McKinsey Insights China –
Decision Support Solution for China Businesses

INSIGHTS CHINA

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McKinsey&Company

Contents

McKinsey has invested in major efforts to understand the Chinese market and consumers

A MGI Macro/Demographic Model

- **Over 2 years**' dedicated work of **25 consultants**
- **Econometric model (30,000+ equations):** macro and demographic
- **Over 150 interviews** with experts and government officials
- **City visits** for verification of published figures
- 2010 update ready

B China Mass Consumer Studies

- **5 years** of consecutive annual surveys
- Up to **15,000** respondents
- Annual survey sample representative of
  - **80% of China's GDP**
  - **90% of China's disposable income**
  - **50% of the Chinese population**
- 2010 study ready in June

C China Wealthy Consumer Study

- **1,750** respondents with annual household income above 250K RMB
- **5 luxury goods categories and 27 brands**
- **Ethnographic studies** including in-home visits and accompanied shopping
- **120** store exit surveys
- Extensive **luxury retail store visits** and **brand manager interviews**
- 2010 study ready in Aug

SOURCE: McKinsey Insights China

A significant effort involved developing a unique perspective on urbanization in China

Methodology

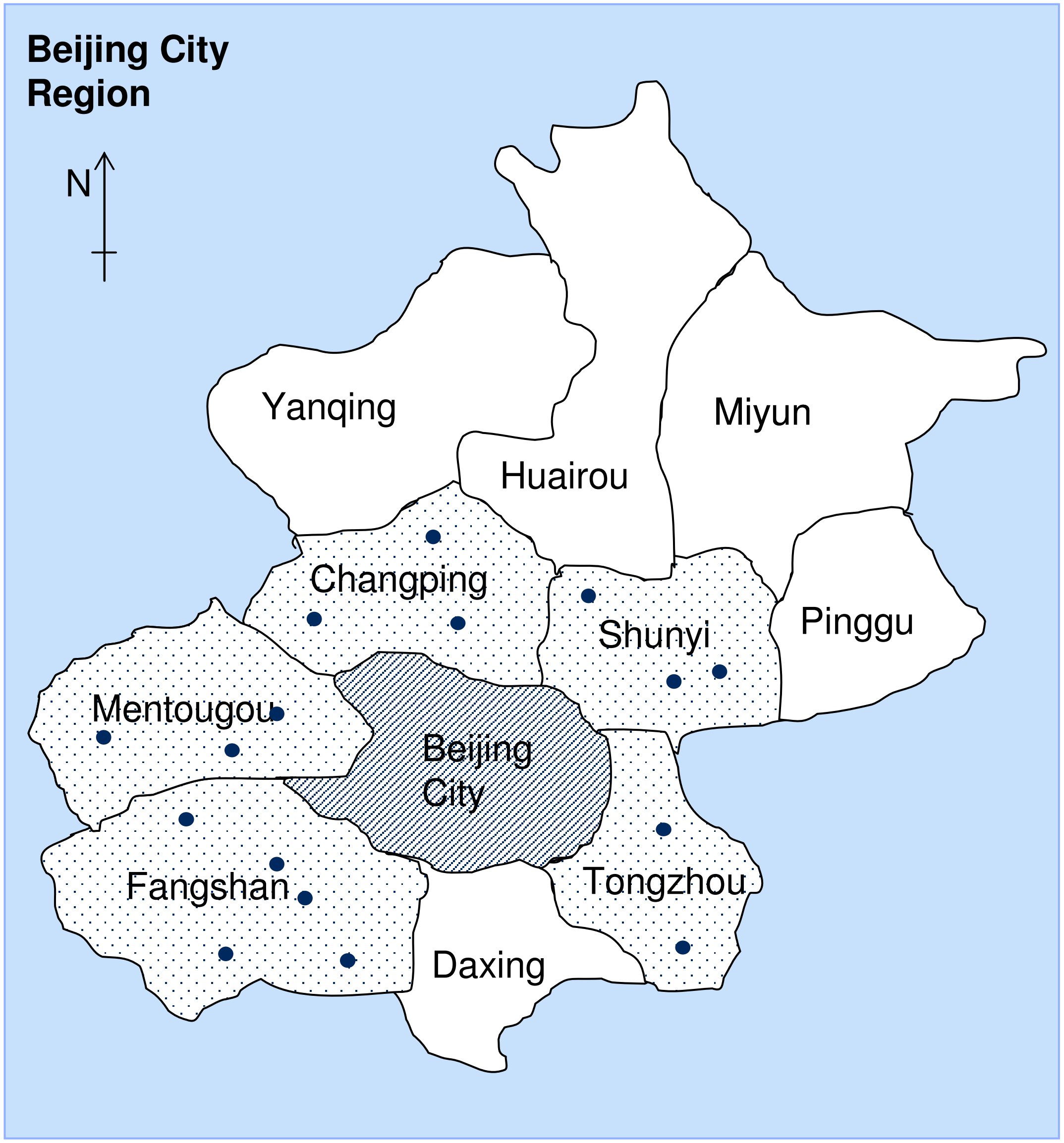
- **Over 2 years**' dedicated work of **25 consultants**
- **Econometric model (30,000+ equations):** macro and demographic forecast 2007-2025
- **Over 150 interviews** with relevant experts
- **City visits:** field observation and interviewed >100 local government officials and business leaders to complement the model findings
- **Discussion with relevant government** departments

