New Consumption Trends in Focus

Emerging trends in the Chinese consumer market usher in new opportunities for overseas brands

Introduction:

In the face of a persistently challenging and complex global economic situation, many overseas brands view entering the China market and establishing an online presence as a crucial outlet for growth. However, the evolving consumer trends in the post-epidemic era make it vital for foreign brands to plan a sustainable path for growth. PwC's **Brand Power Program** has a long-term focus on exploring the New Consumption landscape, seeking to delve into the new forms of business in the consumer sector through thematic insights and offline activities. This article explores the development opportunities and localisation pathways for foreign brands in China, considering the current retail consumer market environment, new market opportunities in the post-pandemic era, and the ways for overseas brands to enter the China market. The discussion is intended to provide fresh insights for the localisation development of foreign brands in China.

Shifting consumer patterns amid a largely stable economy

In the first quarter of 2023, China's economy demonstrated signs of recovery with a 4.5% year-on-year growth in GDP at constant prices, and a 2.2% quarter-on-quarter increase compared to the previous year. The total retail sales of consumer goods also increased by 5.8% year-on-year (with a 10.6% increase in March), and the Consumer Price Index (CPI) advanced by 1.3% [1]year-on-year. While the overall pace of economic recovery fell short of expectations, continuous efforts to implement stimulating policies are expected to revive the consumer market.

PwC's Global Consumer Insights Pulse Survey 2023 reveals that global economic uncertainty has led to changes in consumer habits worldwide. 96% of consumers plan to adopt cost-saving behaviors over the next six months. As the impact of the pandemic subsides, some consumers are gradually returning to pre-pandemic consumption patterns, such as seeking enhanced offline shopping experiences and beginning to plan travel again.

During the "May Day" holiday, the total number of domestic tourism trips reached 274 million, up 70.83% year-on-year, recovering to 119.09%[2] of the same period in 2019 on a comparable basis. As the impact of the epidemic gradually recedes, China's economy is showing signs of recovery and a return to endogenous growth momentum.

In terms of changes in consumer goods categories, retail sales of essential goods and optional consumer goods in the first quarter of 2023 rebounded compared to the same period last year. Within the optional consumer goods category, the fashion and beauty industry experienced a rebound in the first quarter, shaking off the declining trend in overall growth rate from last year. This suggests that consumer demand for beauty products is gradually increasing. However, retail sales of durable goods, such as household appliances, were somewhat affected by the diversification of entertainment forms and reduced enthusiasm for "stay-at-home" concept-related appliances, resulting in a slower growth compared to the same period last year.

Year-on-year change in retail sales of consumer goods above the limit 2022-2023

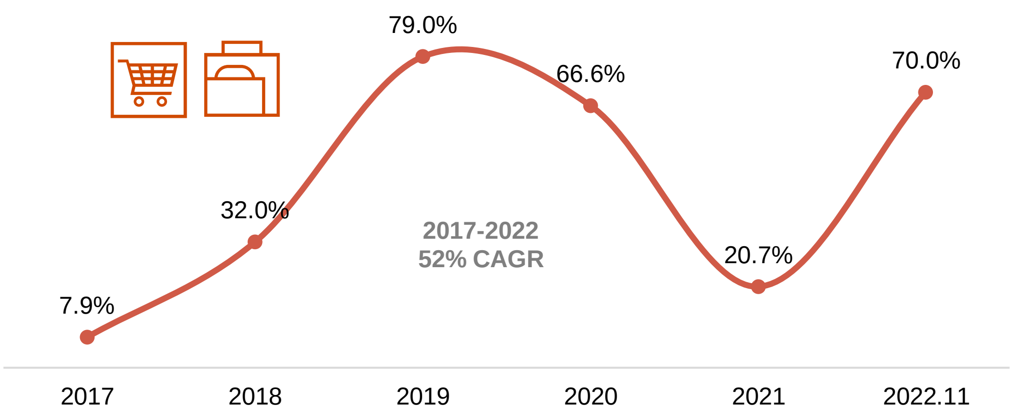
Source: National Bureau of Statistics, PwC analysis

[1] Data source: Chinese government website(https://www.gov.cn/)

[2] Data source: Chinese government website(https://www.gov.cn/)

