Hangzhou: Profile of a Consumer Market

1. Economic Overview and Development Planning

Hangzhou is the capital of Zhejiang province. In terms of GDP, it also has the largest economy among all cities in the province, constituting about 22% of the provincial GDP. In 2014, the GDP of Hangzhou grew 8.2% from a year earlier to Rmb920.1 billion, and its per capita GDP, reckoned in terms of permanent population, was Rmb103,757. In recent years, the focus of Hangzhou’s industrial structure has gradually moved to the services sector, with its share growing from 48.7% in 2010 to 55.1% in 2014. As a regional distribution centre, Hangzhou had a total of 3,684 wholesale and retail enterprises above a designated scale in 2014, which represented 25% of the provincial figure, and the aggregate sales of these enterprises accounted for 49% of the provincial total.

Hangzhou’s GDP in recent years

Source: Hangzhou Statistical Yearbook 2014 and Communiqué of Hangzhou Municipal Statistics Bureau

Hangzhou is the city with the second most thriving industrial development in Zhejiang province. Its leading industries include food, garments, textiles and chemical fibre, silk, pharmaceuticals, electronics, machinery and chemicals, with many of them having built their own brands. For instance, in ladies’ garments, household names include JNBY, Lesies and Rmeo. During the 12th Five-Year Plan period, Hangzhou is actively developing its modern services sector, which will become the development priority, with a view to

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shaping the city into an international tourism and leisure centre, cultural innovation centre and regional financial centre. In the future, Hangzhou will strive to develop various emerging industries including e-commerce, cultural and creative, biomedicine, high-end equipment manufacturing, new energy vehicles and other emerging industries, while the traditional industries, like garment, food and machinery, will be upgraded and transformed.

Hangzhou is also a tourism city, receiving a total of 3.26 million foreign visitors and 106.06 million domestic visitors in 2014, with total tourism receipts of Rmb188.6 billion.

In 2014, there were 276,000 private enterprises across various industries in Hangzhou, accounting for about 30% of all private enterprises in Zhejiang province. As the provincial capital, Hangzhou also houses many provincial government enterprises and headquarters of enterprises in the province. Among the top 100 private enterprises of Zhejiang province in 2014, 40 were in Hangzhou, topping all other cities in the province, with many of these top enterprises having moved in from outside Hangzhou.

The urban circle of Hangzhou mainly comprises the four cities of Hangzhou, Huzhou, Jiaxing and Shaoxing. The establishment of the urban circle is aimed at promoting better coordination, cooperation, complementary development planning and advancing regional projects. According to the Planning Guidelines for Development of Urban and Rural Commercial Networks in Hangzhou (2011-2020), by the end of 2015, two city-level commercial centres, namely Wulin commercial centre and Qianjiang New City commercial centre, and three city-level commercial sub-centres, namely Jiangnan town, Linping town and Xiasha town, will be formed. Among them, Jiangnan town will encourage the development of commercial complexes, shopping malls and brand-name flagship stores. Linping town will upgrade the commercial specialty street of Qishan Avenue, and Ouhuazhou Street with cultural innovation features; and the Xiasha city-level commercial sub-centre will strive to develop producer service network and build up the commercial network for basic living support. For long-term planning until 2020, Hangzhou will further improve the above pattern and build large-scale rural commercial outlets and establish at least one ‘two-way centre store’ in all administrative villages, forming a rural market system network, with city stores as leaders, town shops as the backbone and village centre stores as the base.

2. Hangzhou’s Consumer Market

2.1 Growth in Retail Sales

In 2014, the total retail sales of consumer goods in Hangzhou amounted to Rmb383.9 billion, with year-on-year growth of 8.7%. It is not only the largest consumer market in Zhejiang province, but also an important business centre of the province. In 2013, there were more than 3,600 wholesale and retail enterprises above a designated scale in Hangzhou, which was 700 more than those in Ningbo, the second largest city in Zhejiang province.
2.2 Per Capita Disposable Income and Consumption Expenditure

In 2014, the per capita disposable income of Hangzhou’s urban households was Rmb44,632. In the same year, per capita consumption expenditure was Rmb32,165.
3. Characteristics of Hangzhou’s Consumer Market

3.1 Population Structure

Hangzhou had a permanent population of 8.89 million in 2014, accounting for about 16% of the provincial total.

According to China’s 6th population census, among its permanent population in 2010, about 51.2% were males; and 11.4% were aged between 0 and 14, 75.2% between 15 and 64, and 13.4% above 65.

