



Understanding China's Young Generation

The Value of China's Young Generation

Private car consumption has been rising in China for less than a decade. Hence, many carmakers have focused mainly on serving the urban-affluent consumers in China. However, if these carmakers continue to adopt this strategy, they risk missing the real opportunity – China's emerging middle class, which is unusually young and highly educated.

According to McKinsey & Company, China's emerging middle class will be unusually young – in the 25–44 age range – compared with that of most mature markets. For instance, in the USA, income generally peaks in the 45–54 age range (Farrell, Gersch, & Stephenson, 2006).

By 2025, this segment will comprise a staggering 520 million people – more than the total population of the USA or Western Europe – with a combined total disposable income of 13.3 trillion renminbi (Farrell, Gersch, & Stephenson, 2006). This segment could be defined as the middle class, with annual household incomes of 40,001 to 100,000 renminbi (Farrell, Gersch, & Stephenson, 2006). Considering that the current exchange rates and relative prices tend to underplay China's buying power, such people are consistently middle class by global standards. For example, a household income of 100,000 renminbi buys a lifestyle in China similar to that of a household earning \$40,000 in the USA (Farrell, Gersch, & Stephenson, 2006).

Then, moving back to China's car market, it seems youthful because the average age of a car owner is about 34 years. China's Internet-age Me Generation – born in the 1980s – has become the largest customer base of car consumption (SINOTRUST; Auto.Sohu.com, 2011). This generation's spending power has been redefining the Chinese car market, and it shows full enthusiasm for cars because car ownership leads to freedom, speed, and Internet-age friendship. The Chinese car boom could be considered as Facebook with automotive characteristics (Waldmeir, 2010).

Consequently, this research has defined China's young generation – those in the 18–35 age range – as the target group. It is notable that the vast majority of survey respondents belong to the Me Generation. For carmakers, on the one hand, gaining insights into the young generation is



essential for car sales in the short term. On the other hand, identifying the value to China's young generation plays a key role in endogenous market changes, business model design, and risk management.

Hit the Charming Target

Introduction

How can the enterprise reach its intended target? A new Customer Value Hierarchy Model (CVHM), which considers a company's product or service in terms of the customer's cognition process and cognition degree, may offer an efficient solution.

This model is integrated with the Customer Value Process Model and the Means-End Chain Model (Chen, 2007; Jonathan, 1982). Additionally, in order to describe the psychological cognition process from the generation of the psychological goal to achieving the goal by consuming behavior, this model can be divided into three categories:

- ***Desired customer value (DCV)***: Both qualitative methods – *focus group interviews* and *expert interviews* – and quantitative methods – *statistical hypotheses tests* – can be adopted to identify or derive the goals of the mobility concept for the target group. This may help enterprises to detect *value propositions* – the bundle of products and services such as newness, performance, customization, “getting the job done”, design, brand/status, price, cost reduction, risk reduction, accessibility, and convenience/usability – that create value for a specific customer segment – in the business model canvas.
- ***Expected customer value (ECV)***: The *maximum difference scaling approach* (MaxDiff) can be implemented to measure the preferences for the customer value elements. Generally, the customer value elements can be categorized into *functional customer value*, such as mileage and recharging of electric vehicles, *emotional customer value*, like the brand and the premium for environmental protection, and *economic customer value*, such as the payment of a premium for a lower total cost of ownership (TCO) and the total cost of ownership of electric vehicles. It may help enterprises to identify and plan *key activities* – the most important things such as production, problem solving, and



platform/network a company must do to make its business model work – in their business model canvas.

- ***Perceived customer value (PCV)***: *Conjoint analysis* can be used to measure the preferences for attributes and characteristics of electric vehicles, like model, brand, price, mileage, and charge. It may help enterprises to classify customers for identifying the different groups of people or organizations an enterprise aims to reach and serve in their business model canvas.

Consequently, the value to China's young generation from the E-Mobility Business Model, which originates from the Customer Value Hierarchy Model (CVHM), could be profiled.

