

MORE THAN FIFTY SHADES OF GREY

CHINA'S AGEING POPULATION A CHALLENGE AND AN
OPPORTUNITY FOR THE REGION'S CONSUMER CORPORATES

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The world has witnessed China's spectacular growth in the past thirty years, but this formerly young and vibrant economy is now ageing quickly. China is struggling to keep pace with these changes, which are characterised by:

- Declining working population, as baby boomers hit retirement age and the historic effects of the "one-child policy" kick in*
- A public social security system under strain, as it pays retirement benefits for the elderly*
- Rising population of the "empty-nested elderly", living alone without the support of their child, who are likely to move to cities for job opportunities*

Whether the country is ready or not, this growing elderly population in China is an economic and social reality. The population will almost double to 455 MM by 2030, and consumption of products and services by the elderly is predicted to reach 100 TN RMB by 2050.

This background presents a substantial opportunity for those companies that are able to respond to three areas of potential growth.

- The desire of the elderly population to protect their health and financial well-being*
- Their wish to reduce the burdens on their family*
- Their eagerness to enjoy new experiences*

There is no one-size fits all solution here. China's elderly population is diverse – where they live, how they behave and how much wealth they have are all factors that need to be considered.

FROM GOLD TO GREY

China's rapid economic growth has been driven by a large and productive labour force. The baby boomers of the fifties and sixties began to prosper in 1979, under Deng Xiaoping's "reform and opening" policy. These demographic groups spent their most productive years working in factories and building businesses. The Chinese economy accelerated into an unprecedented 30-year period of GDP growth, which many simply describe as the "China Miracle".

The explosion of wealth in China has led to a rapid improvement in quality of life. Infant mortality has been on the decline since 1950, and life expectancy has risen to its highest level (76 years).

NO MORE REPLACEMENTS – FOR NOW?

The introduction of the one-child policy in 1980 occurred in parallel to the "reform and opening" of China's economy. The relative wealth of the baby boomers was directed towards the single child of the next generation, aiding the rapid rise in quality of life.

China is now at a critical junction. The baby boomers are at retirement age and exiting the workforce, while the one-child policy has stifled the country's ability to replace the labour required to staff "the factory of the world".

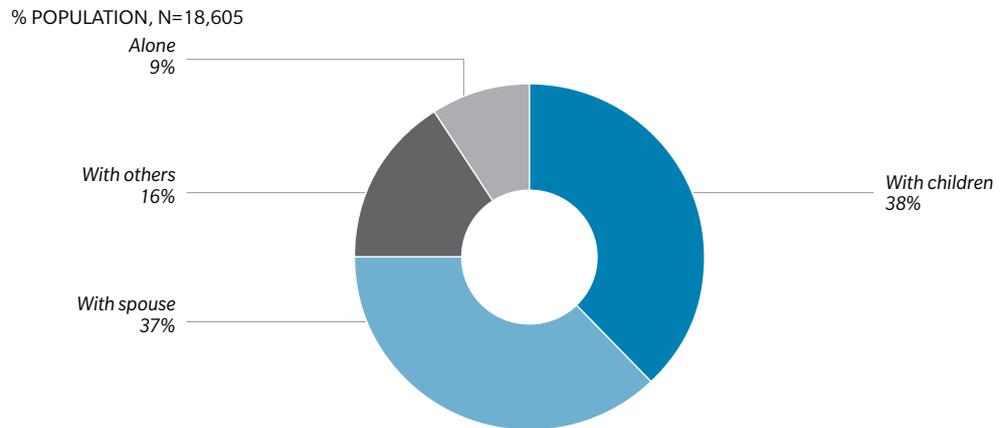
Currently, there are approximately 3.4 working adults in China for every elderly person aged 60 and above. By 2030, this dependency ratio will decrease to 1.5, meaning that the burden of the elderly on the working population will more than double. The "golden child" family model, where one child received the undivided attention of six adults (parents and two sets of grandparents), is about to undergo a dramatic U-turn.

