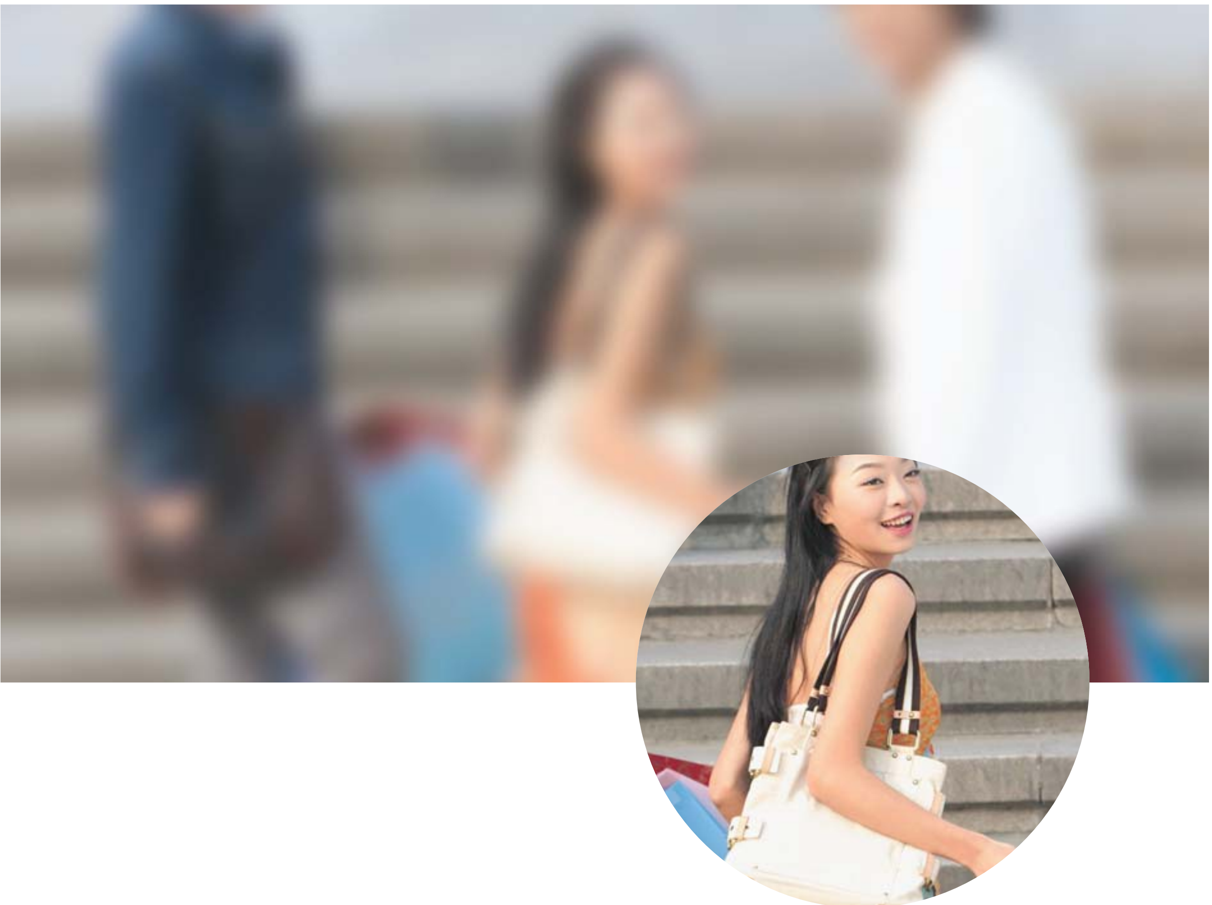
MasterCard Worldwide

Knowledge Leadership

# Brand Preference of the China Affluent



MasterCard Worldwide Insights

1Q 2008

# MasterCard Worldwide
# A Global Knowledge Leader

MasterCard Worldwide is widely recognized as a knowledge leader around the world. Over the years, the global payment solutions company has devoted extensive resources to developing a deeper understanding of the payments card markets and the business and economic environment through surveys and independent research studies. Some of these initiatives include the MasterCard Worldwide Index of Consumer Confidence, MasterCard Worldwide Index of Retail, MasterCard Worldwide Index of Travel & Asian Lifestyles, MasterCard Worldwide Index of Women's Advancement, MasterCard Worldwide Index of China's Affluent and MasterCard Worldwide Centers of Commerce. Today, these MasterCard offerings are much sought after by analysts, academics and decision makers in financial institutions, government agencies and multi-national organizations.

Launched in 1993, the MasterCard Worldwide Index of Consumer Confidence has proven to be an excellent barometer of the general consumer pulse in Asia/Pacific. The twice annual survey analyzes prevailing consumer perceptions of economic conditions for the next six-months. Its insights into the dynamics of consumer sentiment, and the market paradigm deliver value to a variety of audiences, including customers and business partners.

In 2003, MasterCard established the MasterIntelligence Knowledge Panel comprising leading economists and business strategists from China, Hong Kong, India, Japan, Korea and South East Asia. In 2006, it was expanded to become a global knowledge panel, which now conducts research and provides insights on the economic and business environment globally. The panel is headed by Dr. Yuwa Hedrick-Wong, Economic Advisor (Asia/Pacific), MasterCard Worldwide.

Today, MasterCard continues to demonstrate its commitment by not only adding value with cutting edge research but also through sharing knowledge in new areas. Its knowledge leadership is well recognized and unrivaled.

# Brand Preference of the China Affluent

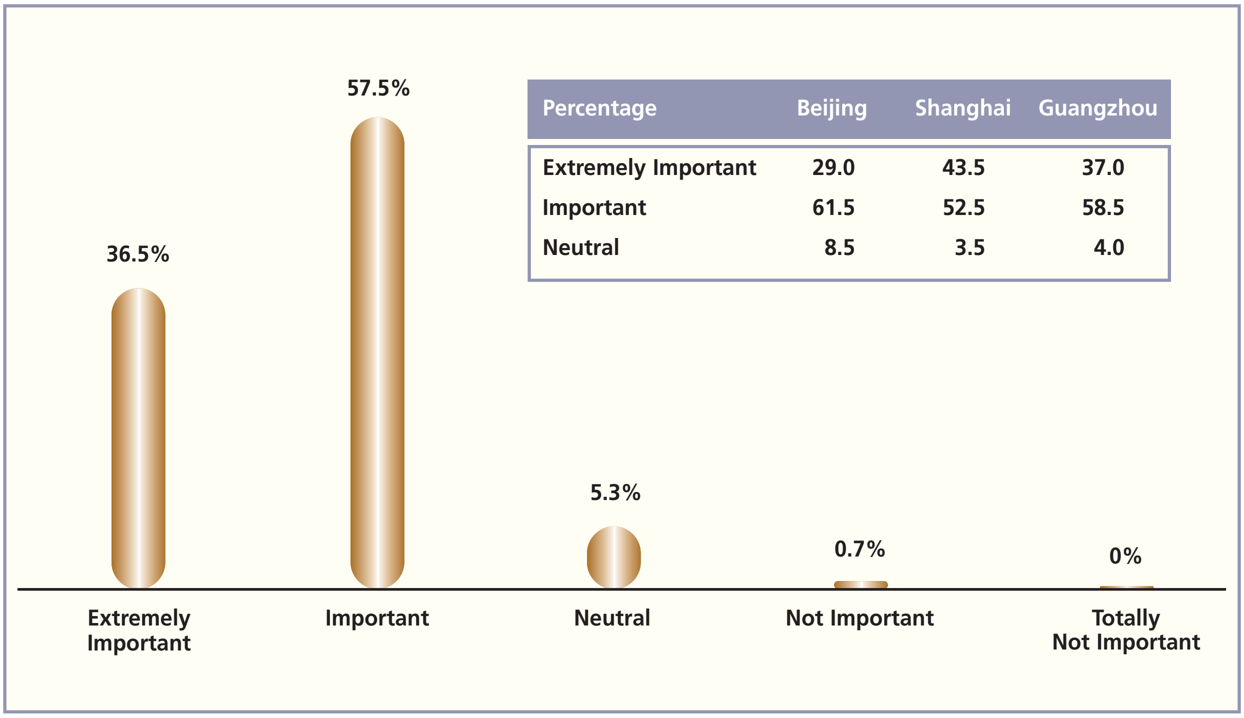
Achieving brand prominence and building a strong brand asset in the booming consumer markets of China are the holy grail for many businesses today. For many companies, the market segment that is critically important to brand building is the affluent consumers of China.

## Brand Perceptions and Choices

Affluent consumers in China clearly believe that brands are important. As Chart 1 shows, 94% of them believe that brands are either extremely important or important; with those in Shanghai and Guangzhou placing greater emphasis on brands than those in Beijing.

