



CAP Strategic Research: White Paper 6

Researching High Net Worth Individuals in China



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Introduction

China, because of its huge population and rapid growth rate, has to be viewed as the world's most exciting market and the very rich – High Net Worth Individuals (HNIs) - living in China represent a wonderful opportunity for luxury brands – and any other company seeking to take advantage of this massive opportunity.

According to consulting firm Bain & Co's recent survey, China is the world's second-largest market for luxury brands *when counting purchases by Chinese consumers world-wide* and is set to overtake Japan for No. 1 in a few years. Chinese sales of luxury products surged 20% to €9.2 billion (\$12.1 billion) last year, Bain said.

China is poised to become the world's largest market for luxury goods by 2020, according to a new report from investment research group CLSA Asia-Pacific Markets.

As such, with so many Western luxury brands scrambling to attract these wealthy Chinese consumers, it is important for them to understand and very importantly to know how to survey these important audiences. This White Paper shows the way forward – it is based on the research experience of our senior executives who have lived and worked in mainland China for many years.

1. How do we define High Net Worth Individuals in Mainland China?

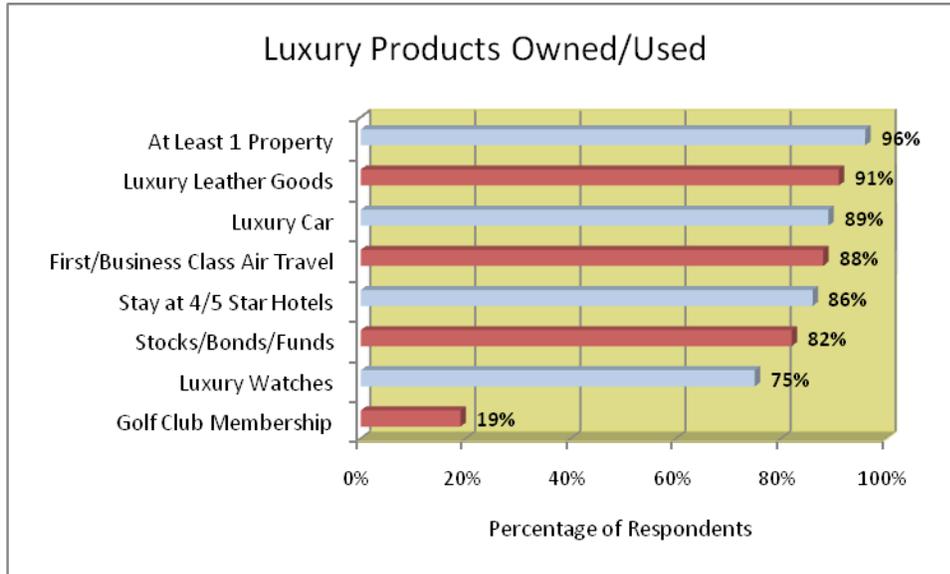
Traditionally, when we conduct research in Asia, Europe or US, we usually define target respondents for our surveys based on their personal or household income and/or some measure of asset holdings. Some researchers like to look at the top 10%, 20% or 30% of personal incomes and some would look at their personal liquid assets in the bank account. This varies with different markets.

In mainland China, the sources of income for a person are multiple – people do not just rely singly on their official monthly salary. The average monthly income in key cities such as Beijing, Shanghai and Guangzhou is approximately RMB 5000 – 7000 (US\$760 – US\$1060). The sales commissions, rebates from suppliers/vendors, gifting during key festivals such as Chinese New Year, Mid-Autumn Festivals, National Holidays, etc. that may not be reported officially, all contribute to “income”. Therefore, it may not be accurate if we define HNIs based on their personal income in China. Moreover, given that income is a sensitive topic, affluent people may not be willing to disclose their sources of income.

Moreover the “black” market in China is very important and many millions of people enjoy substantial income flows that are outside official statistics. As a result countless numbers of consumers with apparently low incomes are substantial purchasers of luxury items

As such, we recommend defining HNIs in China based on their consumption behaviour rather than their income or assets. Of course, the respondent criteria will vary with different categories that we want to research.

The example below shows how we recruited Chinese Luxury Travellers.



