Spending Spree

They're young. They have money to burn. And the race is on to win them as customers.

By Bay Fang
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SHANGHAI--Sharmin Du breezes into the Coffee Bean in Xintiandi, a trendy cluster of western shops and restaurants. She's wearing Diesel jeans, her yoga bag slung over a shoulder. It's 3 o'clock on a Sunday afternoon, and she hasn't eaten yet, so she orders a smoothie and a scone. Her mobile phone (the latest model, with speedy Internet access) buzzes; she answers, alternating between flirtatious Shanghainese and a more businesslike English.

The pretty 32-year-old with round eyes and red highlights in her hair is living a life all but incomprehensible to her parents--with whom she lived until just this year. "I used to spend all my money buying name brands: Louis Vuitton, Christian Dior, Hermes. If I want to travel or go out, I can do anything I want," she says. "But it's new for us. In the U.S., kids know what they like. But in China, no one in the past thought that way--what do I prefer? What do I like to do? I am just starting to figure that out now."

They're young, they're profligate, and they have western marketers positively salivating. This new generation of "Chuppies"--Chinese yuppies--is riding a wave of unprecedented commercialism in the country. There are already 100 million "middle class" Chinese, and by 2010, that number is projected to double. Chinese consumption is estimated to increase by 18 percent a year over the next decade, compared with just 2 percent in the United States. Technologically savvy, the avaricious young shoppers in this rising tide are even making purchasing decisions for their parents. They are the first generation to use credit cards--and the first to cause a substantial drop in what used to be one of the world's highest savings rates.

Marketers estimate that China's youth will become the most powerful consumer force in the world within the next 20 years. And they're being wooed by savvy marketers who clearly see a tipping point in front of them. "China is like a blank canvas," says Jude Robert, creative director at Asia Pacific Network Communications, an integrated marketing firm. "You can bring in anything you want, as long as you market it right."

The Chuppies came of age after the Tiananmen Square democracy protests in 1989. Unlike their parents, who lived through the privation and turmoil of the Cultural Revolution, this generation has known only relative stability and economic prosperity. Many openly embrace the late leader Deng Xiaoping's revolutionary proclamation that "to get rich is glorious." They even have an American nickname for themselves, "Bobos," adapted (somewhat incorrectly) from a David Brooks book published in 2000--and translated to Chinese in 2002--Bobos in Paradise. Their growing appetite for foreign goods has coincided with a rush by multinationals into the country that began in earnest in the mid-to-late 1990s, when--after China's accession to the World Trade Organization--the government began loosening its regulations toward companies wanting to set up shop in China. "China is going from pay phones to cellphones, from standardized television dramas to DVDs, without the step of VHS in between," says Frank Pan, greater China marketing director for Diageo, the spirits company that owns Johnnie Walker, Guinness, and several other famous brands. "Bicycles are still everywhere, but last year China started hosting the Formula One races."

Up next. India isn't far behind China, and it, too, has captured the attention of multinational marketers. Its burgeoning middle class--those with discretionary spending power--exceeds 60 million, though Indian officials tend to boast of even higher numbers. And half of India's 1.1 billion people are under the age of 25. An estimated 2.1 million people are graduating from college each year, 200,000 of them engineers and 40,000 in management. The country's economy has been growing at a clip of 8 percent a year. A
McKinsey & Co. report predicts that within 10 years the average Indian income will be twice as high as it is now. India boasts the world's fastest-growing information technology market, creating skilled, high-wage jobs for software engineers, business-process experts, and call-center workers. Some 700,000 Indians now work in call centers; a novel titled *One Night @ the Call Centre*, written by a young investment banker, has been a bestseller with its depiction of young Indians whose attitudes and activities would be easily recognized in, say, the tonier suburbs of Los Angeles.

When they talk about China and India, western business executives can't stop using the word "scale." Take the experience of Blizzard Entertainment, based in Irvine, Calif. It took a year to attract a million paying subscribers in North America for World of Warcraft, its popular online video game; in *one month*, the company signed up 1.5 million for the Chinese version of the game. How about cellphones? There are 400 million cellphone users in China, and, on average, they replace their phones every three to six months. Consumers in China can choose from something like 900 different models, compared with only 80 or so in the United States. Companies like Samsung offer a new handset model in China as often as once a week. In India, mobile-phone subscriptions are growing at a rate of 4 million new subscribers a month.

Understandably, more and more companies are betting on these still-immature markets to drive future growth. Many companies are already beginning to develop designs and products catering to the Chinese market. General Motors has introduced a range of models in China, customized for every segment from farmers to the nouveau riche. Adidas, whose business in China doubled in 2004 and almost doubled again last year, just opened an Asian Design and Development Center in its Shanghai headquarters. Designers there will be turning out products for Asian fit and tastes, cutting development time from 18 to 12 months, for a "faster response to the fast-changing consumer tastes in China," according to marketing director Paul Pi. The first line of products is due out next year. Last year, the company's signature basketball shoe, made for NBA star Tracy McGrady, was launched in China, the first time Adidas has done a global launch outside the United States. It released a limited edition of 800 pairs of the shoes, available only in greater China. They sold out in hours.