Sources of distinctiveness

- **Granular:** Yearly historical and forecast data down to city level
- **Comparable:** Urban definition consistent with international standard and applied to all indicators
- **Complete:** Time series data consistent with theory and individual city behaviour, providing data and forecasts for 815 cities, including 156 “unofficial cities”
- **Current:** Updated every 6 months, to reflect the fast-changing nature of China and Chinese consumers

SOURCE: McKinsey Global Institute analysis

A We have applied a standardized definition for urban areas across the entire dataset to ensure consistency



Density > 1,500 people/sq. km
Density < 1,500 + streets
County

Our approach: urban area = census total

- Population "de facto" (census) vs. "de jure" (hukou)
- It includes viable spill-over area for future urban growth, although sometimes not fully urbanized yet

Census region: + + = 13.6 MM

Census total: + = 11.5 MM

Census urban: + • = 9.9 MM

Source: McKinsey Insights China

A Our model provides city level demographics, economics, income and consumer demand

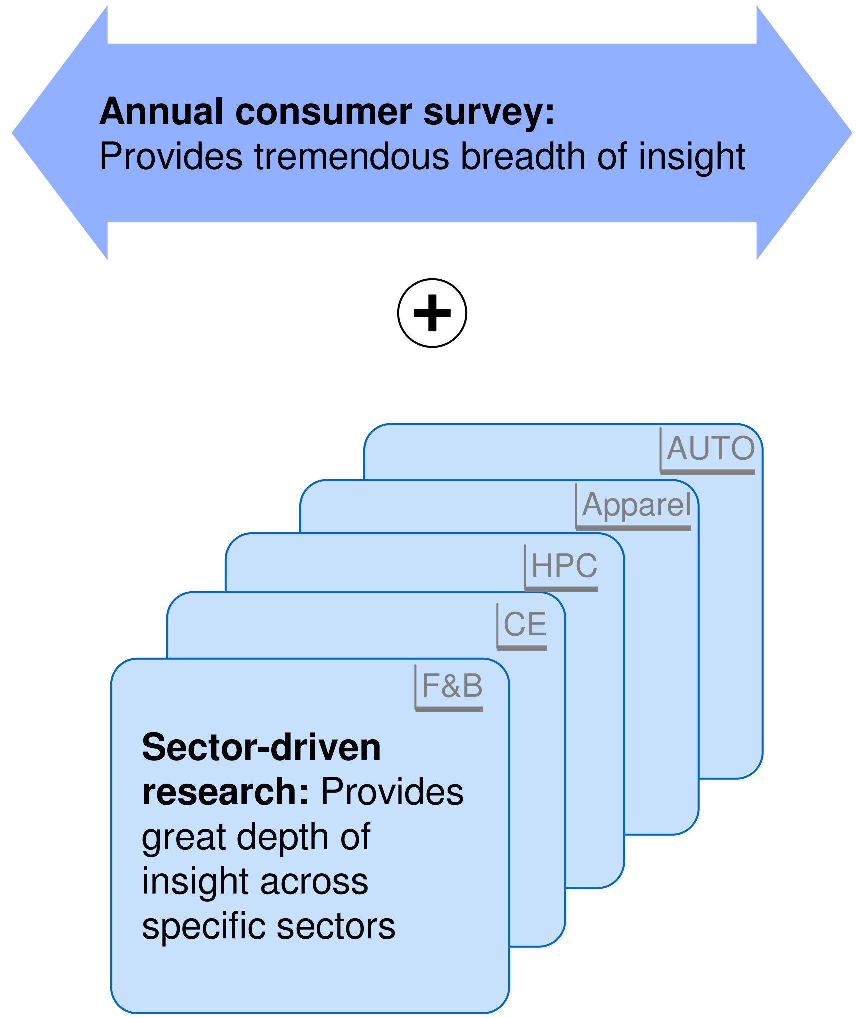
	Details	Coverage	Time frame
Demographics	▪ Urban population ▪ Population by age bracket ▪ Number of cities – official & unofficial cities	▪ 815 cities	▪ 1995-2007 (Historical) ▪ 2008 (Estimated) ▪ 2009-2025 (Forecast)
Income	▪ Disposable income per capita ▪ Number of households by income bracket ▪ Disposable income per household by income bracket	▪ 266 cities	▪ 1995, 2000, 2003-2007 (Historical) ▪ 2008-2025 (Forecast)
Economics	▪ Real GDP, GDP per capita ▪ Sector share of GDP ▪ Capital stock ▪ Fixed asset investment	▪ 815 cities	▪ 1995-2007 (Historical) ▪ 2008 (Estimated) ▪ 2009-2025 (Forecast)
Consumer demand	▪ Average household consumption – By 8 product categories, or by 7 income brackets – By 8 product categories and 7 income brackets	▪ 266 cities ▪ 261 cities	▪ 1995, 2000, 2003-2007 (Historical) ▪ 2008-2025 (Forecast)

