



China's Connected Consumers

The rise of the Millennials

Fourth edition

Mei.com

kpmg.com/cn



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About the Survey

KPMG China and Mei.com commissioned Ipsos to conduct a survey of 3,004 mainland China consumers in September 2017.

The aim of the study was to understand the current and future shopping habits of mainland China consumers and analyse how companies can drive their business and marketing strategies accordingly.

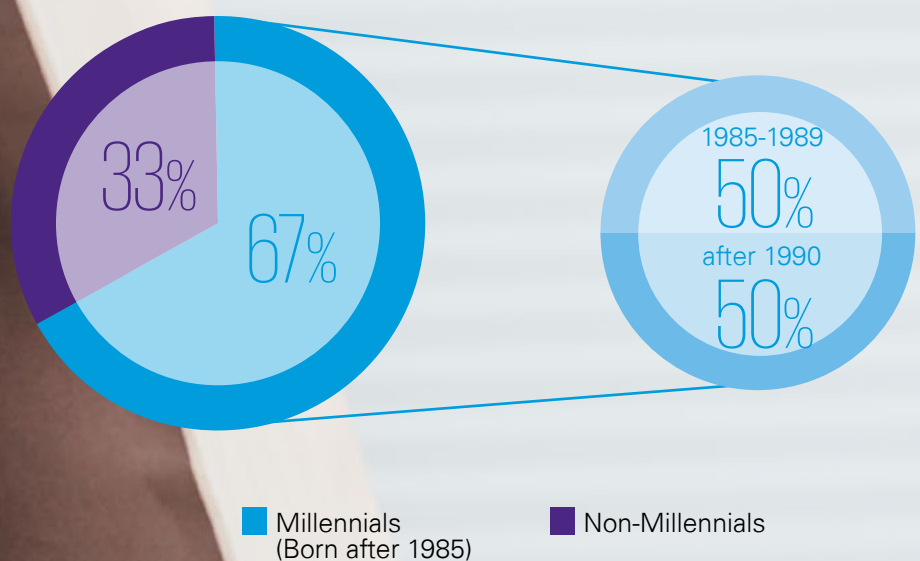
In addition, the survey focuses on the consumption behaviour of Millennials – those who were born after 1985 and are set to bring about the next chapter in China's consumer and retail industry.

The survey analyses the differences between Millennials, and other age groups in order to understand the unique characteristics of this consumer group.

Among the respondents, 67 percent were Millennials with an even split between those born between 1985-1989 and those born after 1990.



Composition of survey respondents



Source: Joint KPMG and Mei.com survey

Executive Summary

Online shopping has effectively become a national pastime in China with approximately 77 percent of respondents picking it as their favourite leisure activity, according to our survey of 3,004 consumers. The annual Singles' Day bonanza is a reflection of this enthusiasm, with Alibaba, for example, recording a record Rmb121 billion(US\$25.3 billion) of sales in this year's event.

As a result, many companies are actively adapting their business models and strategies in response to China's e-commerce boom. This includes integrating their online and offline operations to provide an omnichannel shopping experience for consumers, which includes conventional stores, websites, social media, web chats and mobile applications.

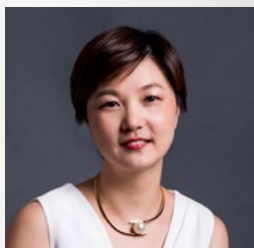
Consumers are disrupting the retail sector. Their increased demand for innovative products and services are driving the growth of emerging technologies such as smart cars, wearable watches, virtual reality and augmented reality.

The pursuit for innovation, however, goes beyond the type of products and services that are sold. It has also expanded to include the manner in which items are being sold as reflected by the growth of sharing economy platforms in mainland China, with consumers increasingly interested in portals offering accommodation, bike, car and knowledge sharing.

All of these developments are occurring in the midst of a generational shift, with Millennials set to become a key driver driver of China's consumer and retail market.

The rise of this experiential generation has prompted a surge in demand for luxury products as well as the affordable luxury segment. It has also prompted more businesses to direct their efforts towards "personalised" shopping as they seek to provide a richer consumer experience.

This year's survey has highlighted the extent to which the mainland China consumer and retail market is evolving. To maintain their competitive edge, businesses need to ensure they are up-to-date with the latest industry developments, population demographics and focus on providing the best consumer experience through the enhanced use of technology and big data analysis.



Jessie Qian

Head of Consumer & Retail (China), KPMG China



Anson Bailey

Head of Consumer & Retail, ASPAC, KPMG China



Thibault Villet

Co-founder and Chairman, Mei.com



Chapter 1

Millennials: A generational shift



The survey findings revealed that a generational shift is likely to occur in the next five years, with the first batch of Millennials set to overtake older consumers as the biggest spenders in mainland China.

Respondents born between 1985-1989 spent around Rmb5,852.50 a month, which puts them marginally behind the older generation (Rmb6,040/month).

However, the situation is likely to be reversed in the near future as 31 percent of Millennials expect a significant increase in their income over the next five years compared to just 18 percent of non-Millennials. Their rise to become a key component of China's retail market is therefore underway.

