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# CHAPTER

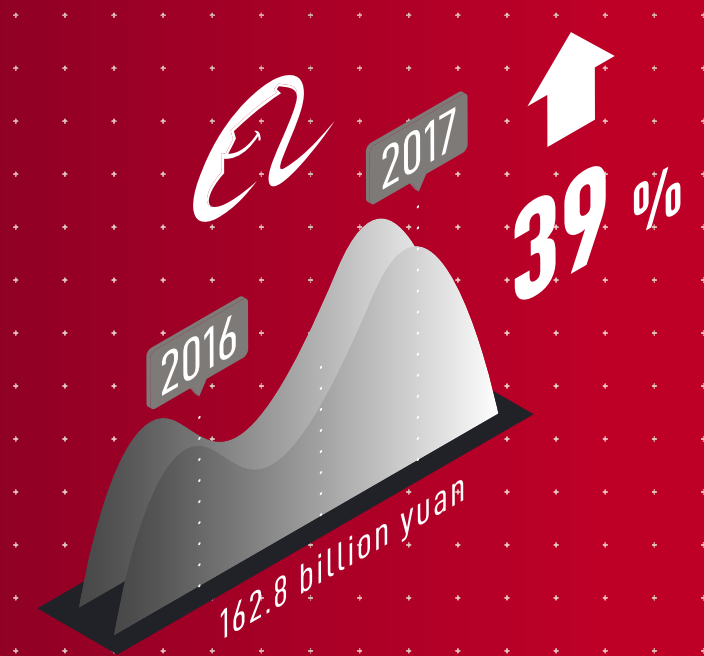
# 1 FROM MATERIAL TO EXPERIENCE CONSUMPTION

# + INTRODUCTION

Consumption is big in China. So big, in fact, that total retail sales are expected to equal or surpass sales in the US for the first time according to figures published by Japanese Bank Mizuho . ①

Anyone who has spent even just a few days in one of China's metropolises like Shanghai, Beijing, Guangzhou or Shenzhen will come home with anecdotal evidence for the seemingly unquenchable thirst for shopping of Chinese consumers. Another sign for China's consumerism is the globally increasingly visible Single's Day, China's answer to US online shopping events like Black Friday and Cyber Monday.

During the 2017 version of the event, Alibaba, the company behind China's biggest e-commerce platforms T-Mall and Taobao, generated a record of 162.8 billion yuan (\$25.3 billion) in sales, another handsome 39% increase from the previous year. ②



① <https://www.afr.com/business/retail/the-chinese-will-this-year-take-the-title-of-the-worlds-biggest-consumers-20180111-h0h672>

② <https://www.bloomberg.com/news/articles/2017-11-12/alibaba-singles-day-goes-global-with-record-25-billion-in-sales>

Chinese shoppers, looking to score a good deal, bought everything from iPhones, lobsters, household goods, refrigerators, cosmetics and cars. China's status as one of the world's most important consumer markets was undoubtedly cemented by the Global Financial Crisis that started rocking large parts of the world in 2009. The hunger for quality and status-inducing products and brands in combination with government action to avoid economic slowdown in China proved to be an important remedy for global companies struggling with stalling demand in domestic markets across the globe.







# THE ROLE OF CONSUMPTION IN THE LIFE OF CHINESE CONSUMERS

Why are Chinese consumers so hungry for products and brands? The complexity of this question goes beyond the scope of this paper but it's safe to say that quality and prestige play an important role. For many Chinese, who still have clear memory of less abundant times, better products and brands meant a tangible and visible upgrade of life quality and lifestyle. In the beginning these upgrades focused on outward-facing consumption (luxury brands, cars, fashion); products consumed conspicuously to indicate to peers one's steadily increasing status in society and general success in life.

A second wave, lead by the new avant-garde urban middle-class, extended consumerism into more inward-facing areas of life: products like high quality home décor, household electronics etc. saw an increase in demand by people who evolved from simply showing off to truly feeling an upgraded lifestyle.