In terms of foreign versus domestic brands, it seems that at this time, foreign brands enjoy an

**Chart 1**
**Importance of Brands**

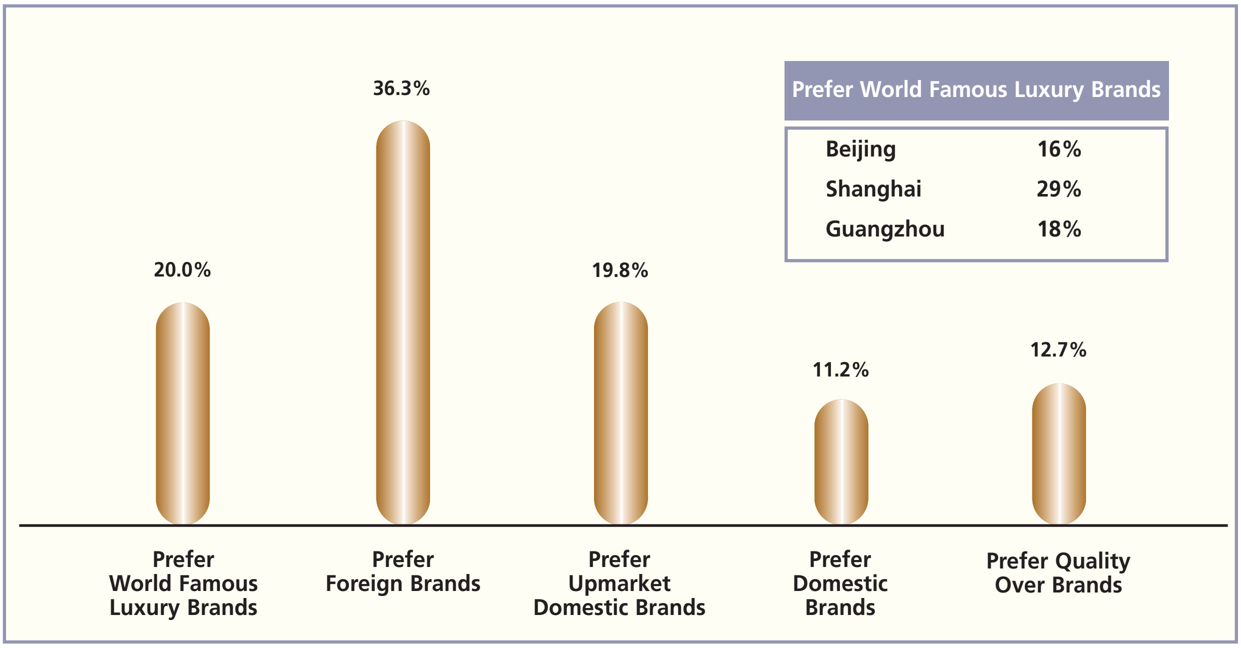



| Percentage | Beijing | Shanghai | Guangzhou |
|---|---|---|---|
| Extremely Important | 29.0 | 43.5 | 37.0 |
| Important | 61.5 | 52.5 | 58.5 |
| Neutral | 8.5 | 3.5 | 4.0 |

These affluent consumers are far more likely to be willing to pay a premium price for a branded product that is perceived to have better quality and convey higher status and lifestyle value. In order to assist businesses, domestic and foreign, who are endeavoring to create value for their brands, a research project was conducted by MasterCard in 2007 in the three key cities of Beijing, Shanghai and Guangzhou, to evaluate the brand preferences of affluent consumers of China.[1] This report presents the key findings from this research.

advantage, with 36.3% of consumers stating a clear preference for foreign brands and only 19.8% for "upmarket" domestic brands, as shown in Chart 2. However, some 20% also stated that they prefer "world famous luxury brands," which presumably could be either foreign or domestic; though at present there are no domestic Chinese brands that would fit in such a category. For domestic Chinese brands that aspire to be in the category, Shanghai is clearly the place to be as it has the highest percentage of affluent consumers stating their

**Chart 2**
**Brand Preference**




preference for such brands.

High quality is the single most important factor behind brand preference among the affluent; with 92.7% of them identifying it as a key factor for choosing a brand as seen in Chart 3.

There is clearly a strong perception that a strong brand represents a high-quality product. Being widely recognized and being fashionable come in a distant second and third as reasons for choosing a brand.

**Chart 3**
**Factors Determining Brand Choices**

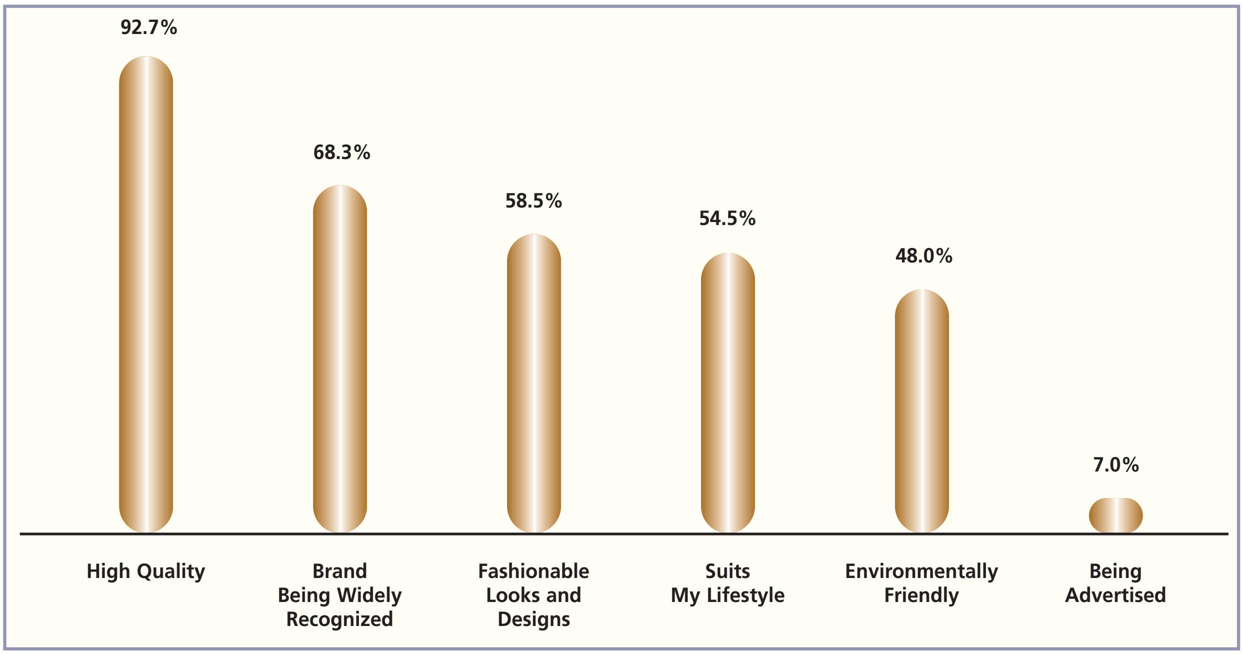
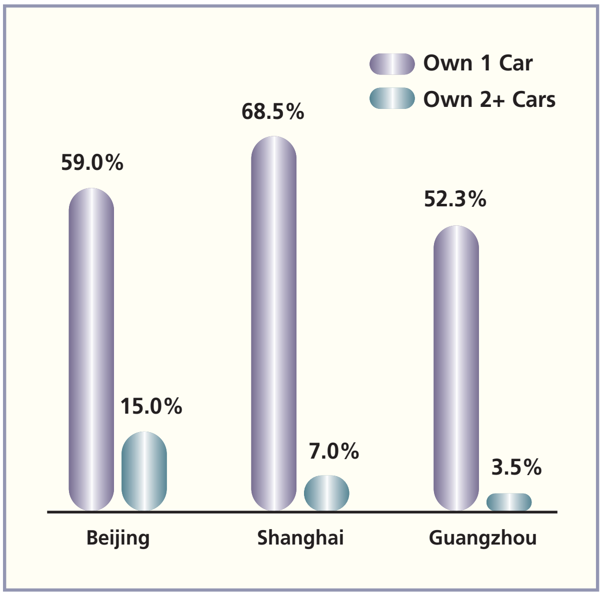


**Chart 4**
**Automobile Ownership**




## Most Preferred Automobile Brands

The vast majority of affluent consumers of China are also automobile owners, as shown in Chart 4. Shanghai has the highest automobile ownership, with 68.5% owning one car and another 7% owning two or more. But, at 15%, Beijing has the highest ownership of two cars or more.