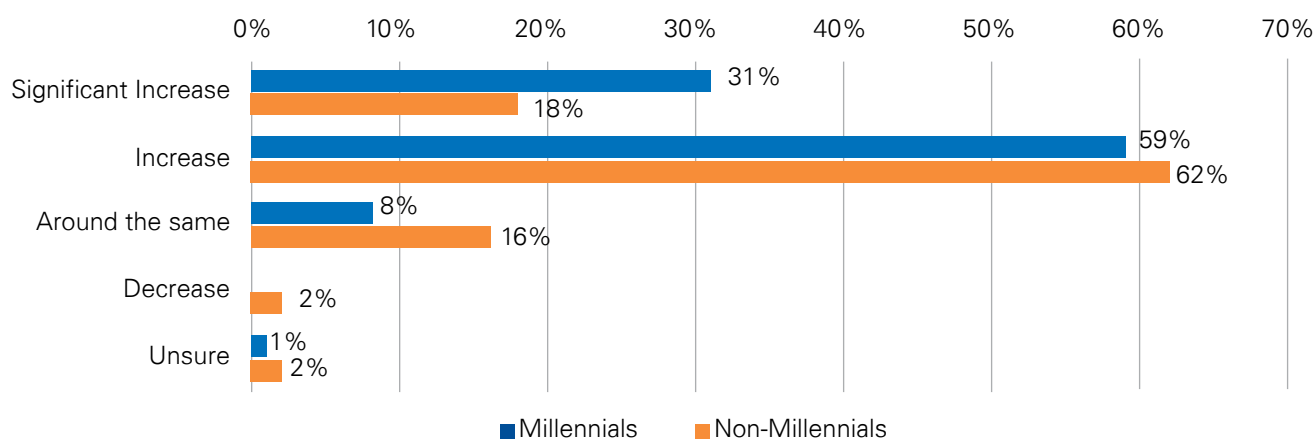
While the batch of 1985-1989 consumers are already contributing greatly to the retail market, Millennials, on average, are still behind older consumers in terms of their wealth as well as their willingness to spend. This can be mainly attributed to the fact that the majority are relatively new to the workforce and are yet to possess the same financial finesse as their seniors.

Currently, the average monthly income of Millennials (Rmb11,738) is lower than the rest of the population (Rmb12,423), with close to two-thirds of Millennial respondents earning less than Rmb10,000 a month. In addition, their average monthly spending is also lower at Rmb5,565 a month. It also goes to show that Millennials in China are, in general, quite prudent spenders, with their average monthly spending at less than half of their income.





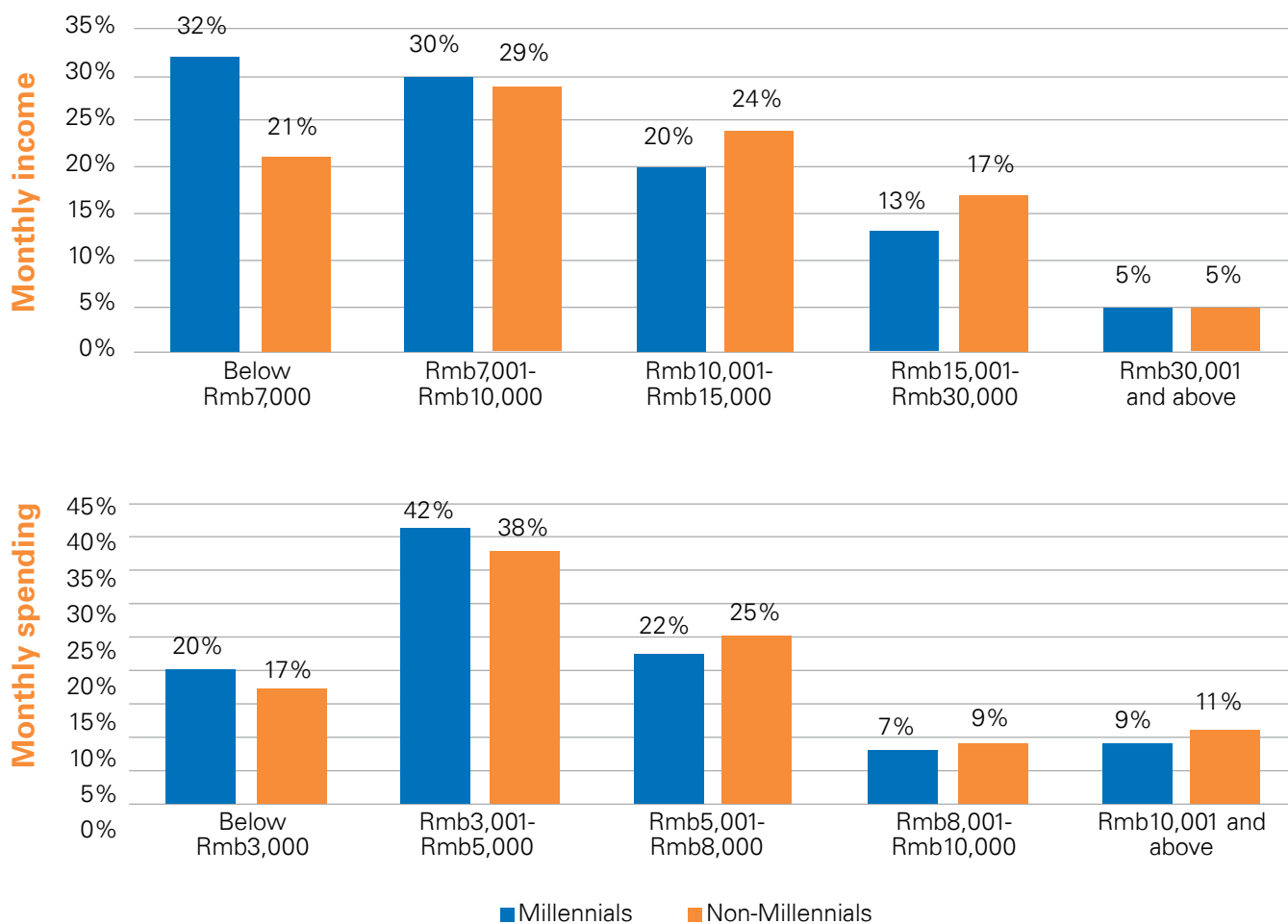
Expected level of income in the next five years



Source: Joint KPMG and Mei.com survey



Average monthly income and spending



Source: Joint KPMG and Mei.com survey

**Anson Bailey**

Head of Consumer & Retail,
ASPAC, KPMG China

Retailers are facing significant disruptions from the rise of the tech savvy Chinese Millennials. They cannot afford to stand still and it is critical for them to adapt their strategies to the needs and wants of young consumers.



To cater to a wider audience, businesses operating in China are increasingly adopting a multi-brand strategy. They are marketing a variety of products under different brands, with each targeting a specific set of customers in order to maximise their coverage.