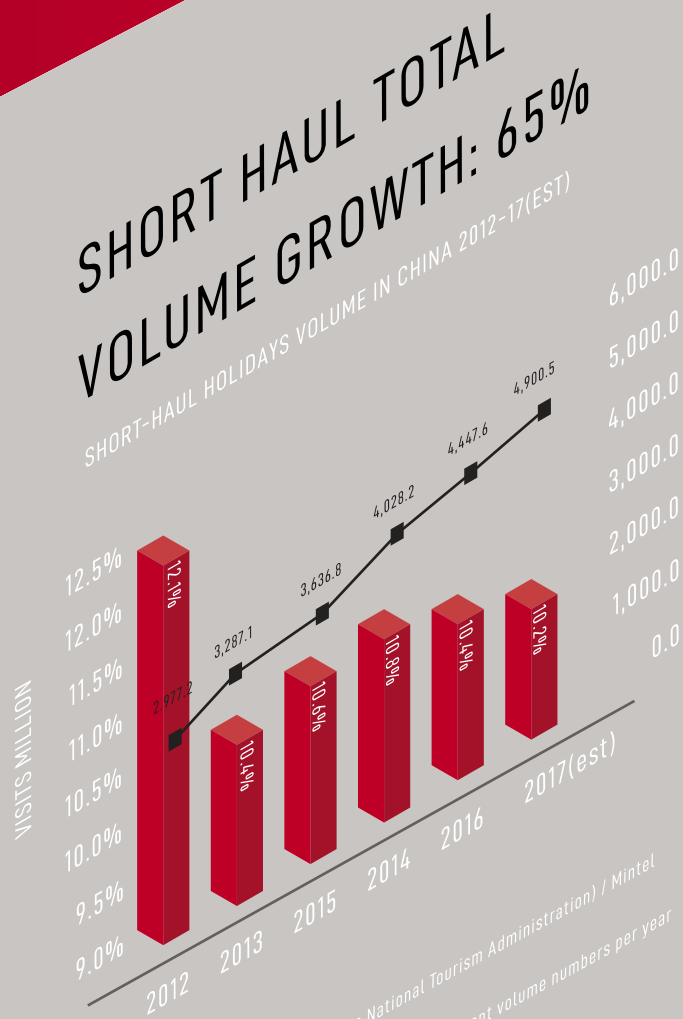
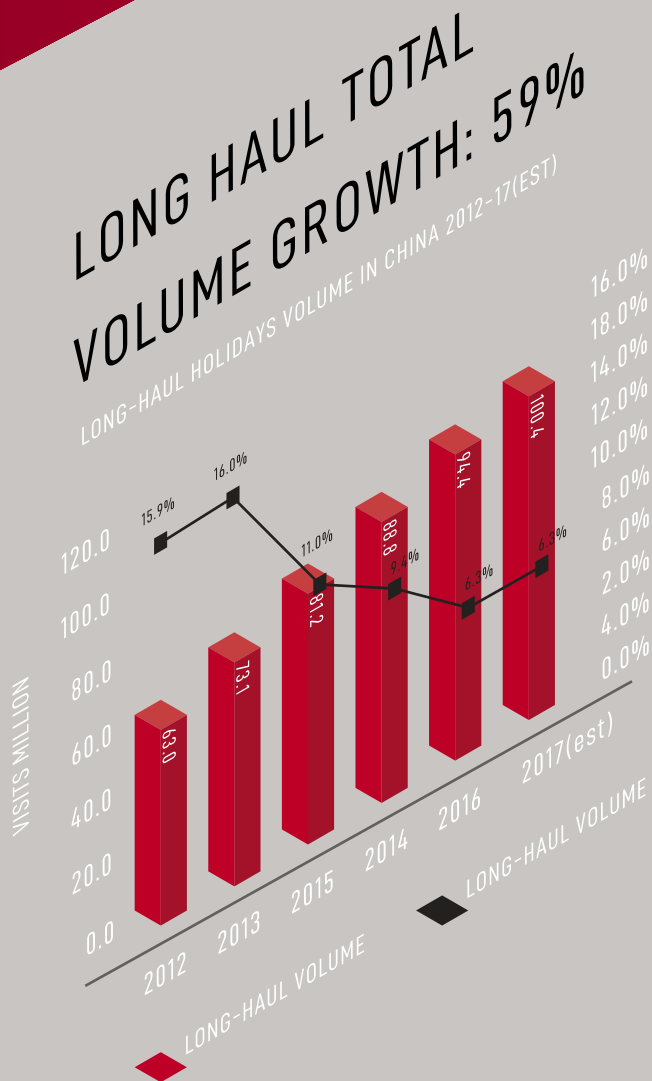
This leads us to the core of this paper: The third wave of consumerism in China that significantly increased the demand for intangible products. In other words: Experiences. We've been witnessing the rise of China's experience economy in recent years. We define the term 'experience' broadly to encompass any kind of intangible product that can be consumed: cultural products such as entertainment, concerts and travel, food and beverage offerings such as restaurants and bars as well as digital experiences that have entered the scene as of late like Augmented and Virtual Reality.

Let's look at some numbers to begin with:

# THE TRAVEL REVOLUTION

According to market intelligence consultancy Mintel, China's travel sector has seen impressive growth. The value of both the long-haul and short-haul travel sectors grew between 2012 and 2017 by 105% and 59% respectively. 73% of China's middle class consumer cohort engage in long-haul travel between 1 and 3 times per year. Even more interesting is the mode of travel: Whilst travel groups were the most common mode especially of long-haul travel, we now see self-planned and self-guided travel taking the top spot of Chinese travelers with 75% for short-haul and a still impressive 45% for long-haul travel respectively. <sup>3</sup>

<sup>3</sup> Mintel (2017), Long-haul vs. short-haul holidays



Source: CNTA (China National Tourism Administration) / Mintel

Note: Red bars and Grey line represent volume numbers per year



Many Chinese travelers are seeking out far-flung places that allow for unique, once in a lifetime experiences that enrich their lives. In 2017, the number of people visiting Antarctica from China was second only to the United States according to IAATO data. Over 16000 Chinese tourists visited Tanzania in 2017, mostly to take part in Safari tours to immerse in local wildlife. This was an increase of almost 40% over the previous year. The number is expected to rise by another 40% by the end of this year. Similarly, the Professional Association of Diving Instructors (PADI) reported back in 2013 that it had issued over 28000 scuba diving certifications, constituting a 300% growth over the 3 year period since 2011.





