



A Study of Category Management Practices in China

Strategic Imperative to Advance Category Management & Private Brands

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Foreword

Fierce price wars between on-line platforms competing in “instant retail”. The high speed delivery of goods in under an hour. The growing popularity of membership club formats and discount stores. All of these have exerted great pressure on retailers and restaurant operators. Instead of expansion, almost 60% of the Top 100 chain stores in China either stood still or actually reduced their number of stores in 2024, according to the China Chain Store & Franchise Association’s 2024 China’s Top 100 Chain Stores.

Category management and private brands expansion have become a strategic imperative, offering a way for businesses to sustain themselves in a dynamic and crowded consumer market. According to our study of category management practices in China by twelve grocery retailers covering 159 stores in six cities and across four product categories, Chinese retailers are behind their western counterparts.

Firstly, western retailers have stronger relationships with manufacturers. Secondly, they have mature private brands. In China, private brand penetration is in the low single digits. Although there has been progress in recent years, more resources and leadership attention is required to significantly grow the private brands portfolio. Thirdly, western retailers rely heavily on ‘category captains’, which are often leading national brand manufacturers in the

category. Category captains grounded in trusted retailer-supplier relationships are few, if any, in China. National brand manufacturers have developed deep category knowledge and know-how, and can build on their relationship with retailers to explore category captainship to improve category performance.

The environment is ready and the timing is right to significantly level up category management capabilities (in supplier relationships, assortment planning, pricing, merchandising and private brands management) and develop private brand products for targeted customer segments. The middle income population and, in particular, the upper middle income in China has been rising rapidly. This trend is expected to continue. According to the EIU, there were 64 million households with disposal income of US\$25,000 or more in 2024. This is forecast to increase to 116 million by 2029. With many government policies and measures in place to boost consumer spending, private consumption is forecast to grow by 3% in the next five years to 43%.

Consumers in the new economy are well informed and demanding. According to PwC's Voice of the Consumer 2025 Global Survey - China report, Chinese consumers surpass their global counterparts in the importance they attach to food which is healthy and environmentally friendly. While they embrace products made or grown in China, they also welcome international and imported products. This is good news for retailers and manufacturers and could represent new growth opportunities for private brands and categories.

Private brands are the public face of the retailers. Successful ones can contribute to the company's performance, improve customer loyalty, and ultimately enhance the retailer's brand equity. This requires multi-year efforts and continuous investment in product and customer data analytics, as well as the use of technology and AI tools to improve customers experience and enhance operational effectiveness. All this must be done, while not losing sight of what the company stands for. Personally, I admire the companies which have operated through many economic cycles for over 100 years. The sustainability of these businesses reinforces the importance of holding onto one's raison d'être: be it for the community, your customers, the environment, or for world peace.

I would like to conclude by taking this opportunity to

thank the China Chain Store & Franchise Association for their support of this study, and to Professor Ananth Raman, of Harvard Business School and Professor Yasin Alan, of the Owen Graduate School of Management, Vanderbilt University, for shedding insightful perspectives and analyses.



Carrie Yu
PwC China Consumer Markets
Industry Leader

Executive summary

1

Executive summary

Category management has been practiced in China for some time. However, initially, both domestic and international retailers focused on rapid store expansion to gain market share. The consumers welcomed the influx of modern retailing and greater variety of products.

In 2005, 80% ^[1] of households were earning US\$ 5,000 p.a. or less, so affordability was the key consideration. Store operations and supply chain or category management were not top of mind for CEOs.

By 2024, 64 million households had income of US\$25,000 p.a. or more. Consumers are now more sophisticated and demanding, which is exacerbated by fierce competition in a mature market.

On the other side of the spectrum, there are 216 million households earning less than US\$10,000 p.a. and affordability is still a significant concern. There is a compelling reason for retailers to develop private

brands of “reasonable quality” products which are accessible to these consumers.

Mastery of category management will be a competitive advantage for both online and offline retailers. It is with this in mind that we have prepared this study of category management practices in China.

This report is comprised of five sections :

- 1. Executive summary**
- 2. Overview of category management decisions**
- 3. Study of category management practices in China**
- 4. Category management and private brands for The New Consumer**
- 5. Conclusions and recommendations**



Source:

[1] Economist Intelligence Unit

Overview of category management decisions

Category management is a joint retailer-supplier process of managing categories as strategic business units, producing enhanced results by focusing on delivering value ^[1]. Making the right category management decisions is crucial for retailers to improve sales and, profitability and to gain customer loyalty. It involves making decisions on supplier relations, pricing, assortment planning, merchandising and private brand management.

This section sets out the key considerations for these decisions, which are backed by academic research. It also touches on the China context.



Source:

[1] NielsenIQ

[2] Sebenius, J. K., & Knebel, A. (2007). Tom Muccio: Negotiating the P&G relationship with Wal-Mart (A). Harvard Business School Case 907-004. Harvard Business School Publishing.

Supplier relations

- Effective category management requires long-term, trust-based collaboration between retailers and suppliers. A strong supplier partnership is crucial to category management and involves joint planning, data sharing and category-level strategies that improve both efficiency and profitability. ^[2]
- In China, there is an increasing willingness of retailers and suppliers to change from the conventional adversarial relationship to a collaborative approach.
- The ‘category captain’ model, whereby a leading supplier manages a product category on behalf of the retailer, can significantly enhance category performance. However, category captainship is not well understood in China.