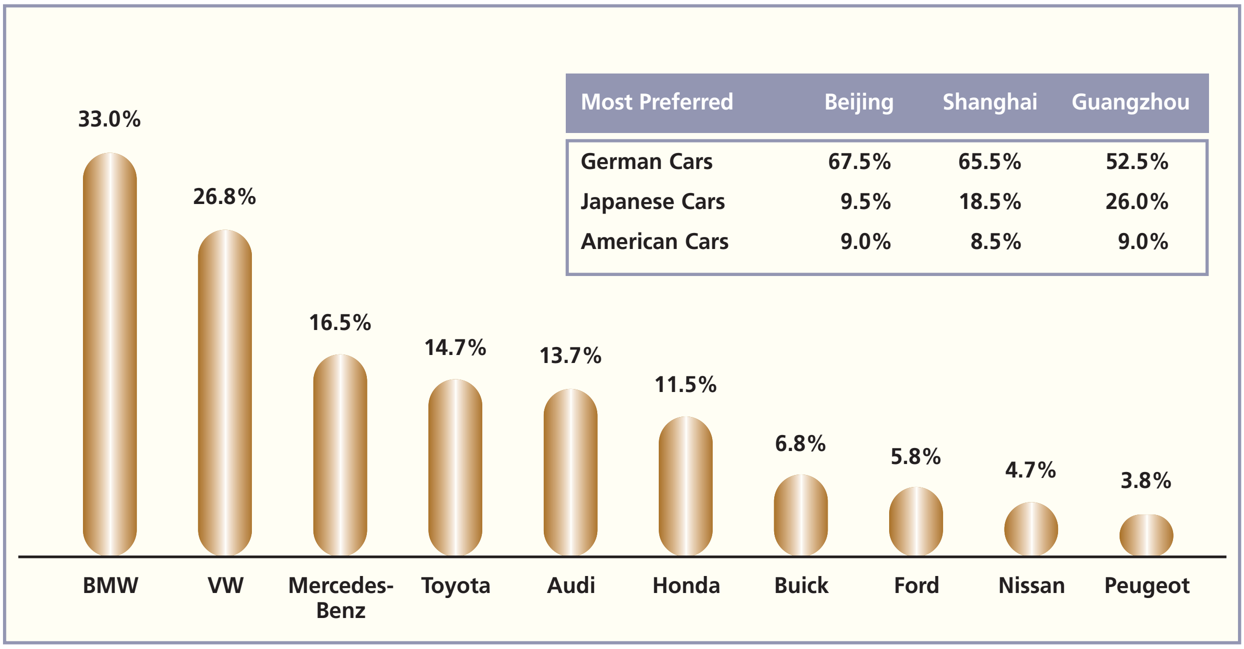
The most preferred automobile brands are indisputably foreign. In fact, all of the ten most preferred automobile brands listed in Chart 5 are foreign brands.[2] BMW, VW, and Mercedes-Benz, all German brands, are the top three brands. In fact, German automobile brands enjoy the highest level of preference in all three cities; followed by Japanese and American automobile brands in distant second and third places.

## Most Preferred Consumer Electronics Brands

The dominant mobile phone brand is Nokia, commanding 67.7% of affluent consumers preferring it as Chart 6 shows. Samsung, in second place, commands only 18.8%; followed by Sony Ericsson at 17.3% and Motorola at 16.2%. Only one domestic brand made it into the top ten, and that is Lenovo at 10th place, with 1% of affluent consumers preferring it.

Chart 7 shows that IBM has the dominant position as number one brand in notebooks, preferred by 45.9% of the affluent consumers. Sony, Lenovo, HP and Dell come in at second, third, fourth and fifth places.

**Chart 5**
**Most Preferred Automobile Brands**




| Most Preferred | Beijing | Shanghai | Guangzhou |
|---|---|---|---|
| German Cars | 67.5% | 65.5% | 52.5% |
| Japanese Cars | 9.5% | 18.5% | 26.0% |
| American Cars | 9.0% | 8.5% | 9.0% |