Another indicator for the increasing appetite for unique experiences of Chinese consumers is the type of accommodation they choose for their travel: A joint report by online travel website Mafengwo and the China Tourism Academy reports that in 2017 31% of bookings were made up by non-mainstream offerings such as AirBnB and Boutique Hotels,

constituting an 82% increase over 2016. Similar figures are presented by iUserTracker, an online data analysis company, for the number of site visits of such non-traditional accommodation types on Chinese online travel booking sites (Ctrip, Fliggy, Qunar etc.): Such visits almost doubled between the beginning of 2016 and 2017.





# THE RISE OF THE ENTERTAINMENT INDUSTRY

Similar to the travel industry, China's entertainment sector has enjoyed handsome growth in recent years. The number of cinema visits tripled between 2011 and last year, coming in just under 1.5 billion by the end of 2017. <sup>④</sup> The number of professional performances in the fields of theater, drama, dance and acrobatics increased by 17% between 2016 and 2017, resulting in a box office sales boost of 13.5%. <sup>⑤</sup>

Music festivals, a popular culture format in most Western markets, are beginning to blossom in China, too. With the overall number of such festivals reaching 202 in 2016, an increase of 59% compared to 2015, franchises like Midi (rock and heavy metal), JZ (Jazz), Storm (EDM) and Strawberry (Pop/Indie) have become much loved household names that cover various different styles, addressing the needs of an increasingly cluttered and diverse set of young culture consumers. <sup>⑥</sup>

Museum visitor numbers in China have grown from 637 million in 2013 to 900 million in 2016 according to the Chinese Ministry of Culture. The growing popularity of museums can be seen online as well: The Sina Weibo account of the Palace Museum counts more than 4 million followers. <sup>⑦</sup>

Visits to outdoor theme parks complete the picture of culture and entertainment hungry Chinese consumers. Visitor numbers increase nearly 20% YOY as more quality offerings such as Disney's first theme park in Shanghai appear in China. <sup>⑧</sup>

<sup>④</sup> [www.chyxx.com](http://www.chyxx.com) <sup>⑤</sup> Art Development Center of the Ministry of Culture of the PRC, 2017

<sup>⑥</sup> [idaolue.com](http://idaolue.com), 2018, website that specializes in information about the music industry in China

<sup>⑦</sup> <https://www.scmp.com/news/china/society/article/2113290/chinese-museums-impose-strict-rules-visitors-flock-blockbuster>

<sup>⑧</sup> Themed Entertainment Association (TEA) & AECOM, 2018



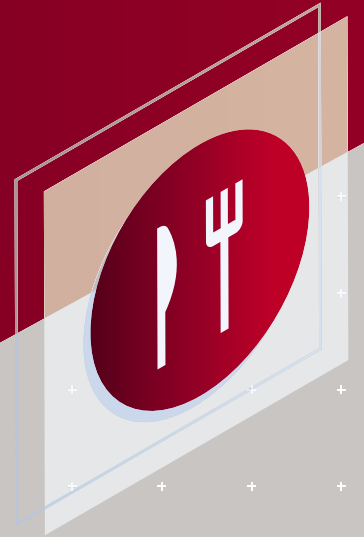
# FOOD AND DRINKS: FROM NECESSITY TO EXPERIENCE

The F&B sector is yet another field in which the move towards the experience economy is becoming obvious. Bain & Co found in a joint research with WPP's research and intelligence arm Kantar that the value of food purchased for in-home meal preparation grew by only 3% between 2013 and 2016, while dining out grew by 10%.  The F&B industry isn't just highly dynamic in Tier 1 cities like Shanghai and Beijing.

Many provincial capitals and even lower ranking cities see new restaurant formats mushrooming almost on a daily basis. And it's not just non-Chinese food that is seen as an exotic experience to be enjoyed.



<https://www.bain.com/about/media-center/press-releases/2017/china-shopper-report-2017/>







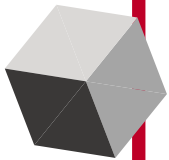
Dining out

100%

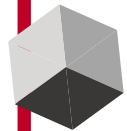
In-home meal

30%

2013-2016



One of the most famous examples for a successful local restaurant chain to turn its offering into an experience is the Sichuan-based hot pot powerhouse Haidilao that took China by storm around 2012 by introducing several entertainment and experience elements into their restaurant offering, thereby transforming what could have been an ordinary hot pot dining experience into an unexpected and surprising entertainment experience.