**Brand names.** In both China and India, urban youths are increasingly conscious of the brands they buy and of product quality. "Brands are fueling the rise of the middle class in China," says Tom Doctoroff, the author of *Billions: Selling to the New Chinese Consumer*. "The Chinese have an aching ambition to climb up the ladder of success, and brands are the mark of people who have made it." In China, this means people are much more willing to spend on publicly consumed goods (suits, diamonds, mobile phones) than on private ones (washing machines and other items used at home).

Big spending, in any case, is not a big problem. The average car bought in China was sold for 140 percent of the buyer's annual income (compared with 30 to 40 percent in the United States). Haagen-Dazs shops (which have introduced ice-cream mooncakes) are packed with families, but very few buy pints to take home. Starbucks, which has 66 outlets in Shanghai alone, projects an image of being a fashionable place for trendsetters to meet. A young woman takes out a Chanel lipstick at a club, but she uses something cheaper at home.

A company like De Beers was able to push exactly these buttons when it came to China. The storied diamond purveyor first entered the country in 1993, when there were absolutely no diamonds exchanged in China and nothing in Chinese culture linking diamonds and love. At weddings, the groom's mother typically gave gold and jade, if anything, to welcome the bride into the family. No more. Christine Cheung, the head of the Diamond Marketing Group at advertising giant JWT, runs through a presentation called "Creating a Diamond Wedding Ring Cultural Imperative." Diamonds are portrayed as the link between romance and security. "It's more than selling a product," Cheung says. "It's creating a culture." The
company has been so successful in its creation that now, in Shanghai, 70 percent of all brides are given a diamond wedding ring. In Beijing, it is 80 percent (up from 45 percent just over five years ago). Japan, despite being a much wealthier society, has a "diamond acquisition rate" of only 50 percent. Every year, De Beers cosponsors a "Rose Wedding Ceremony" with the Shanghai municipal government, in which up to 100 couples exchange vows--and diamond rings--in an event broadcast on television. Photographs from last year's ceremony show brides and grooms exchanging vows next to a 12-foot-high model of a diamond ring.

On Nanjing Road, the famed shopping street that snakes through the heart of Shanghai, glittering storefronts line both sides. Prada. Louis Vuitton. Hermes. Since 2002, when government regulations were eased to allow foreign brands to open up their own retail stores rather than have to go through a Chinese partner, high-end stores have been coming in fast and furious. Just last week, Saks Inc. announced plans to become the first foreign luxury department store in China, featuring prestige products like those in Saks Fifth Avenue stores in the United States. U.S. fashion designer Tommy Hilfiger, whose first China store opened here in 2002, now has 40 stores in 23 Chinese cities and plans more. Immediately after launching this year's spring line in New York, Hilfiger flew to Shanghai to showcase the new fashions. "Just in the past couple of years, during the fashion season, you see more shows than in New York!" says Tito Tan, who used to run an event-management company in Shanghai. "But it's not just product launches; it's relaunches, or to let people know a store is open, or because a CEO is in town. Here, if Armani does a fashion show, Gucci has to do one. They'll spend $1 million and invite 1,000 people." Five years ago, buyers from mainland China represented just 1 percent of world sales of luxury handbags and other accessories. Now, the Chinese are the third-largest consumers of luxury goods, accounting for more than 12 percent of global sales, according to a study by Goldman Sachs. Within a decade, China will almost certainly surpass Japan and the United States to become the No. 1 luxury market in the world.

What's driving it all? Merely looking at per capita income can be misleading. An urban "young white-collar" worker who earns as little as 5,000 yuan (about $625) a month typically still lives and eats with his parents and so may have almost 100 percent disposable income. It isn't uncommon for this demographic to save for months to buy a brand-name handbag or pair of sneakers for hundreds of dollars. Young Chinese are much more comfortable taking risks than their parents--partly because they see little opportunity for safe investment, other than real estate.

Expectations. In making purchasing and other lifestyle decisions, some young Chinese take their cues from what they see in western media. A college student says she started smoking because she thought Sarah Jessica Parker looked so cool with cigarettes on Sex and the City. "It's different from five years ago, because now they have a range of options with which to define themselves," says P.T. Black, whose market research firm, Jigsaw International, focuses on Chinese youth, defined as 15 to 35. "To a proactive person, the entire world is available--from underground hip-hop to the catwalks in Milan. We track them as one generation because their tastes change really quickly from Nike to Louis Vuitton, as they enter the workforce. They're moving forward so quickly, and their expectations are high."

