



the United States. Li Lihua, a coauthor of the McKinsey 2011 Annual Chinese Consumer Study, though cautions against using Western notions of class when looking at China. "The generational differences are huge because China has been through many things and what they experienced impacts on the way they spend money. And this is truly unique to China," says Li.

Figures can be misleading but when it comes to wealth it is hard not be dazzled by the figures. The 2011 Forbes Rich List says China has 128 billionaires (US\$) whereas the home-grown Hurun list claims it's 271. When it comes to millionaires (US\$) Hurun puts the figure at 960,000 and the average age at 39 a full fifteen years younger than the average American equivalent. However to put that in perspective there are somewhere in the region of 8.4 million households worth that figure in the US, a country with less than a quarter the population of China. And despite large numbers seeing improved living standards, 150 million Chinese still fall below the United Nations definition of poverty set at \$1/day.

"As consumers become wealthier they are less price sensitive on a whole host of categories and they are always looking for the best," contends Rein. In research for a sock company his group found that richer consumers were prepared to spend a lot of money on a pair of socks and would change their socks up to five times a day to suit the occasion.

This is part of a process Li believes, "when you have more money you tend to go out to restaurants, coffee shops, then you start to buy luxury products". McKinsey though highlight in their report that consumption, at 33% of GDP, is well below other countries (in the UK its 65%). Furthermore this figure has fallen rather than risen in the past decade and the Chinese continue to be keen savers in part due to the lack of a social security net.

"Talk of a hard landing in China is ridiculous and overblown" believes Rein. According to McKinsey consumer confidence is optimistic despite the inflationary environment. Li believes this is for two reasons. Firstly they feel life is getting better as there has been a very real improvement in living standards over the last two to three decades. Secondly China, unlike Western countries, hasn't experienced any large scale job losses.

From his research over the last three months of 2011 Rein says it's the medium low and medium consumer that are getting hit hardest by inflation. "The reality is though they are not the ones driving retail sales. It's the middle and upper middle class and wealthy that have been propelling the 16-18% retail sales growth year on year over the last five years. And those consumers remain very confident".

The rich don't know to spend their money. For many luxury car brands, such as Bentley and Maserati, China is now their number two market. Ocean Alexander, an American luxury yacht manufacturer, initially saw China as a manufacturing base but has picked up

an order book which has doubled each year. Johnny Chueh, the company owner, claims that Rein echoes this saying "I was with Mr Chen, a very wealthy individual, and he is starting to complain that he doesn't know what to do with his money". This is due to restrictions in larger cities on car and house ownership. McKinsey found that whilst there was growing brand awareness amongst consumers there was little brand loyalty. Li clarifies that this is largely with fast moving consumer goods and is partly due to recent scandals that have left consumers wondering who to trust. She says that "loyalty is not as high as in other countries". However, when it comes to the luxury end of the market Rein believes the Chinese consumer will try the top three brands before choosing one they really like and then become extremely brand loyal.

"In the US people are used to brands that they've been using for generations. In China every product category is really new for many people. Therefore they are much more open to the marketing message and word of mouth," says Rein citing far greater uptake of certain product types, such as male grooming,

in China than in the US. Both Li and Rein see there will be further growth in the luxury end of the market. Rein contends overseas travel will develop substantially. Domestically, Li believes service industries such as restaurants will benefit with "more emphasis on the experience rather than the basic product" and consumption will increase as a percentage of GDP thanks to improving social security. With so many aspiring to luxury brands the genuinely wealthy are becoming more sophisticated and eschewing the likes of LV for more exclusive brands. Furthermore Rein believes "with China being such a large market you have to take a China first strategy. Everything from day one has to be designed with the Chinese consumer in mind".

"the first buyers are bored with buying cars like Lamborghinis"

In the land of mink and money

Is China really one of the world's richest and fastest growing markets, or is it just a global legend? Mark Andrews went in search of answers

For a trio of folk fresh out of the countryside the LV logo on a shiny edifice on Renmin Nanlu (People's South Street) was a mystery. "What does that say?" they asked, "Louis Vuitton" I replied. Temples of capitalism like this have transformed central Chengdu into a seemingly modern city - a scene reflected in many city centers across China. But for this trio a LV monogrammed bag would appear, at least for now, to be out of their grasp.

Shaun Rein founder of China Market Research Group and author of the forthcoming book 'The End of Cheap China' sees shopping here "like a hourglass – consumers either want to shop at the very high end or they are really cheap at the bottom end". Many figures and statistics are bandied around about the so called Chinese middle class. Helen Wang author of 'The Chinese Dream' claims that the middle class outnumbers the total population of