This is a well-recognized and prioritized issue by the government, and it has attempted to rectify the situation by ending the one-child policy in October 2015 after thirty-five years. However, many experts believe its impact on the demographics would not be very significant in the short term, given the high costs to raise a child.

ALL BY MYSELF

China is experiencing a seismic migration of its working population, which is moving to larger cities in pursuit of greater opportunities. Because of this movement, older people are left behind in their home towns to live alone, an increasingly widespread phenomenon known as the “empty-nested elderly”.

Exhibit 1: Living arrangement, 2011



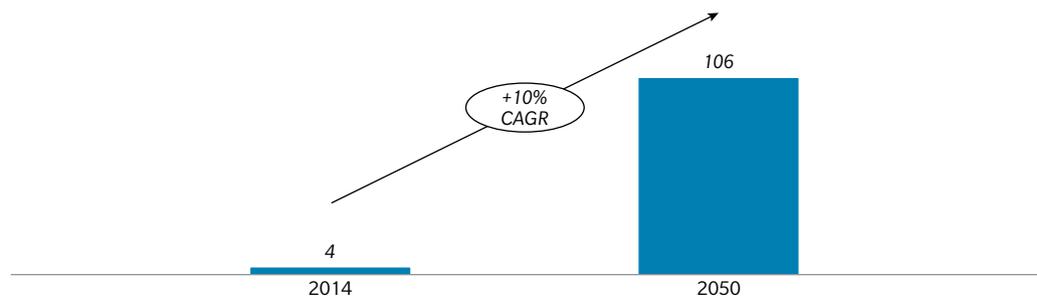
Source: CHARLS Survey 2011, Oliver Wyman analysis

GREY IS GOOD

Many have interpreted this trend as spelling doom and gloom for China. However, we believe it could represent an opportunity if companies act to capture opportunities offered by the rapidly-growing elderly segment. According to the China Research Centre on Ageing, consumption of products and services for the elderly is already worth 4 TN RMB in China today, and is projected to grow to more than 100 TN by 2050.

Exhibit 2: Consumption of products and services on Elderly, China

RMB TN



Source: China Research Center on Aging; Oliver Wyman analysis

FAILURE OF GOVERNMENT

SOCIAL SECURITY SYSTEM UNDER STRAIN

Pension and health schemes in China are rudimentary. For urban retirees, they provide just enough support for daily necessities at approximately 2 K RMB per month, plus basic health coverage needs. This is already far better than the state of affairs for rural retirees, who qualify for a miniscule amount of 75 RMB per month, and that only if they contribute to the New Rural Social Pension Scheme launched in 2009. Unsurprisingly, many rural individuals choose not to participate, and instead continue to work well into their 70s to support themselves.