It is a tactic commonly seen in the automobile, fast-moving consumer goods (FMCG), and cosmetics sectors. Its usage has since expanded across the entire market in China and is popular with companies, which do not traditionally target younger consumers. With a multi-brand strategy, they are able to reach out to new customer groups without the risk of losing their brand identity.

There are a number of factors to consider. This includes clear brand positioning in order to minimise internal competition and higher operating and management costs from overseeing a larger portfolio.

It is increasingly difficult for a single brand to be able to fill multiple segments. As China's retail market continues to develop, more consumer groups such as Millennials will gain prominence. It is imperative for companies to diversify and maximise their relevance to different groups of consumers.



Chapter 2

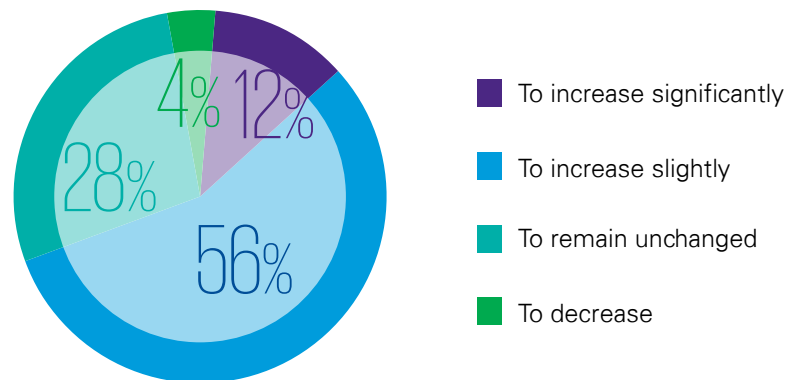
Growing demand for luxury products



One of the retail segments to have benefitted from the generational shift is the luxury sector, with approximately 70 percent of Millennial respondents estimating that their consumption of luxury goods and services is likely to increase or significantly increase over the next 12 months. Around 45 percent indicated it is essential to own at least one designer item.



Millennials: Luxury goods spending over the next 12 months



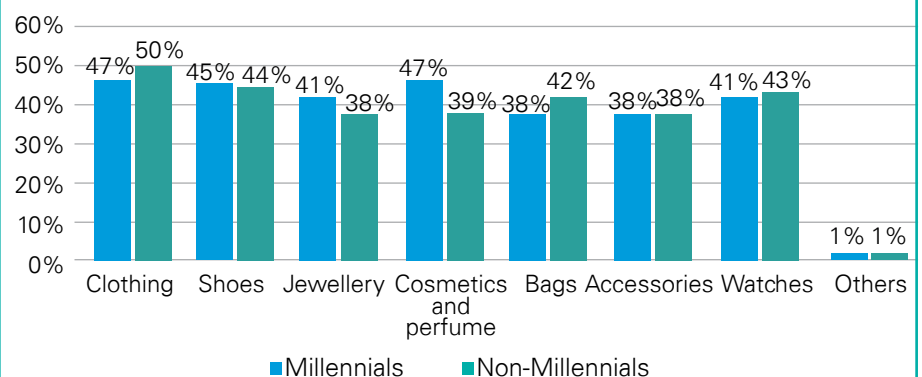
Source: Joint KPMG and Mei.com survey

Popular luxury product segments among Millennials are cosmetics and perfume (54 percent), followed by watches (50 percent), clothing (46 percent) and bags (45 percent).

Looking ahead, this up and coming generation of consumers are looking to increase their ownership of higher-end clothing (47 percent), cosmetics and perfume (47 percent) and shoes (44 percent) in the coming 12 months. Demand is also high for watches (41 percent), jewellery (41 percent) and bags (38 percent).



Demand for key luxury product types over the next 12 months



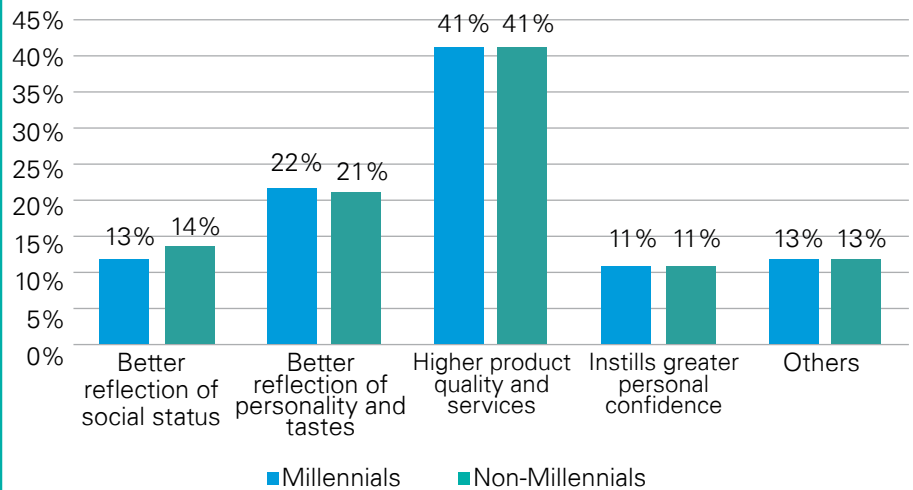
Source: Joint KPMG and Mei.com survey



Close to 41 percent of Millennials said the key benefit of owning a luxury product (affordable luxury included) is better product quality and services. In addition, luxury has evolved from being a statement to an item that can better reflect the owner's tastes. Around 22 percent said luxury products can better reflect their personality and tastes.



Main reasons for owning a luxury product



Source: Joint KPMG and Mei.com survey

However, more than 60 percent of Millennials are only spending less than Rmb5,000 a month, whereas a luxury bag can easily cost more than Rmb10,000.

This has led to the rise of the affordable luxury segment – products that provide a distinct luxury experience with a price tag (below Rmb10,000) that is within the reach of young consumers. In addition to price, affordable luxury can also be characterised by accessibility in distribution (Online and offline) and proximity in terms of style and services (Easy to understand and easy to use). Around 65 percent of Millennials consider affordable luxury as luxury products.