SOURCE: McKinsey Insights China; McKinsey Global Institute analysis; as of Mar 31, 2009

B McKinsey has invested in major efforts to understand Chinese consumers in the last 5 years

Consumer insights from *Insights China* are based on…

- **6 years** of annual surveys and interviews, including
  - **90-minute door-to-door interview on** general attitudes, general shopping behavior, trade-off behavior, share of wallet and **5 categories** (F&B, CE, HPC, Apparel and Automobile) **deep-dive**
  - **15,000 respondents** covering ~**60 products and ~300 brands**
- **Additional complementary surveys** covering key sectors – e.g., wealthy consumers, how half the world shops, private financial service survey
- Annual survey sample represents
  - **80% of China's GDP**
  - **90% of China's disposable income**
  - **50% of the Chinese population**



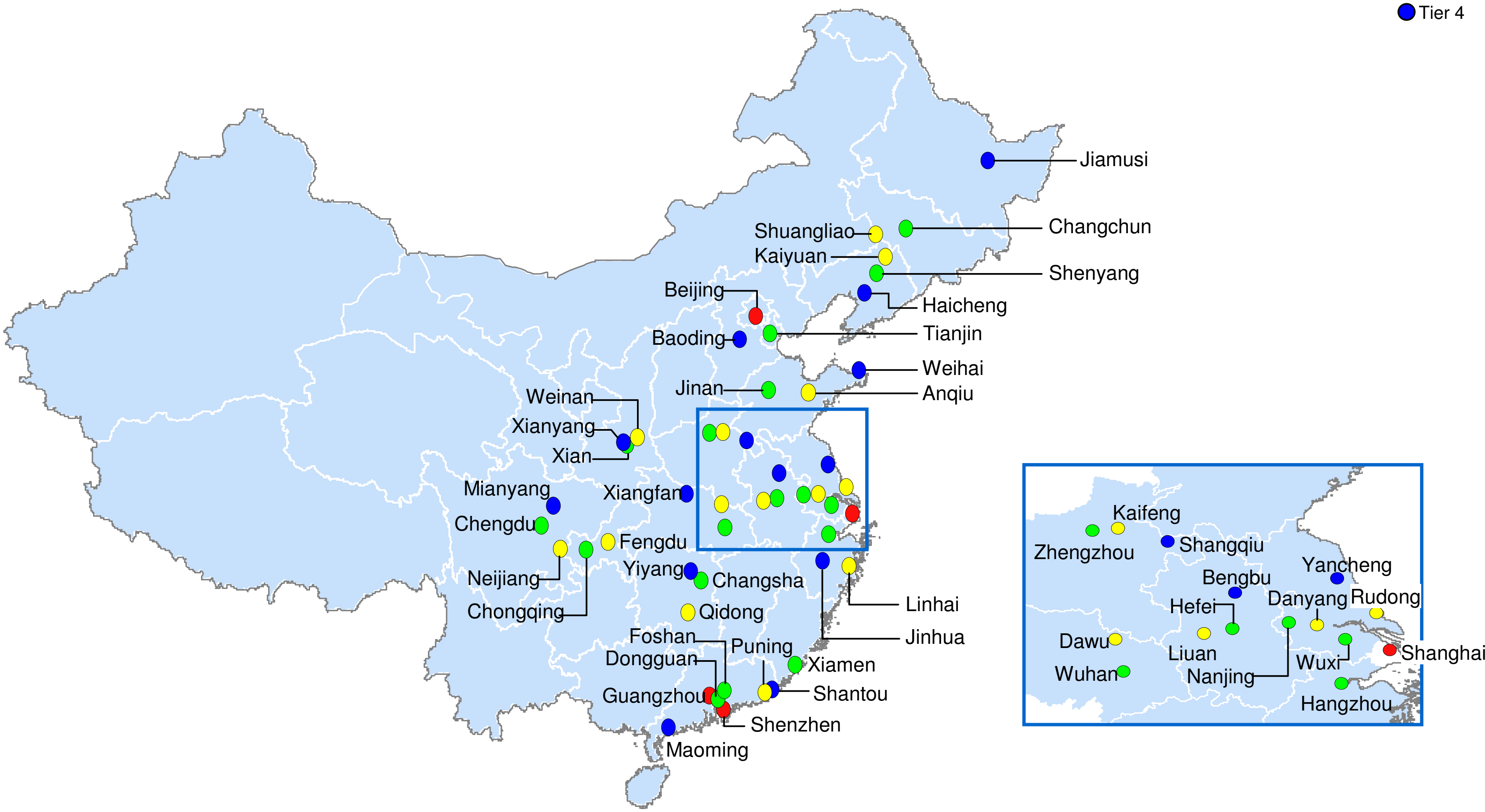
The 2010 annual China consumer study is the largest ongoing consumer study in China