To this end, brands are vying--sometimes with comic effect--to capture the attention of the Chinese consumer. Watchmaker Cartier, for example, created a massive ice sculpture of its flagship Paris store at this year's ice festival in the northern city of Harbin. Tiffany erected a huge replica of its trademark blue gift box outside a Shanghai shopping mall. Other brands choose to go with age rather than size. At a smoky Shanghai bar, young Chinese men sit at tables glancing at each other uncomfortably, sipping whiskey mixed with green tea. On one wall is projected a video presentation about John Walker--born in Scotland in 1805--and his sons. This is an event hosted by Diageo. The 50-odd people in the bar have been invited as "potential consumers," whose names were collected from other events. "We want to strengthen their brand loyalty by sponsoring a prestigious experience for them," says Timothy Cheng, a marketing manager for Diageo. "To Chinese consumers, heritage and age mean something." Lithe young women in black and yellow jackets stroll around the room refilling glasses while a well-known video jockey from Taiwan emerges and works the room. He stops by one table and asks a scrawny man in mid-sip,
"What is the motto of Johnnie Walker?" "'Keep on walking'?" the man responds hesitantly. Bingo! A young woman rushes over and hands the man a bag filled with Johnnie Walker paraphernalia.

Competition for this new breed of shoppers is fierce. Foreign brands are battling not only with each other for a piece of the mainland market but also with a legion of increasingly innovative Chinese companies. Theft of intellectual-property rights also cuts into profits, especially for technology-driven products.

But the newness of this market has allowed for certain kinds of innovative marketing that might seem strange in the West. When Nike entered the China market in 1994, it found a country where regular kids didn't play sports; that was the province of elite athletes aiming to win medals in international competitions. Nike changed all that. The company began sponsoring entire high school basketball leagues, with the hope that more widespread competition would eventually pay off in brand recognition. The leagues are now in 16 cities across the country, and Nike has seen a payoff—in spades. In 1994, the company claimed sales of just $8 million in China. Three years ago, sales reached $100 million, and today the company will hit $450 million in annual sales. In poll after poll, Nike is cited as the "coolest" brand. "Now, there's a perfect storm coming," says Terry Rhoads, a sports marketing consultant who worked for Nike for 12 years. "The middle class is beginning to grow. Kids all use the Internet and see what their counterparts in the U.S. and Europe are listening to, what sports they play. They want to be part of a global tribe."

Gong Lei is 25 and goes by Ken. He is tall, with spiky dyed brown hair, and sports baggy jeans and Akademiks sneakers. When he was younger, he says, he saved all his money to buy Nike sneakers and clothing. "My parents gave me 500 yuan [$62] a month for school, to cover food, transportation, everything," he recalls. "I ate instant noodles every day and bought Nike shoes instead. I couldn't get enough of them." A basketball fanatic, Ken would troll the Web for anything basketball related, and he came across U.S.-made video clips of street basketball players. He liked the style so much that he started reaching out online to others who might be interested in it. Four years ago, Ken started a website called China Street Basketball Association, with links to pages for different cities, as well as rap videos and street basketball videos from the United States, available for free downloading. The site now has 230,000 members, claims 50,000 to 60,000 hits per day, and has 40 "signed" players who are doing a cross-country tour of 20 Chinese cities. Ken has 30 pairs of sneakers at home, all made by western companies that have sponsored tournaments in China.

Showing off. In the middle of a residential Shanghai neighborhood, a bunch of teenagers gather on a dusty basketball court. They're wearing yellow jerseys, and some have cornrows and rhinestone studs in their ears. One dribbles between his legs and shoots a basket, as a television camera follows him around. Kids gather at the edge of the court and gawk in admiration. The teenagers are part of a street basketball team put together online, and they're shooting a music video for a Chinese rap singer. "Chinese kids want to start expressing themselves, and street ball lets them show off," says Ken. "So many brands want to do business with us now, because we have so many members on our website. Even Chinese companies selling bathroom fixtures are starting to sponsor street basketball tournaments these days."

Last year, the tournament was sponsored by Electronic Arts, the biggest video-game publisher in the world. The company wanted to break into the China market with its street basketball video game, so it sponsored three-on-three street basketball tournaments, complete with break-dancing contests and video games on the sidelines. The company hired cute girls wearing "EA" baseball caps to play the video games with the boys who came to watch.
Coca-Cola has used similar marketing tie-ins. It helped launch the online video game World of Warcraft by sponsoring carnivals in which consumers could play out some of the video-game tasks in real life. Last year, over 20,000 kids attended during a two-day carnival in Shanghai. "Chinese youth are yearning for their own identity," says Ilan Sobel, Coke's vice president for strategic marketing in greater China. "They are going from a collectivist society to having a new freedom. We are constantly looking for new ways to inspire them." This year, Coke is moving away from traditional television ads to rely more on its online platform, iCoke, where consumers can win their own 3-D avatars that they can then dress up in Coca-Cola clothing and accessories.