Among the permanent population, 18.9% have a university education, 19.9% have senior high school education, 41.7% have junior high school education, and 31.8% have primary school education. As compared with the findings of the 5th population census conducted 10 years earlier, the proportion of Hangzhou’s residents with a university education has risen from 7,206 to 18,881 per 100,000 people.

The 2.97 million households comprising the permanent population had an average of 2.59 persons per household, or 0.39 persons fewer than 10 years earlier.

3.2 Characteristics of Consumers

Hangzhou is rated one of the best business cities in China. With a well-developed private economy and abundant private capital, it has the largest private sector among all major cities in the Yangtze River Delta region. In 2014, among the top 500 private enterprises in China, 50 were located in Hangzhou, ranking first nationwide.
Consumers in Hangzhou not only include local residents, but also foreign-invested enterprise employees stationed in the city, private enterprise operators from neighbouring cities such as Ningbo, Wenzhou and Shaoxing, and tourists and workers from outside Zhejiang province. Due to the diversity in culture, income and occupation of these consumers, their spending patterns and preferences also differ.

Generally speaking, consumption in Hangzhou can be both rational and irrational. The rational side is reflected in the growing trend of autonomous consumption and personalised consumption, especially where the purchase of clothing, fashion accessories and big ticket items, such as properties and cars, is concerned. Consumers would choose to spend according to their own will and conditions. However, the 'crazy Hangzhou spender' phenomenon still exists. This term, extremely common in Zhejiang, refers to Hangzhou consumers who 'follow trends like crazy'. In particular, whenever discounts are offered or promotional activities are launched, people would flock to department stores and scramble for bargains.

Consumers of different age groups differ greatly in consumption concept behaviour. The middle-aged and elderly in Hangzhou, still under the influence of the traditional way of thinking, tend to be conservative in spending and attach great importance to price-performance ratio and durability. They are price conscious and go after low prices and practicality, being less sensitive to style, colour and design.

The main consumer force in Hangzhou includes private enterprise operators, white-collar workers, corporate executives, government officials and their relatives. These consumers have a relatively high social status, good education background and strong financial power. They go after quality of life and form the cornerstone of Hangzhou’s luxury and branded goods market. Hangzhou Tower, the most upmarket department store in the city, is a place where top luxury brands from all over the world converge. Hangzhou Tower Shopping City total sales in 2014 topped Rmb5.9 billion. The huge sales volume of Hangzhou Tower testifies to the staggering luxury goods consumption power in Hangzhou. When consumers in this group make purchases, they place emphasis on the brand, quality, design, colour and style of the product; price is not their main concern. However, industry players expect future income growth to have the greatest impact on consumption, with high-end consumption affected more during an economic slowdown. In addition, as domestic consumers are more composed doing their shopping, the mature consumer psychology also gradually reduces the proportion of conspicuous consumption.

University students account for a certain share of the Hangzhou consumer market. While these young consumers are not financially independent and are not fully mature, they tend to compare with their peers where consumption is concerned. In addition to eating and drinking, shopping and entertainment is the main expense item. A survey on Hangzhou university students found that the quality of goods is the most important factor they consider when shopping, followed by price and practicality. Nearly 90% of students shop online, of which 30% are regular online shoppers. According to Alipay data, Hangzhou online consumer penetration rate of university students is 86%, ranking third in the country, while the university students with the strongest online consumption power nationwide are in Zhejiang University, Hangzhou. The most popular goods are digital products, clothing and jewellery.

E-commerce has become an indispensable area in Hangzhou people’s consumption. According to Alipay data, per capita expenditure on Alipay in Hangzhou amounted to Rmb44,197 in 2014, ranking first among all the cities in the country, of which
Rmb17,740 was shopping expenditure, accounting for 40%. Today, online payment platforms are no longer just a payment tool for online shopping, they also help to complete payment, make transfers, loans repayment, billing as well as finance and investment, which are merged into daily life.

The children’s consumer market in Hangzhou has long been a battlefield for retailers. As competitive pressure in society intensifies, coupled with the fact that the majority of children are the only child in the family, parents (whether rich or poor) normally do not mind splurging on their children so that their offspring would not ‘lose out at the very start’. A survey showed that nearly 50% of families spend Rmb5,000 to Rmb10,000 on children’s activities and classes. Businesses are increasingly aware of the fact that the children’s market has become their strongest profit growth area. At various department stores, sales of baby and toddler’s products, toys, and children’s wear are expanding every year. Although the price of children’s products continues to rise, it has not dampened the purchasing desire of parents. Today, even children get involved in the wave of consumerism, controlling or influencing the consumption choice of their parents.