Pricing

- The objective is to maximise overall category performance – optimising sales, profit and traffic while maintaining long-term relationships with consumers and suppliers
- Pricing varies depending on the strategic focus of the particular category: e.g. whether it is a traffic-building category or profit-driving category
- In China, fierce low-price competition forces retailers to defend traffic while they struggle with protecting margins
- Private brands are a pricing lever, allowing retailers to differentiate and avoid direct price wars

Overview of category management decisions

Assortment planning

- The objective is to determine the right assortment size and composition.
- Optimal assortment decisions require balancing consumer choice benefits vs operational complexity (inventory, shelf space, logistics)
- Large assortments make it easier for consumers to find products, but increase operational complexity and cost. Small assortments improve efficiency but limit consumer choice
- Data-driven assortment decisions where retailers rely on POS data, elasticity estimates, and demand forecasting models can achieve better SKU productivity and lower stockouts.
- Consumer substitution behaviour is critical. Understanding how shoppers substitute across SKUs allows retailers to remove low performing items without losing category sales.

Merchandising

- The aim is to optimise product availability, visibility, and shopper experience through effective procurement, inventory and stock out management, planogram design, management of promotional displays and store execution.
- Merchandising strategies should align with the role of each category. Retailers should tailor pricing , display and promotional investments according to category roles and manage cross-category trade-offs, since aggressive actions in one category can come at the expense of another category.
- A knowledge gap exists between retailers and suppliers especially for leading manufacturers which have built deep expertise in specific categories
- Collaborating with category captain suppliers can significantly enhance retailers' merchandising know-how, data analytics and shelf execution capabilities.

Private brands management

- Private brands are a key part of category management strategy
- They serve as a strategic lever to enhance category profitability and, shopper loyalty, while optimizing the portfolio balance between private and national brands
- Launching private brands in one category improves consumer perception of the retailer's entire private brand portfolio, thus boosting private brands sales in other categories as well
- Retailers can maximize spillover by first introducing private brands in categories that build trust (e.g. fresh food), then expanding into other categories.
- China's private brands share remains low signaling significant headroom for growth.

Study of category management practices in China

The objective is to better understand Chinese retailers' category management practices and provide recommendations for improvements.

Scope :

- Twelve grocery retailers covering 159 stores across Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan and Chengdu
- Four product categories : Packaged milk, Cooking oil, Laundry detergent , Bottled water

Data source :

- Hand-collected SKU-level data, planogram formats and stock-outs
- Interviews with executives from six retailers and two consumer goods manufacturers



Source:

Study of Category Management Practices in China, Han Yan Education Foundation Limited

Note: Study of Category Management Practices in China conducted between July-Sept 2023 followed by executive interviews conducted in 2024

Strategic Imperative to Advance Category Management & Private Brands

1

Local brands lead Top 10 SKUs across the categories

- Local brands dominate Top 3 rankings
- Foreign brands account for only 3 of the Top 10 for three of the four categories

2

Foreign retailers lead in private brands

- Foreign retailers account for over 40% of the Top 10 SKUs of the four categories

3

Assortment varies across stores of the same retailer

- Assortment size differs significantly among stores under the same retailer
- This may reflect a deliberate choice or operational inefficiency due to lack of standardisation in assortment planning
- Some retailers show a consistent SKU range, others vary widely, highlighting different levels of category management maturity across retailers

4

Private brands penetration

- Private brand penetration is low, with an average of 4.4% for the four categories
- There are wide variations across retailers in terms of their reliance on private brands, ranging from 1% to 27%

Study of category management practices in China

5

Relationship between assortment size and private brand penetration

- There is an inverse relationship between assortment size (total number of SKUs) and private brand penetration
- Some retailers choose to offer large assortments with very few private brands, while others offer smaller assortments with a relatively large number of private brands in their assortment.
- A similar inverse relationship also exists in the United States, but the strength of the relationship is not as strong

6

Categories with higher product innovation have broader assortment and lower private brand penetration

- Categories with low innovation have smaller assortments (e.g. Bottled Water)
- Product innovation drives assortment size, e.g.: Laundry detergent : new formula (pods, two-in-one formulas) expand SKUs
- Private brand penetration remains low for high-innovation categories, due to higher R&D cost and product development barriers
- Retailers should focus on private Brand expansion on low-differentiation categories, while partnering with national brand manufacturers for innovation-driven products

7

Average stockout rate is low by international standards

- Both retailers and suppliers set key performance indicators and continuously monitor inventory levels
- Chinese retailers benefit from lower labour costs, allowing more frequent replenishment, unlike western markets where higher labour costs constrain restocking frequency

8

Out-of-stock varies across retailers, stores, and cities

- Different retailers adopt different inventory management strategies. Some manage inventory independently while others collaborate with suppliers to jointly control replenishment and reduce out-of-stock risks
- Inventory control and replenishment effectively depend heavily on store manager leadership and on-floor execution discipline

9

Role of the store manager

- There are variations across retailers and across stores of the same retailer in terms of overall appeal of shelf displays (e.g. some stores do a better job of rearranging products to minimise negative visual impact of stockouts)
- Even with the same retailer and same city, certain stores show consistently higher private brand penetration across all categories
- Similar to other international markets, store managers play a critical role in ensuring consistent visual merchandising and shelf performance
- Retailers should identify top performing stores and educate store managers to adopt similar shelf management practices across all locations

Category management and private brands for The New Consumer

1

China's GDP per capita has grown steadily in the past ten years: +63% from US\$ 8,175 in 2015 to US\$ 13,303 in 2024. **The upper middle-income population continues to grow rapidly.**

According to EIU estimates, the number of households with disposable income of US\$25,000 p.a. or more increased by 207% in this ten-year period to 64 million. It is forecast to increase further to 116 million households by 2029.

