



CONSUMER CULTURE

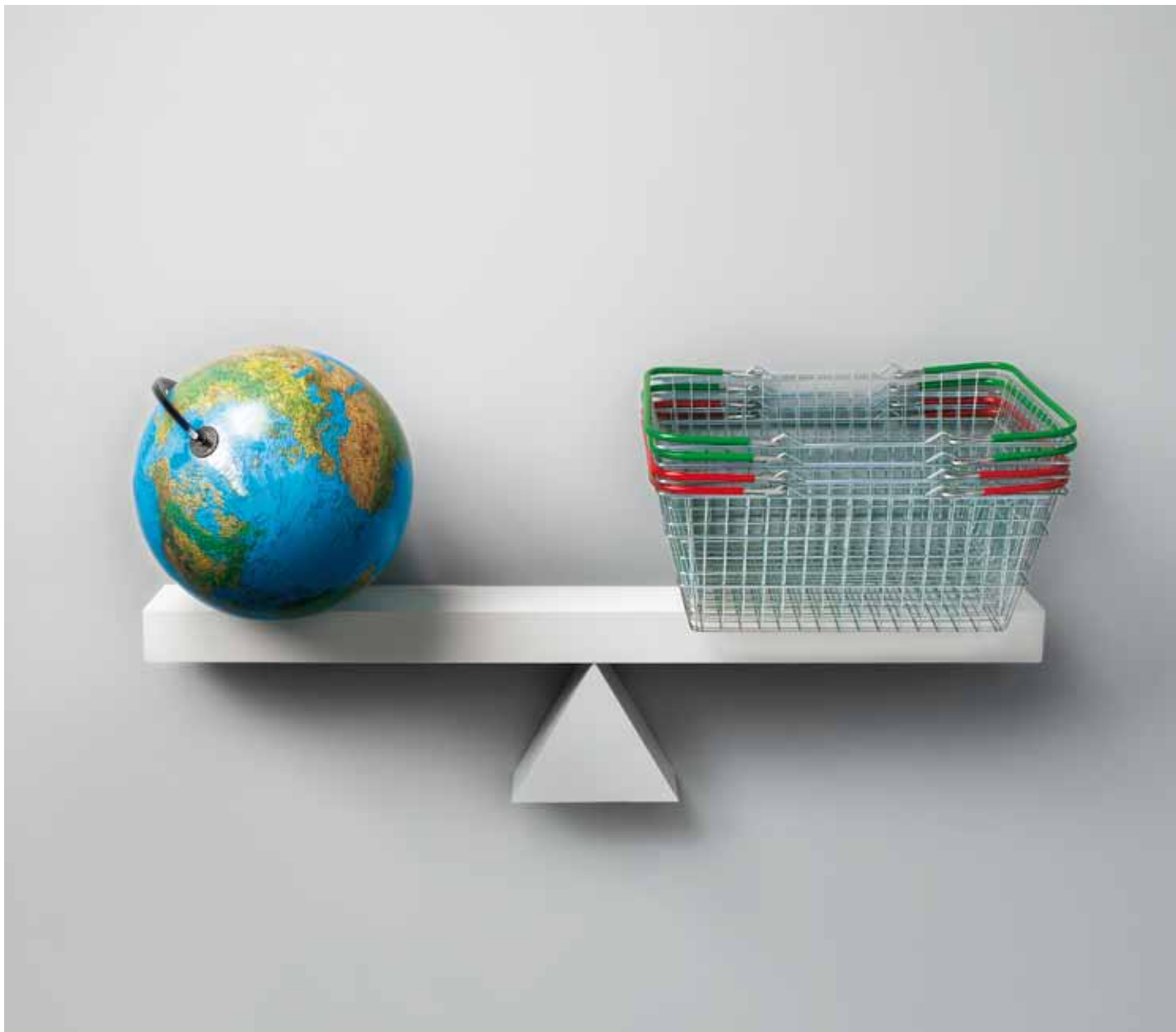
When a country's economy is strong, consumer culture thrives. Individuals are motivated by the desire for certain products or services and businesses respond with innovations and new products. Critics may argue that this leads to unfulfilling and environmentally unsustainable lifestyles. But consumer spending represents a significant part of mature economies: around 70 per cent in the US.

Consumers have become increasingly empowered and organized, using their collective strength to assert their interests. A "consumer mindset" has emerged in many areas of life, such as education and healthcare. As growth in developing economies accelerates, citizens increase their buying power. However, they do not simply follow a linear path toward the same level of consumption as developed markets, they leapfrog. In India, for example, there are already more than half-a-billion mobile phones, enough for half the population.

Where's the heat?

- / Resource use
- / Consumer empowerment
- / Brands
- / Emerging middle class
- / Crowd power

SPACE TAKEN FROM PREVIOUS
CONVERSATION



/ Resource use

Our modern consumer lifestyles require abundant natural resources. Growing numbers of new consumers around the world want to join the party – but this places a significant strain on the world’s limited natural resources and is a source of concern.