**Chart 6**
**Most Preferred Consumer Electronics Brands**

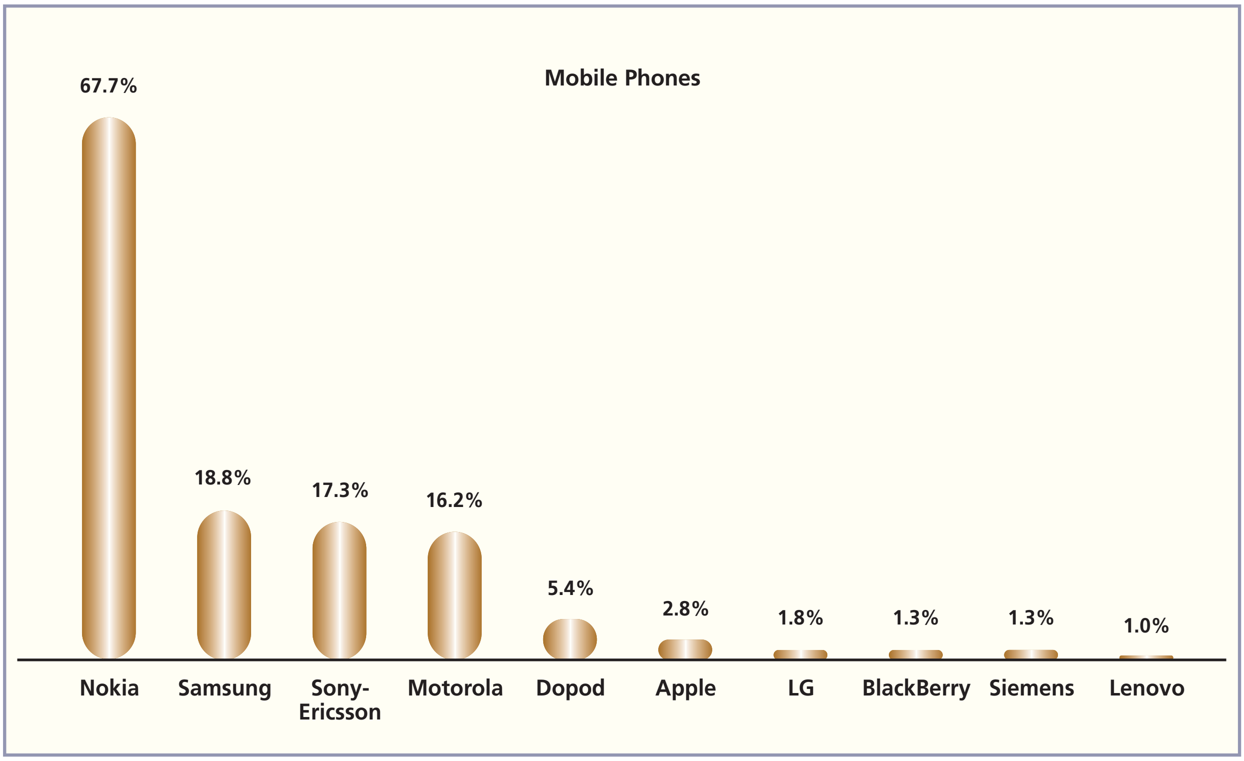



**Chart 7**
**Most Preferred Consumer Electronics Brands**

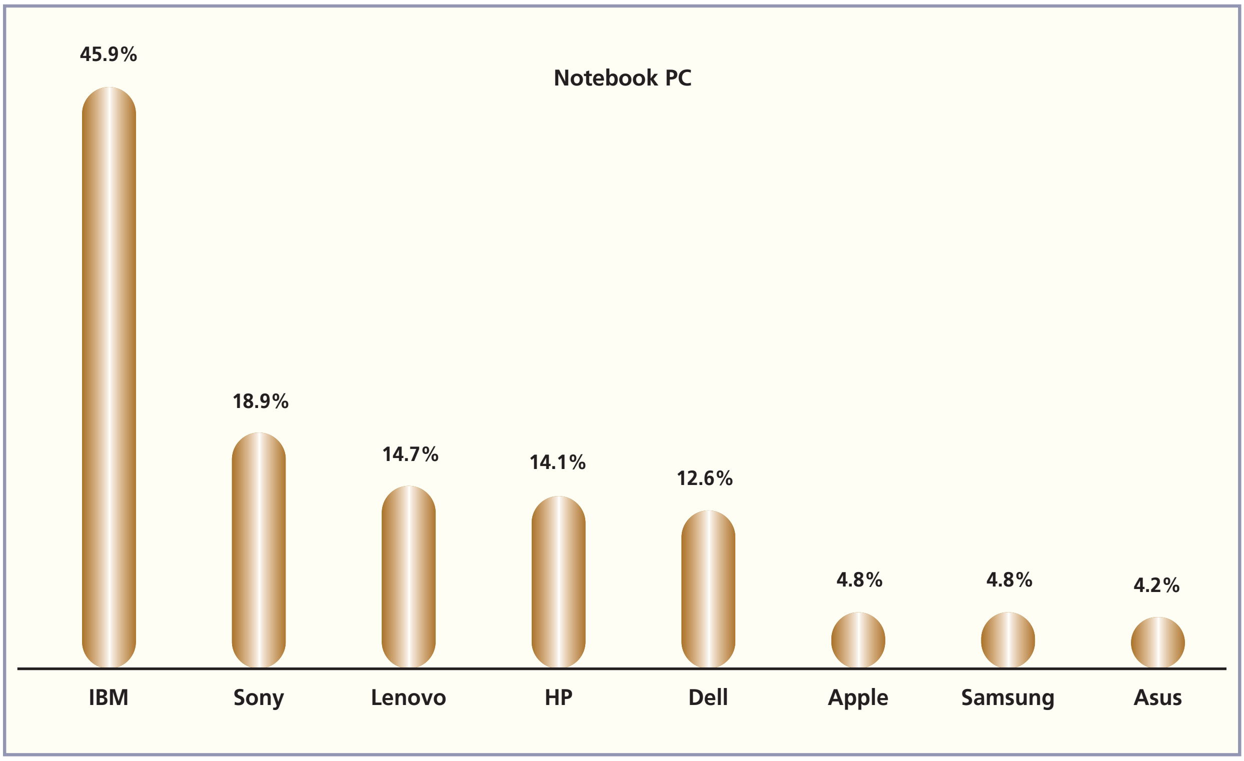
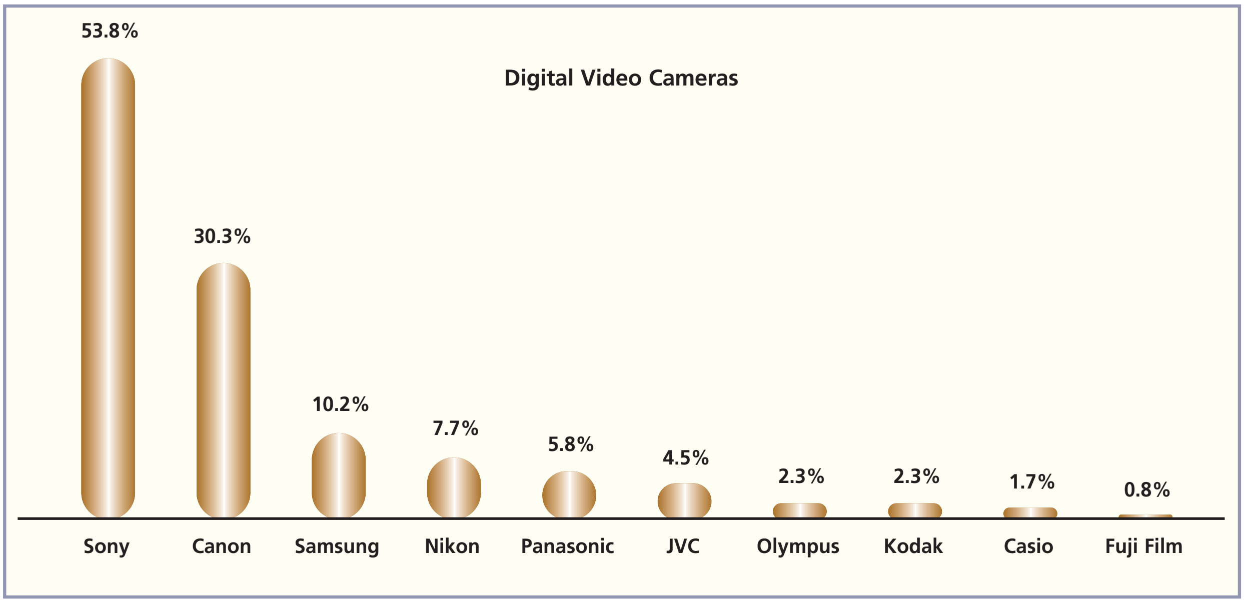


**Chart 8**
**Most Preferred Consumer Electronics Brands**




For digital video cameras, Sony has a distinct lead as the number one brand, with 53.8% of the affluent consumers preferring it, as shown in Chart 8. Canon follows as a preference for 30.3% of consumers. Samsung comes in third with 10.2%.

For digital cameras, Sony edges out Canon in the first place with 40.2% of affluent consumers preferring it versus 39.2% for Canon as seen in Chart 9. The preference level for the third place brand, Nikon, drops sharply to 17.7%. At fourth place, Samsung is even lower at 9.7%.

**Chart 9**
**Most Preferred Consumer Electronics Brands**

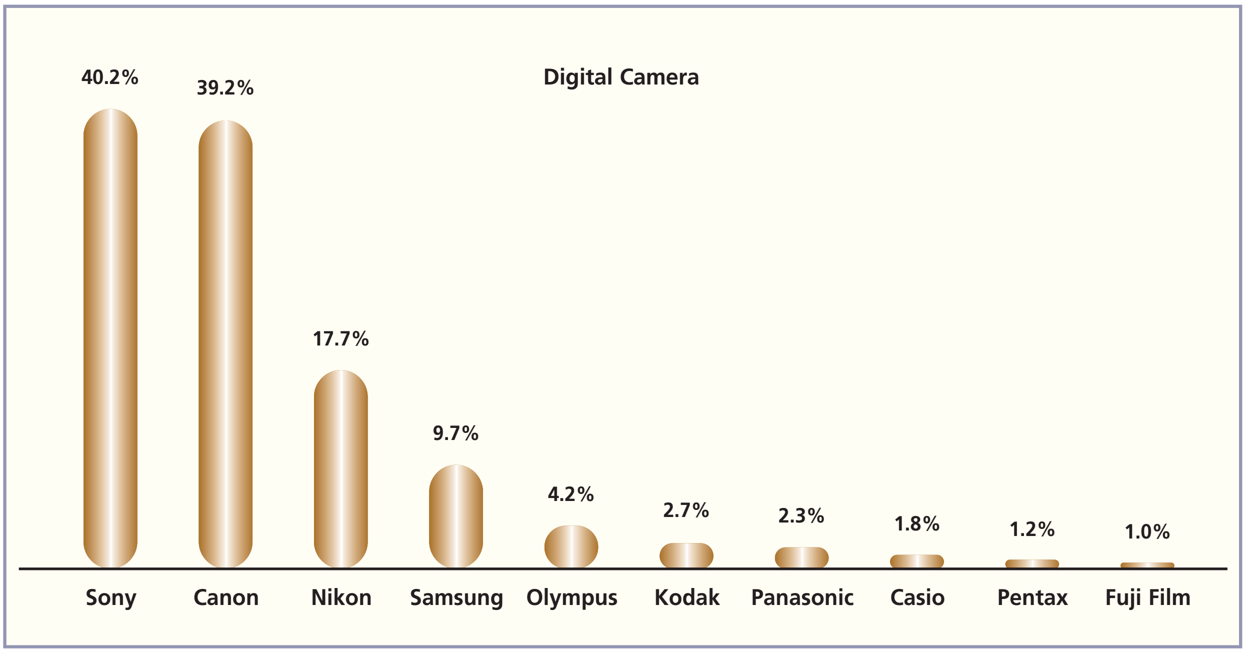
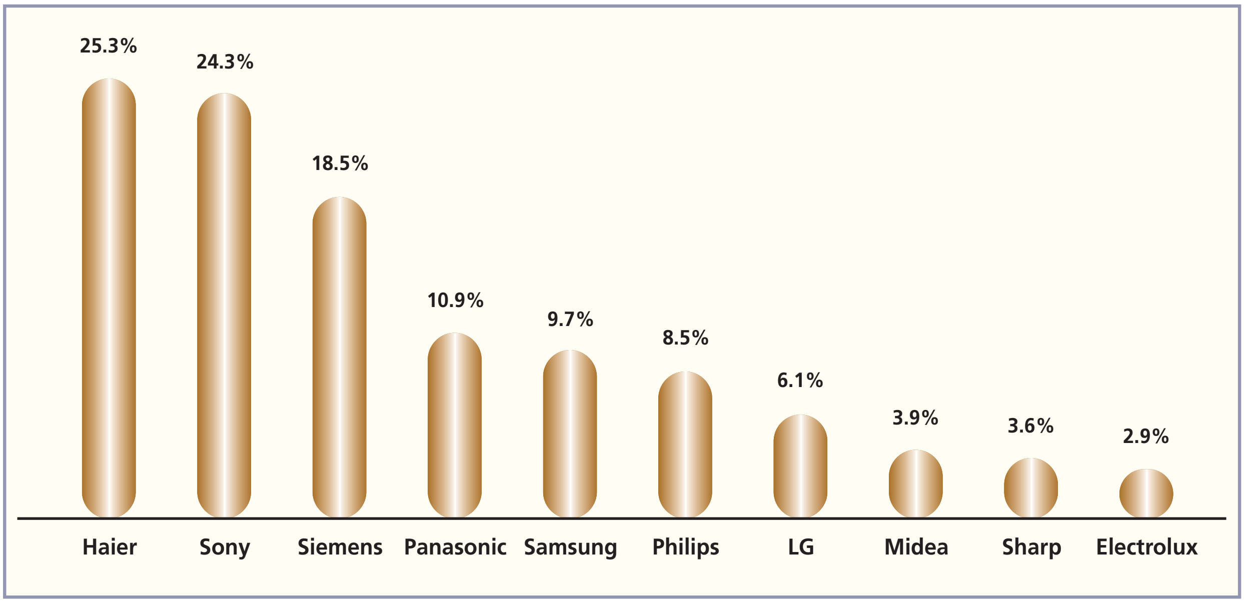