The entire middle-income population (with income of US\$15,000 p.a. or above) represents 35% of the total population, covering 167 million households, or 480 million individuals.

2

China's private consumption (% of GDP) has traditionally been low, at 40%, compared to its Western counterparts (68% in the US and 61% in the UK).

The EIU has forecast private consumption to increase by 3% to 43% by 2029.

Based on 2024 GDP, a one percentage point increase in private consumption will translate into US\$ 190 billion.

3

China's consumer market remains a cornerstone of the country's economic future.

To boost consumer confidence, the Chinese leadership has implemented several initiatives. These include measures to stabilize the housing market, as well as increased investment in the social safety net, such as launching a nationwide childcare subsidy program, raising the basic retirement pension and extending medical and pension insurance coverage to gig - workers – groups traditionally excluded from formal welfare systems.

4

Retailers and manufacturers should collaborate and jointly tap latent spending potential.

Retailers need to leverage data and technology to significantly elevate the category management skills in assortment planning, merchandising and expansion of private brand offerings.

5

China lags behind the US and Europe in private brand penetration.

In China's top 100 supermarkets, private brand market share reached 5% in 2022.

By contrast, this figure in 2024 **stands at 20.7% in the US and above 30% in EU countries.**

Chinese retailers have been stepping up their expansion of private brand offerings in the past few years, but there is still a lot of room to grow.

Category management and private brands for The New Consumer

6

US retailers have been pushing private brands aggressively; sales have increased by 24% in the last four years.

In Europe, where private brand penetration is high, there has been notable growth in Spain and Portugal - reaching 43% and 39% private brand share respectively in 2024.

7

The Private Label Manufacturers Association (PLMA) attributes this growth to the value, quality, and innovation that private brands provide, with consumers increasingly looking for products that offer simple health benefits and ethical choices.

8

As China's consumer market increases in maturity, amid fierce competition, the expansion of **private brands is becoming a strategic imperative for Chinese retailers to improve margins and customer loyalty.**

9

Low private brand penetration in China may be partly due to perceived quality concerns.

Nowadays, products made in China are of good quality and affordable priced. There have been significant improvements in food, and product safety and reliability; and all are produced with quick response rates.

Consumers are now ready to embrace Chinese brands recognised for quality, innovation, and accessibility.

The current study notes that local brands have a dominant share of the Top 10 SKUs across the four categories.

10

In PwC's Voice of the Consumer 2025 Global Survey - China report, it is noted that Chinese respondents buy locally produced goods because they think they are healthier (50% vs global 45%) and are of higher quality (43% vs global 40%).

The survey also reveals that Chinese consumers favour food with high nutritional value (34% vs global 27%), which is organic (25% vs global 13%) and which addresses specific dietary needs (23% vs global 11%).

These are areas which private brands and categories can research further to meet consumer aspirations. Private branded foods which are healthy, environmentally friendly and, affordable, while maintaining a reasonable margin, would be ideal.



Conclusion and recommendations

Chinese and western retailers differs in the maturity level of their category management

1. **Chinese and western retailers operate under similar category management decision pillars** – supplier relationships, assortment, pricing, merchandising, and private brand development
2. **Chinese retailers excel in maintaining low stockout rates, compared to their Western counterparts. Chinese retailers are also early adopters of technology and AI to improve sales and efficiency.** Selective retailers have strong tech-driven online-offline integration with instant delivery capabilities.
3. **Western retailers have stronger relationships with manufacturers. They have mature private brands,** whereas these have not yet reached maturity in China. **Western retailers also rely heavily on category captains,** which Chinese retailers seem hesitant to work with.
4. **What Chinese retailers are going through right now mirrors what American retailers went through in the late 1990's and 2000's.** That is, Chinese retailers acknowledge the importance of:
 - Category management
 - Building stronger partnerships with suppliers to leverage their expertise
 - Developing strong private brand programs
5. **Although it took decades for Western retailers to achieve these goals, advances in information technology might allow Chinese retailers to have a much faster pace and shorten the traditional development curve.**



Conclusion and recommendations

The future of category management of China

1. **The next frontier for category management in China lies in combining international best practice** (e.g. data-driven collaboration , trust based supplier partnerships, mature private brand management) **with Chinese market realities** – such as regional diversity, evolving consumer trust, and omni-channel integration.
2. **The analysis reveals that variation within the Chinese landscape are larger than the difference between local and international players** – indicating that global know-how alone does not guarantee stronger execution in China's complex market.
3. What **“China can learn from China”**: Chinese retailers can identify and amplify domestic success cases in assortment precision, private brand building and supply chain agility to accelerate capability development across the sector.



Retailers in China have made tremendous progress during the last few decades.

The next few years will call for Chinese retailers to continue innovating in product development and in business practices to serve consumers better and improve business performance. Chinese retailers can identify innovative practices within their own chains. They should also seek to adopt innovative practices that have worked for other retailers — in China and elsewhere. The future is very exciting.”

