaded by cognitive innovativeness. The latter is influenced by quality and price, and is confused by too much choice. The former is more affected by brands, fashion, and impulse – such as supporting a specific football club. The youth consumer market in China – offering a very big opportunity for Western brands – is particularly sensory and hedonic in nature – people want identity, excitement and fun. Some Chinese brands are becoming established worldwide – but not many. The Chinese may be good at manufacturing but there is still a good deal of discussion about the possibility of Chinese branding (Fan, 2006), in "The globalisation of Chinese brands".

Brand functions in China include the perception of both utilitarian and expressive functions of different brands and the recall of past experiences, suggest Guo, Hao and Shang (2011) in "Consumer perceptions of brand functions: an empirical study in China", who provide an analysis of the ways Chinese consumers perceive brand functions. This is usually quite different from in the West. Brand association and brand loyalty seem to be more influential in building brand equity than perceived quality and just brand awareness, so brand association is seen as more important, especially in sportswear (Tong and Hawley, 2009a), in "Measuring customer-based brand equity: empirical evidence from the sportswear market in China". Female athlete endorsers can have a big impact on product sales, especially if they are highly attractive, and even if they do not appear to be related to the product (Liu and Brock, 2011), in "Selecting a female athlete endorser in China: The effect of attractiveness, match-up, and consumer gender difference".

Gender differences in sex appeal advertisements have different consumer responses (Liu, Li and Cheng, 2006). Chinese males would appear not to be influenced by males in advertising. In their article "Sex appeal advertising: gender differences in Chinese consumers' responses", the authors suggest that if males are presented for their romantic appeal, this can influence females, but only females are interested in male models. Males and females are more similar in their reactions to advertising than in the West. However, a man's attractiveness is seen as more due to his talent than his appearance in China, due to an age-old prejudice in traditional Chinese culture. Only females are attracted to good-looking guys in advertising, if presented to look attractive, but sex appeal doesn't work for most men in China.

Internet usage: high levels of trust and risk-taking are shown by the behaviors of young Chinese internet banking consumers, according to Zhao, Koenig-Lewis, Hanmer-Lloyd and Ward (2010). In terms of internet shopping, young mainland Chinese consumers prefer localised ethnic portals rather than international providers such as Yahoo, argue Dou, Yoo and Liangyu (2003) in their study "Consumer patronage of ethnic portals". This was also seen in the rise of Chinese internet gaming sites (see above).

Similarly, Chinese youth consumers have a tendency to accept mobile phone marketing and any risks attached, especially with the priming effect of regular mobile phone usage as an antecedent factor, argue Gao, Sultan and Rohm (2010) in "Factors influencing Chinese youth consumers' acceptance of mobile marketing". It depends on their attachment to their mobile phones whether or not they read marketing messages and take them seriously.

Fashion: young Chinese consumers buy clothes mostly based on store image, celebrity endorsement and event sponsorship – and not on price promotions (and certainly not to do with any aspect of the clothes themselves), suggest Tong and Hawley (2009b), in "Creating brand equity in the Chinese clothing market: The effect of selected marketing activities on brand equity dimensions". The market segment of affluent young Chinese consumers for luxury fashion goods is looked at in a study of China's New Rich. This includes five segments of strategies for the marketing of luxury goods – emphasizing heterogeneity (Gao, Norton, Zhang and To, 2009), in "Potential niche markets for luxury fashion goods in China".

When Chinese buy Western denim jeans, they are mostly only interested in whether they are Western or Asian-produced – but not which particular country they are coming from, discovered Wu and DeLong (2006) in "Chinese perceptions of western-branded denim jeans: a Shanghai case study".

For all their sophistication and fashion-consciousness, Chinese consumers show higher price and prestige sensitivity than American or Japanese consumers. However, although Americans like searching for bargains and finding cheap goods in sales, this is not a habit of the younger Chinese consumers, suggest Meng and Nasco (2009), "Cross-cultural equivalence of price perceptions across American, Chinese, and Japanese consumers".

American and Japanese teens would seem to be more similar in their fashion-buying behavior than Chinese, find Parker, Hermans and Schaefer(2004). In their article "Fashion consciousness of Chinese,Japanese and American teenagers", they argue that this indicates that China is still a developing market, and fashion-consciousness is lower than in the US and Japan, especially in terms of following the latest styles, appreciating style above comfort, and the importance of following fashion trends.

Purchase intentions of Chinese towards American apparel brands can be influenced by Confucian values such as face-saving and group conformity – or can it? Authors Jin and Kang (2011), in "Purchase intention of Chinese consumers toward a US apparel brand: atest of a composite behavior intention model", find that these assumptions are no longer the case. Culture, social forces, the marketing mix and consumer behavior are important in looking at older and younger segments (Anderson and He, 1998), in "Price influence and age segments of Beijing consumers".

Employer branding, not just the branding of goods and services, is increasing in China – especially in terms of what makes a young Chinese join a company. Economic values, personal development values and social values are especially important in career and employer choice, arguesJiang and Iles (2011). In "Employer-brand equity, organizational attractiveness and talentmanagement in the Zhejiang private sector, China" they suggest that brand awareness is all-pervasive.

Promotional events and **event marketing** are new in China, but are very effective in developing branding and integrated marketing communications, especially in sponsoring music and sports, according to research a decade ago (Fan andPfitzenmaier, 2002) entitled "Event sponsorship in China" – this could be different now, as a decade is a long time in Chinese marketing.

How can we conclude our study to date? Clearly, young wealth is on the rise, and is spreading across China's increasingly urbanized entrepreneurial and consumer-oriented landscape. With the opening-up of the private sector, young Chinese are making more money – and spending it. They are learning how to become entrepreneurs at university – a far cry from the tough, street-smart rough entrepreneurs of the 1990s and first decade of this century. As members of a new wealthy elite, they are causing concern to the Chinese authorities – show we allow

such disparities of wealth to continue and grow? And what should the authorities think about the emotive, selfish, hedonic behaviors of these prosperous young consumers? They like prestigious foreign brands – but these consumers increasingly prefer their own Chinese variants. The young wealthy entrepreneurs and consumers in China are consolidating their investing and buying habits –but we in the West are still struggling to understand the perplexing direction in which these are going...

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