Exhibit 3: Retirement support in China

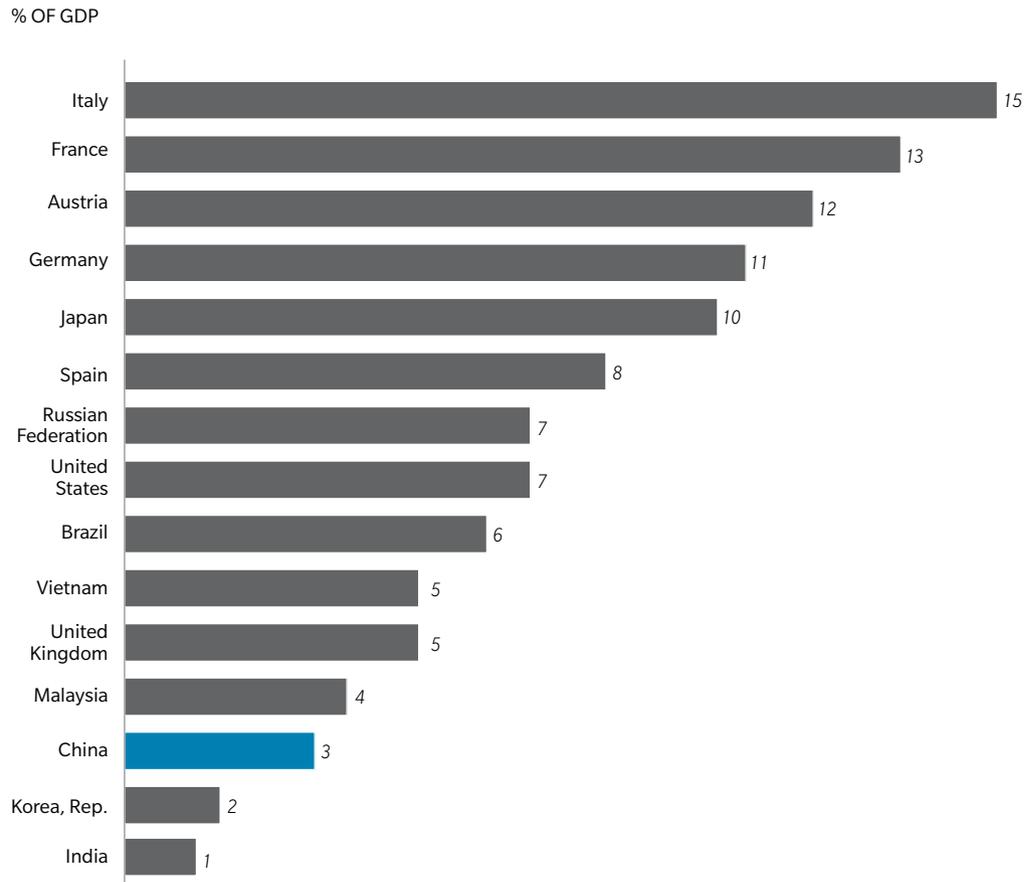
		URBAN	RURAL
RETIREMENT AGE		Female: 50–55 y.o. ¹ Male: 60 y.o.	60 y.o.
PUBLIC PENSION	PAYMENT REGULATION	<ul style="list-style-type: none"> • Compulsory • Payment needed from both insurant (8% salary) and the company (20% salary) 	<ul style="list-style-type: none"> • Optional • Payment needed only from insurant, and amount is dependent on choice, typically 0.1–3 K RMB per year
	GOVERNMENT SUPPORT PENSION	Typically in the range of 55–500+ RMB per month, dependent on: <ul style="list-style-type: none"> • Regional average income • Historical personal income level • Payment duration (years) 	Typically 55 RMB, all from government
	AVERAGE PENSION IN 2012 (RMB/YEAR)	21 K	0.9 K
PUBLIC HEALTH INSURANCE	PAYMENT REGULATION	<ul style="list-style-type: none"> • Compulsory • Payment needed from both insurant (2% salary) and the company he's working for (7.5% salary) 	<ul style="list-style-type: none"> • Optional • Payment needed only from insurant, and amount is dependent on choice, typically 0.1–3 K RMB per year
	INSURANCE COVERAGE	Insurance covers c. 70–90% of countable payment (depends on age of insurant and hospital type)	Insurance covers c. 40–60% of countable payment (depends on hospital type)

1. Occupation dependent

Source: China Social Security Bureau, Oliver Wyman analysis

Although efforts have been made in recent years to reform the social security system, it remains heavily underfunded. Total public pension spending currently accounts for only 3% of GDP, far lower than in other developed and developing economies.

Exhibit 4: Total public pension spending, 2013



Source: World Bank; Oliver Wyman analysis

China's retirement age is expected to be postponed for the first time since the 1950s. In March 2015, the Ministry of Human Resources and Social Security announced that the retirement age for both urban males and females will be gradually pushed back to 65, starting as early as 2017.

Although no formal announcements have been made, it is widely believed that health insurance coverage is also due for a decrease, covering a lower percentage of payments and thereby relieving the strain on China's social security system.