In 2022, China's actual utilisation of foreign investment reached 1.23 trillion yuan, with a 6.3%[3] year-on-year growth according to comparable figures. Additionally, **the proportion of imported consumer goods has been gradually increasing**. Customs statistics indicate that in the first quarter, the total value of imported consumer goods reached 478.74 billion yuan, a year-on-year increase of 6.9%[4]. Cross-border e-commerce import transactions grew from 1.8 trillion yuan to 3.4 trillion yuan from 2017 to 2022, with a compound growth rate of approximately 14%. Overseas brands are accelerating their entry into domestic e-commerce platforms, with nearly 8,500 new brands[5] joining Tmall Global in the past year as of November 2022. From 2017 to 2022, the average compound annual growth rate of overseas brands entering China was about 52%, pointing to a rapid development phase for the online import consumption market in China.

The number of newly-entered overseas merchants on Tmall Global from 2017 to Nov 2022



Data source: Tmall Global, PwC analysis

[3] Data source: 2022 Statistical Bulletin of China's Outward Foreign Direct Investment

[4] Data source: General Administration of Customs, P.R.China

[5] Data source: Tmall Official Report

Emerging opportunities in a rapidly evolving consumer market

The retail market is undergoing a new wave of transformation, driven by industrial changes following the resumption of work. Emerging business models are creating new opportunities for certain industries and categories to explore new avenues of growth in the post-pandemic era:

As consumer lifestyles continue to evolve, there has been an increase in demand for innovation, leading to new growth opportunities for certain consumer goods categories.

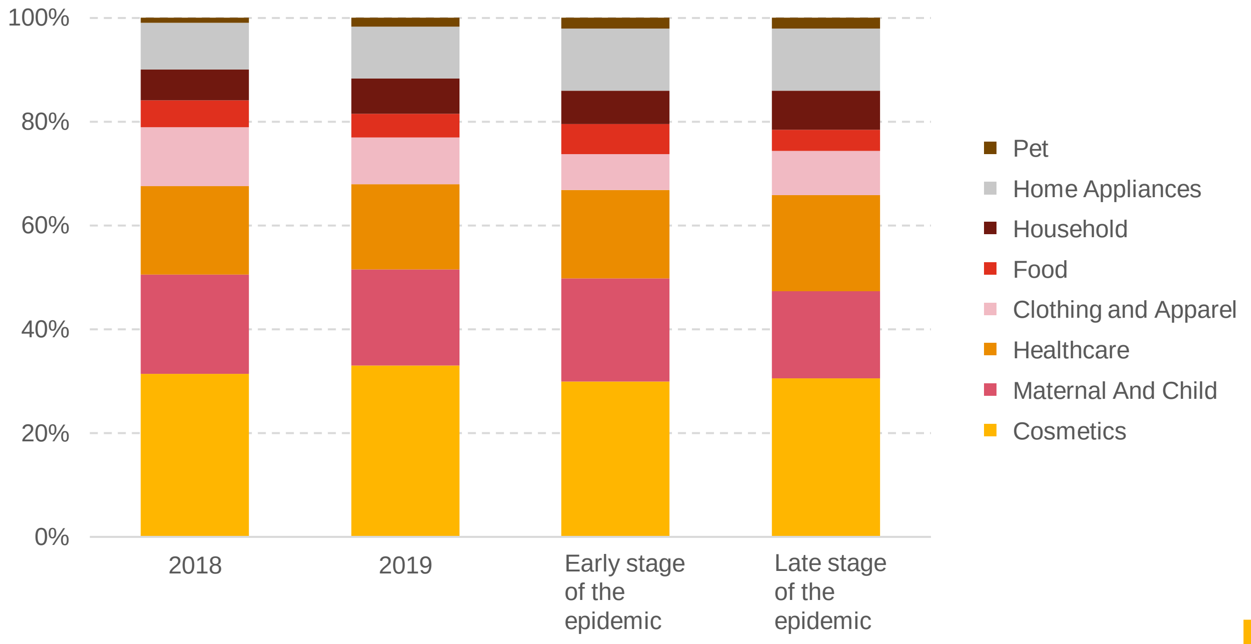
The easing of restrictions on social and short-distance travel demands has fueled growth in categories such as alcoholic beverages, camping, cycling, outdoor activities, and pet-related consumption. Camping and outdoor topics have remained popular, leading to the emergence of several hot subcategories such as outdoor apparel and footwear, fishing gear, children's outdoor products, and cycling-related items. Many "fledging" brands have sprung to success within these segments. From 2021 to 2023, the search volume for "outdoor" on Taobao and Tmall increased by 659%, and the overall transaction scale of outdoor products exceeded hundreds of billions.