The characteristics of Hangzhou consumers’ seasonal consumption are obvious. Generally speaking, July and August are the low season, while January, May, September, October, November and December are the high seasons. Needless to say, different products have different high and low seasons. In the case of garments, January, February, October and December are the high season; while for toys, the summer and winter holidays for children are the high season. At Spring Festival, National Day, Labour Day, New Year’s Day, Valentine’s Day, Christmas and Children’s Day every year, the promotional efforts made by all the leading shopping malls in Hangzhou are particularly vigorous. For example, in this year’s long holiday of 1 May Labour Day major shopping malls were bustling, with Wanda Plaza drawing more than 100,000 people in one day, of which 30-50% were family-type customers.

Household appliances, communications products and demand for car improvement will likely become consumption hot spots. Thanks to the rapid growth of e-commerce, the majority of consumer goods are migrating from physical shops to online shops, and product varieties are shifting from small-value clothing products to higher-value household appliances commodities. The transaction value of online shopping accepted by consumers is gradually rising. Convenient, hassle-free shopping experience, backed by rapid advances in technology, is quickening the upgrade pace of household appliances and communications products.

4. Profiles of Hangzhou’s Major Commercial Districts

In 2015, substantial development in commercial complexes inside the commercial districts in various regions of Hangzhou is expected to continue. Originally suffering from poor commercial sectors, Chengnan, Xiasha and Binjiang will usher in commercial projects with a mix of functions including eating, drinking, recreation, music, and shopping, all housed in one place, all due to open this year or next. The highly anticipated Qianjiang New City block, where Raffles, GT Land and other projects are also expected, is set to become another business centre in Hangzhou.

Wulin – Busiest commercial hub in Hangzhou

Three of the largest department stores in Hangzhou – Hangzhou Tower, Hangzhou Department Store and Zhejiang Intime (Wulin store) – are located within Wulin.
commercial district and are the most popular shopping spots with the local residents. The positioning of Wulin commercial district is avant garde, dynamic and trendy, with young consumers, high-income earners, tourists and businessmen being its main targets. For instance, Hangzhou Tower is positioned at the high end of the market, housing a wide range of top international brands such as Louis Vuitton. It attracts a large following of big spenders from neighbouring cities, including Shaoxing and Wenzhou. Intime, as one of the department stores in Hangzhou with the largest shopper traffic, is the prime choice of the young and fashion-conscious, white-collar workers and modern families who possess considerable spending power. Hangzhou Department Store mainly offers medium range products and targets elderly and middle-aged consumers. The rent of street-level shops on Yan’an Road near Wulin Square is the highest in Hangzhou, almost comparable to that of shops in Shanghai’s major commercial districts.

Wulin commercial district has Wulin Square and West Lake Culture Plaza as its centre and extends south to Qingchun Road, north to Wenhui Road, west to Wulin Road, and east to Zhonghe Road. Office blocks, such as Hangzhou International Building, Biaoli Building（標力大廈）, Yuantong Building（元通大廈） and Guoxing Building（國信大廈） are all located here, attesting to the thriving development of the business sector. The presence of Landison Plaza Hotel, Zhejiang Grand Hotel and Hangzhou Hotel has also attracted a large stream of customers from outside the province, making Wulin the most popular commercial district in the city.

Hubin – Combining business with art

Hubin commercial district starts from Zhonghe Road to the east, stretching west to the West Lake, south to Jiefang Road and north to Qingchun Road. Within this district are comprehensive shopping malls, such as Hangzhou Jiebai (Jiefang Road Department Store) and Lixing Plaza, as well as specialised garment marts, including Hangzhou
Longxiang garment city, Hangzhou Gonglian Building garment city and Mingzhu Business Centre. Moreover, among the 11 specialty streets in Hangzhou, Hubin tourist and business street is positioned as the leading landmark shopping street in Hangzhou. Nanshan Road art and leisure street has a rich artistic ambience and attracts large crowds of domestic and foreign tourists with its calligraphy and painting exhibitions, art shops, bars, teahouses and cafes, generating a huge customer source for Hubin commercial district.