THRIFTY SPENDERS

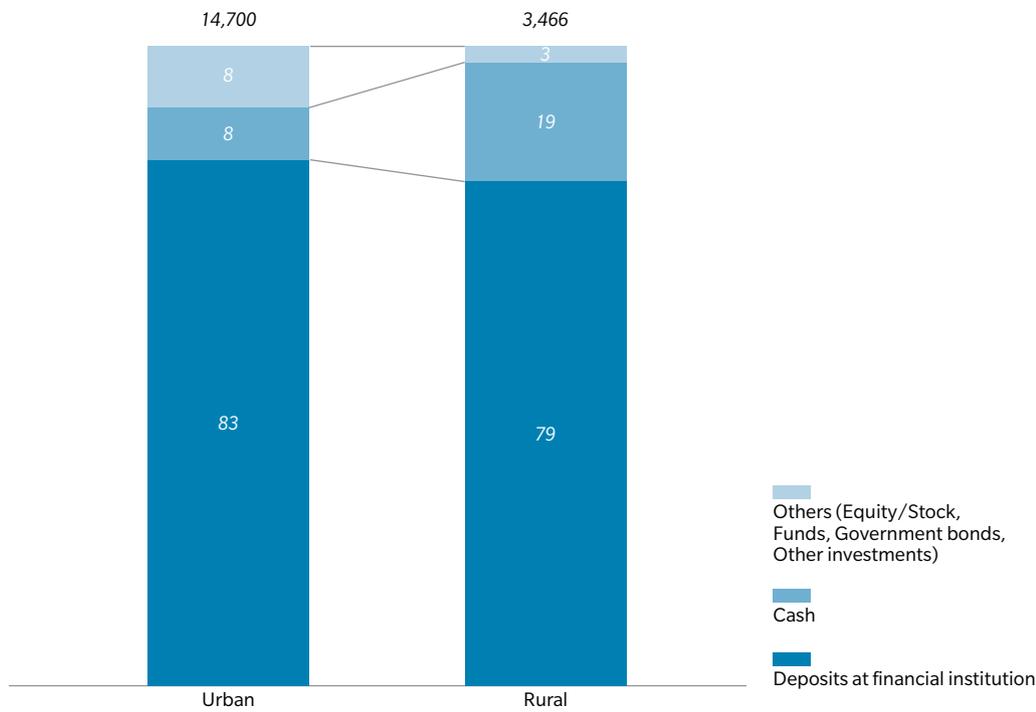
While these demographic shifts present significant policy challenges, opportunities exist for businesses to exploit the gaps in the provision of services by the public social security system.

WEALTH LOCKED AWAY

According to the National Bureau of Statistics, China has one of the highest home ownership rates in the world at 80%, and the vast majority of the elderly have a home in which to live and retire. However, the frailty of the social security system has motivated the elderly population in China to be extraordinarily cautious with their assets. As a result, they prefer to maintain a high proportion of cash and deposits in the bank for the purpose of accessibility.

