

CHAPTER 1

From Feudalism to Fendi

China is often talked about and understood in the media, in boardrooms, at consultancies (present company included), and at design houses through the use of mind-blowing statistics, superlatives, and clichés. Some of them are true, some embellished, some misunderstood, and some are just misleading.

Getting past the hype, hyperbole, and superlatives, we need to ask and answer some real questions. When did China start to consume en masse? Who's winning? Who's losing? What role do foreign companies have in the boom? What role do domestic Chinese companies play? What can the world learn from China? What can China learn from the world? Is it a zero-sum game? What do we really know and understand about super consumerism in China? Where are its cultural and historic roots? What patterns of China's long economic history are being repeated or amplified? What patterns are brand new?

Also, when did Westerners first realize the potential importance of Chinese consumers? When did they start dreaming of selling their best wares to the largest population on Earth? Prior to the past 30 years, did any of them crack the market and succeed?

Let's start with two incontrovertible facts. First, China is really big and really old. As such, the nation's sense of itself is both intense

and deeply embedded. Western firms that overfocus on the country's twentieth century political history—that see the behaviors of Chinese people as a response to or backlash against communism—are missing the bigger picture. China has been a major world power and an economic superpower several times in its long history. Second, it needs to be said—and let it be said here with no ambiguity—China isn't a Johnny-come-lately on the world scene, suffering from a lack of sophistication and ready to embrace whatever the West brings. China knows itself and will embrace what is consistent with its self-image.

Still, at the dawn of the twentieth century, most parts of China were operating as feudal economies. Thirty years ago, after socialist construction of basic infrastructure from 1949 to 1979, there was still virtually no consumer economy. But by 2013, China was seen as the world's top market for luxury goods. So, how has China moved, in the past 100 years, from feudalism to Fendi? What happened that Chinese society gave rise to hundreds of millions—or even, as James McGregor named them in his seminal 2005 book—*One Billion Customers*?

The first part of this book will explain the history, culture, and mind-set that shaped China's super consumers. The second part will define who they are and why, where, when, and how they buy. It will also chronicle the stories of the executives, companies and brands from around the world, and China, who have succeeded in understanding and selling to China's super consumers.

Back to the Future

So, what does it look and feel like when the balance of trade, commerce, and power in the world you once knew no longer exists? What does it look and feel like when the globalized world that you just got used to—China as the world's factory, America as the wallet—turns 180 degrees?

What does it look and feel like when the Chinese Dream becomes reality and China super consumers change the world?

It *looks* like Yan Wu, a 28-year-old advertising executive from a small village on the Yellow River—now living and working in Shanghai—arriving at the Jing An Temple Starbucks at eight o'clock in the morning to buy her prework coffee. She walks to the counter in her

Michael Kors shoes. She is wearing a stylish, sheer Zara blouse (hanging loosely over her Levi's jeans) and she is carrying a Tory Burch handbag.

She takes a 100 RMB note from her Fendi wallet, pays about 33 RMB (more than \$6) for her latte, and sits down at an empty table. She applies some eyeliner that she bought at the Sephora flagship store at Nanjing West Road over the weekend, washes down some GNC vitamins (bought at the new Shanghai GNC at Raffles City), and spends the next 15 minutes checking email, texting on WeChat, and buying a new skirt on Tao Bao—all done on her domestically made HTC phone.

It looks and feels like a force of nature, a once-in-a-century tsunami of change that is rippling across the ocean, crashing onto shore, and rolling into the executive suites and boardrooms of companies of all shapes and sizes, from all over the globe, and rolling back out again to wash away the world as we know it.

It looks and feels very much like the era of Globalization 1.0 (roughly 1978 to 2008) is over. In fact, it feels like what is happening must be Globalization 2.0, where China's importance is not as a manufacturing center, or even as consumer market, but as a place that sets the standards for speed and effectiveness in distribution, retail, digital and mobile marketing, branding, and design. It feels like an era where companies from around the world have to rethink and reset their strategies according to who and where their newest and most important customers are, where to make goods, and how to deliver them on a global basis, because the 1.0 models don't apply anymore.

If it looks and feels like the perfect storm of rising wealth, urbanism, globalism, and hyperconsumerism, all helped along by favorable government policies, that's probably because it is.