- 5 categories
- ~60 products
- ~300 brands
- 49 cities covering 4 tier of cities, 6 geographic region & 17 merge/sizeable city clusters
- 15,000+ respondents, with sufficient number of middle class respondents[1]

The largest and most comprehensive face-to-face consumer survey annually conducted in China

1 With monthly household income above RMB 8K

2010 China mass consumer survey includes 49 cities across 4 tiers of cities, 6 geographic regions and 17 city clusters



City coverage by tier

BACKUP

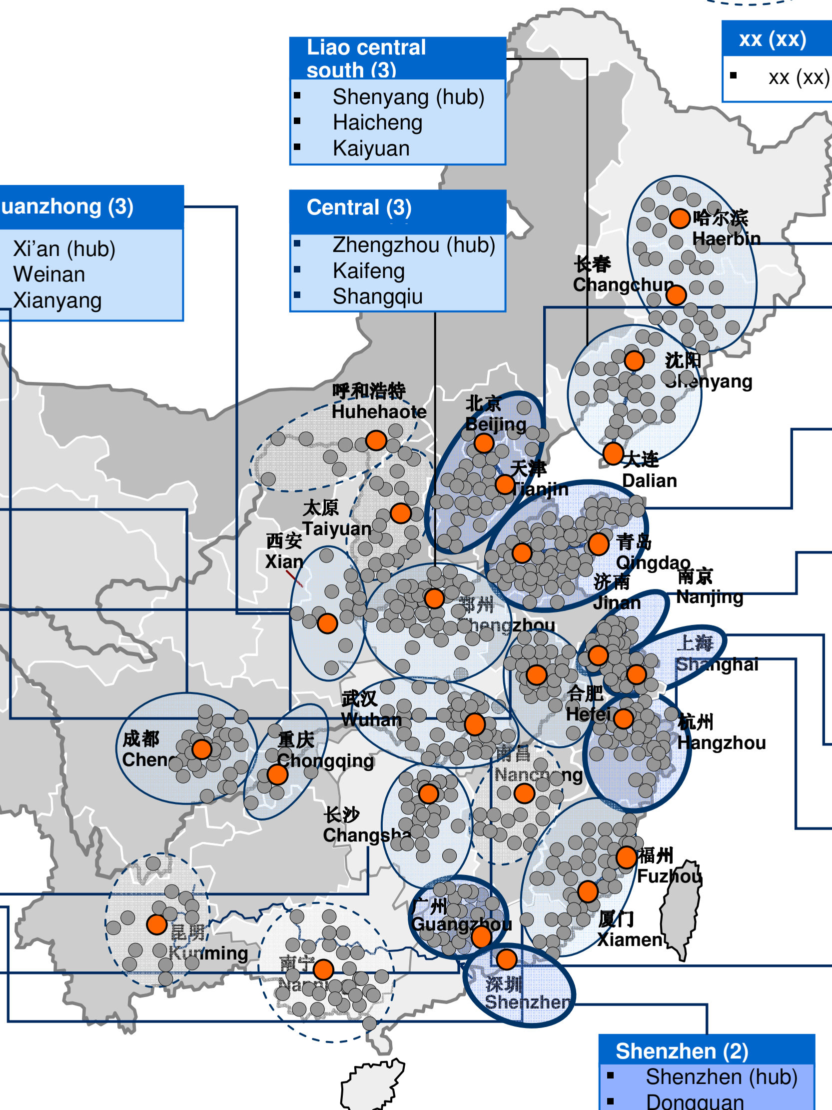
	Cities selected in English	Cities selected in Chinese
Tier 1 (4 cities)	▪ Beijing, Shanghai, Guangzhou, Shenzhen	▪ 北京, 上海, 广东广州, 广东深圳
Tier 2 (17 cities)	▪ Hangzhou, Chengdu, Wuxi, Xiamen, Changsha, Xi'an, Changchun, Dongguan, Chongqing, Foshan ,Hefei, Jinan, Nanjing, Shenyang, Tianjin, Wuhan, Zhengzhou	▪ 浙江杭州, 四川成都,江苏无锡, 福建厦门, 湖南长沙, 陕西西安, 吉林长春, 广东东莞,四川重庆, 广州佛山, 安徽合肥, 山东济南, 江苏南京, 辽宁沈阳, 天津, 湖北武汉, 河南郑州
Tier 3 (14 cities)	▪ Baoding, Bengbu, Jinhua, Maoming, Mianyang, Yancheng, Haicheng, Jiamusi, Shangqiu, Shantou, Weihai, Xiangfan, Xianyang, Yiyang	▪ 浙江金华, 江苏盐城, 河北保定, 安徽蚌埠, 四川绵阳, 广东茂名, 辽宁海城, 黑龙江佳木斯, 河南商丘, 广东汕头, 山东威海, 湖北襄樊, 陕西咸阳, 湖南益阳
Tier 4 (14 cities)	▪ Dawu, Kaifeng, Shuangliao, Weinan, Anqiu, Danyang, Fengdu, Kaiyuan, Linhai, Liu'an, Neijiang, Puning, Qidong, Rudong	▪ 河南开封, 湖北大悟, 吉林双辽, 陕西渭南, 山东安丘, 江苏丹阳, 重庆丰都, 辽宁开原, 浙江临海, 安徽六安, 四川内江, 广东普宁, 湖南祁东, 江苏如东

SOURCE: McKinsey Insights China

Survey covers 49 cities, 17 mega/ sizeable clusters with 2-3 cities in each cluster

Small | Sizable | Mega

xx (xx) — Cluster name (# of cities surveyed)
- xx (xx) — Survey city name (city type)