Specialist coffee houses, commonly referred to as the 3rd wave of coffee, are experiencing unprecedented growth in the Middle Kingdom.

The market value is expected to almost double until 2023 <sup>10</sup> thanks to an ever increasing number of middle class Millennials who are looking for more authentic and exotic coffee experiences than before.

China's bar and nightclub scene is similarly vibrant, with new Whisky or cocktail bars and lately Craft Beer breweries opening almost on a daily basis in major cities.

The final illustration for the importance of experiences to attract modern Chinese consumers that we want to present here is the role they play in China's shopping mall industry.

In 2017, 151 mega malls (>30000sqm) were opened in 2017. Of the 16000 brands that are represented in these, 8400 (54%) come from the experience industry.

In other words, shopping malls in China are morphing more and more into entertainment and experiences centers for consumers. <sup>11</sup>

<sup>10</sup> Forward Intelligence, 2017

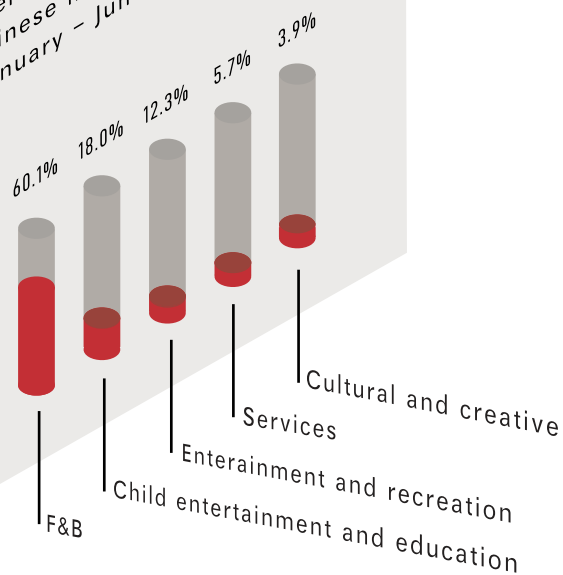
<sup>11</sup> Winshang Big Data, 2018



**54% :**  
Experience industry

**46% :**  
Traditional retail

Breakdown of experience industry  
offerings in newly opened  
Chinese mega malls  
(January - June 2017)



So, while we're not claiming that products are losing their appeal, we are witnessing an increased role of experiences in the lives of many Chinese. They function both as a means to bring about another round of lifestyle upgrade and increasingly as social currency; experiences are the latest means to express individual character and taste and thereby build the social identity of both online and offline personas.

We're hence advocating to take on board an experience-based mindset when trying to catch the attention of and attract Chinese middle class consumers.

This kind of thinking splits into two parts: The next chapter will explore the importance of time as a scarce resource in the experience economy and what it means for brands. The chapter following that will explore opportunities for brands to actively create experiences around their brands and products to attract consumers.



# CHAPTER

# 2 BRANDS IN THE EXPERIENCE ECONOMY



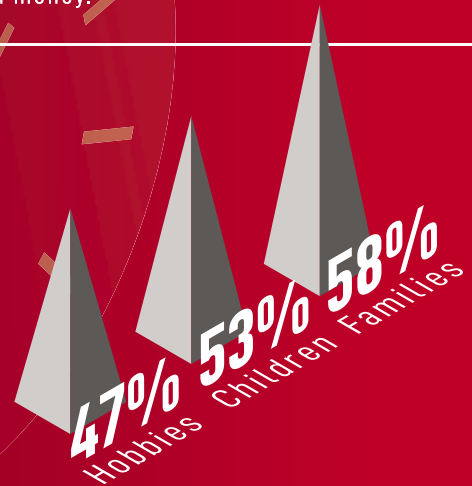


# TIME AS A SCARCE RESOURCE AND THE ROLE OF DIGITAL INNOVATION

Experience thinking evolves around the realization that money is no longer the only, or even the main scarce resource in the life of China's urban middle class consumers. In a survey conducted by Mintel in 2017, only 32% of urban middle class respondents stated they don't have enough money.