**Chart 10**
**Most Preferred Household Appliance Brands**




## Most Preferred Household Appliance Brands

Chart 10 shows that one domestic brand and one foreign brand are basically neck and neck in competing to be the preferred brand in the household appliance market. Haier, a domestic Chinese brand, edges out Sony for the first place, preferred by 25.3% of affluent consumers versus 24.3% for Sony. This is clearly a hotly-contested market, and, unlike consumer electronics, the leading brands are by no means dominant. This is also one of the few segments where a domestic Chinese brand leads.

## Most Preferred Watch Brands

Rolex is the leading watch brand as Chart 11 shows; followed by Omega and Longines. Two Japanese brands, Citizen and Casio, rank fourth and fifth. Two other Swiss brands, Tissot and Swatch, placed sixth and seventh; followed by Rado, Cartier and Seiko.

**Chart 11**
**Most Preferred Watch Brands**

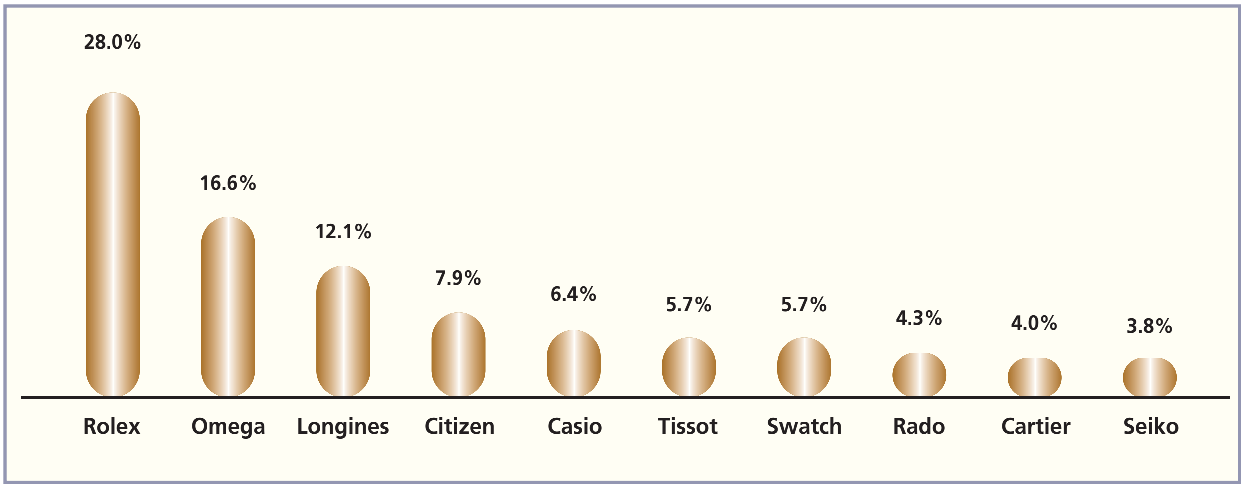
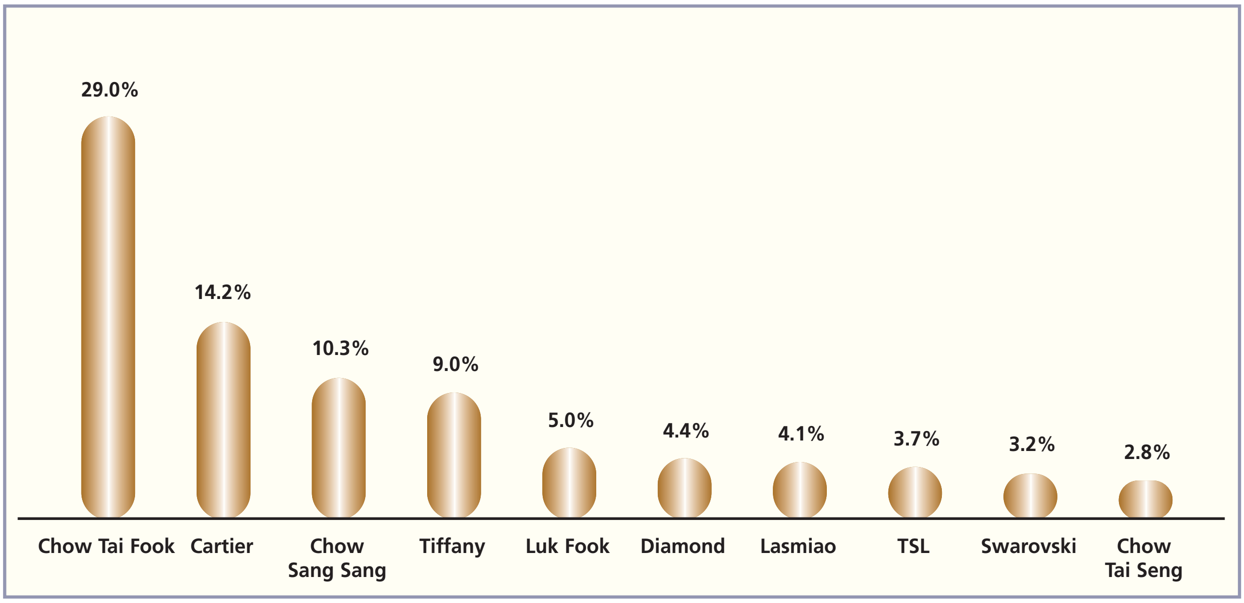


**Chart 12**
**Most Preferred Jewelry Brands**




## Most Preferred Jewelry Brands

A Hong Kong jewelry retailer, Chow Tai Fook, has a commanding lead as the number one brand— preferred by 29% of affluent consumers, as shown in Chart 12. Cartier, a foreign brand, is in second place with 14.2% preferring it. Another Hong Kong jewelry retailer, Chow Sang Sang, is in third place. This is one segment where foreign western brands are not in dominant positions.

## Most Preferred Fashion Brands

Foreign brand dominance is unmistakable when it comes to fashion. As Chart 13 shows, all 10 leading fashion brands are foreign, with Chanel and Giorgio Armani vying for the number one brand position. Chanel edges out Giorgio Armani with a preference level of 15.3%, marginally higher than the latter's 15.1%. Gucci follows with 11.4%. Again, unlike the situation in consumer electronics, there is no single dom-