Liao central south (3)
- Shenyang (hub)
- Haicheng
- Kaiyuan

Guanzhong (3)
- Xi'an (hub)
- Weinan
- Xianyang

Central (3)
- Zhengzhou (hub)
- Kaifeng
- Shangqiu

Hefei (3)
- Hefei (hub)
- Bengbu
- Liu'an

Chengdu (3)
- Chengdu (hub)
- Mianyang
- Neijiang

Chongqing (2)
- Chongqing (hub)
- Fengdu

Changzhutan (2)
- Changsha (hub)
- Yiyang

Coast West (3)
- Xiamen (hub)
- Puning
- Shantou

Guangzhou (3)
- Guangzhou (hub)
- Foshan
- Maoming

Changchun-Haerbin (3)
- Changchun (hub)
- Jiamusi
- Shuangliao

Jingjinji (3)
- Beijing (hub)
- Tianjin (hub)
- Baoding

Shandong byland (3)
- Jinan (hub)
- Weihai
- Anqiu

Nanjing (3)
- Nanjing (hub)
- Danyang
- Yancheng

Shanghai (4)
- Shanghai (hub)
- Wuxi
- Qidong
- Rudong

Hangzhou (3)
- Hangzhou (hub)
- Jinhua
- Linhai

Yangzi mid-lower (3)
- Wuhan (hub)
- Xiangfan
- Dawu

Shenzhen (2)
- Shenzhen (hub)
- Dongguan

SOURCE: McKinsey Insights China

2010 annual China consumer study aims at generating insights in 4 key areas

With details

Brief content coverage

1 Overview of Chinese consumers	▪ General attitudes towards life/value ▪ Demographic information ▪ Real estate ownership/living status
2 Trade-off behavior	▪ Attitudes towards financial management ▪ Changes in spending in the past 1 year and nationals behind ▪ Reasons to save ▪ Categories to spend more or less where income change ▪ Attitudes towards financial management
3 Internet attitude and behaviors	▪ Internet usage & online activity ▪ Online shopping behavior & rationales behind ▪ Leisure activities and travel
4 Category-specific consumer behavior	▪ Category attitudes specific towards consumption ▪ Product usage and behavior brand funnel ▪ Impact of different sources of information

SOURCE: McKinsey Insights China

6 themes of attitudes are asked to understand how Chinese consumers are thinking about life and value

	Context coverage	
I General life style	▪ Confidence about financial future ▪ Satisfaction towards current status ▪ Work-life balance and pressure	▪ Importance of social status ▪ Importance of success ▪ Individualism
II Family and friends	▪ Preference for staying with friends or alone ▪ Buying/using same products as friends ▪ Importance of family ▪ Kid's impact in purchase decision	▪ Willingness to pay premium for the product/service which can save more time to stay with family or friends or which can be shared with others
III Shopping habits and branding	▪ Trust in expensive products, branded products ▪ Deep knowledge of prices of daily-use products, buying and stocking them on sale ▪ Intention to buy more branded products	▪ Preference for Chinese or foreign brands ▪ Preference for big brands ▪ Product ownership/ affordability of luxury products/services
IV Early acceptance	▪ Acceptance of counterfeit products if the quality is acceptable ▪ Early adoption	▪ Willingness to try the new products from favorite brand ▪ Trust in the eco-friendly enterprises