Ananth Raman, Professor
UPS Foundation Professor of Business Logistics
Co-Unit Head, Technology and Operations Management
Harvard Business School

Conclusion and recommendations

For retailers

1. **Identify and scale domestic best practice across regions and store formats** to reduce performance variation and improve category management consistency
2. **Enhance private brand penetration, beginning with low-differentiation categories** (e.g., bottled water) where technical barriers are lower, before expanding into innovation-driven categories
3. **Adopt a portfolio mindset in category decisions** - optimise the mix of national and private brands to maximise overall category performance, not just single-SKU profitability
4. **Strengthen partnerships with suppliers to access category expertise** and co-develop product, pricing, and planogram strategies
5. **Explore new forms of category captainship** that emphasise co-creation and data collaboration while preserving retailer autonomy
6. **Leverage data and digital tools for end-to-end execution** - from assortment planning and pricing analytics to real-time stock monitoring and shelf optimisation

For suppliers

1. **Engage as strategic partners, not just vendors** - collaborate closely with retailers to share consumer insights, category trends, and technical know-how
2. **Serve as category captains in selected categories**, providing actionable advice on assortment, pricing, and merchandising that enhances overall category value
3. **Co-build data and analytics platforms** to enable transparent, performance-based collaboration and faster decision cycles
4. **Invest in supply chain flexibility and customisation**, enabling quicker product development, regional adaptation, and responsiveness to retailers' needs
5. **Develop sustainable and differentiated product pipelines**, aligning with retailers' assortment strategies and consumer expectations for premium quality and their functional and emotional needs

Overview of category management decisions

2

What is category management? Why it matters

Definition

Category management is a retailing practice in which retailers group products with similar characteristics (e.g., cooking oil, milk, laundry detergent) into categories and **treat each category as a strategic business unit** ^[1]

Benefits

Category management allows a retailer to maximize the overall category performance (typically measured by sales or profitability of the entire category) by coordinating decisions among different brands and products ^[1]

- **Improve sales** by optimizing product mix and shelf visibility
- **Improve profitability** through margin management and supplier collaboration
- **Support decisions** on:
 - which brands to carry, and
 - which products to prioritize within each category

Key decisions

Category management involves aligning strategic and operational choices across the following areas ^[1, 2]:

- Supplier relations
- Pricing
- Assortment planning
- Merchandising
- Private brand management

Source:

[1] ACNielsen. 2005. Consumer-Centric Category Management: How to Increase Profits by Managing Categories Based on Consumer Needs. Wiley, Hoboken, NJ.

[2] Alan, Y., Dotson, J. P., & Kurtulus, M. (2017). On the competitive and collaborative implications of category captainship. Journal of Marketing, 81(4), 127-143.

Key decisions in category management: **Supplier relations**

Objective

Effective category management requires **long-term, trust-based collaboration between retailers and suppliers** ^[1]

Strong supplier partnerships enable shared category vision, co-developed innovations, and sustainable margin improvement over time

Key dimensions to balance

- Retailers and suppliers constantly **negotiate cost distribution**. Both must manage costs and protect product quality amid fierce price competition
- **Private vs. national brands:** Over-favouring private brands can boost short-term margins but risks straining supplier relations and reducing category diversity
- **Category captainship vs. autonomy:** Category Captains provide valuable analytics and category know-how, but retailers also need to safeguard objectivity and decision independence

Challenge

Establishing a collaborative relationship between a retailer and a supplier **takes time and requires a strategic vision and mutual trust** ^[2] (*see the following slides on the P&G and Wal-Mart case*)

Influence factors

- Suppliers can influence retailers' category management decisions by making side payments (e.g., slotting allowances, pay-to-stay fees, shelf display fees) to retailers ^[3,4]
- Some retailers assign a leading manufacturer in the category as a **category captain**, which provides category advice to the retailer ^[1], including consumer insight, assortment expansion and pricing etc

Source:

[1] Alan, Y., Dotson, J. P., & Kurtuluş, M. (2017). On the competitive and collaborative implications of category captainship. *Journal of Marketing*, 81(4), 127-143.

[2] Sebenius, J. K., & Knebel, A. (2007). Tom Muccio: Negotiating the P&G relationship with Wal-Mart (A). Harvard Business School Case 907-004. Harvard Business School Publishing.

[3] Alan, Y., Kurtuluş, M., & Nakkas, A. (2024). Retail category management with slotting fees. *Manufacturing & Service Operations Management*, 26(3), 1119-1136.

[4] Rivlin, G. 2016. Rigged: Supermarket Shelves for Sale. Center For Science in the Public Interest

P&G and Wal-Mart case: The Pampers example ^[1]

Before - Lose lose situation

- P&G: each Pampers unit cost \$0.90 to produce and was sold to Wal-Mart at \$1.00 - still profitable.
- Wal-Mart: priced the same pack at \$0.83 under its Everyday Low Price (EDLP) strategy to stay competitive - losing \$0.17 per unit.
- The retailer pushed P&G to cut wholesale prices, but doing so would erode P&G's margins and eventually make production unsustainable.
- Both sides were locked in a zero-sum margin battle, with no path toward mutual gain



After - Joint problem solving

- Muccio's team realized Wal-Mart only sold one size of Pampers, and they proposed introducing a larger-sized pack with the same wholesale price
- The new pack could retail at \$0.95 (vs. \$0.83), reducing Wal-Mart's loss to just \$0.05 per unit while allowing P&G to keep its original margin.
- P&G actively merchandised the larger size. Wal-Mart re-built its displays to feature the larger size product
- **This initiative shifted the partnership from adversarial price negotiations to a shared value-creation model**

Outcomes: Margin conflicts resolved without cutting P&G's price. Inventory turnover rose from 20 to 75 times per year, a result "thought to be impossible, but it happened." – Tom Muccio ^[2], team leader of the P&G – Wal-Mart Global Relationship

Source:

[1] Sebenius, J. K., & Knebel, A. (2007). Tom Muccio: Negotiating the P&G relationship with Wal-Mart (A). Harvard Business School Case 907-004. Harvard Business School Publishing.