Given the heftier price tag, only a minority of Millennials (19 percent) would purchase luxury items during non-special occasions. Instead, the bulk of the purchases occur during anniversaries or holidays (64 percent), promotional events (53 percent) and celebrations (50 percent). These findings coincide with the sharp increase in retail sales in mainland China during occasions such as Singles' Day and Double 12.

**Willi Sun**Director, Global Strategy
Group KPMG China

Millennials buying luxury in China are strongly influenced by digital content, social media, celebrities and fashion influencers such as key opinion leaders (KOLs). They are looking for quality products, inspirational content and truly unique experiences.

Top three shopping considerations



Product quality (70 percent)



Brand image (57 percent)

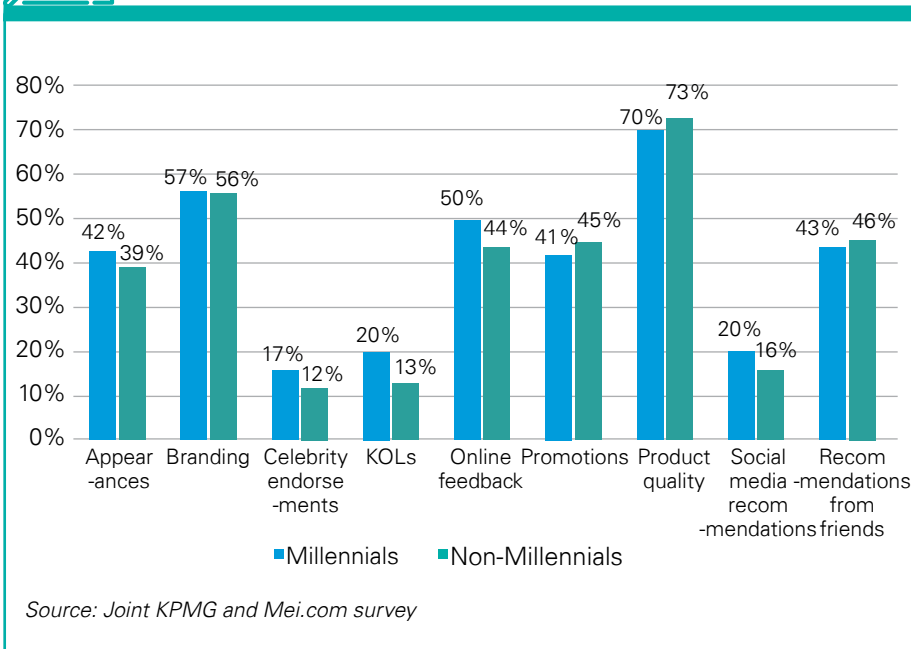


Online feedback (50 percent)

While non-Millennials highlighted product quality (73 percent) and branding (56 percent) as their top two most essential factors, the importance they place on online feedback (44 percent) is lower than their younger peers. Instead, non-Millennials respondents picked recommendations from friends (46 percent) as their third most important factor.



Key shopping influences



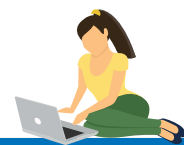
The rise of a younger generation of consumers who are starting to experience luxury brands has changed the operating landscape of mainland China's retail market. It has gone from being wealthy-exclusive to increasingly mainstream as shown by the rise of the affordable luxury segment.

The greater demand for personalisation, compounded by the growing influence of the internet, has also dramatically reshaped the way information is reaching consumers. The top two channels Millennials obtain information about luxury products are mobile devices (68 percent) and computers (56 percent).

This constant connectivity to the internet creates plenty of opportunities for businesses to impact consumers' attention and behaviours. Massive amounts of contextual data can also be used to personalise interactions with greater precision.

Chapter 3

Innovation: A business imperative



Egidio Zarrella
Head of Clients & Innovation,
KPMG China

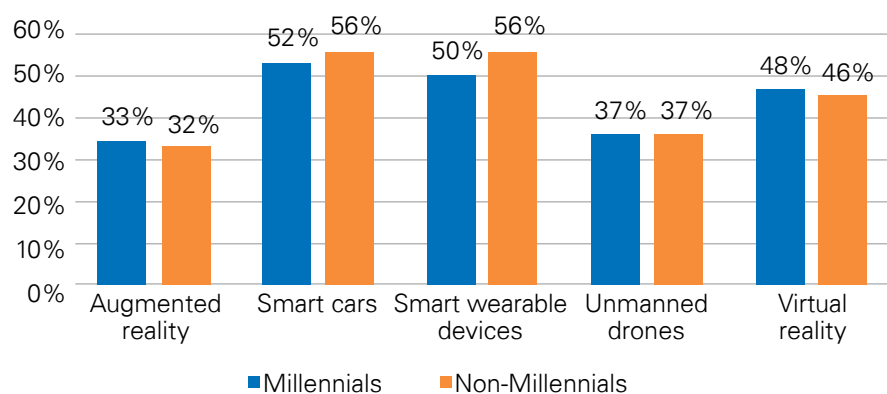
China's economic transformation is spurring the creation of new drivers of growth, new industries, new institutions and new opportunities in the technology and innovation space.



The majority (74 percent) of Millennials in China are interested in innovative products and services associated with emerging technologies. Popular segments include smart cars, smart wearable devices, virtual reality and augmented reality. In comparison, 69 percent of non-Millennial respondents are interested in emerging technologies.



Popular emerging technologies



Source: Joint KPMG and Mei.com survey

This pursuit of innovation has led to new platforms and channels on which goods and services are being sold. This can be seen in the advancement of sharing economy platforms in China, where bike sharing, car sharing, lodging sharing and knowledge sharing are increasingly gaining traction.

Millennials are generally more receptive towards sharing economy platforms, with approximately one-third stating they are interested in using such services. In comparison, only 26 percent of non-Millennials said they would be interested in sharing economy platforms.