Time-related scarcities constituted 3 out of the top 5 named current bottlenecks in their lives:

58% said they don't have enough time for their families, 53% say they don't have enough time to spend with their children and a still significant 47% say they don't have enough time for hobbies; the item in the survey closest related to experiences. <sup>12</sup>

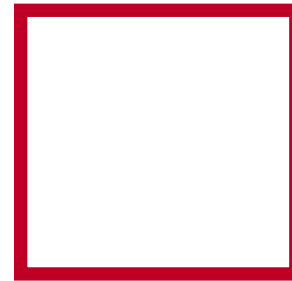


McKinsey arrives at a similar conclusion in a recent survey: "The findings suggest that as the Chinese consumer's quality of lives improves, time becomes more valuable". <sup>13</sup>

<sup>12</sup> Mintel (2017), Marketing to Mintropolitans

<sup>13</sup> [www.mckinsey.com/business-functions/marketing-and-sales/our-insights/chinas-new-pragmatic-consumers](http://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/chinas-new-pragmatic-consumers)

This is where digital and technological innovations enter the scene. One of the key points we hope to convey in this paper is that the fast and high adoption rates of many of these innovations is in part due to the convenience they provide. China's middle class is on a quest to streamline their lives; to make them more efficient and in turn carve out more time that can be spent on experiences.<sup>(14)</sup> The most apparent of these innovations is e-commerce. E-commerce has developed a might in China that goes beyond anything the world has ever witnessed; and there is no sign it'll stop to develop anytime soon. Total e-commerce sales are expected to double again by 2021.<sup>(15)</sup>



This stellar development is the direct result of the investments by e-commerce giants like Alibaba and Tencent and smaller players like Xiaohongshu and Pinduoduo alike. Especially the investments in an extensive logistics network that enable speedy delivery and transparent customer service brought with them a leap in convenience that was highly welcomed by consumers across the country.

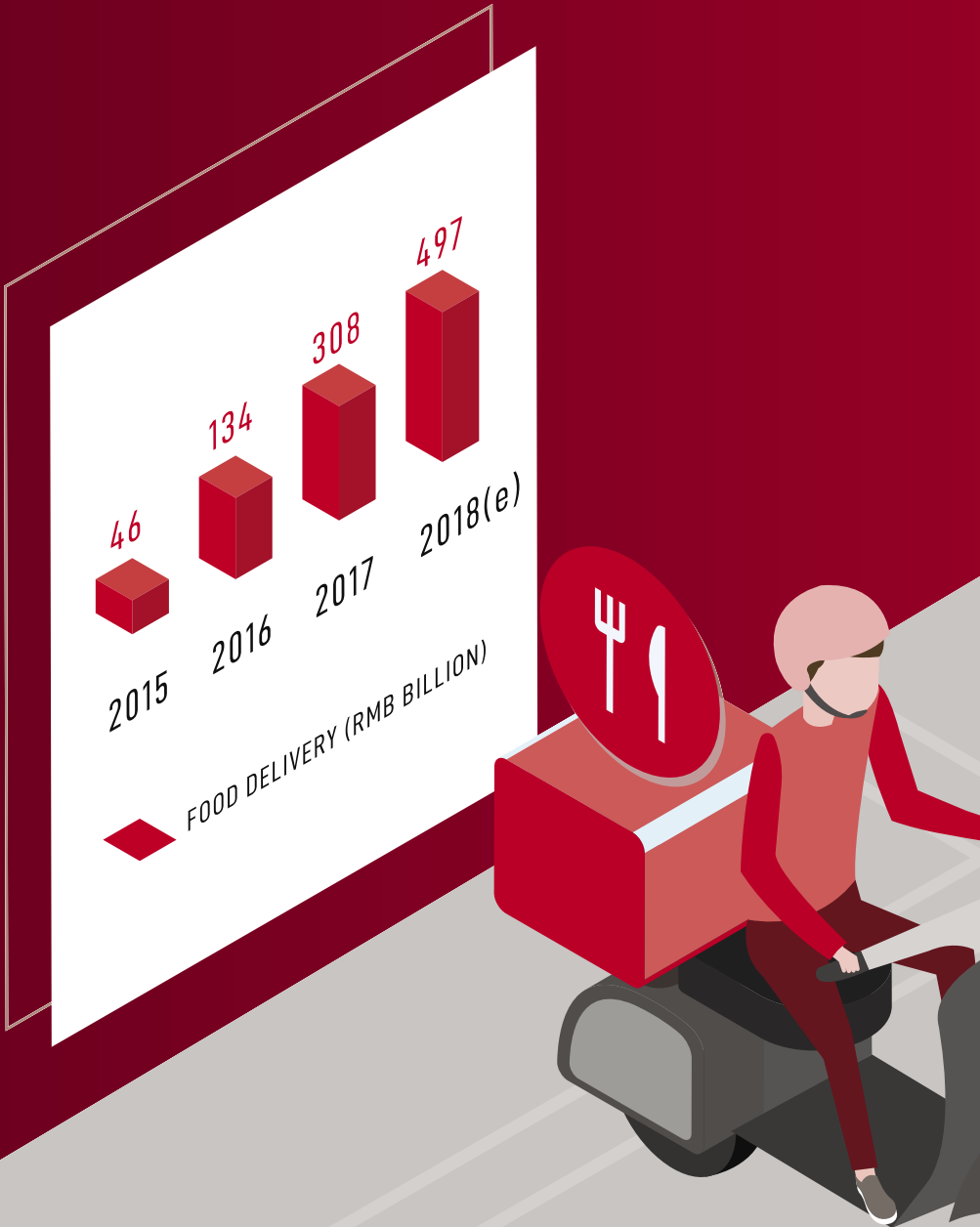
<sup>(14)</sup> Nielsen (2018), The Quest for Convenience

<sup>(15)</sup> Statista, 2018



Food Delivery services such as ele.me and Diangping Meituan, too, have seen stellar growth in recent years. By the end of this year, the total transaction value of the sector will have increased ninefold compared to 2015.