Some further examples are:

Premium Cosmetics Brand Users:

Office ladies, aged 25 – 40, who have purchased any premium cosmetic brands such as Dior, Chanel, Estee Lauder, Lancôme, Clinique, Shisedo, etc. in the past 3 months

Priority Luxury Sector

Mainland Chinese, aged 30-45, who owns some of the following –

- Properties worth RMB 1 million and above
- Premium sedan such as BMW, Audi, Mercedes Benz, Lexus, Porches, Maserati, Bentley, etc
- Luxury watches such as Rolex, Tudor, IWC, Mont Blanc, Dunhill, Cyma, Bvlgari, Cartier, Rado, etc.
- Golf club memberships
- Liquidity assets worth RMB 1 million and above

2. Where are these HNIs located/Which cities should we cover in our surveys?

China is such a big market that HNIs can be found in many cities. Traditionally, most coastal cities are the richest, where HNIs can be more easily found especially Beijing, Shanghai and Guangzhou. However most Tier 1 cities (or Provincial Cities) are growing fast, with the rocketing economic development and determined political reform over the last two decades. Nowadays, it is not uncommon to see many commercial surveys cover both Key cities and Tier 1 cities.

Undoubtedly, the scale of the study or geographical coverage has to be determined by the objectives of the survey and of course timing and budget. It must be borne in mind that China is made up of more than 50 people of different races, distributed across many different geographical locations. Different areas have different cultures that need to be taken into consideration when planning for a survey since different cultures will result in different consumption and purchase behaviour – and response to interviews.

It would make sense for a first survey of China to concentrate on Beijing, Shanghai and Guangzhou. These are the key or largest cities in China representing North, East and South respectively, where HNIs can easily be found. If budget and timing are allowed, researchers could also think about extending the surveys to other Tier 1 cities such as Hangzhou (East), Chengdu (West), Wuhan/Changsha (Middle), Shenyang (Northeast), etc.

3. How do we recruit these HNIs and how do we verify their identity?

HNIs cannot be approached through traditional FMCG sampling methods such as random telephone, door-to-door, mall intercept etc. HNIs represent a small portion of the population of a city and thus require a combination of special recruitment methods such as snowballing, referrals, list purchase or panels. In other words, systematic sampling approaches do not apply when researching for this type of audience unless there is a full list or panel of HNIs available in the market – very rare.

The market research industry has been growing rapidly in China in the last decade. Thousands of local market research agencies exist in mainland China but not many of them provide strict quality control on data collection and verification of target respondents' identity. As such, it is very important to devote sufficient resources to monitor the quality of fieldwork, especially for HNIs.

Apart from applying the usual practice of quality control measures, e.g. screening by interviewer, second screening by fieldwork supervisor, tape recording, calling back to verify the data, it is also very important to verify the identity of HNI respondents. Given that these respondents are referred by fieldwork recruiters, it is possible that they are fake respondents. As such the majority of quality control resources should focus on respondent identity verification. So, how do we do this? Obviously, this will depend on what kind of categories we are researching. To be defined as 'HNIs' they should possess certain products or have purchased premium services.

They should be able to show you something related to the products or services that we are surveying. In other words, apart from asking the respondents to show you the receipts of product or service purchased and any identity certificate, it is also important to verify their 'knowledge' on the products by asking some 'intelligent questions'. To take an example, if we are recruiting luxury tourists in China, we would ask them to describe which airlines they use and the services they receive when flying business/first class, and to discuss the 5-star hotels they have used. Another example is that, when we recruit luxury brand car owners to attend for a car clinic exercise, we would ask the respondents to show: 1) their driving licence, 2) their luxury brand car and 3) Warranty cards, etc. Above all, we can also ask some other questions such as ownerships of luxury watches, properties, premium golf club memberships, etc. to determine if they are the required respondents.

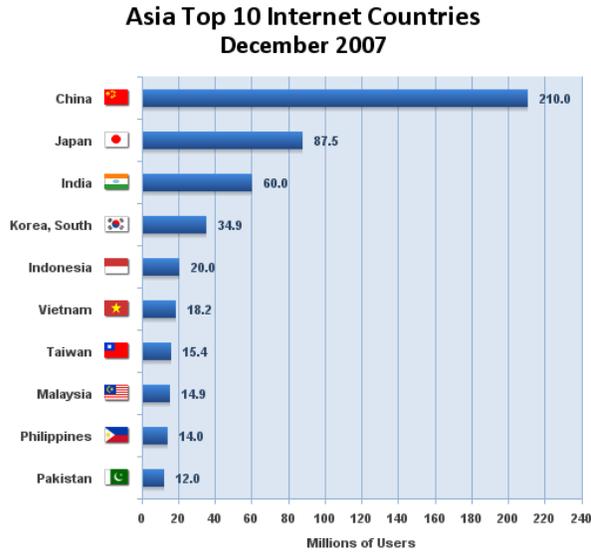
4. What kind of interview methods can we use?

Face-to-face interview is the most popular and feasible interview method in China, especially for BTB, government and HNIs interviews. It allows interviewers to administer the questionnaire with visual aids and a longer interview is possible - up to 40 minutes or even longer. However, the fieldwork costs are relatively high and, of course, it takes longer to complete fieldwork.