Ms. Yan and hundreds of millions of people like her are today's super consumers, drawing the world's investments, people, brands, and focus to the shores of the Middle Kingdom. Consider what changes came to the world's manufacturers and marketers the last time a class of super consumers emerged. The baby boomers of America changed the twentieth century; what they wanted and bought, the rest of the world wanted and bought. The brands they liked expanded worldwide, spread American soft power globally, and helped usher in what came to be called the American Century. Are we now living at the dawn of the Chinese Century?

Chinese Consumption: What's Old Is New Again (Tenfold!)

Historically, China has been the world's economic superpower. If we wanted to create a controversy, we could find the data to argue that the past 400 years of Anglo/European dominance in science, technology, and sheer economic power as share of global GDP, are not a historical inevitability, but an anomaly from a longer-established pattern of Chinese economic dominance.

Counterintuitively, throughout most of China's history (even when it was a dominant economy and regional power) there was not a large consumer class focused on spending on wants and needs. There was the Imperial Court and the civil servants (often called mandarins) who ran national, regional, and local capitals, and a small military and commercial elite. Beyond that there was nothing we'd call a consumer class. People traded for and bought food and the essentials of work, family, and survival. There was a bimodal distribution of income—a tiny blip of elites at the high end, and a huge mass of poor, illiterate labor at the bottom.

Even in recent Chinese history, Chinese consumerism was but a dream, dreamed by both aspiring buyers and frustrated would-be sellers. In the twentieth century, from the founding of the People's Republic in 1949 until the mid-1980s—when Deng Xiaoping's early reforms allowed more trade and sale of manufactured goods—consumer culture in China did not exist.

For most of these four decades, all manufacturing, trading, and distribution was handled by state-owned enterprises (SOEs). They made and moved goods between producers and the people. The term *consumer* can't really be applied, because there was virtually no retail, no surplus income, and no choice. Nothing from outside China was legally sold and bought. In urban China, ration coupons provided grain, meat, and oil to work units to which everyone was attached, either as a worker or as a family member. Liquor, beer, and soap came in one brand—whatever was made locally. And items that were for sale were cheap. We're talking 20 cents for a bowl of noodles, 30 cents for a bowl of draft beer. Everything else—crackers, yarn, and bicycles—were sold by state-owned department stores.

Nowhere after 1920 was Henry Ford's maxim that "You can buy a Ford in any color you want, as long as it's black" truer than in China. Do you want your Mao suit in blue or gray?

Had our archetypical super consumer, Ms. Yan, been alive at any time between 1949 and Deng's first reforms, she'd have been assigned to a work unit at a state-run company, living in housing administered by her work unit—with others from that work unit—and eating her daytime and perhaps evening meals with her colleagues at the unit cafeteria. These would not have been choices but rather the sole manner for economic and social viability.

Her wardrobe would have consisted of five or six simple jackets, hats, and pants—in gray, green, or navy—hand-knit sweaters, cloth shoes, no makeup, uncomfortable undergarments, and a canvas bag. Her only drink would have been tea; TCM (traditional Chinese medicines) would have been her vitamins. Even if makeup had been available, she would not risk seeming bourgeois, anti-revolutionary, or spiritually polluted by wearing it. With no legal imports of consumer goods and no private enterprise, a factory organized on the principle of utilitarian production for the Chinese people would make up every material object she encountered.

The idea of an economy based on the consumption of goods and services, not production—the idea of dreams of comfort and not utility—was unthinkable. The socially conning effects of three decades under Mao would fade gradually through the 1980s and early 1990s.

Considering that private telephones of almost any kind were nonexistent until the late 1980s and private ownership of a car only became possible in the mid-1990s, considering that the streets of Beijing, Shanghai, and most Chinese cities are thronging with people driving cars and using smartphones, considering that Shenzhen did not exist as an actual city in 1985, and that there were donkey carts on the streets of PuDong in Shanghai until the mid-1990s, we ought to ask ourselves what happened that made such a fast transformation possible? What is the commercial infrastructure that made it happen? What is the psychology of the hundreds of millions of people, like Ms. Yan, who have experienced a rocket trip from poverty to posh, from feudalism to Fendi?