The top 3 reasons for adopting food delivery services stated by consumers are all related to the increased convenience they offer; the 3rd most important reason explicitly being about the time saving effect these services create. 





Ride-hailing services like DiDi (China's Uber) and bike sharing schemes like Mobike and Ofo serve this need for increased convenience and time-saving, as well. Their adoption is higher than in most markets with penetration rates of 43% and 31% respectively.<sup>17</sup>



DiDi  
mobike  
ofo



<sup>16</sup> Mintel (2018), Food Delivery Services

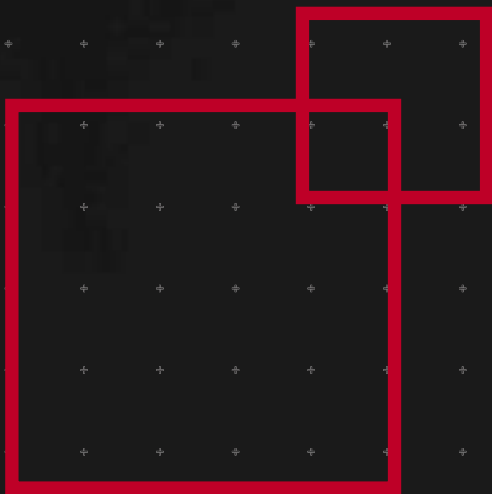
<sup>17</sup> CNNIC (2018), China Statistical Report on Internet Development0

One more big digital innovation that took China by storm and that is mostly fueled by the need for convenience is online and mobile payments. Nowhere in the world are people as prone to use such services as in China.



Payment systems provided as an integrated part of WeChat, Tencent's mega APP, or Alibaba's Alipay count ever increasing user numbers and penetrate deep into China's middle class and beyond. After many years of exponential growth, total user numbers are expected grow another 20% until 2021.

Their use is ubiquitous. Whether for offline shopping in convenience stores, shopping malls, at your local Starbucks or even a small food vendor on the street or in the online realm paying a taxi driver, ordering food delivery or simply shopping on one of China's countless e-commerce websites, mobile payments permeate every aspect of Chinese life. The number one reason for usage is always convenience and time saving.





# STREAMLINED MEGA APPS AND WHAT BRANDS CAN LEARN FROM THEM

China's two mega APPs Tencent and Alipay are prime examples for services designed to directly meet the need for convenience and time saving. Both APPs integrate services related to many different aspect of a user's life.

Whether it's banking and insurance, ride hailing and bike sharing, online shopping, payment for utility bills. Things that used to take valuable time out of a consumers day can now be dealt with in a matter of a few clicks in a few short moments.

This is the first crucial lesson for brands. A good way to win over a consumer's heart is to make her life easier. Products, services and streamlined interactions both online and offline are potential means to achieve this.









Digital self-service kiosks in McDonald's restaurants allow busy customers in a rush to place and pay for their take-out order through an interactive screen and receive their much awaited burger without needing to queue up in-line, thereby drastically reducing time wastage. Alibaba offers similar services to restaurants through its platform Koubei that transfers menus and payment systems into the APP and makes them available to customers through a QR code on each table. The company said it plans to expand its coverage and digitally transform another 1 million restaurants in China. Similar offers are available from Alibaba's main competition Dianping Meituan, China's most highly valued tech start-up at the time of writing. <sup>19</sup>

Alibaba's new concept supermarket brand Hema combines traditional offline retail with online elements (O2O) to increase convenience. A shopper walking through the aisles is given the option to either make purchases directly in the store or add items to a virtual shopping cart in Alibaba's Alipay APP to enjoy door-step delivery of his purchase within two hours to an address within a 5km radius.

Uniqlo has started to turn its offline stores into pick-up locations for online purchases. If in-store pick up at a chosen location is more convenient and faster for a particular shopper, why not offer her the chance to pick it up herself? This is also a good opportunity to increase footfall into stores that may have otherwise been absorbed by e-commerce and may drive cross-selling.

<sup>19</sup> <http://www.chinadaily.com.cn/a/201808/14/WS5b7211eda310add14f385882.html>



Any brand that wishes to sell to Chinese consumers online or offline needs to at the very least add mobile payment solutions to their existing check out systems.

For those who wish to take things one step further, Alibaba has begun to collaborate with brands to integrate existing reward and loyalty schemes into the official flagship store presences they operate on T-Mall.