/ Consumer empowerment

Consumer attitudes, values and behaviors are dominating global culture. As access to information proliferates, power is shifting from producers to consumers. Many businesses are playing catch-up with consumers who have a growing number of options from which to choose.

/ Brands

The global megabrands of today can’t take their dominance for granted. A new generation of brands is gaining power in countries such as China and India and it is only a matter of time before they set their sights on global consumers.

/ Emerging middle class

By 2020, more than half the world’s middle class could be in Asia. One of the big debates at the start of the 21st century is whether these new emerging middle classes will shift towards Western consumer culture and democratic values, or hew to their own particular interpretation of consumerism.

/ Crowd power

Consumers are getting used to exercising their collective muscle. Verizon, for example, was forced to back down over a new fee after tens of thousands of its customers flooded Twitter and signed petitions.

What’s the context?

Consumer culture is defined by brands: the food we eat, the shoes we wear, the phones we use, and even the water we drink – much of our everyday lives is packaged and positioned by brands. Around the world, hundreds of millions of people have newfound disposable income, and they’re showing a healthy appetite for brands of all kinds. ➤

40%

By 2020, more than half the world's middle class could be in Asia and Asian consumers could account for over 40 per cent of global middle class consumption

70%

Consumer spending represents around 70 per cent of the US economy

As a result, consumer culture is spreading like wildfire across the globe.

But not everybody approves. It's a "pandemic," according to Latin American writer Jorge Majfud. He calls it a collective delusion: "Development is confused with consumerism, wastefulness with success, and growth with fattening. The pandemic is considered a sign of good health ... There is no ideology or political system in the world that is not bent upon reproducing and multiplying it."

Consumerism stands accused of turning the world into a bland monoculture, destroying local interest and diversity. Many argue that consumerism undermines spiritual values and leads to dissatisfaction and unhappiness. Most of all, critics point to the problem of over-consumption, where use of resources is growing faster than the available supply.

A number of anti-consumer activist groups and campaigns have sprung up in the West in recent years, such as No Shopping Day and Buy Nothing Day. The Transition Network sets out an alternative to consumer culture, connecting neighborhoods in towns and cities around the world – from urban Brazil to rural Canada. The ambition is to reduce consumption by

creating local, community-based ways of living.

It's a very live conversation. Millions of people from rapidly growing economies around the world are becoming fully paid-up consumers. They share the same aspirations as consumers anywhere in the world – and in particular, they have a love of luxury brands which shows no sign of flagging.

In some parts of the world, people are concerned that this creates a tension with traditional local culture. In China, for example, President Hu Jintao drew wide notice for a speech he made urging Chinese businesses to develop products that can meet the "growing spiritual and cultural demands of the people." Balancing local values with global aspirations is one of the unique challenges of our time.

The response is often a kind of compromise. As Karl Gerth, an Oxford Professor and author of *As China Goes, So Goes the World: How Chinese Consumers are Transforming Everything*, said in an interview with *The China Observer*, "Chinese consumers often want to 'buy Chinese.' ... Chinese brands want both to appear modern/Western/cosmopolitan and Chinese/traditional/patriotic, depending on circumstances."



It is universally accepted that brands are a company's most valuable asset; yet there is no universally accepted method of measuring that value

— JEREMY BULLMORE,
ADVERTISING WRITER

It [No Shopping Day] is all just an exercise in moral masturbation, to flatter those taking part that they are better than the McDonald's-eating, label-buying masses

— MICK HUME,
UK JOURNALIST

I'd rather cry in a BMW car than laugh on the backseat of a bicycle

— MA NUO, 22 YEAR-OLD CHINESE
MODEL AND TV CELEBRITY





ADRIAN CHENG
Executive Director,
Chow Tai Fook Jewellery Group

In the battle for consumers' hearts and minds, is a homegrown brand preferable to a foreign one? Chinese President Hu Jintao recently gave a speech warning against the powerful influence of Western consumerism on China's culture. That has been interpreted partly as a call to Chinese companies to build stronger brands. Meanwhile, Chinese consumers' penchant for foreign luxury brands has drawn a lot of attention. Brunswick's Ginny Wilmerding caught up with Adrian Cheng, Executive Director of Chow Tai Fook, China's largest jeweler and the world's biggest listed jewelry retailer since its December 2011 IPO. The 32-year-old is the grandson of the founding chairman and was educated at Harvard. He spent time at UBS and Goldman Sachs and is now Executive Director at Chow Tai Fook and in charge of branding, marketing and e-commerce. Here he discusses consumer culture in China and how it differs from the West.

Do Chinese consumers prefer Western brands to Chinese ones?