Innovation, or disruption, can also be seen in the way companies are marketing their goods and services. For example, an increasing number of international brands entering the mainland China market for the first time are enlisting the help of KOLs to ramp up the popularity of their products. This trend is particularly apparent for brands that are targeting younger consumers. Other methods include the use of pop-up stores and entering strategic alliances with established retailers.

However, businesses need to be aware that the drive for innovative products and services should not come in the expense of functionality. Instead, close to a third of Millennials indicated that a core consideration when deciding on an emerging tech product hinges on its ability to improve efficiency or make their lives more convenient.

New technologies and the increasing use of data analytics will continue to drive innovation in China. This will be further fuelled by a deep pool of technology startups, as China is a popular global venture capital investment destination. Shanghai, for example, is viewed as an innovation hub with a growing base of digital media companies, while Shenzhen is a centre for hardware innovations.



Chapter 4

New retail, new future



Retail businesses in China are increasingly looking at integrating their online and offline operations via an omnichannel approach. Many leading companies are focusing their efforts towards this, as reflected by Alibaba's "New Retail" vision.

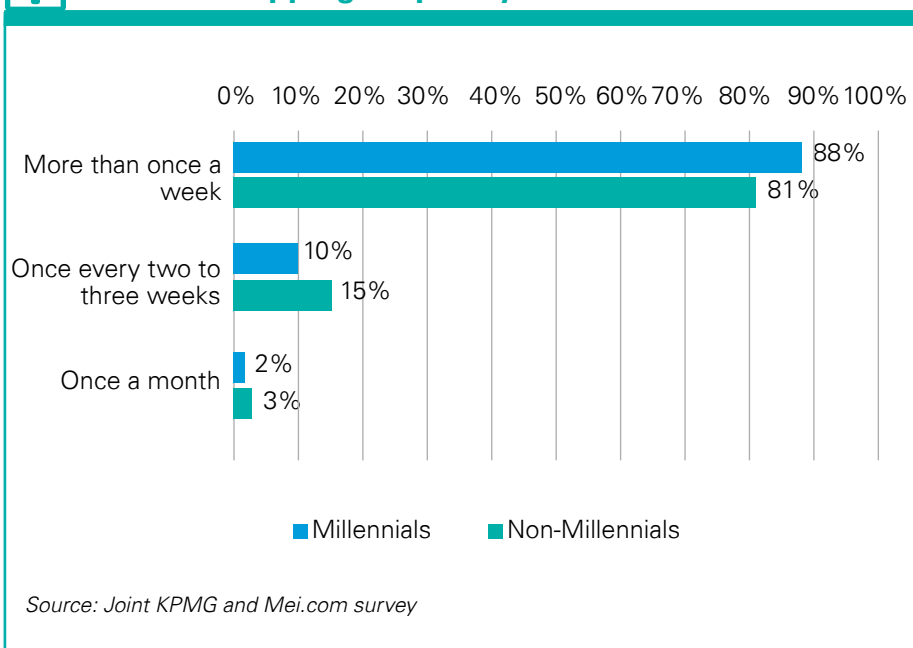
The key concept of omnichannel hinges on creating a seamless interaction between customers and businesses. This includes the use of data analytics to understand consumer preferences in order to create an optimal and consistent shopping experience across different channels – physical stores, company websites and mobile commerce.

One of the core retail channels in China is e-commerce, with approximately 77 percent of respondents indicating it as their favourite leisure activity. The survey also shows that, the majority of consumers in China shop online more than once a week. This coincides with the findings of a recent KPMG global report titled "Me, my Life, my Wallet", which revealed that mainland China shoppers are among the most active online shoppers globally.

Additionally, around 77 percent of respondents for this report indicated that their e-commerce activities had increased over the past 12 months. The same number of respondents also expect their online shopping frequency to increase over the next 12 months.



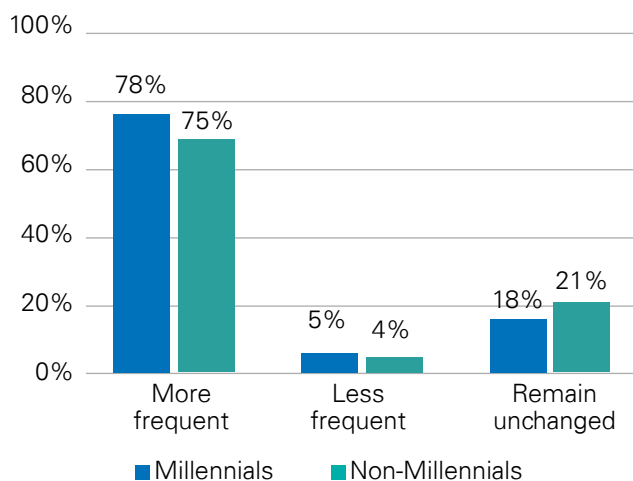
Online shopping frequency







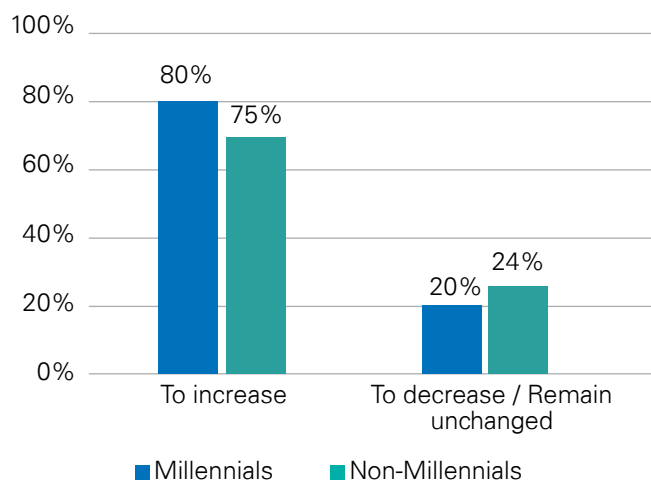
Online shopping activity over the past 12 months