This makes the lives of consumers far more convenient, as they do not need to think about where they can collect reward points for their purchases. Famous, e-commerce savvy brands such as cosmetics manufacturers La Mer, SK-II and Lancome already make use of this offering.



# EXPERIENCES AS BRANDED COMMUNICATIONS

Apart from helping consumers streamline their lives to free up time, brands should also become aware of their role as experience creators and curators. Experiences are a powerful way to make the time consumers spend with a brand worthwhile and can be designed to achieve a various different marketing and business objectives.






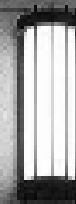
# EXPERIENCES AS HORIZONTAL DIVERSIFICATION

In 2015, a few innovative luxury fashion and design labels, that realized the hunger for experiences of Chinese consumers, began to open restaurants and cafés in major cities of the Middle Kingdom. Vivienne Westwood was among the first with its British heritage tea house concept Vivienne Westwood Café. Based on the many reviews that can be found online on platforms like Dazhong Dianping, the brand has gotten things right. The concept is tightly linked to and thereby a perfect extension of the brand into the experience economy. Realising the potential of such horizontal diversifications into new revenue streams, fashion powerhouse Chanel decided to follow suit, though in a more temporary fashion. In 2017, it put Shanghai's millennial fashionistas and foodies under its spell through a pop-up café in collaboration with popular Aunn Café in the heart of the city's downtown Jing An district. Long lines and vast social media coverage are proof for the popularity boost Chanel achieved through this diversification initiative.





China's innovative electric vehicle start-up NIO – often also referred to as China's answer to Tesla – is another great example for a brand that offers a retail experience that is so different that it may actually be seen, at least in parts, as a diversification effort. In 2017, the brand opened its first NIO House in China's tech capital Shenzhen on the border to Hong Kong. Under the leitmotiv "joyful lifestyle beyond the car", NIO invites users and friends (i.e. non-owners) to visit the space and enjoy any of 7 specially designed areas: In the Living Room, visitors are invited to socialize and just "hang out"; in the Forum they may attend presentations and share ideas; through Labs NIO offers the opportunity to book interactive meeting rooms and workspaces for anyone who needs to get their creative juices flowing; the Library is a space to focus and spend some quite time on thinking, learning and expanding horizons; in the Open Kitchen visitors may taste NIO's signature coffee; Joy Camps are spaces for the youngest among us to explore, create and grow; and finally the Gallery is an interactive and engaging way to learn about the brand and its products.





# EXPERIENCED-

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Starbuck's Reserve Roastery is another great example for the experience-based transformation of retail space. Opened in December 2017, the space exploded onto the experience retail scene of Shanghai's bustling shopping avenue Nanjing West Road.

For months, people had to wait in line for hours, and even cold winter temperatures didn't deter them. The inside is more reminiscent of an entertainment theme park than a classic coffee house.





# -BASED RETAIL

McDonalds opened a new flagship concept store in the southern Metropolis Guangzhou in January 2018, offering a more immersive and entertaining environment to visitors in order to revamp the popularity of the brand as a destination worth spending time at for Chinese customers.

Using the aforementioned self-service kiosks, the store is highly convenient but doesn't stop there. Apart from a modern, almost futuristic design, several interactive digital installations radically change the way people are used to interact with the physical presence of a fast-food brand

and increase the entertainment value of the venue significantly. Since McDonald's has an eye on Chinese families, many of these installations are interactive and fun games that keep children engaged and happy.