**Chart 13**
**Most Preferred Fashion Brands**

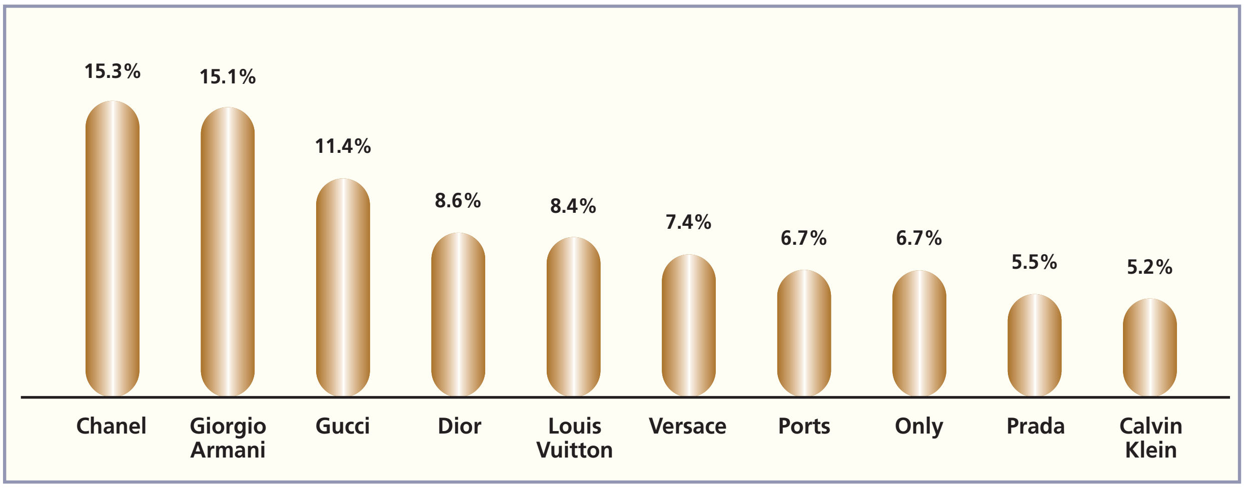
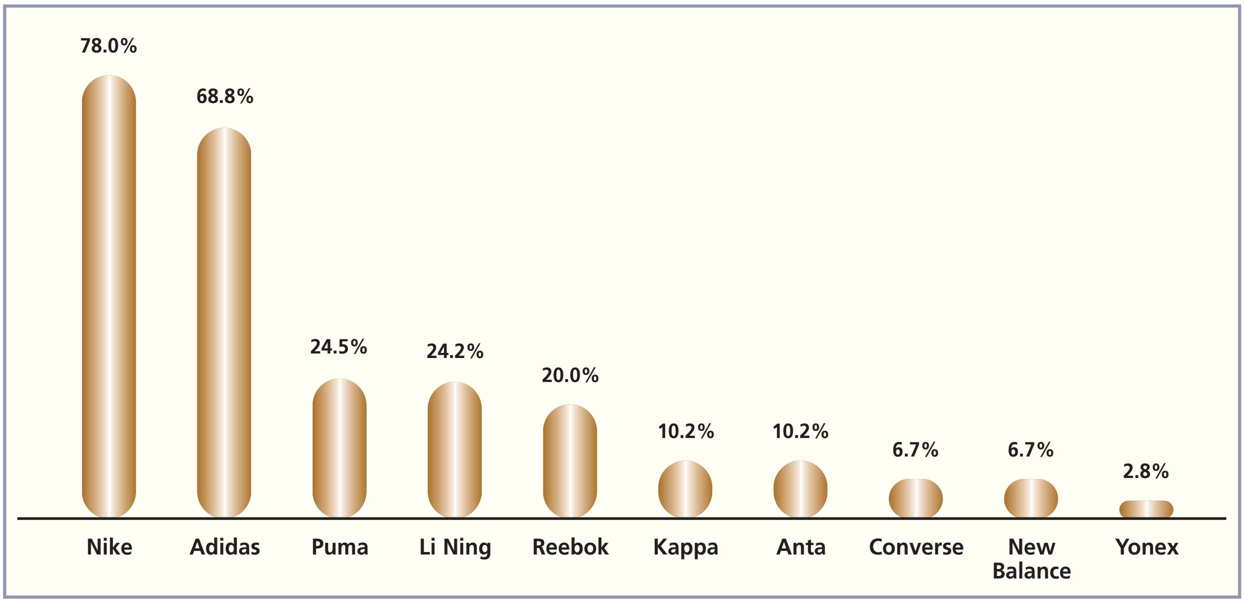


**Chart 14**
**Most Preferred Sportswear Brands**




inant brand in this market, reflecting a dynamic market that is still developing fast.

For sportswear brands, Nike and Adidas lead with preference levels of 78% and 68.8% respectively, as shown in Chart 14. Puma comes in a distant third with 24.5%. A domestic Chinese brand, Li Ning, however, is in fourth position, trailing Puma by only 0.3%.

For sports footwear, Nike is again in the number one position preferred by 51.5% of affluent consumers. As Chart 15 shows, Adidas follows in second place with 37.4%. Li Ning is in third place with 22.2% preferring. The Beijing Olympics may help domestic Chinese brands like Li Ning gain marketshare.

### Most Preferred Airlines

The affluent of China are keen travelers. As reported in previous research[3], in 2006 some

**Chart 15**
**Most Preferred Sports Footwear Brands**

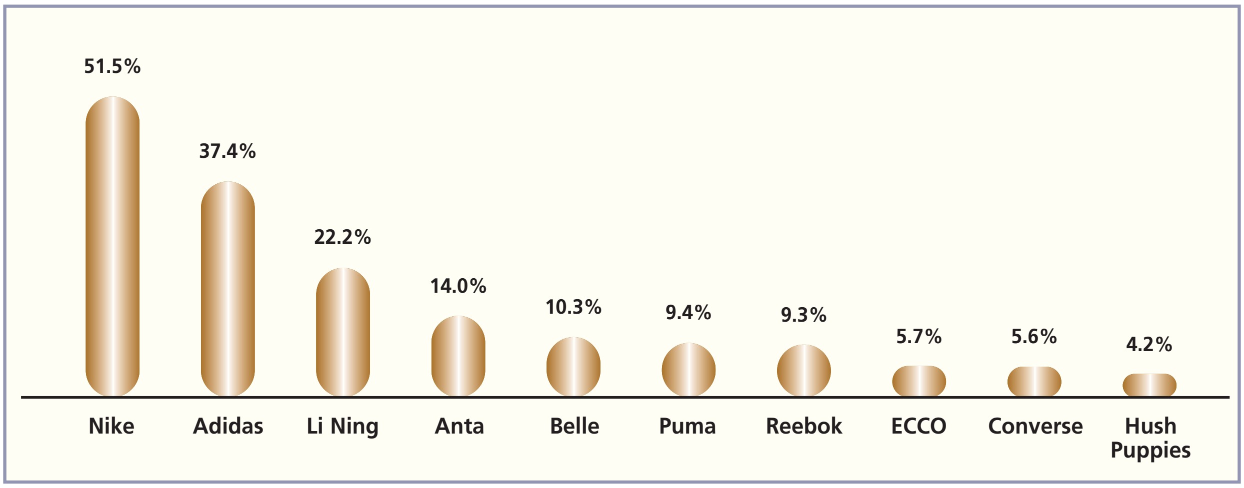
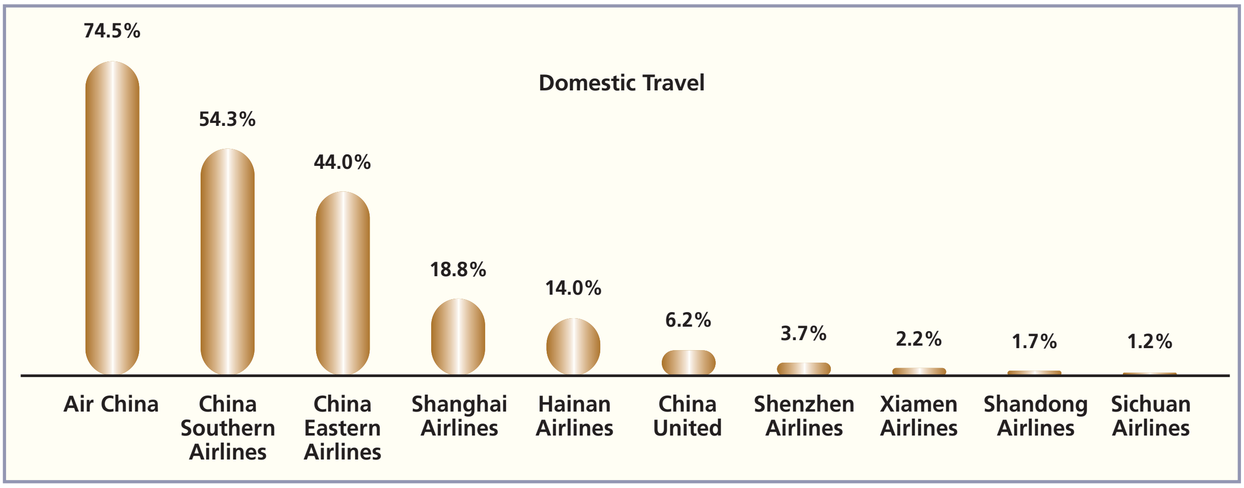


**Chart 16**
**Most Preferred Airlines**




56.5% of the affluent consumers in China traveled domestically one to two times; 33.5% between three and six times; and 9.8% more than eight times. As Chart 16 shows, for domestic travel, Air China is the number one brand preferred by 74.5% of the affluent. China Southern Airlines and China Eastern Airlines are in second and third place, preferred by 54.3% and 44% of the affluent respectively. Not surprisingly all ten top brands for domestic travel are Chinese airlines.

China's affluent consumers are also keen international travelers. In 2006 some 47.7% of them traveled overseas one to two times, 21.8% three to four times; and 8.2% more than five times.[4] Again, Air China is the number one brand, followed by China Southern Airlines and China Eastern Airlines. But domestic Chinese airlines do not have a monopoly in this market. Singapore Airlines is ranked fourth with a preference level of 8.9%; and ANA, a Japanese airline, is ranked sixth. As this market becomes more open to foreign competition, foreign airlines will certainly compete more aggressively with domestic Chinese airlines in the future.