Exhibit 5: Personal Assets, elderly above 60 y.o., 2013

RMB, % TOTAL

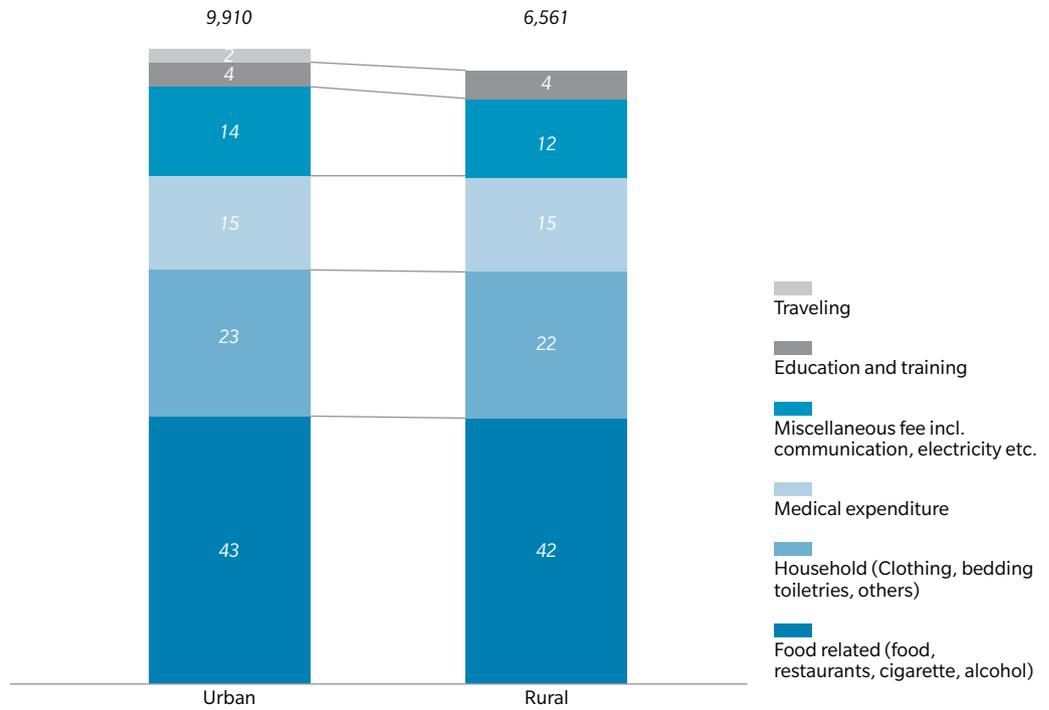


Source: CHARLS Survey 2013, Oliver Wyman analysis

This sense of unease has encouraged thrift. Both the urban and rural elderly spend more than half of their income on basic necessities such as food, utilities, and medical expenditures, preferring to keep other savings for emergencies, or to pass on to future generations.

Exhibit 6: Spending Allocation above 60 y.o., Urban vs Rural, 2013

%, RMB/YEAR, N = 8,930



Source: CHARLS Survey 2013, Oliver Wyman analysis

A day in the life of a typical elderly person in China does not offer much opportunity to spend money. Most lead a simple lifestyle of daily routines like exercising, meeting friends, and talking with their children. For example:

Exhibit 7: A day in the life of a Chinese elderly is very simple

Morning

I wake up at around 6 am every morning and go to the park near my house for a nice morning exercise. After that, I come home to prepare and eat breakfast while reading the newspaper. My eyes are not so good these days though, so sometimes I watch the news on TV instead. I like to buy my groceries fresh, so I go to the wet market to buy food for the day. The ladies at the market know me well and give me good prices.

Afternoon

After cooking lunch, I relax for a while on the sofa. In the afternoons, I usually meet friends for mahjong. Sometimes I also participate in hobbies like line dancing at the park or flower arrangements.

Evening

In the evening, I prepare and eat dinner. After dinner, I like to take a stroll to the hypermarket in the neighborhood after dinner just to walk around and help digestion. Occasionally, I will pick up some toys for my grandchildren. When I go home, I usually spend some time talking to my children on Wechat, as they live in another city. They bought me a smartphone last year so that I can communicate with them more easily. I like that they can send me photos of their lives. I turn on the TV while getting ready for bed, and go to sleep at around 10 pm.

Source: Focus groups; Oliver Wyman interview

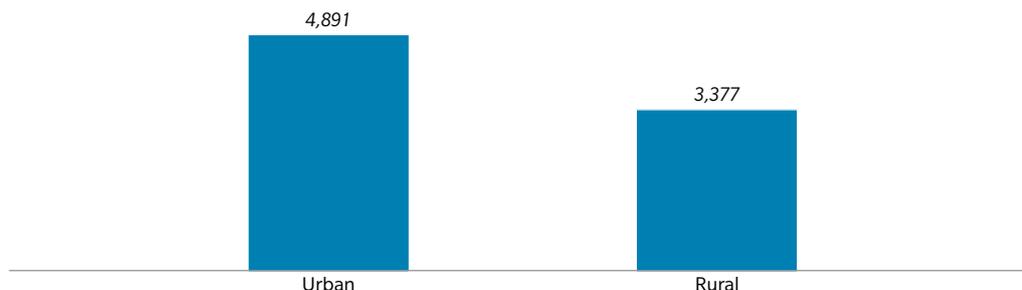
CHILDREN WANT THE BEST FOR THEIR PARENTS

The strong Chinese culture of filial piety and a greater willingness to spend (as a result of what was, in comparison, a more prosperous upbringing) encourage children to buy gifts and products for their elderly parents.