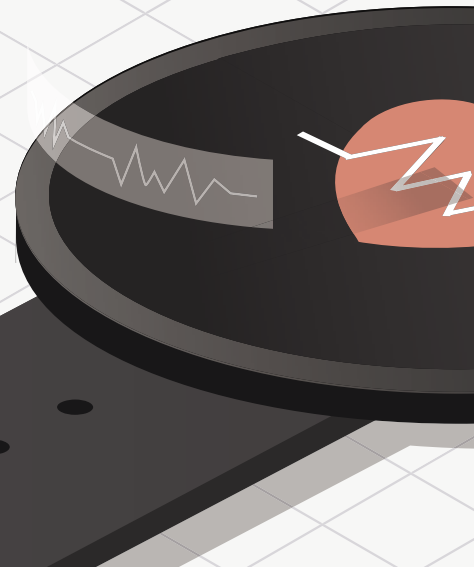


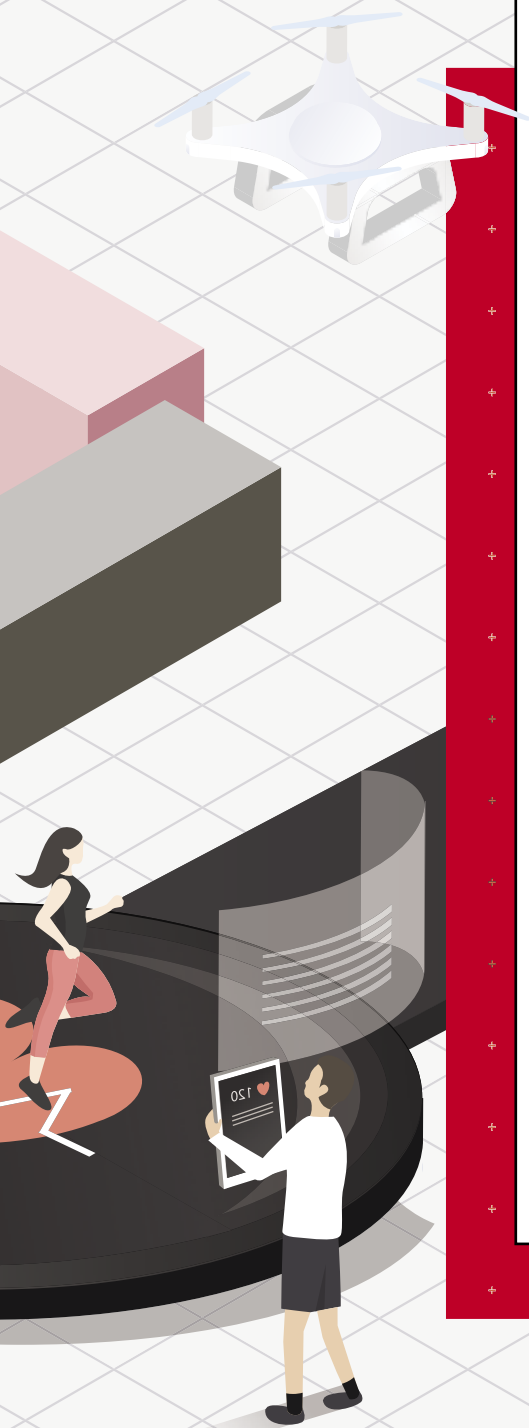
# EXPERIENCES THAT UTILIZE DIGITAL INNOVATION

One of the most engaging and impactful ways to create experiences for consumers has recently been to tap into new opportunities brought about by the revolution of technological and digital innovation. Technologies such as AR, VR and interactive engagement have allowed brands to create increasingly immersive experiences for their target audiences.

Interactive engagement has allowed brands to create increasingly immersive experiences for their target audiences.

A famous example for this is the multi-media and multi sensory dining experiences offered by Ultra Violet, an ultra high-end restaurant located somewhere in Shanghai (the secret location is part of the experience). A maximum of 10 diners per night are able to dive into alternative realities whilst enjoying avant-garde European haute cuisine created by local culinary legend Paul Pairet. These are created by top of the class video projection technology that turns the blank walls of the anonymous bunker that houses the restaurant into vibrant spheres of different types and themes. Carefully chosen soundtracks and scents that are introduced into the setting through bespoke emitters round off the experience.





Another important example to name here is the yearly "Republic of Sports" event tour by German sports apparel maker Adidas. In 2018, the brand elevated the highly popular event to new levels by not just offering introductory courses for several sports like fitness and rock climbing or by bringing along an impressive roster of celebrities; this year's events impressed audiences with a broad offer of innovative, technologically powered and interactive activities.

The MakerLab, part of Adidas's digital revolution named Speedfactory, allowed visitors to create mini give away versions of their favourite Adidas sneakers. Sports enthusiasts could further challenge a virtual, intelligent goal keeper with a real football in an augmented reality enriched penalty shootout, row through virtual oceanic environments, run through virtual worlds on a treadmill and improve their basketball skills through an interactive surface that would give contestants challenges in dribbling, ball handling and point shooting. The event traveled through major Chinese metropolises Beijing, Guangzhou, Chengdu and Shanghai, cementing the brands position in China as an innovative brand that merges sports with an aspirational millennial lifestyle.

Purely digital experiences, too, are a way to attract shoppers' infamously fickle attention online. Every year Alibaba's Single's Day (mentioned above) sets the bar for digital experiences such as celebrity livestreaming cum flash sale promotions, virtual dressing rooms to try on merchandise and even holographic projection of famous and well-loved celebrities.



# CONCLUSION

We hope we have impressed upon you, the reader with a keen interest in China's ever changing consumer landscape, the need to serve modern Chinese middle class consumers with the attention and effort that they not only deserve but increasingly demand. While quality products are and will continue to be giving brands the right to compete in China, they are in many cases no longer enough to meet the demands of the Chinese for more. Sophisticated and experienced consumers are looking to have their demands met on more than just materialistic levels. They're increasingly looking for intangible experiences to be entertained, have their horizons broadened and even attain a higher level of spiritual fulfillment.

Brands that come to China to compete for the time, attention and a share of wallet of Chinese consumers need to recognize the hyper competitiveness of this market and in turn the investment and commitment necessary to succeed. We believe that brands that answer the needs for a more streamlined and experienced-driven way of living as outlined in this paper will be rewarded with attention, affection and ultimately purchases.









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