Source: Joint KPMG and Mei.com survey



Online shopping activity over the next 12 months

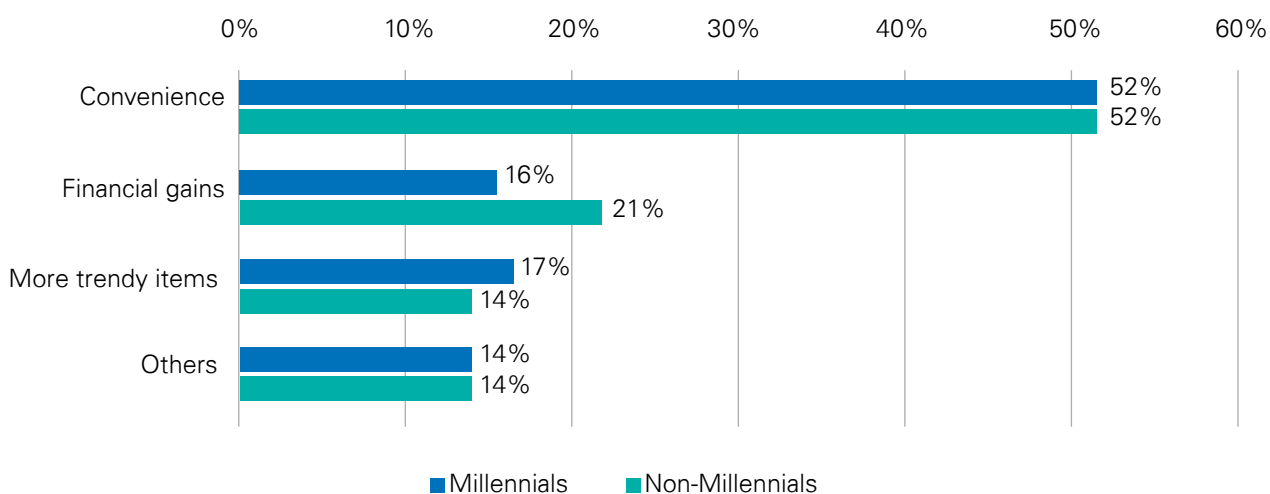


Source: Joint KPMG and Mei.com survey

Convenience was cited as the main benefit of e-commerce. This especially applies to consumers in lower tier cities who have less access to higher-end products and global brands in physical stores. Consequently, there are opportunities for businesses that are looking to penetrate lower tier cities.



Key benefits of online shopping



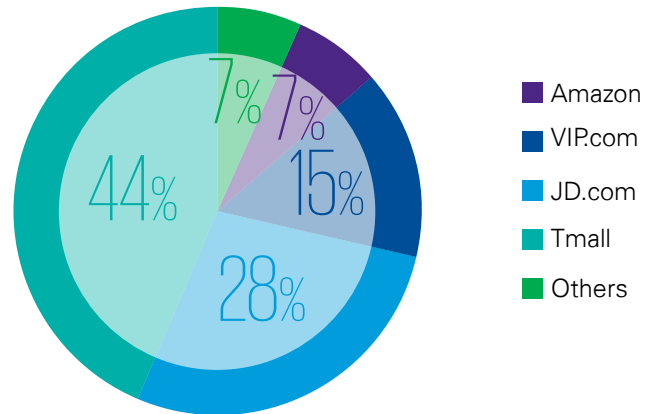
Source: Joint KPMG and Mei.com survey



The report highlights that the most popular shopping platforms in China include Tmall, JD.com and VIP.com. Tmall comes up top with 44 percent of Millennials and 46 percent of non-Millennials ranking it as their favourite online shopping channel. This was followed by JD.com (28 percent and 33 percent) and VIP.com (15 percent and 8 percent).



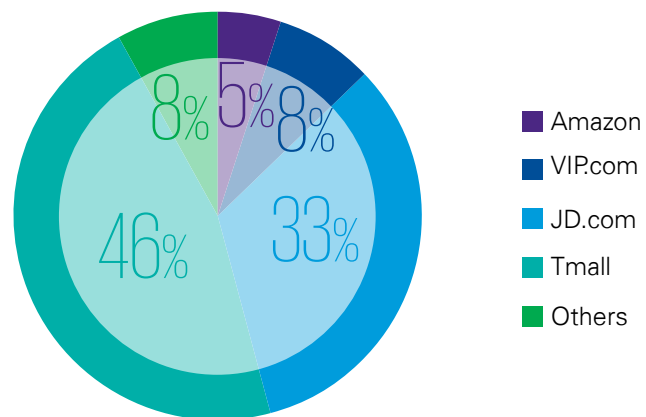
Most popular online shopping portals among Millennials



Source: Joint KPMG and Mei.com survey



Most popular online shopping portals among non-Millennials



Source: Joint KPMG and Mei.com survey



Thibault Villet
Co-founder and Chairman,
Mei.com

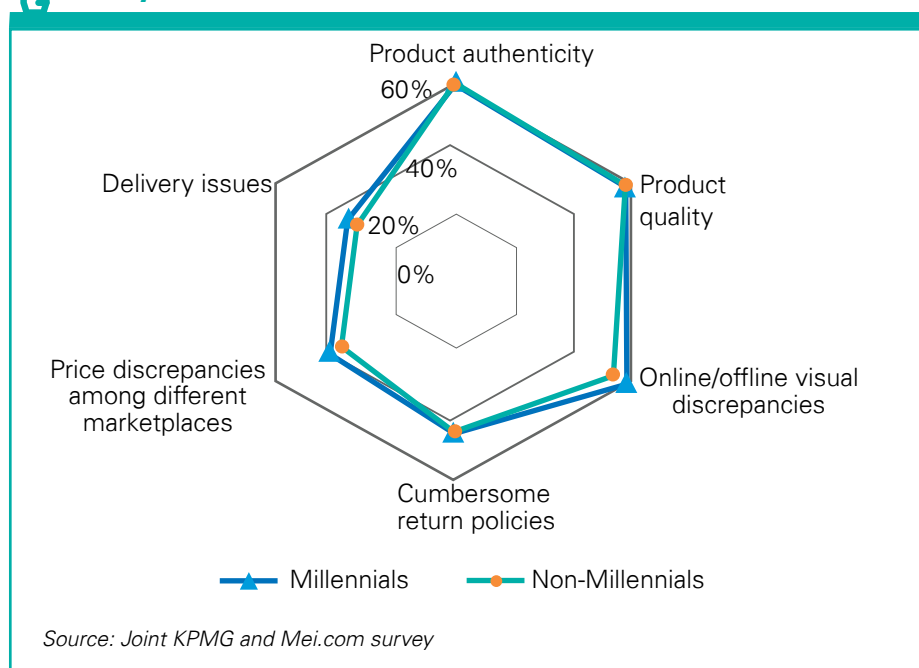
Innovation in products and services as well as in the O2O customer experience is a new and key driver of retail in China. Data analytics, artificial intelligence and customer engagement offer new opportunities for product co-creation and, ultimately, customisation.