These children regularly send money to their parents to supplement daily spending, at an average of close to 5 K RMB per year for urban elderly, and about 3.3 K RMB per year for rural elderly. This transfer of money has become ever more important as children move to far flung cities for jobs and cannot be nearby to take care of their elderly parents.

Exhibit 8: Money transfers from family members, urban vs rural China, 2013

RMB



Source: CHARLS Survey 2013; Oliver Wyman analysis

EMERGING GREY ECONOMY

We believe there are three key potential sources of growth within the Chinese grey economy, as it marches towards a market worth 100 TN RMB by 2050:

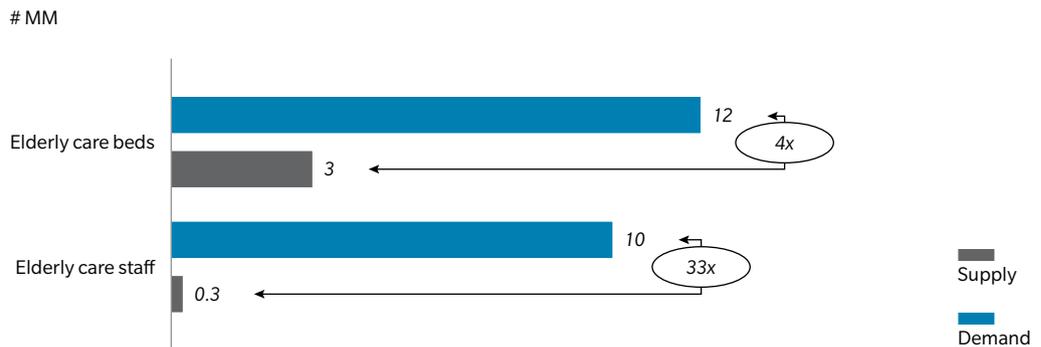
- The desire of the elderly population to protect their health and financial well-being
- Their wish to reduce the burdens on their family
- Their eagerness to enjoy new experiences

KEEP ME HEALTHY

As more emphasis is placed on quality of life for the elderly, there is increasing demand for products and services that promise greater well-being.

Proper long-term elderly care is in severe short supply in China. It is estimated that there are just over 3 MM beds available for elderly care in China, enough for less than 2% of the total ageing population (and far below Western standards of 5–7%). This lack of supply also applies to elderly care staff. Official estimates suggest that 10 MM carers are required for proper support, a far cry from the 300 K currently employed in the industry.

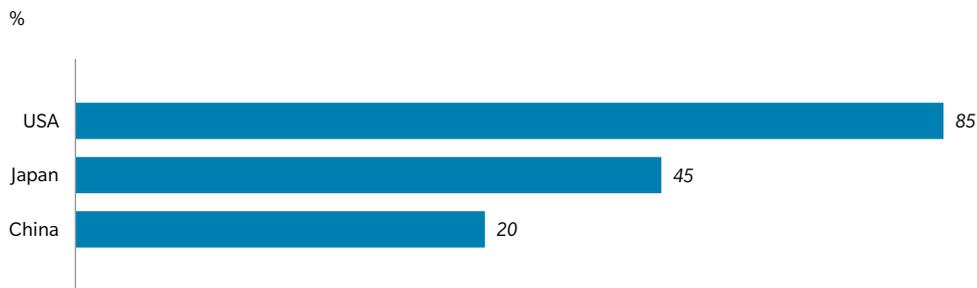
Exhibit 9: Demand vs supply of elderly care beds and staff in China, 2011



Source: Asia Global Institute HKU; Oliver Wyman analysis

The diet of the Chinese elderly is much less advanced than in the West and the taking of health supplements is much less common. This suggests that the elderly could become one of the major consumer groups for this market in China. Multi-vitamins and other supplements are still relatively new to Chinese consumers, and are not part of their daily routines.