**Chart 17**
**Most Preferred Airlines**

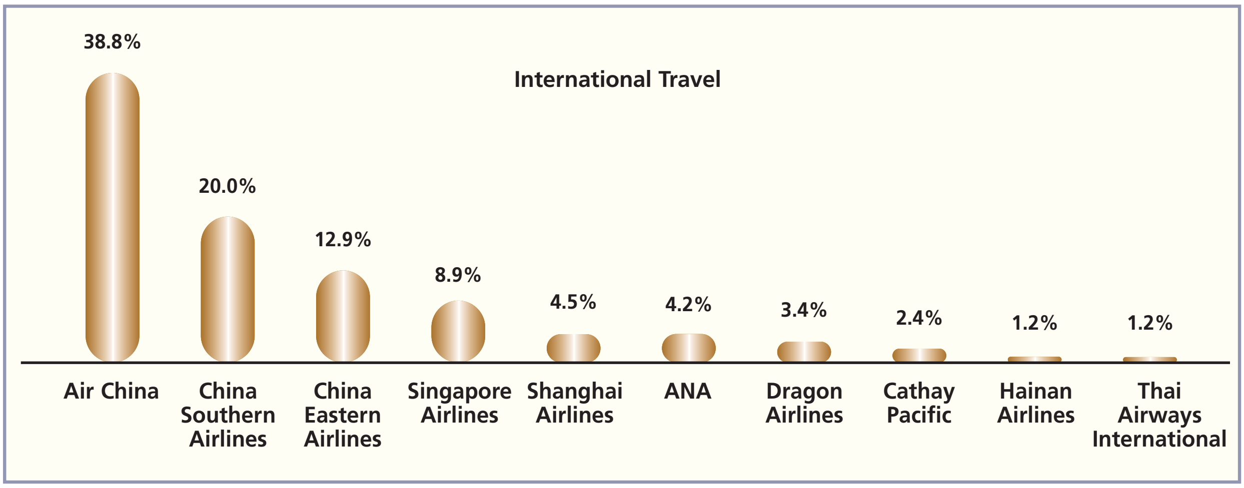


**Chart 18**
**Most Preferred Airlines**

| For US Destinations | | For European Destinations | |
|---|---|---|---|
| Air China | 14.3% | Air China | 18.5% |
| United Airlines | 4.7% | Lufthansa | 5.3% |
| American Airlines | 4.5% | Air France | 4.2% |
| China Southern Airlines | 3.5% | China Southern Airlines | 4.0% |
| China Eastern Airlines | 2.2% | China Eastern Airlines | 3.5% |

For US destinations, Air China is again the number one brand, but United Airlines and American Airlines are now in second and third place. For European destinations, Air China remains the number one brand, followed by Lufthansa and Air France in second and third place.

## Most Preferred Chinese Liquor Brands

Chart 19 summarizes the brand positions of the leading Chinese liquor brands. Wu Liang Ye is the top brand, preferred by 57.8% of affluent consumers; followed by Mao Tai with 53% preference. While Wu Liang Ye is the number one brand in Beijing and Shanghai, Mao Tai occupies the number one place in Guangzhou, reflecting perhaps a difference in taste between northern and southern China.

## Most Preferred Wine

The consumption of wine is a relatively recent lifestyle trend in China, but is fast becoming popular, especially among the affluent. As Chart 20 shows, French wine enjoys a powerful dominant position, preferred by 80.7% of affluent consumers in China. In distant second place is

**Chart 19**
**Most Preferred Chinese Liquor Brands**

| Most Preferred | | |
|---|---|---|
| Beijing | Wu Liang Ye | 51.0% |
| Shanghai | Wu Liang Ye | 68.5% |
| Guangzhou | Mao Tai | 56.5% |

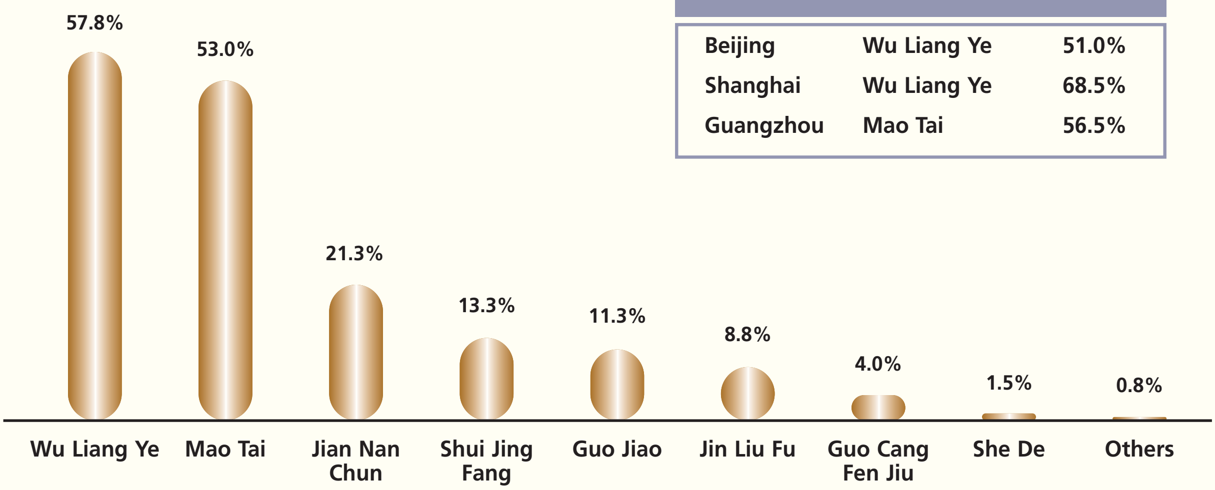
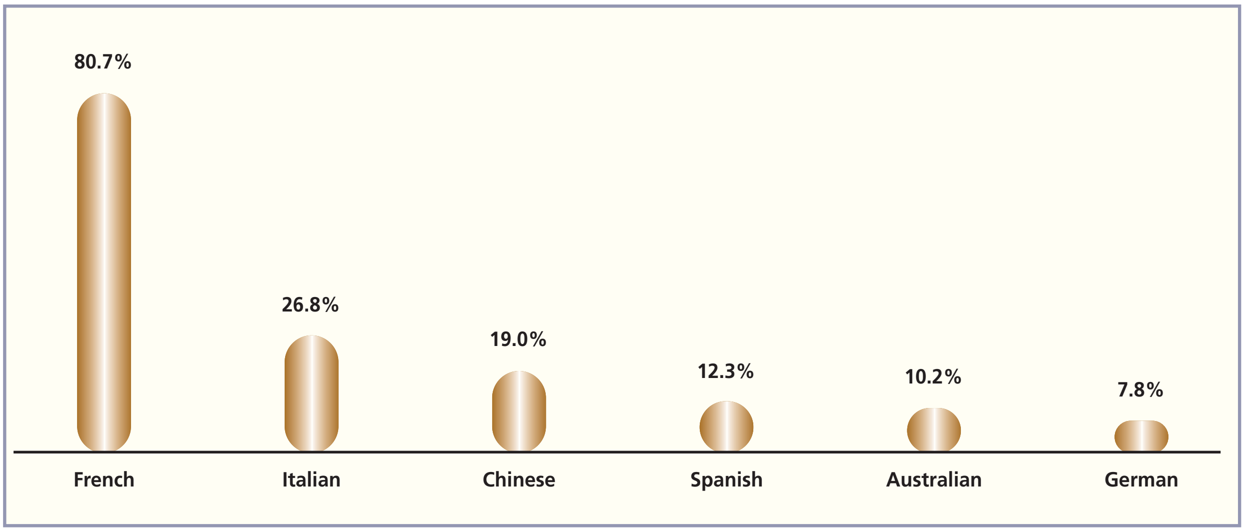


**Chart 20**
**Most Preferred Wine**




Italian wine, with 26.8% preferring it. Surprisingly, Chinese wine ranks third, at 19% preference, substantially ahead of Spanish, Australian and German wines.

### Most Preferred Foreign Liquor

In terms of foreign liquor, Hennessy is the number one brand, preferred by 47.5% of affluent consumers. Remy Martin is in second place with a preference level of 35.5%. Chivas Regal and Martell vie for third place, with Chivas Regal edging out Martell at 28.2% preference, versus 26.3% for the latter.

### Most Preferred Shopping Locations and Venues

Hong Kong is the undisputed number one shopping location, preferred by 49.7% of affluent consumers. As Chart 22 shows, home cities in China are the most preferred after Hong Kong. Shopping locations in Europe come third, followed by those in Southeast Asia and the US.