V Internet	▪ Trust in the online information ▪ Importance of being able to surf Internet on-the-go	▪ Importance of Internet in daily life ▪ Actively expressing opinions/sharing information online
VI Health	▪ Concern on food safety ▪ Seeking healthier lifestyle ▪ Role of brands in safety assurance	▪ Willingness to pay premium for food with safety security/ guarantee

SOURCE: McKinsey Insights China

The study also deep-dives into online behaviors of Chinese consumers

Brief content coverage

A General attitudes	▪ Trust in the online information ▪ Importance of being able to surf Internet on-the-go	▪ Importance of Internet in daily life ▪ Actively expressing opinions/sharing information online
B Internet activity	▪ Internet penetration ▪ Time spent online in a typical week ▪ Internet activities and spending more or less time on specific activities in the past 1 year	▪ Devices used to surf Internet, online activities via laptop and via mobile devices (e.g. blackberry, mobile handset)
C Internet as a research tool in purchase-decision	▪ At category level (F&B, apparel, HPC, CE and automobile): – Importance of checking online information before actual purchase – Impact of online information (e.g. BBS, blog, social network information)	▪ At product level (for CE products): – Checking online for comparing products/ prices before an actual purchase – Type of information to be checked – Type of websites to check
D Online shopping	▪ General online shopping: – Online shopping penetration rate – Spending more or less time on online shopping in the past 1 year – Devices used for online shopping (laptop vs. other mobile devices) – Online shopping payment – Barriers to online shopping	▪ At product level: – Purchase channel for buying specific product category online (2 steps, from browse information to buy online) – Annual spending on the product category bought online – Intention to buy specific product category online in the next 1 year – Reasons why buying specific product category online

SOURCE: McKinsey Insights China

Consumer behavioral questions towards specific categories are organized at four layers


F&B


Home & personal care


Consumer electronics


Apparel


Automobile

General

	Brief description
Layer 1: General/ Macro level	▪ General attitudes towards life/value ▪ China geographic and economic statistical data (national level and city level) and forecast information ▪ China media market overview, incl. media spending by advertiser, by media type and by province
Layer 2: Category level	▪ Shopping attitudes/behavior ▪ Media impact ▪ Category level consumption information (historical or forecasted)
Layer 3: Product level	▪ Product usage ▪ Shopping/purchase behavior ▪ Channel usage
Layer 4: Brand level	▪ Unaided brand awareness/brand funnel ▪ Name of preferred/ most frequently purchase brand, and rationales behind preference/ purchase

Deep dive

SOURCE: McKinsey Insights China

F&B category content