Exhibit 10: Penetration of health supplements total population, 2014



Source: IADSA; Oliver Wyman analysis

Milk formula is another example, where major players like Nestle and Yili are selling products catered specifically for the elderly. More recently, Abbott launched its first adult nutrition milk formula, Ensure Complete, that has been promoted and distributed extensively across more than 11 K retail/pharmacy locations in China. By September 2015, Ensure Complete was already the top-selling product in Abbott's Tmall flagship store.

DON'T WORRY ABOUT ME

China's elderly are very keen to generate financial security for themselves and future generations. This ambition is still some way from being fulfilled. Moreover, the lack of financial options for these individuals and upcoming retirees has resulted in a portfolio largely consisting of real estate and cash that does not cater to their needs.

Insurance products for long-term savings and care will become highly sought after, as the elderly seek low-risk investments that complement their pension plans and offer reassurance that medical and additional care costs will be affordable as they grow older.

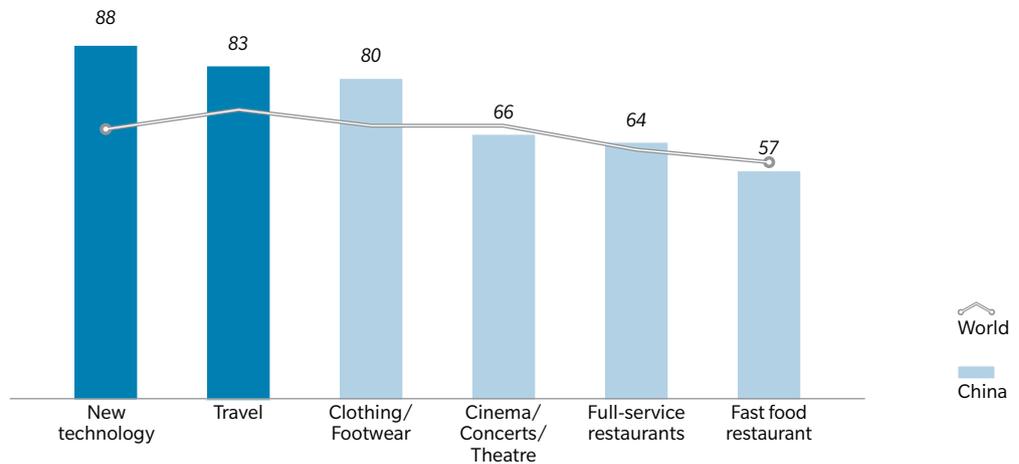
Finding a suitable burial place is of prime importance in Chinese culture, and therefore a top priority for many elderly Chinese. The death care industry has grown considerably in China, and many elderly will spend a considerable portion of their assets to find their final resting place. According to the Ministry of Civil Affairs, existing graveyard capacity will be filled in ten years. This reality has sent prices soaring in prime locations. Indeed, they can far exceed the surrounding real estate property prices.

I WANT TO EXPERIENCE NEW THINGS

If their personal health and financial well-being are taken care of, the elderly are certainly not adverse to entertainment and new experiences.

Exhibit 11: Will You Increase or Decrease Future Spending of the Following Categories, 2013?

% RESPONDENT ABOVE 60 Y.O. STATING "KEEP THE SAME" OR "INCREASE"



Source: Euromonitor, Oliver Wyman analysis

It is increasingly common for children to give mobile phones to their parents as gifts. One of the most popular smartphones sold online is specifically targeted at the elderly. You can find it on the website with the key search words "elderly phone", and its functionalities are marketed with the purpose of attracting children to purchase the smartphone as a gift.

Travel and tours designed exclusively for seniors are also increasingly common, and activities and entertainment are specifically oriented to this audience. Just as with technology gadgets, many tours are purchased by their children as gifts to their parents.



