

Golden Oldies

China Discovers Its Silver Generation as a Massive Consumer Group

By Ingo Bollmann

The demographic development of China's ageing population is following that of Europe's but with some years' delay, and if we can believe the media, with dramatic effects. Whereas reasons for the development of the ageing population in countries such as Germany, Italy and Japan are found in social and economic patterns, in China the Silver Consumer is primarily the result of the one-child policy. China's elderly make up an extremely large target group for consumer product producers and they cannot be defined as clearly as an age pyramid shows.

Who then are these elderly people? How many are there? What do they do? These are key questions regarding China's Silver Consumers. Income distribution is very inhomogeneous in China and fundamental cultural differences make a direct comparison with other countries difficult. The Western European 50-plus generation, for example, spends a relatively large amount of money on quality shopping and casual activities like fitness and travelling, while the nascent Chinese Silver Generation is busy providing for their children's and grandchildren's education and in completing their own professional careers. When the two groups are compared, a few major differences emerge:

- Western European incomes are rather homogeneous, but there are massive discrepancies between the incomes of Chinese urban and rural populations;
- Dissimilar health care systems lead to different health risks. For instance, early diagnostic and preventive examinations common in the EU are not yet widespread amongst the Chinese rural population;

- Differences in the savings ratio lead to substantial dissimilarities in everyday consumer behaviour;
- Chinese sense of community and family differs from the European sense of individuality.

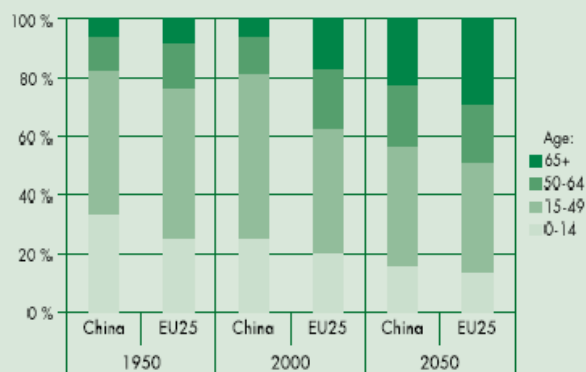
The number of Chinese over the age of 50 is likely to reach 600 million people by 2050. While this development may turn out to be problematic in social terms, it will, however, bring about great economic opportunities.

Income and Savings

Urban incomes in China are showing considerable growth with an ascending trend. Compared to the rural population, urban citizens earn 3.3 times as much on average today. Their average annual income of RMB 14,000 represents significant purchasing power. It must also be taken into consideration that incomes of the urban population on China's east coast are twice as much on average as those residents of more inland second tier cities. The lion's share of the roughly ten million Chinese with a yearly income of over RMB 120,000 lives on the east coast of China.

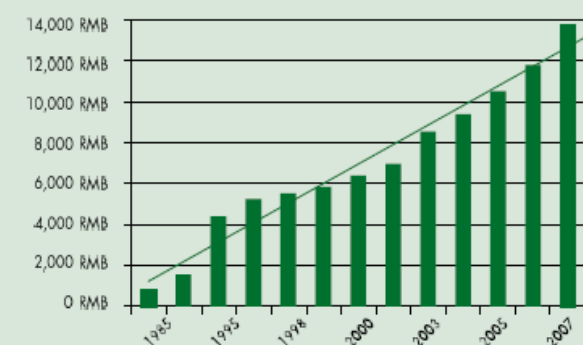
Chinese people's savings' rate amounts to a remarkable 45 per cent and it is on the increase. Important differences as to why Chinese people save money can be easily explained: Generally, they save money with concrete plans to spend it, but the Silver Generation saves for two major reasons. Firstly, they save for their children and grandchildren (especially for their education) and secondly, for their own old age and medical care. Again it is important to note that the savings ratio between urban residents and the rural population differs, because in cities the provision of social

Relation between Population Progression of EU25 and PR China, 1950–2050



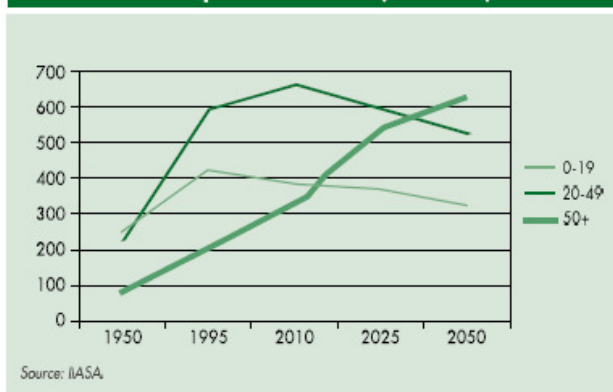
Source: World Population Prospects: The Revision (2005)

Progression of Annual Income among Urban Inhabitants in China



Source: Statistic Office PRC China

Trend in China's Population Structure (in millions)



services such as health insurance and pension tends to be better than in the countryside, not to mention much higher salaries. Among those savings that are targeted for major purchases, buying a home and a car takes first place in China.

Changing Consumer Behaviour

Thus far, the 50-plus generation has played a minor role as an independent consumer group in China, whereas the Silver Consumers of the West who own a large portion of property and represent an extremely attractive target group economically, have been highly appreciated and flattered for a long time. This is reflected by the large number of target group names in marketing lingo: 'Gold Generation', 'Silver Generation', 'Silver Consumers', 'Best Ager' and 'Master Consumers' are just a few examples. This target group definition is still in its infancy in China, although there are very often television advertisements for vitamins, ginseng and medicines presented by a friendly grey-haired person in a suitable outfit. However, a specific target group definition and its specialised products – with the exception of the pharmaceutical sector – are still scarce, all of which have a direct impact on the daily consumption habits of the elderly.

