

Consumer Market Characteristics of Emerging Cities in China and Its Implications

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1. What Are the Emerging Cities in China?

For this study, a total of 287 cities at the prefecture level or above were classified into 4 categories based on the composite index of consumption.¹ Cities in each category were then subcategorized into high growth and low growth cities based on level of consumption growth of individual cities.²

¹ Three indicators were used to measure the consumption level of a city – i.e. 2011 per capita GRDP, consumer market size (total retail sales of consumer goods), and potential market size (per capita disposable income×population in urban center).

² The annual average growth rates of the aforementioned

For selection of emerging cities, top 50 cities in terms of consumption scale were chosen, among which high growth cities were extracted afterwards. Finally, 10 cities were selected as emerging cities in China– i.e. Chongqing, Ordos, Chengdu, Changsha, Daqing, Xi'an, Zhengzhou, Nantong, Jiaxing, and Hefei. The first seven cities are 2nd tier cities while the remaining three are 3rd tier. These cities are either inland cities in the mid-west, small coastal cities or resource-abundant cities, representing various types of cities in China.

tioned three indicators from 2009 to 2011 were used measure the individual city's rate of consumption growth.

2. Consumer Market Characteristics of Chinese Emerging Cities

In order to identify consumer traits of 10 Chinese cities selected as emerging cities, 50 consumers in each city were surveyed to identify their consumption patterns, buying tendencies, and perceptions toward Korean products.

Frequency analysis showed that in terms of consumer goods, foodstuffs were the best-selling item for China's emerging city consumers, followed by daily supplies and clothes/fashion items. In terms of service, the consumer spending was highest for transportation/communication, followed by dining out and culture/entertainment. Consumers' channels of purchase varied somewhat depending on the items purchased; with many consumers doing their shopping online. In making a purchase decision, quality was the most decisive factor, followed by price, and the internet was the most important source for gathering product information. Emerging city consumers showed great interest in eco-friendly and wellness products.

After studying the eight tendencies related to consumer psychology, we discovered that the most prominent factor in purchase decisions was practicality and self-satisfaction. While they engaged in impulse buying from time to time, they also tended to follow the latest trends. Although China's emerging city consumers did respond to price increases, they were not overly sensitive to price. They exhibit some level of curiosity toward new products, but did not care much about whether the products were imported or made at home. Consumers in emerging cities showed attachment to specific brands, but at the same time they did not hesitate to switch brands, and they showed low level of trust toward advertising.

When asked about the image of Korean products, China's emerging city consumers said they were 'so-so'. Nevertheless, they had strong intentions of purchasing Korean products. Quality and design were the factors determining the purchase of Korean products. What China's emerging city consumers wanted to buy the most were clothes/fashion items, digital products, and cosmetics. When Korean products were compared against other foreign brands in terms of quality, design, price, brand and service, Korean products were competitive in design, price and brand but did not stand out in terms of quality and service.

China's emerging city consumers' consumption patterns, tendencies and perceptions toward Korean products varied by city and by demographics (such as sex, birth year, and income level).

3. Common Features of Foreign Companies in the Cities

Having analyzed the cases of foreign companies' penetration into China's emerging cities, we discovered that corporate strategy for market penetration varied by nationality. Korean companies focused on 'eco-friendly/green products,' developed new, localized products; and took full advantage of the Korean Wave (*Hallyu*) when entering China's emerging cities. On the other hand, Japanese companies' market entry strategy boiled down to aiming 'target consumer class (primarily people in the middle or higher income brackets)', or 'target regions (large cities first and then spreading out to adjacent cities and nationwide).' Meanwhile, Taiwanese companies managed company-operated stores throughout China, targeted 1st tier cities first and then moved on to 2nd

and 3rd tier cities, identified brands for targeting a specific customer segment, and made efforts to cut procurement costs.

Foreign companies have also been implementing marketing strategy including the 4Ps (Product, Price, Place, and Promotion) and the STP (Segmentation, Targeting and Positioning) process. For product marketing, foreign companies attracted customers by pursuing product and/or service differentiation. Taiwanese companies, in particular, saved production costs by sourcing materials through collective buying, with its subsidiaries already established in China. As for prices, companies have been pricing their products in accordance with product attributes or competitiveness. In terms of location, Japanese and Taiwanese companies targeted 1st tier cities first and then moved on to 2nd tier and 3rd tier cities. And, in cities where they were already well-established, they selected store locations based on product attributes and convenience for visiting customers. With regard to promotion, Taiwanese companies leveraged their business related contests to promote themselves and their products.

With regard to the STP process, foreign companies segmented customers after considering various factors including customers' income level, taste, age, and lifestyle (Segmentation). They identified target customer segments by product type, but their target customers were primarily middle-to-upper class (Targeting). Foreign companies in China have been positioning themselves in the minds of consumers by promoting their unique product image and specific service offerings (Positioning).

4. What are the Implications for Marketing?

From the perspective of 4Ps, companies need to enhance product competitiveness, actively utilize eco-friendliness and wellness in their marketing while taking full advantage of consumer psychology, such as tendencies to pursue the latest trends, and curiosity about new products. Companies need to select store locations by taking the sheer diversity of factors into consideration, whereas it would be desirable to utilize indirect sales channels such as commercial agents or small merchants for setting up distribution channels. In addition, they need to determine distribution channels by sales item and actively utilize online sales channels. As for promotion, companies need to engage in marketing via mobile messenger services such as WeChat.

With regard to the STP process, companies need to develop a customized strategy for market penetration by classifying customers based on sex, birth year, and income level etc. Specifically, companies are recommended primarily to target middle-to-upper classes, female customers, and the post-80s and 90s generations.

Given that emerging cities show differences in consumption patterns and consumption tendencies of consumers, companies need to develop a customized market penetration strategy by identifying the characteristics of each emerging city. **KIEP**