Positioned as a tourist, leisure and high-end shopping area, Hubin commercial district is truly upmarket and internationalised. For example, Hangzhou Jiebai, one of the big four department stores in Hangzhou and the largest comprehensive shopping mall in Hubin commercial district, houses a great number of well-known brand-name specialty stores. Meanwhile, Hubin tourist and business street gathers together a wide range of leading international brands, shops selling tourist items, and high-end leisure and catering facilities. Consumers here not only include local Hangzhou residents, but also large numbers of domestic and foreign tourists. The commercial district is highly accessible, attracting many local residents to spend money. Since there are lots of tourist souvenir shops and niche restaurants in this district, crowds of domestic and foreign tourists choose to come here to shop and dine, especially visitors from Shanghai and outside the province.

**Wushan – Embodiment of history and culture**

Situated at the south end of Yan’an Road, linking with Jiefang Road to the north and Wushan Square to the south, Wushan commercial district enjoys great geographical advantages. More and more large department stores, such as Intime, and chain stores, such as Suning Appliances, are moving into the area, fuelling shopper traffic and business volume.

Hefang Street at Wushan Square is a specialised business street rich in historical traditions. The street, lined with a great number of traditional shops with a history of over a hundred years, gives people a warm feeling of history. A good place for shoppers looking for art and craft items and antiques, it is dotted with traditional teahouses, eateries and shops selling all kinds of folk art, art and craft items and tourist souvenirs. These shops give the street its unique characteristics. In the last few years, shops featuring the ethnic styles of different regions have also been set up here, adding more cultural colours and flavours. The positioning of Wushan commercial district centres around tourist shopping and leisure entertainment, giving emphasis to recreating the historical business culture of ancient Hangzhou in order to attract visitors from outside and within the city.

**Chengxi – A late bloomer**

Chengxi (or “city west”) commercial district, emerging in recent years, covers the area with Wensan West Road, Wen’er West Road and Wenyi West Road to the east and west, and with Zijinghua Road, Gudun Road and Fengtan Road to the south and north. The business streets of Wenyuan Road, Wenxin Road and Gudun Road are the landmarks of this commercial district. In addition to Season Square, Xixi Incity and Chengxi Intime City have also entered the commercial district.

Chengxi commercial district is positioned at the medium-to-high end of the consumer market. In fact, Chengxi has the largest population of rich people in Hangzhou, with a
permanent population of over 500,000 and a high concentration of early home buyers. According to planning, the permanent population in this area will exceed 1.2 million by 2020. However, for a long time in the past, the lack of supporting commercial facilities in Chengxi, in particular the shortage of upmarket commercial facilities, has caused great inconveniences to the local residents who had to turn to Wulin commercial district to shop and spend. The high population density, high per capita income, strong consumption power and lack of upmarket business operations in this area have combined to create great business opportunities for high-end commercial facilities.

**Qianjiang New City – Brand new high-end commercial district**

As Hangzhou’s newly developed CBD, Qianjiang New City embraces over 30 comprehensive projects covering commercial facilities, office blocks, financial institutions and hotels in one area. More importantly, Qianjiang New City, where the underground railway (Hangzhou Metro) station and pedestrian subway are located, is a transport hub where crowds of commuters pass through every day. The extensive urban mass transit network plays a significant role in propelling the development of this new city centre.

With The MixC shopping mall as its core, Qianjiang New City is set to develop into a brand new high-end commercial district. For instance, MixC, with a size three times the combined total of Hangzhou Tower and Intime, will provide a top-notch consumer spot. Unlike traditional department stores, where over 90% of the business is retail, MixC has a different business mix, with retail accounting for 40%, catering accounting for 20%, leisure and entertainment accounting for 20%, and large sporting facilities, home centres, banks and photo processing shops etc accounting for the remaining 20%.

The much-anticipated Hangzhou Raffles City project is expected to be open for business by the end of 2016. Qianjiang New City CBD, where Hangzhou Raffles City is located, will be a high-end financial business district, with global competitiveness in the future. Another commercial project of note is GT Land Plaza, still under construction. The project consists of a luxury hotel, shopping malls and prime office space.

The positioning of Qianjiang New City commercial district is at the high end of the consumer market. High-class residential developments found here include Oriental Royal, Jinji Xiaolu (金基曉廬), Songdu New City International and Hangzhou New Green Garden. The residents are mainly white-collar workers, foreign-invested enterprise executives and foreign investors with substantial purchasing power.


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