A large proportion of Chinese consumers over the age of 50 spends about 20 to 40 per cent of its disposable income on everyday consumption (excluding special purchases), e.g. household articles, cosmetics, medicines and clothing.



Approximately 10 to 20 per cent of disposable income is spent on proprietary products for both Westerners and Chinese. Cosmetics play a prominent role. Beauty, after all, is a virtue and, as such, is most important. In the 'Silver Lady's' bathroom, Western products are to be found for special events and Chinese ones for daily skin and hair care. Most ladies who can afford to also spend an astonishing amount on clothes, shoes and accessories. The Chinese aged spend a considerable amount on dietary supplements and on somewhat effective medicines. Better processing and a higher degree of quality are expected and awaited, especially in the case of proprietary products. For that purpose, higher prices are accepted and paid. But direct product advertising plays less of a role in the selection of brand products than the recommendation of others and the image of a producer or a producer country which leads, as opposed to the West, to regular exchanges in brands when purchasing proprietary products. For big purchases such as cars, size and status are the most important criteria: the bigger, the better. Thereafter, aspects such as brand and comfort come into consideration.

For the elderly more than for the younger generation, savings are of great importance. Special investments such as purchasing a car or a home are only made after a long savings period. Although funding possibilities and loans for such acquisitions are now available, the down payment and credit interest are significantly higher than in most Western

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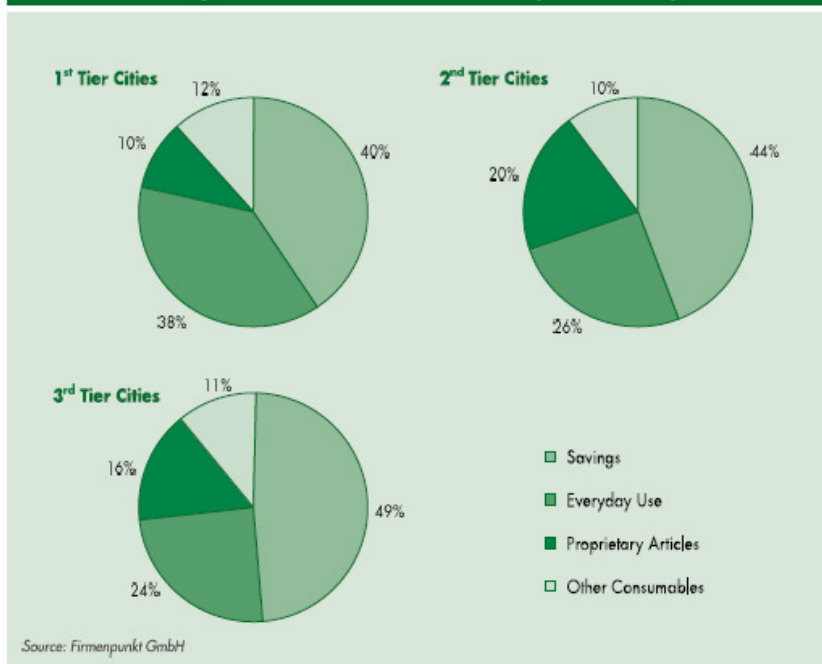
"You see things as they are and ask, 'Why?'
I dream things as they never were and ask, 'Why not?'"

George Bernard Shaw (1856-1950)

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Use of Resources by Private Households in China's 50-plus Urban Population



countries. In this regard, there is a considerable difference in the purpose of such purchases. Silver Consumers in the West use their savings primarily to meet their own demands, while the Chinese spend savings predominantly on their children so that the next Silver Generation might enjoy greater financial freedom. Increasing prosperity has brought significant changes in the daily consumption habits of all age groups which has also had an effect on Silver Consumers. Steadily rising incomes, sustained economic growth and an increasingly positive self-image have led to a priority shift in the saving behaviour and consumption habits of Chinese consumers. The legions of good and better earners of today are the Silver Consumers of tomorrow. And their number is growing, not only in percentage terms, but also in actual figures. These future Silver Consumers are equally receptive to Western and Chinese products and brands. To renounce for the sake of renouncing is largely unknown and their

desire to consume is great. They have more money than previous generations and they want to and can spend it – a novelty in recent Chinese history.

The problem, however, remains how to address current and upcoming 50-plus consumers in China. The common approach to specific customers usually lies between awkward and overwhelming. Electric blankets, ginseng and vitamin products presented by ageing promoters will soon be an ill-suited way of winning this interesting target group. Special advertising for the elderly, coupled with target group-oriented shopping centres are probably not a solution either, as failed trials in Western countries have demonstrated. No senior citizen wants to go shopping in a department store especially for old people, only to feel even older. The Western trend

that age is not an accumulation of years, but a matter of perception is steadily spreading in China. A basic rule for targeting older consumers is that while their needs must be taken into account in the offer, they must not be specifically referenced. Even in China, where in contrast to the European youth craze ageing is not a stigma, this simple rule is helpful.

Current and future elderly consumers occupy a significant share of China's consumer society. Due to increasing economic opportunities and constantly evolving and improving living conditions, an invaluable consumer group is developing. Western manufacturers of proprietary goods who miss developments in China – as they initially did in Europe – will not get a second chance this time around, as Chinese competition is already discovering Silver Consumers' potential. ■