Telephone ownership and usage has grown rapidly in recent years, both fixed and mobile. As such telephone interviewing represents a very cost efficient method and samples can be obtained randomly through systematic sampling. Having said so, telephone interview usually doesn't work when interview lasts for more than 25 minutes. The longer the telephone interview, the higher the refusal rate is. Telephone interviewing also does not allow interviewers to show visual aids. Hence, it is not suitable for product, concept or ad tests.

Despite the fact that internet penetration in China, on average, is not as high as western countries, online surveys are feasible. In recent years, the number of internet users (who have accessed internet in past 6 months) has been increasing rapidly in the key cities and most of the Tier 1 cities (provincial capitals). According to Internet World Stats, the internet user population is already far greater than other Asian countries at end of 2007 (see Figure 1).

Figure 1:



Source: *Internet World Stats*

The latest report by China Internet Network Information Center (CNNIC) also shows that the population of internet users has reached 460 million (See Figure 2) and the penetration keeps growing rapidly (See Figure 3). Most internet users are aged between 18 and 40 years old and are mainly concentrated in the key cities and Tier 1 cities (See Table 1). This means that internet users represent a significant portion of population and that online survey is feasible in China, depending on the target respondents and geographical locations to be surveyed.

There is no single approach to interviewing HNIs in China, researchers will have to determine and justify based on the following;

1. Objectives of survey
2. Geographical coverage
3. Feasibility of recruiting and reaching target respondents
4. Budget and timing

Figure 2:

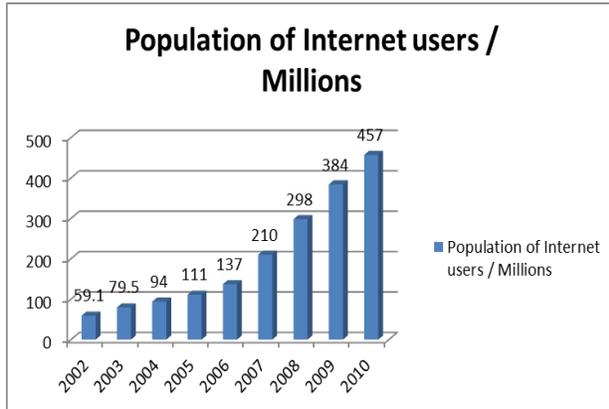


Figure 3:

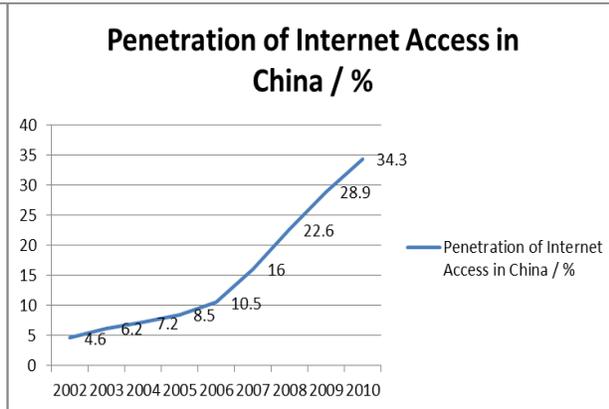


Table 1:

Cities	Beijing	Shanghai	Guangzhou	Hangzhou	Tianjin	Fuzhou	Shenyang	Nanjing
Penetration %	69	65	55	54	53	51	44	43

Source: CNNIC Report, 2010

5. Do we need incentives?

Although Chinese respondents are keen to talk and show off their status, incentives play an important role in conducting surveys in China, especially among HNIs. Cash is the most common type of incentive used to attract HNIs. To appeal to these important audience, usually we need to incentivize them by RMB 1000 (or US\$150), (To give you a reference this would be equivalent to one-quarter of the price of a pair of wing-tip Oxford brogues from Italian brand Salvatore Ferragamo). Sometimes it is essential to come up with a creative incentive, e.g. some respondents are enticed with invitations to a V.I.P event to test drive a luxury sports car with the catch being that they would have to sit through the 45-minute survey before the brand event would be unveiled.



ABOUT CAP STRATEGIC RESEARCH

CAP Strategic Research (CAP) provides market research services covering China, Hong Kong, Singapore and other Asia-Pacific countries. We have a successful track record of conducting surveys in Asia based on

- (i) many years of living and working in the region
- (ii) in-depth knowledge and experience of specific industry sectors and
- (iii) providing strategic insights and “actionable” recommendations from senior executives who know your industry, have extensive international experience and - very importantly - have an “understanding of business”. We have over 25 years experience of conducting research for clients based in China, Asia-Pacific Europe and the US. With offices in China, Hong Kong and Singapore we are ideally placed to meet your research needs in Asia-Pacific.

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