**Chart 21**
**Most Preferred Foreign Liquor**

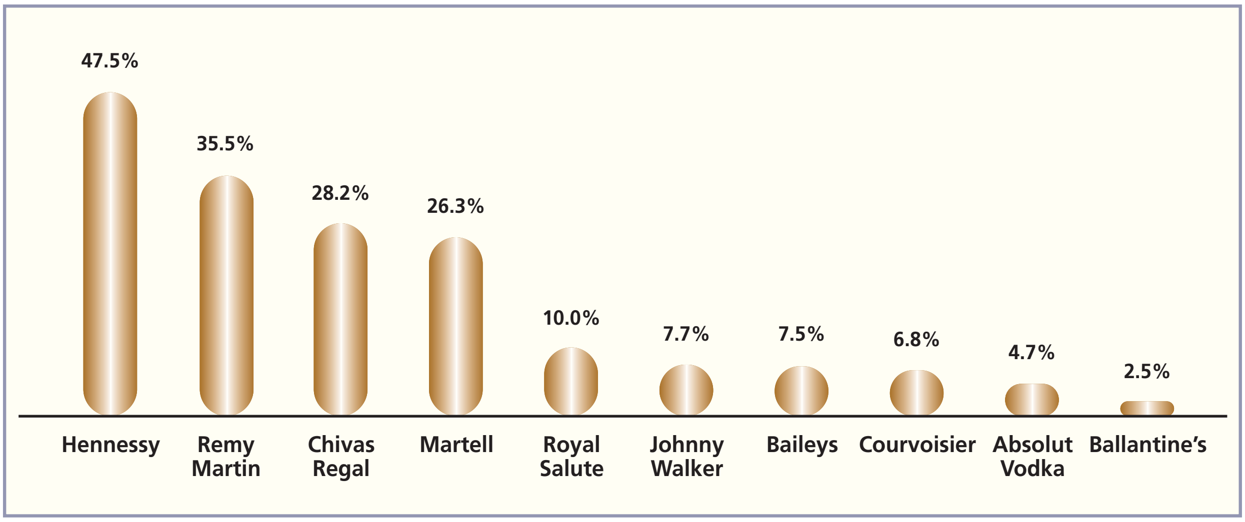


**Chart 22**
**Most Preferred Shopping Venues**

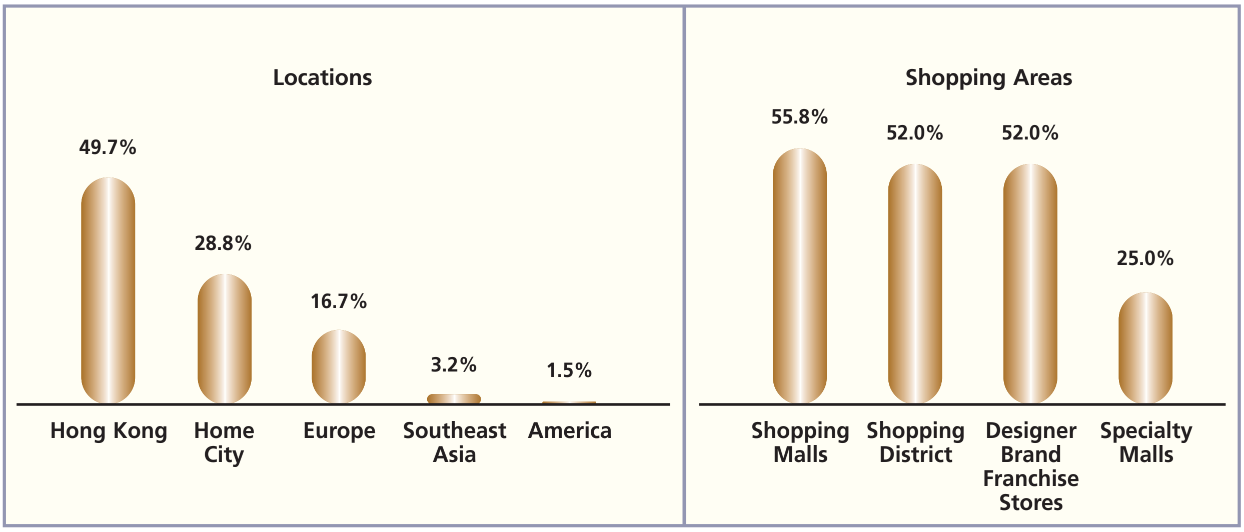
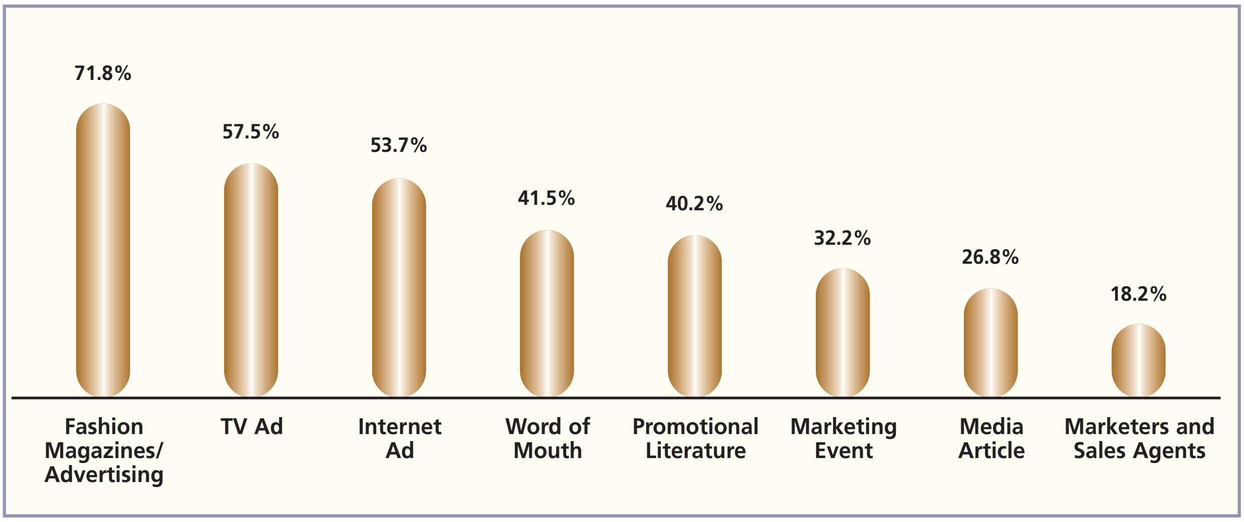



Chart 22 shows that the most preferred shopping venue is shopping malls, favored by 55.8% of the affluent. Shopping districts and designer brand franchise stores come next; both are preferred by 52% of the affluent consumers. Specialty malls are in fourth place.

Finally, for information on where to shop, fashion magazine advertising appears to be the most powerful medium, preferred by 71.8% of the affluent consumers, as shown in Chart 23. This is followed by TV advertising, with a preference level of 57.5%. The Internet comes in a close third, with 53.7% preferring it. Word of mouth, in the form of recommendations from friends, is in fourth place, preferred by 41.5%. Promotional literature produced by retailers, in fifth place, is surprisingly effective, with 40.2% preference. Special marketing events are also relatively effective, occupying sixth place, preferred by 32.2%. Media articles and recommendations from marketing and sales agents bring up the rear in seventh and eighth places respectively.

**Chart 23**
**Information Sources for Shopping**



# Appendix A:
# Research Methodology

Field research was conducted by the China Economic Monitoring and Analysis Center in the second half of 2007 in Beijing, Shanghai and Guangzhou. Random surveys were carried out in city centers and key shopping malls; and only those respondents with an annual income exceeding US$16,000 per year are included in the data analysis. A total of 600 qualified samples were collected in each of the three cities. Details of the samples are summarized as follows.

**Income Distribution**

| | |
|---|---|
| **Mass Affluent**<br>Annual Income US$16,000 - US$50,000 | **75%** |
| **Affluent**<br>Annual Income Above US$50,000 | **25%** |

**Gender Distribution**

| | |
|---|---|
| **Male** | **56%** |
| **Female** | **44%** |

**Age Distribution**

| | |
|---|---|
| **Under 30** | **24%** |
| **30 to 50** | **69%** |
| **51+** | **7%** |

**Education Distribution**

| | |
|---|---|
| **University Degree and Above** | **82.3%** |
| **Junior College and Less** | **17.7%** |

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1. See Appendix A for details of research methodology.
2. Many are made in China, however.
3. Insights Report: MasterCard Worldwide Index of China's Affluent. MasterCard Asia/Pacific. 3Q 2007.
4. Insights Report: MasterCard Worldwide Index of China's Affluent. MasterCard Asia/Pacific. 3Q 2007.

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