Not to be outdone, the National Football League now wants in on the lucrative China market. Rhoads, the sports-marketing consultant, and his company, Zou Marketing, are helping league officials introduce American football, by going into 200 middle schools in four cities and sponsoring flag football teams. "They took to it like ducks to water. It's all about one side taking land and the other defending," Rhoads says. "Teaching a child with no siblings how to play on a team with a common goal is also really important. In the end, we're here to make a buck, but it's also just really fun to get kids to play a sport." Some schools are now making it part of the physical-education curriculum. Adidas is doing the same thing for soccer, hiring certified coaches to train kids to play on teams, starting this spring.

The economics and demographics may put India behind China, but not for long. Bhavna Mehra, a 26-year-old corporate planner for Infosys Technologies, a star IT company in Bangalore, credits the economic reforms that began in 1991 for opening up parts of the economy, reducing regulation, and ushering in a new era of consumerism. Getting a bank loan or a telephone installed is now much easier, for example, as deregulation and a service mentality settle in. "When you approach a bank for a loan and they know you're from the IT industry," Mehra says, "especially a company like Infosys, approvals work quickly."

Mehra has a name for her socioeconomic cohort: "the fast-forward generation." "People's levels of expectations have changed tremendously," she says. "We want everything yesterday." What seems increasingly clear is that she, like Sharmin Du and her peers in China, will at least get it all tomorrow.

With Thomas Omestad

Suburbia and All That
By Thomas Omestad
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GURGAON, INDIA-To drive into this burgeoning New Delhi suburb, it seems, is to leave behind the developing world and enter a vibrant, if narrow, slice of the developed world. In a land still plagued by deep poverty and backwardness, Gurgaon has become a renowned home of international call centers, business-processing operations, and information-technology firms. There are gleaming, glass-paned high-tech towers, condominium blocks, multiplexes, and shopping malls, where Indians dine at Ruby Tuesday, browse for Samsung electronics, or kick the tires at a Toyota, Ford, or Chevy dealer. If one overlooks the dusty pockets of poverty nearby, the look is more Southern California office park than the India of yore.

Gurgaon and places like it are experiencing a building boom fueled by the rupees of the new Indian middle class. Gated communities equipped with gyms, pools, and squash courts sport names like Beverly Park and Hamilton Court. The goal of one new development called Aura Nx: "redefining the standards of residential opulence."

And while the new prosperity brings some strains to families, life has gotten a lot better for the new residents of Gurgaon and other emblems of the new India. Sanjeev Singh, 39, a rising executive with a firm called Genpact (which opened India's first call center), lives the Gurgaon good life: He and his wife, a
part-time lawyer, own a four-bedroom condo, have vacationed in Europe and Southeast Asia, and drive a Ford Ikon and Suzuki Maruti. His two kids go to a private school, and the family dines out a couple of times a week—pizza or pasta or maybe Japanese or Chinese food. He exercises at a gym and enjoys that most un-Indian of caffeinated drinks: cappuccino. "There's so much more opportunity to spend and enjoy," he says over dinner in Genpact's cafeteria. "Life has really changed."

Affluence. Down in Bangalore, the good life has also emerged for many of those riding the wave of the city's high-tech industry. Anand Ganapathy Chennira, a marketing specialist for Infosys Technologies, has had his own home built—and stocked it with Samsung and Sony tvs and entertainment gear. It's also where he parks his Toyota Corolla. Chennira, 39, has developed some pretty firm consumer preferences: cologne by Calvin Klein, Polo shirts, a Motorola cellphone, and a Montblanc pen.

Across India, the sudden affluence is changing everything from health to politics. With long working hours and an influx of fast and prepared foods, obesity and type 2 diabetes are becoming endemic in higher-income areas. The World Health Organization warned that India could become the diabetes capital of the world. The battle against expanding midriffs is being waged at a proliferating number of "slimming centers."

Along with waistlines, borrowing to consume—a sharp break with a traditional, cash-only culture—is expanding, too. Though only one in 50 households now has a credit card, the Indian credit card market is growing at around 35 percent a year, likely the fastest in Asia.

As for politics, India's yuppies are starting to upstage the left-leaning intelligentsia—lending crucial support to New Delhi's dramatic shift to a "strategic partnership" with the United States. Says Radha Kumar, a leading foreign policy analyst at the Islamic National University in New Delhi, "The new middle class is almost entirely pro-U.S. They were created by globalization and the it revolution."