HOW TO CAPTURE THE ELDERLY SPEND?

Companies across all industries are competing to capture the opportunities offered by the elderly market. Everybody wants a piece of the pie, but the question is: how do you go about getting it?

SPEAK TO THE ELDERLY DIRECTLY

Many companies have stuck with traditional marketing campaigns to reach the elderly via television and newspaper advertisements. Focus groups have shown this is very effective in projecting brand credibility to the elderly. They may not know what the product is for, but the fact that they have seen it on television gives it credibility in their eyes.

Some companies have undertaken localised, in-person promotional campaigns to provide the personal touch and word of mouth that the elderly value highly. It is not unusual to see medical companies setting up shop in a local residential community to provide free tests and check-ups as a means to communicate with the elderly.

GET THEIR CHILDREN ON BOARD THE BANDWAGON INSTEAD

Other companies are targeting the children instead, hoping to invoke their sense of duty to respect and take care of their elderly parents.

Local players are particularly active in this respect. In 2008, Wuliangye and Giant Interactive Group worked together to launch a medicinal liquor labeled “Golden Spirit”, specifically targeting the grey market. The advertising slogan “Gift your elders, Golden Spirit” was splashed across major TV airwaves during its launch. The Nanfang Daily reported that the liquor generated 700 MM RMB in sales by mid-2009, within 18 months of launching.

Local technology companies are also banking on filial piety. China’s largest online marketplace, Taobao, set up a dedicated section for the elderly in 2013. Children can find, buy, and ship products straight to their parents’ doorsteps with a few clicks of the button.

CONCLUDING REMARKS

“GREY CHINA” – NOW OR NEVER

The rise of the elderly population in China has been anticipated for many years, but the question of how best to serve this market’s complex needs is still being deliberated.

One thing is certain. Well-planned business decisions need to be made now to capture this growing opportunity. The first wave of baby boomers has already retired, with many more soon to follow suit.

WORK WITH THE GOVERNMENT

The ageing of China is high on the agenda for the government, and co-operation from the public sector is necessary if companies are to navigate through the market successfully. Health supplements sold in China need to be approved by The China Food and Drug Administration (CFDA), elderly care homes require the right documentation, and any financial investment plans must also be deemed suitable for the elderly.

Many multinational corporations have the expertise and capabilities to serve the elderly market, but trying to do this alone in China could still pose a major challenge.

MORE THAN FIFTY SHADES OF GREY

Grey China is, of course, a simplified umbrella term. Just as with any other consumers, it is imperative to segment the Chinese elderly and understand at a deeper level their motivations and behavior, and how this relates to your business proposition.

The rich, urban Chinese elderly have gone to very considerable lengths to ensure that their later stages of life will be comfortable, but what makes them tick is vastly different to what drives the rural Chinese. A scattergun approach is outdated nowadays, and strategies need to be sophisticated, specific and targeted.

Retirees over the next ten years will also think and act very differently from their predecessors. The rapid growth of China has produced a broad range of people with very diverse experiences and mindsets, and this needs to be taken into account in any successful strategy.



PARENTS AND CHILDREN

Who is making the purchasing decision – the elderly themselves or their children?

Filial piety and the pressure to support parents is a major cultural force in China that will spur the growth of the elderly market, just as much as the elderly themselves. With many adults working away from their parents, they are willing to spend significant amounts of money to ensure that proper care is provided.

The question of “who is the customer?” will influence, to a large degree, how products or services should be marketed, and how best to reach this audience.

DON'T UNDERESTIMATE TECHNOLOGY

The elderly are still swayed by television advertisements and word of mouth, but these are not the be all and end all. Technology will continue to play a significant role, particularly for the next wave of elderly Chinese. The Chinese elderly in 2050 are in their thirties today and are much more tech-savvy. Even today, the mobile phone is the most common way to stay in touch with children, and smartphone apps, such as WeChat are quickly becoming the family norm.

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