[2] Tom Muccio was P&G leader in negotiating the early operational components of the supplier-retailer partnership between P&G and Wal-Mart in 1997 and ultimately serving as Team Leader of the P&G-Wal-Mart Global Relationship through 2003.

P&G and Wal-Mart case: Redesigning the relationship - Long-term trust building and structural change ^[1]

Trust building actions

- **Proximity & cultural understanding:** Muccio relocated from Cincinnati (P&G headquarter) to Bentonville (Wal-Mart headquarter location), staying close to Wal-Mart to understand its culture and real decision-making logic
- **Redefining negotiation:** Shifted the mindset from “negotiation equals compromise”. Ensured all parties had access to the same information, so decisions could converge naturally instead of being forced.
- **Giving incentives:** Mapping the negotiation in the context of the recognition and reward systems of each individual, both internal and external to P&G and Wal-Mart, e.g. giving half saving credit to Wal-Mart buyers applying new P&G pre-built display
- **Shared data:** Combine data sets (including company, customer, supplier) together to tackle complex problems. Handle confidentiality with care, e.g., senior Wal-Mart team members had to complete a “cleansing assignment” before transitioning to other roles.

Structural change

- **Diagnosing internal inefficiencies:** A senior management-commissioned multifunctional taskforce examined P&G’s operations, competitors, and industry structure. It found that P&G acted like “two companies”: coordinated internally but fragmented externally - “it was not unusual for 5-6 P&G salesperson to be at the same customer headquarters or retail store at the same time”
- **Systemic reorganization:** Integrated manufacturing, engineering, buying, and customer service into one “Product Supply” organization to reduce costs and improve speed. Reorganized into smaller category-led business units.
- **Embedding accountability & feedback loops:** Regularly met with both P&G and Wal-Mart stakeholders to document concerns and confirm understanding through written memos. Formally assigned “decision owners” and backup owners to each Wal-Mart decision point, embedding shared accountability and preventing backsliding

Establishing a collaborative relationship between a retailer and a supplier takes time and requires a strategic vision and mutual understanding based on trust.

Source:

[1] Sebenius, J. K., & Knebel, A. (2007). Tom Muccio: Negotiating the P&G relationship with Wal-Mart (A). Harvard Business School Case 907-004. Harvard Business School Publishing.

Supplier relations and category captains

- 1. Category captainship is a retailing practice wherein a retailer collaborates with one of the manufacturers in a product category** (referred to as the captain) to develop and implement category strategy.
- The combination of **retailers' lack of resources and manufacturers' superior knowledge creates supply chain collaboration opportunities**.
- Accordingly, many retailers manage some of their categories in collaboration with one of their leading manufacturers. ^[1]
- 4. Category captainship has been widely adopted by retailers in the US and Europe** and has become a dominant strategy in retail management and a key component of category management.
- 5. Category captains can significantly lift category performance** (sales +19%). ^[1]
- 6. Retailers often protect private brands in Category Captain arrangements, sometimes at the expense of category sales.** Eg retailer explicitly protected private brands by reducing shelf presence of competing low-price national brands products. ^[1]
- If the retailer had not protected private brands, overall category sales would have been higher, but private brands sales would have declined. ^[1]
- 8. Category captainship enhances category efficiency but redistributes values** – much of the efficiency gain flows to the captain manufacturer, while retailers and competitive brands lose part of their control. ^[2]
- 9. Retailers must establish governance mechanisms or multi-captain structures to retain strategic authority.** ^[2]

Source:

[1] Alan, Y., Dotson, J. P., & Kurtuluş, M. (2017). On the competitive and collaborative implications of category captainship. *Journal of Marketing*, 81(4), 127-143.

[2] Nakkas, A., Alan, Y., & Kurtuluş, M. (2020). Category captainship in the presence of retail competition. *Production and Operations Management*, 29(2), 263-280.

Supplier relations in China: Slotting fees from access rent to performance partnership

	Traditional Retailers (Fee-based access)	Membership & Collaborative Retailers (Performance-based)
Business logic	Retailer charges entry, display, packaging, and management fees - suppliers buy shelf access	Retailer focuses on product strength and gross margin - suppliers earn presence through differentiation
Who gains	Retailer (short-term stable cash flow)	Both (shared efficiency & margin growth)
Supplier incentive	Buy visibility, short-term sell-in	Innovate and co-develop high-performing SKUs
Retailer role	Platform operator, rent collector	Category co-creator, efficiency optimizer



“Traditional retailers acted as distributors - charge slotting, display, and access fees for shelf space. Today, the focus has shifted to profitability of the product. Premium membership retailers rarely charge such fees, more like seeking differentiated hero SKUs instead.

– A leading domestic food and beverage supplier

”

Supplier relations in China:

Early collaboration, limited category captain adoption

Main shift

Both multinational and domestic retailers in China still tend to make independent category decisions. **The “Category Captain” model is not yet widely understood or adopted.**

Emerging collaboration is occurring, partnerships are focused on product co-development and leveraging supplier insights, and remain uneven and case-by-case across categories and retailers.

Some retailers actively seek supplier expertise in marketing, shopper insight, and promotion planning. Others prefer to retain full control of category decisions, treating supplier input as reference, not direction.

Examples from the field

- Leading domestic F&B supplier × MNC hypermarket chain co-developed Selected Pasture milk to address lactose-intolerance pain points; achieved 53× sales growth in the launch month - proving the power of segmentation and joint innovation.
- Major FMCG supplier x domestic supermarket chain jointly designed exclusive paper products through co-research and co-creation
- Premium domestic supermarket worked with suppliers to create custom packaging, bundle formats, and exclusive editions, offering shoppers a unique and curated assortment not found in other channels.

