

# Canadian companies can't ignore China's new 'upper middles'

By Daniel Zipser, Mingyu Guan and Kar-Woon Choy  
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In less than a decade, Chinese consumers have become cornerstones of growth for many Canadian businesses. China is now Canada's second-largest trading partner; Chinese government sources estimate \$33-billion of Canadian exports flow to it every year.

Given the rapid growth of China's middle class, which increased by 160 million between 2010 and 2016, this trend shows no signs of stopping, particularly now with the emergence of a new generation of consumers – the upper middle class.

China's "upper middles" are sophisticated, knowledgeable and quality-driven, with annual urban household incomes of \$16,000 (U.S.) to \$34,000. By 2022, McKinsey Global Institute estimates that they, together with their more affluent counterparts, will account for 63 per cent of urban households and 81 per cent of urban private consumption. The upper middles are China's "new mainstream" – representing nearly \$3-trillion of urban private consumptions in 2010 real terms by 2022 – and they are the next big opportunity for Canadian companies.

Some Canadian firms have already started to capitalize on this. Take Toronto-based Imax Corp.: Its presence in China for more than a decade has enabled it to benefit from the upper-middles boom, as consumers become increasingly able to spend more of their disposable income on lifestyle services and experiences. The Imax theatre network in China has reached 407 commercial screens in 149 cities – with an additional 334 theatres to be added. In 2016 alone, Imax expanded its network by more than 40 per cent.

Many Canadian companies could benefit from several trends among this rapidly growing consumer segment. China's upper middles are:

**Shifting their spending from mass to premium.** Increasingly confident, 50 per cent of the upper middles today seek the best and most expensive products – a remarkable opportunity for Canadian firms that typically focus on the premium segment and many of whom are already "premium" leaders in such key industries in China as fashion, sports apparel and skincare;

**Embracing digital.** China is the world's largest e-commerce market, accounting for more than 40 per cent of the value of global e-commerce transactions. Chinese consumers have been adopting new products, services and retail experiences at rates unseen in developed markets. Mobile payment penetration has gone from zero in 2011 to 25 per cent of the population in 2015. Canadian firms will likely need to have a dedicated e-commerce strategy to establish themselves in China;

**Seeking international travel experiences.** In 2015, more than 70 million Chinese tourists explored the world. Not surprisingly, China is Canada's fastest-developing tourism market, expanding 24 per cent last year, according to travel-research firm Skift. Yet, the 610,000 Chinese tourists who visited Canada last year represent only a small portion of that 70 million. Canada has an opportunity to establish itself as an iconic travel destination for the adventure-seeking upper middles. In that spirit, the Canadian government has introduced initiatives to make 2018 the year of Canada-China tourism;

**Becoming more health conscious.** China's upper middles are eating healthier foods,

practising preventive health care and participating in sports. In 2010, there were 13 marathons in all of China; by 2016, there were more than 320. Many Canadian firms, including Vancouver-based Arc'teryx, an outdoor clothing and sporting company, are capitalizing on this trend. Arc'teryx's Tmall business has grown approximately 50 per cent a year since its 2013 launch on the Alibaba marketplace platform. Today, China is Arc'teryx's fastest-growing market;

**Pursuing a more family-focused lifestyle.** Seventy-five per cent of Chinese consumers define success as having a happy family, and 64 per cent say that “going shopping with my family is one of the best ways to spend time with them.” They are spending more time in shopping malls that combine shopping, dining and entertainment experiences for the entire family.

So, what will it take for Canadian businesses to successfully position themselves in China and reap the benefits of this remarkable \$3-trillion opportunity? They will need to focus on:

**Acquiring local market knowledge and expertise.** To achieve this, some firms have created joint partnerships with local counterparts, some have invested in recruiting local talent, and some have hired external experts;

**Creating a premium brand and well-defined value proposition highlighting quality and innovation.** A test-and-learn approach provides the necessary flexibility and creativity in designing a tailored offering that appeals to the upper middles' unique needs and gains their trust;

**Establishing a presence both online and offline.** With China's consumers leading the world in digital adoption, e-commerce will be key. Still, physical stores will remain important to complement the customers' experiences.

As China's upper middles continue to grow in both numbers and consumption power, now is the time for Canadian companies to act.

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