I think sophisticated Chinese consumers want a mix of both Western and Chinese brands. They might mix Li Ning with Nike, drink Maotai liqueur as well as Château Lafite, and buy Jahwa cosmetics alongside Estée Lauder. For Chow Tai Fook, we know from third-party studies that people are as likely to buy our jewelry as they are Tiffany and Cartier. We sell traditional Chinese ornaments together with international styles, including a super high-end luxury line inspired by European styles. But we are proud to be Chinese; we aren't positioning ourselves as a Western brand.

What do you think President Hu meant in his recent speech when he said products must meet the growing spiritual and cultural demands of the people?

Hu wants Chinese brands and culture to be strong, to hold their own against international brands and cultural products. Think of it as a

"brand drive" not a "culture drive." He doesn't want to exclude Western content and culture, he just wants Chinese culture and brands to be strong and hold their own.

What do Chinese consumers, especially the growing middle class, really want?

Well, there's no question that they're very brand conscious, and they want guarantees of authenticity. Just go to Canton Road in Hong Kong and you can see the PRC tourists lining up in front of Chanel, Prada, Hermès and Dolce & Gabbana. We know they come to us because a huge chunk of our Hong Kong sales is settled in renminbi. In China, the most popular go-to products include traditional 24-karat gold jewelry gifts, but we are seeing a trend toward diamonds and gem-set jewelry. There are 13m marriages in China every year, and these days we estimate that about half of new brides will buy diamond wedding rings. Also, more working women like to reward themselves with luxury purchases, including diamonds and fashion jewelry.

We've heard you use the term "mass luxury" in connection with your jewelry. What does that mean?

We define "mass luxury" as jewelry items ranging in price from \$250 to \$13,000. These represent almost 60 per cent of the total jewelry market in the PRC. What we are really talking about is selling to that group of customers who have good disposable income, maybe through savings, despite modest salary levels. This mass luxury phenomenon is happening across many product categories. In second- or third-tier cities, even a cleaning lady will save up for a Louis Vuitton bag, and it's not uncommon to see a mid-level manager wearing an Armani jacket. In China, owning high status luxury items is a priority for people.

Is there a unique culture of Chinese gift-giving and jewelry buying?

Absolutely. Gift-giving is second nature in Chinese culture, and this drives luxury sales. Jewelry gifts are even more special, as they represent an auspicious blessing and a wish for the future prosperity of a person or couple. For centuries, Chinese have given jewelry gifts at weddings, births, Chinese holidays, birthdays and anniversaries. Many Chinese brides are given pairs of pure gold bangle bracelets to wear during the tea ceremony part of wedding celebrations. Babies are given longevity locks, gold charms with their zodiac symbol, or jade bracelets. In addition, gold and diamonds are considered by Chinese to be a sentimental but practical way to preserve and transfer wealth across generations.

How important is the urbanization of China's middle class in developing the luxury goods market?

Today, Chinese consumers are wealthier than they've ever been. The farmers are going to the cities and the middle classes are emerging quickly. By the end of 2011, more than 50 per cent of mainland Chinese lived in cities, more than double the urbanization rate of 20 years ago.

If you go to a city like Chongqing, in southwest China, you just won't believe the population of sophisticated customers hungering for luxury goods. That's the reason why Chow Tai Fook is focusing on retail network expansion in the second- to fourth-tier cities. For instance, we have 58 outlets in Chongqing. These urbanites have changed their demographic profile permanently. An entirely new consumer culture is being created in China and we all have to keep up with how it is evolving.

As consumer markets develop in China, is luxury growing apace or faster than the economy in general?

The growth in this industry has been staggering in the past few years. China is expected to overtake Japan as the world's largest luxury goods market by 2015. In terms of the jewelry industry, China is now the second largest market in the world, after the United States. In 2010, total retail sales of jewelry in the US exceeded \$76bn, while in China the market was worth more than \$38bn.

Urbanization, steady economic growth and increasing disposable incomes are the backdrop to this story, but our industry has grown significantly faster than GDP has grown. The industry is set to grow at a [compound annual growth rate] of more than 38 per cent for the next five years. Per capita consumption of jewelry is only one-tenth that of the US. So just think of the potential. This is a huge opportunity for jewelry retailers.

Why doesn't China have well-known global brands?

Actually, China does have well-known brands, but some of them are made in China, for the Chinese, and Westerners don't know about them. Chow Tai Fook's brand is recognized by about 74 per cent of Chinese consumers – that's nearly a billion people. Our advantage is that we opened our first store on the mainland in 1998 and our thousandth store in 2010, so we're everywhere. I believe Chinese are proud that Chow Tai Fook is a homegrown brand. They are loyal to us and they trust in our quality and authenticity. ☺

Ginny Wilmerding is a Director in Brunswick's Hong Kong office. She advises on corporate reputation and investor relations.