Implication

- For retailers
 - **Partner with suppliers to create category-focused or niche-segment assortments**, enhancing experience and differentiation.
 - **Deepen cooperation through AI, big-data-driven demand forecasting**, and data sharing for precise marketing and product positioning.
- For suppliers
 - **Compete through capability, not just access:** Success now depends on co-developing products and insights, not just gaining shelf space.
 - **Build joint innovation capability**, agile supply, and shared sustainability goals to strengthen long-term ties.

Key decisions in category management: **Pricing**

Objective	Key dimensions to balance ^[1, 3]	Challenge	Influence factor
<ul style="list-style-type: none">• To set prices that maximize overall category performance ^[1, 2] - optimising sales, profit, and traffic - while maintaining long-term relationships with consumers and suppliers• Pricing in category management is fundamentally a portfolio optimization process, aligning short-term competitiveness with long-term profitability	<ul style="list-style-type: none">• Aggressive low pricing helps attract traffic and defend against competitors, but sustained price cuts can trigger destructive price wars and margin erosion• High-margin pricing supports profitability and brand image, yet may weaken competitiveness and reduce consumer traffic• Dynamic price adjustments enable short-term responsiveness but risk confusing consumers and damaging long-term trust with both shoppers and suppliers	<ul style="list-style-type: none">• Pricing is inherently complex because adjusting the price of one product can influence the demand for others within the same category ^[1, 2, 3]• In China's hyper-competitive retail environment, this challenge is amplified by fierce low-price competition, rising consumer price sensitivity, and omnichannel rivals that constantly pressure retailers to cut prices, striking a delicate balance between competitiveness and profitability	<ul style="list-style-type: none">• Category objectives: Pricing varies depending on strategic focus - traffic-building categories vs. profit-driving categories• Cost & margin control: Fierce low-price competition forces retailers to defend traffic while struggling to protect gross margins• Private brands as a pricing lever: Private labels offer greater pricing flexibility and higher margins, allowing retailers to differentiate and avoid direct price wars



Never before have people been so price-sensitive – An international retailer

Source:

[1] Dhar, S.K., Hoch, S.J. and Kumar, N., 2001. Effective category management depends on the role of the category. *Journal of Retailing*, 77(2), pp.165-184.

[2] Zenor, M.J., 1994. The profit benefits of category management. *Journal of Marketing Research*, 31(2), pp.202-213.

[3] Alan, Y., Kurtuluş, M., & Wang, C. (2019). The role of store brand spillover in a retailer's category management strategy. *Manufacturing & Service Operations Management*, 21(3), 620-635.

Key decisions in category management: Assortment planning

Objective	Key dimensions to balance ^[1, 2]	Challenge	Influence factor
<ul style="list-style-type: none">To determine the right assortment size and composition to maximize category performance ^[1]	<ul style="list-style-type: none">Optimal assortment decisions require balancing consumer choice benefits vs operational complexity (inventory, shelf space, logistics)Large assortment: Easier for consumers to find products they like, but increases operational complexity and costSmall assortment: Reduces complexity and improves efficiency, but limits consumer choice; variety-seeking shoppers may go elsewhere	<ul style="list-style-type: none">Choosing the right assortment is challenging because national brand suppliers offer far more SKUs than retailers can carry ^[1], forcing difficult selection and prioritization decisions.Research by Kok, Fisher & Vaidyanathan (2015) highlights that most retailers still rely on rule-of-thumb methods rather than quantitative optimization models. An easy-to-use analytical tool is needed^[1]	<ul style="list-style-type: none">Data-driven assortment is superior to intuition-based decisions. Retailers that rely on POS data, elasticity estimates, and demand forecasting models achieve better SKU productivity and lower stockouts ^[1]Consumer substitution behaviour is critical. Demand models must capture how customers shift to alternatives when a preferred SKU is unavailable. Understanding how shoppers substitute across SKUs allows retailers to remove low performing items without losing category roles. ^[1]Successful assortment planning requires alignment between marketing, merchandising and supply chain. ^[1]Category captains can significantly lift category performance (sales +19%) ^[3]Category captain suppliers can shape retailers' assortment decisions to their advantage ^[2]

Source:

[1] Kok A.G., Fisher M.L., Vaidyanathan R. (2015) Assortment planning: Review of literature and industry practice. Agrawal N, Smith S, eds. Retail Supply Chain Management (Springer, New York), 175–236.

[2] Nakkas, A., Alan, Y., & Kurtuluş, M. (2020). Category captainship in the presence of retail competition. Production and Operations Management, 29(2), 263-280.

[3] Alan, Y., Dotson, J. P., & Kurtuluş, M. (2017). On the competitive and collaborative implications of category captainship. Journal of Marketing, 81(4), 127-143.