As the demand for high-quality health care continues to grow, food and beverages targeted towards health and beauty conscious consumers have gained popularity. In 2021, China's health food market exceeded 870 billion yuan, with low-sugar and low-fat food products growing by 127% over the past five years. It is projected to maintain a 14%[6] compound annual growth rate (CAGR) in the next five years. As consumers become more knowledgeable about healthy ingredients, they are willing to purchase health supplements that contain transparent ingredients and clearly stated benefits to help meet their daily nutritional needs.

Furthermore, the "self-delighting" economy continues to thrive, as consumers increasingly seek diverse and personalised consumption experiences. Imported goods consumption has expanded beyond traditional categories such as cosmetics and baby products, and more niche market segments are emerging. Sales data from Tmall Global shows that a growing number of consumers are willing to invest in niche interests. During the first four hours of the 2022 Double Eleven Shopping Festival, surfboard sales surged by over 3,000% year-on-year, while imported coffee machine sales rose by over 1,600%, and vinyl record player sales increased by over 530%. This trend suggests a rising number of niche consumer products are entering the mainstream spotlight.

[6] Data source: Euromonitor

Percentage of imported consumer goods by industry (%)



Data source: Tmall Global, PwC analysis

Distribution channels are also changing, with a shift from offline to online sales and the rise of O2O commerce, which were already apparent before the pandemic but have been further accelerated by it. Emerging e-commerce channels such as live streaming and group buying platforms are providing more opportunities for brands, expanding the presence and influence in the market. They are also helping brands to penetrate lower-tier markets in a more direct manner before advancing into first- and second-tier cities. In 2022, the online retail sales of physical goods in the Chinese retail market increased by 6.2% year-on-year, a 2.7 percentage point[7] increase compared to the previous year, further driving consumption.

Foreign investment policies foster openness and encourage global brands to deeply engage in the China market

The Central Economic Conference proposed, at the beginning of this year, to further stabilise foreign investment expectations, promote stability and expansion of foreign investment, and cultivate new growth engines for international economic and trade cooperation. On January 1, 2023, the "Catalogue of Encouraged Industries for Foreign Investment (2022 Edition)" officially came into effect, expanding market access and further increasing openness in the modern service industry. Meanwhile, an increasing number of cities are pursuing the construction of international consumption center cities, with over 20 cities nationwide launching development plans and action plans to attract global brands and deepen their engagement in the China market. It is expected that as the effects of these policies become more apparent, overseas brands will find new opportunities for development in China.

[7] Data source: 2022 Statistical Bulletin of China's Outward Foreign Direct Investment

Overseas brands: from market entry to development

Although the domestic market is continuously opening up, it remains challenging for overseas brands to successfully set foot on the China market. Firstly, they need to evaluate the current state of the China market and their overall conditions to determine the most appropriate approach. Regardless of the selected mode of entry, entering the China market for overseas brands often involves a long and intricate process. In particular:

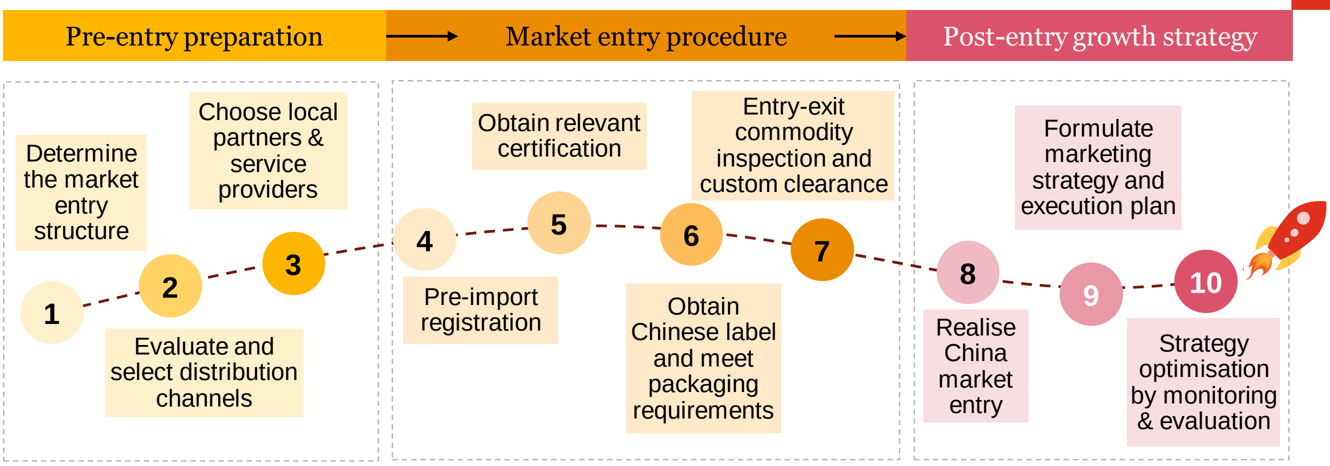
1. **Market assessment and strategic planning:** Brands must conduct a thorough market assessment to gain a deep understanding of the market environment within their industry. They should then combine this knowledge with their brand's existing capability matrix in order to develop a strategic plan for entering the market.

2. **Partner selection:** Suitable partners or service agencies should be identified and matched based on marketing or channel requirements, as well as business needs.

3. **Implementation of the market entry plan:** Foreign brands must complete procedures such as registering overseas trademarks in China, obtaining relevant licenses for business operations, customs clearance, and import and export inspections.

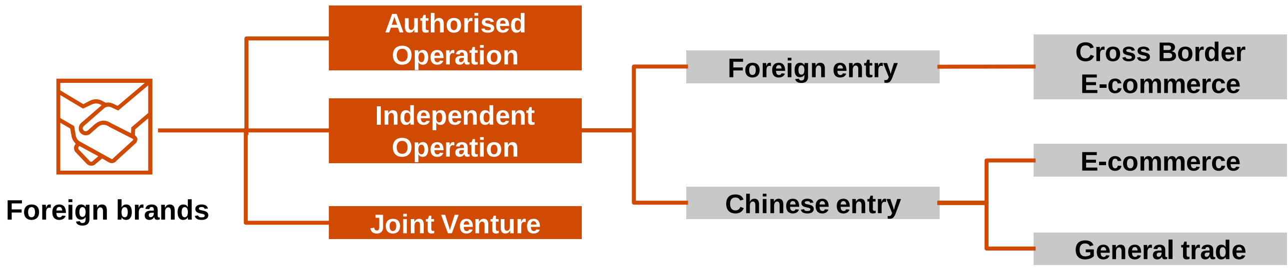
4. **Local business model optimisation:** After completing the necessary procedures for market entry, brands should further optimise their business models to better align with the local market environment.

These steps are essential for overseas brands seeking to navigate the complexities of the China market and establish a successful presence.



Modes of entry for overseas brands:

Overseas brands seeking to enter the China market have a wide range of options available to them, from traditional Sino-foreign joint ventures in the 1980s to today's cross-border e-commerce platforms, In general, these methods come with their own unique advantages and disadvantages, and can be classified into the following three categories:



1. Authorised Operation:

Authorised operation refers to the practice of foreign brand owners authorising domestic distributors to sell their products within designated areas, while retaining the management rights over both the market and the brand.

For example, in response to intense competition from local bottled water brands in China, a world-renowned food and beverage manufacturer granted an exclusive license for its low-end bottled water brand to a domestic beer giant in 2020. The domestic partner leveraged its local operational resources to further promote the brand's development in China.

Insights from PwC:

Authorized operation provides numerous benefits for the brand owner, allowing them to reduce investment risks and leverage the local distributor's familiarity with the market to quickly gain market share. As the brand accumulates strength in the market, it can transition into direct independent operation. However, this approach also means that the brand owner may lack a deep understanding of the local market and have less control over brand communication and expression, as it heavily relies on the distributor's channel resources.