The timeline, roughly, proceeds as follows. About a decade and a half after the fall of Mao, China had a nascent retail sector, some taxicabs, some privately owned small restaurants and clothing shops, and numerous other ways to consume that essentially had not existed for 40 years.

In addition to some early foreign-style shopping experiences, the development of private industry and market-based employment was

exploding in the 1990s. Large numbers of Chinese began to find themselves with disposable income, and they were looking for places to spend it. Beijing was the earliest location for foreign engagement, so it had the earliest foreign-invested retail outlets: the Lufthansa Center, the Lido shopping center, and the Saite. These were where foreign-made cosmetics and electric razors, imported suits, and toasters could be acquired. Small businesses were opening, private corporations were forming and operating, and foreign investment was flowing in. Non-Chinese food became available outside of hotels. Hong Kong-invested Maxim's opened some locations in Guangzhou. In Beijing, the Baskin-Robbins ice cream store, operating in the state-owned Friendship Store, was the earliest foreign-branded restaurant.

By 1994, China's first foreign-invested shopping centers were under construction in Shanghai as well as Beijing. In apparel, Nike and the Hong Kong brand Giordano, Canadian-in-exile garment brand Ports, and Italy's Ermenegildo Zegna were among the retail pioneers to open single-brand, stand-alone storefronts. They did so working with determination and creativity—based on their massive investment in local expertise—within the strictures of a regulatory regime that very clearly prohibited foreign participation in retail and distribution.

In 1999, when the first Starbucks opened in China, the cities of Shanghai, Beijing, and Shenzhen each had about five large shopping centers filled with counters selling merchandise made by foreign and domestic companies—almost always private rather than state-owned producers. Carrefour had figured out how to open hypermarkets that sold bread and wine, duvets, and kitchenware. The transition from feudalism to Fendi was beginning.

China's Growth Is Different

While China is not the world's only developing country with a fast growing, increasingly wealthy population that is making more and spending more, it is by far the largest and most important.

From about 2002 until 2010, millions of words were written in newspapers, magazines, and books about the dual rise of the Indian and Chinese economies and the important role the consumers of both countries would play in shaping their domestic and world economies. It wasn't long ago that Tiger-versus-Dragon cover stories were a regular

occurrence, and business conferences were organized around BRIC or emerging-market clusters: Brazil, Russia, Indonesia, Vietnam, and South Africa. There has long been conversation among economists and trend watchers as to which countries should be watched as major movers in global growth, development, trade, and consumer culture.

But, as the dust has settled, only China has kept growth at extraordinarily high levels, and only China has produced a new breed of super consumer.

We asked Janet Carmosky, a lifelong China hand whose passion is explaining the relevance of history and culture to commerce, why. Why China? She says, “China’s prosperity is a direct result of the power, the depth and energy, the fluidity, the resilience, the inclusiveness, and the intelligence of the Chinese culture. The collective memory of this culture tells them to hunker down when necessary—for as long as necessary—and to make hay while the sun shines. Right now, the sun is shining.”

About the pace of change in the business landscape and the habits of consumers, Carmosky says, “China has enormously deep cultural roots, like the tap roots of trees that can survive in the most arid of climates. These roots both define the nation’s essential identity, as it has evolved over millennia, and allow for very quick adaptation. As long as the change is compatible with cultural identity and values, it can take place virtually overnight, and on a massive scale.”

China business years can be like dog years: Fifty-two weeks can transform the business and consumer landscape in ways that would take half a decade in the United States or Europe.

From our perspective as business consultants in China, it boils down to fewer words: Your China strategy has a six-month shelf life; after that, it stinks.

Therefore, some key lessons regarding the market are:

- History, mind-set, and culture should be your guide.
- Nonstop innovation and change are a must.
- Your brand/product/service/company story matters but must be contextualized for China.

While we hope you find all of the information, history, stories, facts, and figures in this book to be interesting and useful, we have especially

high hopes that the stories of the brands, companies, and executives who found, and in many cases created, the formula for successful branding, distribution, and selling to China's super consumers will be of particular use. There is no better way to understand the Chinese consumers and engage them than by listening to and learning from those who have done it—both Chinese and foreign.

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