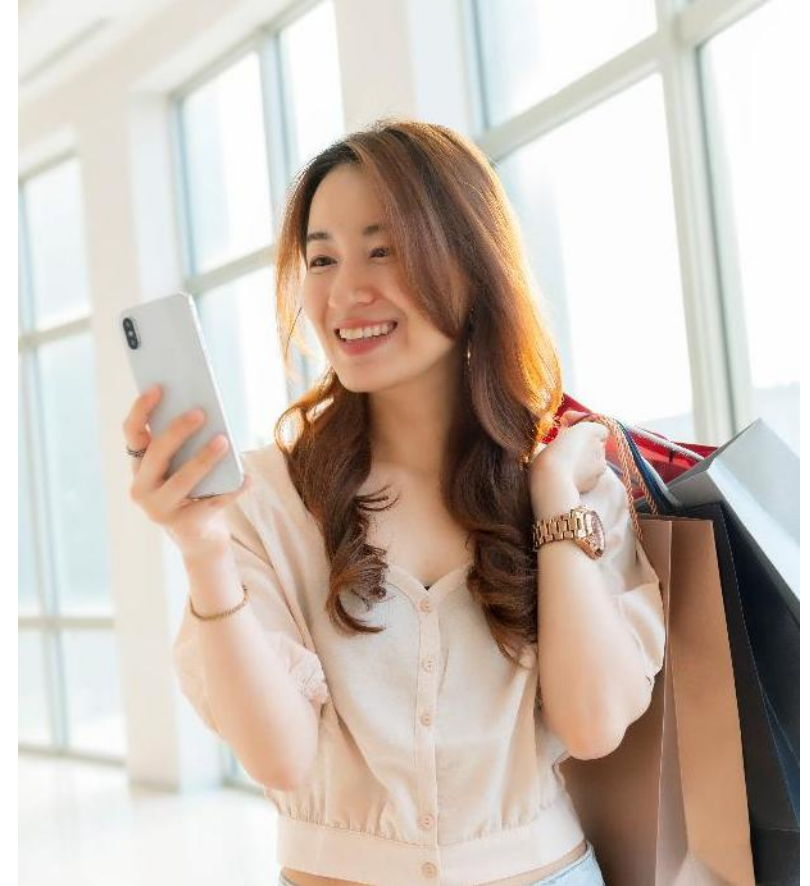
Assortment planning in practice: China is evolving from “big and broad” to “selective and quality”

Main shift

- New retail and membership-based formats are moving **from “consumers looking for products” to “products looking for targeted consumers”** that better predict consumer needs and personalize product offerings
- Traditional hypermarkets once relied on large-scale, low-price formats with tens of thousands of SKUs. Today, they are also streamlining assortments, emphasizing quality and selective products to enhance shopping experience and consumer satisfaction

Examples from the field

- **Membership-based retailer focuses on “fewer but better”: only around 4,000 SKUs, compared with 15,000–20,000 in traditional hypermarkets.** Each item is carefully selected to meet member needs and ensure consistent quality
- Large national hypermarket chain also transits to a similar path, planning to reduce SKU count to about 5,000 in its hypermarkets, shifting focus to premium and efficient assortment management



Key decisions in category management: Merchandising

Objective	Key dimensions to balance	Challenge	Influence factor
<p>To optimize product availability, visibility, and shopper experience through effective procurement, inventory and stock-out management, planogram design, management of promotional and end-cap displays, and store execution ^[1].</p> <p>Control of shelf will lead to control of consumer attention/experience and effective OOS (out-of-stock)</p>	<ul style="list-style-type: none">• Procurement: aligning product sourcing with category role and strategy• Inventory & stock-out management: balance between on-shelf availability and efficient inventory levels to avoid overstock or stockouts.• Planogram design: ensuring the right placement and visibility of products through planogram optimization, promotional displays, and end-caps• Store execution: translating planograms and inventory plans into consistent on-floor implementation	<p>A knowledge gap exists between retailers and suppliers ^[2], especially category captains. Leading manufacturers have deep expertise in specific categories, while retailers manage hundreds of categories, making it unfeasible for them to develop equal depth in each</p> <p>→ Collaborating with category captain suppliers can significantly enhance retailers’ merchandising know-how, data analytics, and shelf execution capabilities ^[3]</p>	<ul style="list-style-type: none">• Merchandising strategies should align with the role of each category, as emphasized by Dhar, Hoch & Kumar (2001)• No single merchandising approach fits all categories. Retailers must tailor pricing, display, and promotional investments according to category roles and manage cross-category trade-offs, since aggressive actions in one category can come at the expense of others ^[4]

Source:

[1] ACNielsen. 2005. Consumer-Centric Category Management: How to Increase Profits by Managing Categories Based on Consumer Needs. Wiley, Hoboken, NJ.

[2] Nakkas, A., Alan, Y., & Kurtuluş, M. (2020). Category captainship in the presence of retail competition. Production and Operations Management, 29(2), 263-280.

[3] Progressive Grocer, 2024. Progressive Grocer Declares This Year’s Category Captains

[4] Dhar, S.K., Hoch, S.J. and Kumar, N., 2001. Effective category management depends on the role of the category. Journal of Retailing, 77(2), pp.165-184

Key decisions in category management: **Private brands management**

Objective

Private brands are a key part of category management strategy.

They serve as a **strategic lever** to enhance **category profitability, shopper loyalty, and retailer bargaining power**, while optimizing the portfolio balance between private and national brands.

Key figures

- **U.S.: Private brand sales hit an all-time record of \$271 billion in 2024 (+3.9% YoY), reaching 20.7 % dollar share and 23.1 % unit share** ^[1]
- **Western Europe:** Private brand value share averages ~ 38 %, with Switzerland ~52 %, UK ~43 %, Germany ~40 %, and France ~37 % ^[1]
- **China: Private brand share is low at ~5 % (top-100 supermarkets, latest public data 2022), signalling large headroom for growth** ^[2]

Challenge

- A perceived quality gap persists between national brands and private brands. **Consumers often associate low Private Brand prices with poor quality**, relying on price as a quality cue ^[3]
- At the same time, **Private Brand pricing and shelf presence must be managed at the category level** - too aggressive a stance risks cannibalising national brands, while too cautious an approach misses profit opportunities.