Additionally, a number of issues with e-commerce were also highlighted. The inability to verify the authenticity (59 percent versus 58 percent) and quality of items purchased online (56 percent versus 57 percent) as well as online/offline visual discrepancies (58 percent versus 54 percent) were the top three issues cited by respondents.



Key e-commerce concerns



Efforts are being made to tackle some of these issues, with China publishing its first comprehensive draft of the e-commerce law at the end of 2016.

This was followed by a second draft of the same law on 7 November 2017, which focuses on:

- 1) Electronic contracts and payments
- 2) Dispute resolution mechanism
- 3) Intellectual property infringements
- 4) Unfair competition
- 5) Cybersecurity

China's proposed e-commerce law would establish online transaction standards and intellectual protection requirements. This includes rules on the delivery of goods, paid search results and misleading advertising, sales data and user comments.

It also requires e-commerce operators to comply with the country's new cybersecurity law, which came into effect on 1 June 2017.



Chapter 5

A customer-centric approach



Jessie Qian

Head of Consumer & Retail
(China), KPMG China

The modern day retail industry is less about what companies can create, but more about what consumers want. We're living in an increasingly customer-centric world and the strategic focus of businesses should be on how they are able to build customer engagement and product distribution based on the immediate demands of consumers.



Post-purchase feedback plays a crucial role in improving customer experience. There are a variety of channels including, social media, online marketplaces and their company websites.

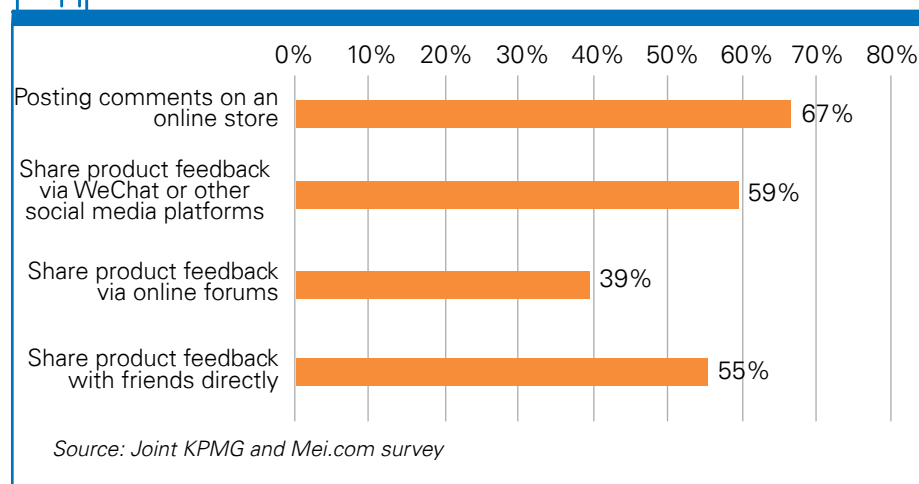
Our survey findings support this as 48 percent of respondents chose online feedback as a key shopping influence.

Over 67 percent indicate they post comments on an online store following a purchase. While 59 percent would share their product feedback on WeChat or other social media platforms.

This is an improvement over the 2016 findings, where only 51.6 percent of China respondents would share their post-purchase feedback online. Another important channel mainland China consumers turn to when it comes to post-purchase feedback are online forums, or Bulletin Board Systems (BBS). Popular BBSes in mainland China include boards hosted by websites such as Tianya.



Most common post-purchase activity



Consumers previously tended to play a passive role in terms of accepting trends set by the industry. Nowadays, however, companies increasingly analyse valuable consumer data via information received through online platforms. This essentially reshapes the production process into an information loop between the R&D unit and consumers. Such level of consumer engagement from the product design stage represents a true customer-centric approach to deliver the right product to the right customers. Whilst customers are empowered to have a say in future products, brands also benefit from this more efficient and informative design process by having a better understanding of consumer needs.

Brands are also required to update their products at a much faster pace as a result of the real-time nature of online feedback and data analytics. On the other hand, some brands are enabling greater product customisation in order to allow consumers to create the item of their choice.

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About KPMG



KPMG China operates in 16 cities across China, with around 10,000 partners and staff in Beijing, Beijing Zhongguancun, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Xiamen, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG International is a global network of professional services firms providing Audit, Tax and Advisory services. KPMG International operates in 155 countries and regions, and have 174,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

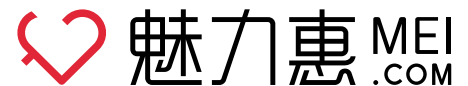
In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG China was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong office can trace its origins to 1945. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm's appointment by some of China's most prestigious companies.

About MEI.com

Since launching in the China market in 2010, Mei.com has established itself as China's leading customer-oriented online shopping platform. A pioneer of style and inspiration, Mei.com presents highly curated products from all over the world and inspires the audience with exquisite and professional content, offering a seamless shopping experience across mobile and desktop.

Mei.com works directly with more than 4000 brand partners with direct sourcing from brands and official distributors, which guarantees product authenticity, quality and best prices. The management, and buyers with strong luxury business experience, enable Mei.com to connect top luxury culture with fashion lovers and consumers pursuing higher quality lifestyle.