2. Independent Operation:

As the China market becomes more transparent, an increasing number of overseas brands are eschewing joint ventures in favour of sole ownership or controlling stakes that allow them to directly manage their brands. Many companies are adopting differentiated business strategies based on their individual business performance.

For example, the aforementioned food and beverage company observed a decline in its mass-market products in 2019 but achieved 8-9% growth in its high-end beverage business. In light of this, the company opted to authorise the low-end beverage business, while independently operating its high-end water brand in China and establishing a presence on the Tmall platform.

Insights from PwC:

One approach to independent operation is through cross-border e-commerce, which has become a rapidly developing trade method in the internet age, with lower entry requirements for imported goods and direct access to consumers. It offers advantages such as favourable tax rates and significantly shortened timeline for market entry. However, limitations and challenges related to platform rules, system operations, and logistics must also be considered.

Another approach is for overseas brands to establish a local entity in China and more deeply engage in the China market. To effectively connect with Chinese consumers and raise brand awareness among a multitude of products and services, brands must integrate online and offline resources and design a marketing plan tailored to local preferences. However, if brands lack experience and favorable cooperation resources, it may result in significant time and financial losses or even missed market opportunities.

3. Joint Venture:

In China, a joint venture refers to the establishment of a company that is jointly invested by Chinese and foreign partners in accordance with Chinese laws. Each party owns a portion of the equity, and they collaborate in managing the company, while sharing risks and profits in proportion to their investment. In recent years, joint ventures have become not only the preferred choice for many overseas brands entering China but also a popular choice for optimising business models for brands that have already entered the country.

To illustrate, in 2017, a renouned international fast-food brand established a new joint venture in China, designating the company as the main franchise operator for the brand in the Mainland and Hong Kong for the next two decades. The joint venture partners fully utilised their resources and advantages to further develop the brand's presence in the local market, particularly in second and third-tier cities.

Similarly, a UK-based international fashion brand sold its operating rights in China to a domestic listed fashion group in 2019. The two parties then formed a joint venture company for their business in Greater China. As a result, the brand expanded its sales channels in China from boutique and personal shopping to offline stores, which led to significant growth in sales volume and a win-win outcome for both parties.

Insights from PwC

Partnership via joint venture enables brands to gain insights into the domestic industry landscape, legal regulations, and regional policy orientation. This helps to reduce the challenges of entering the domestic market and accelerates the process of localisation. Moreover, joint ventures allows brands to leverage their expertise in funding, technology, and marketing, while retaining a degree of control over their brand's identity.

	Through distributors	Through independent operation	Through Joint Venture
Level of Control	1	4	3
Local Market Knowledge	4	1	4
Level of Investment	1	4	2
Possibility for Conflict of Interest	3	1	1
Easiness to Overcome Entry Barriers	2	4	1

Note: Level 1-4 from lowest to highest

PwC’s ‘Navigator Program’: empowering cross-border brands

The Nordic Chambers of Commerce, including Denmark, Finland, Norway, and Sweden, organised the “Nordic Marketing Day” event at the PwC Innovation Centre on May 24th. The event featured well-known brands from member countries to discuss marketing experiences and solutions for foreign brands targeting Chinese consumers. Jacob Johansen, the Principal of PwC Strategy& in China, delivered the opening speech. Nicole Sun, the initiator of Brand Power Program and a PwC M&A Advisory partner, also attended the event. Nicole shared insights on new trends in the Chinese consumer market with the participating brands, and discussed potential opportunities and challenges for overseas brands entering China. She emphasised that the development of overseas brands in China is inextricably related to their level of localisation, and the importance of having a cooperative partner who understands the local market, which can be of immense support for the brand’s growth.

Drawing on its global network and deep understanding of consumer markets in various countries and regions, PwC has developed the “Brand Power Program” to provide comprehensive support to consumer brands, empowering them to succeed. The program expands its ecosystem globally and introduces the **“Navigator Program”, which leverages PwC’s industry insights and resource network to deliver long-term collaboration and empowerment for cross-border brands throughout their growth cycles. This includes customised landing solutions to assist brands in market expansion and capital integration.**

Moving forward, the Brand Power Program will continue to foster close ties with the professional teams in PwC’s global network to help quality brands overcome barriers and enter and thrive in the China market with ease in an era of rapid changes.

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