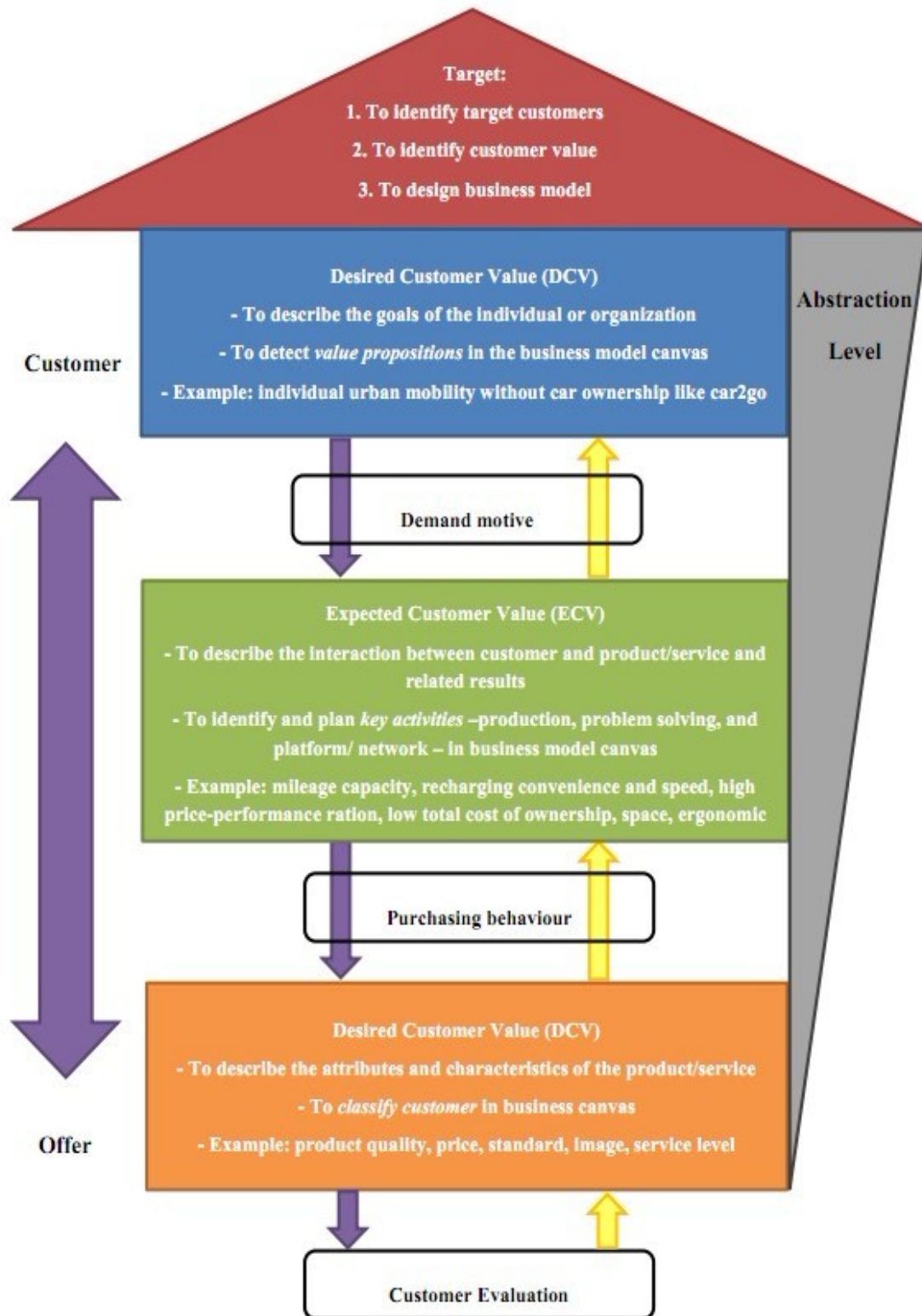


Figure 1: Customer Value Hierarchy Model

Source: Adapted from Chen, H. (2007, August). A new customer value hierarchy model. *Soft Science*, 21, 21-24.