Specialising in luxury and driven by Alibaba's big data technology, Mei.com has further developed into a one-stop holistic e-commerce solution by offering TP services. As the gateway to Tmall for luxury brands, we offer fundamental services such as store operations, UV planning and media buying, IT solutions and logistic/warehousing, to added-value ones such as merchandising planning, creative and 360-degree integrated marketing (built on the backbone of uni-marketing of Alibaba), customised content output, omni-channel strategies and execution, to name just a few.



Contact KPMG

Jessie Qian

Partner, Head of Consumer & Retail
(China)
KPMG China
+86 21 2212 2580
Jessie.qian@kpmg.com

Egidio Zarrella

Partner, Head of Clients & Innovation
KPMG China
+852 2847 5197
egidio.zarrella@kpmg.com

Grace Xie

Partner, Tax
KPMG China
+86 21 2212 3422
Grace.xie@kpmg.com

Anson Bailey

Partner, Head of Consumer
& Retail, Asia Pacific
KPMG China
+852 2978 8969
Anson.bailey@kpmg.com

Wei Lin

Partner, Global Strategy Group
KPMG China
+86 21 2212 3508
Wei.lin@kpmg.com

Willi Sun

Director, Global Strategy Group
KPMG China
+86 21 2212 3740
Willi.sun@kpmg.com

Willy Kruh

Global Chair,
Consumer & Retail
+1 416 777 8710
wkruh@kpmg.ca

Michael Mao

Partner, Consumer & Retail
KPMG China
+86 21 2212 3066
Michael.mao@kpmg.com

Belle Morton

Director, Head of Customer
Advisory
KPMG China
+852 2847 5078
belle.morton@kpmg.com

Contact Mei.com

Thibault Villet

Co-Founder & Chairman of Mei.com
+86 21 8170 0000
Tvillet@mei.com

Foglia Tang

Vice President, Merchandising
+86 21 8170 0000
nan.tang@mei.com

Erin Wang

Chief Marketing Officer
+86 21 8170 0000
xiaoyiu.wxy@mei.com

David Wong

Vice President, TP Business
+86 21 8170 0000
david.wzh@mei.com



KPMG Mainland China

Beijing

8th Floor, KPMG Tower, Oriental Plaza
1 East Chang An Avenue
Beijing 100738, China
Tel :+86 (10) 8508 5000
Fax:+86 (10) 8518 5111

Chongqing

Unit 1507, 15th Floor, Metropolitan Tower
68 Zourong Road
Chongqing 400010, China
Tel :+86 (23) 6383 6318
Fax:+86 (23) 6383 6313

Fuzhou

Unit 1203A, 12th Floor
Sino International Plaza, 137 Wusi Road
Fuzhou 350003, China
Tel :+86 (591) 8833 1000
Fax:+86 (591) 8833 1188

Hangzhou

12th Floor, Building A
Ping An Finance Centre, 280 Minxin Road
Hangzhou, 310016, China
Tel :+86 (571) 2803 8000
Fax:+86 (571) 2803 8111

Qingdao

4th Floor, Inter Royal Building
15 Donghai West Road
Qingdao 266071, China
Tel :+86 (532) 8907 1688
Fax:+86 (532) 8907 1689

Shenyang

19th Floor, Tower A, Fortune Plaza
61 Beizhan Road
Shenyang 110013, China
Tel :+86 (24) 3128 3888
Fax:+86 (24) 3128 3899

Tianjin

Unit 06, 40th Floor, Office Tower
Tianjin World Financial Center
2 Dagou North Road
Tianjin 300020, China
Tel :+86 (22) 2329 6238
Fax:+86 (22) 2329 6233

Chengdu

17th Floor, Office Tower 1, IFS
No. 1, Section 3 Hongxing Road
Chengdu, 610021, China
Tel :+86 (28) 8673 3888
Fax:+86 (28) 8673 3838

Foshan

8th Floor, One AIA Financial Center
1 East Denghu Road
Foshan 528200, China
Tel :+86 (757) 8163 0163
Fax:+86 (757) 8163 0168

Guangzhou

21st Floor, CTF Finance Centre
6 Zhujiang East Road, Zhujiang New Town
Guangzhou 510623, China
Tel :+86 (20) 3813 8000
Fax:+86 (20) 3813 7000

Nanjing

46th Floor, Zhujiang No.1 Plaza
1 Zhujiang Road
Nanjing 210008, China
Tel :+86 (25) 8691 2888
Fax:+86 (25) 8691 2828

Shanghai

25th Floor, Tower II, Plaza 66
1266 Nanjing West Road
Shanghai 200040, China
Tel :+86 (21) 2212 2888
Fax:+86 (21) 6288 1889

Shenzhen

9th Floor, China Resources Building
5001 Shennan East Road
Shenzhen 518001, China
Tel :+86 (755) 2547 1000
Fax:+86 (755) 8266 8930

Xiamen

12th Floor, International Plaza
8 Lujiang Road
Xiamen 361001, China
Tel :+86 (592) 2150 888
Fax:+86 (592) 2150 999

KPMG Hong Kong SAR and Macau SAR

Hong Kong

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23rd Floor, Hysan Place
500 Hennessy Road
Causeway Bay, Hong Kong
Tel :+852 2522 6022
Fax:+852 2845 2588

Macau

24th Floor, B&C, Bank of China Building
Avenida Doutor Mario Soares
Macau
Tel :+853 2878 1092
Fax:+853 2878 1096

KPMG Ignition and Start-up Centres

KPMG Digital Ignition Centre

21st Floor, E07-1 Tower,
Suning Intelligent City
272 Jiqingmen Street, Gulou District
Nanjing 210017, China
Tel :+86 (25) 6681 3000
Fax:+86 (25) 6681 3001

KPMG Innovative Startup Centre

Room 603, 6th Floor, Flat B
China Electronic Plaza
No. 3 Danling Street, Haidian District
Beijing 100080, China
Tel :+86 (10) 5875 2555
Fax:+86 (10) 5875 2558

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