Influence factor

- **Launching a private brand in one category improves consumer perception of the retailer's entire private brand portfolio**, boosting private brand sales in other categories as well ^[4]
- **Private brands are strategically valuable beyond category profits**, they generate cross-category loyalty and can justify loss leader pricing ^[4]
- **Retailers can maximise spillover by first introducing private brands in categories that build trust** (e.g. fresh food), then expanding into other categories. ^[4]
- **“Embedding category managers within retail ecosystems could help private brands align better with retailer goals and consumer expectation”** ^[5]
- **Private brands achieve higher market share in low-differentiation categories**, where quality perception gaps are smaller, e.g. bottled water, milk, salt.

Source:

[1] Private Label Manufacturer Association's 2025 Private Label Report

[2] Share of sales of private label business in leading 100 supermarkets in China

[3] Steenkamp, J.B.E., 2024. What is holding private label back in the United States and in emerging markets?. Journal of Retailing, 100(1), pp.56-69.

[4]] Alan, Y., Kurtuluş, M., & Wang, C. (2019). The role of store brand spillover in a retailer's category management strategy. Manufacturing & Service Operations Management, 21(3), 620-635.

[5] Sebenius, J. K., & Knebel, A. (2007). Tom Muccio: Negotiating the P&G relationship with Wal-Mart (A). Harvard Business School Case 907-004. Harvard Business School Publishing.



Study of category management practices in China

Project objective & scope

To better understand and improve Chinese retailers' category management practices.

Scope & methodology

- Twelve grocery retailers, 159 stores across Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan, Chengdu
- Four product categories: Packaged Milk, Cooking Oil, Laundry Detergent, Bottled Water
- Data sources include
 - Hand-collected SKU-level data, planogram formats and stockouts
 - Interviews with retail and supplier executives (six retailers and two consumer goods manufacturers)
 - The retailer sample represented a diverse range of formats, spanning hypermarkets, premium supermarkets, and boutique grocery formats

Category choice

- Categories were selected based on their degree of product differentiation and innovation. Categories with higher innovation rates have more new product introductions and broader SKU ranges
 - Low differentiation/innovation: Bottled Water
 - High differentiation/innovation: Packaged Milk, Cooking Oil, Laundry Detergent



Development of grocery retail in China

China's retail industry has evolved from learning foreign models, to rapid expansion, to digital disruption, and now into an era of data-driven, experience-centric retailing

1990S - LEARN

Early Adoption

- Learning advanced retail concepts
- Localization & consumer education
- Entry of Carrefour, Walmart, AEON
- Start of Lianhua, Wumart

2000S - EXPAND

Rapid Development

- Rising income & confidence
- Store boom and scale pursuit
- Start of Olé (China Resources Vanguard) with premium, imported goods

2010S - DIGITIZE

E-commerce Rise

- Online shopping surge reshaped habits, e.g. Taobao, JD.com
- O2O experiments by traditional retailers
- Growing price transparency & convenience

2020S - REINVENT

New Retail and Competitive Shuffle

- Post-COVID cautious consumers
- Omnichannel fragmentation & membership boom
- Focus on data, experience, and differentiation
- Rise of Hippo Fresh, Sam's, Costco

Source:

An Overview of the retail industry in China 1997-2019, PwC, 2019

Local brands lead Top rankings across categories

TOP 10 SKUs brand by category

Rank	Packaged Milk	Cooking Oil	Laundry Detergent	Bottled Water
1	Local	Local	Local	Local
2	Local	Local	Local	Local
3	Local	Local	Local	Foreign
4	Local	Local	Foreign	Local (HK)
5	Foreign	Local	Foreign	Local
6	Local	Foreign	Local	Foreign
7	Local	Local (HK)	Foreign	Local
8	Foreign	Local	Local	Foreign
9	Foreign	Foreign	Foreign	Local
10	Local (HK)	Foreign	Foreign	Local

Local brands lead Top 3 rankings across categories

- In 3 out of 4 categories, local brands dominate Top 3 rankings
- Ratio of foreign brand in Top 10 are:
 - Packaged Milk: 3/10
 - Cooking Oil: 3/10
 - Laundry Detergent: 5/10
 - Bottled Water: 3/10
- Generally speaking, it might be easier for foreign retailers to bring their know-how and existing private brands to China than a domestic retailer developing a private brand. This might explain why foreign retailers lead in private brand penetration.

Foreign retailers lead in private brands penetration

TOP 10 private brand by category

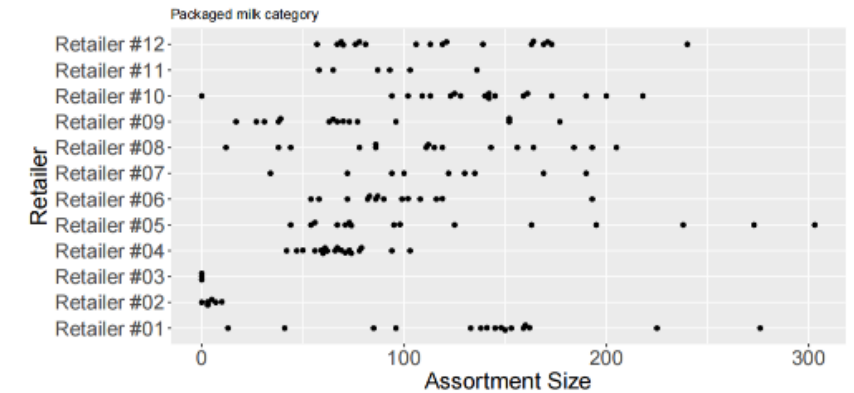
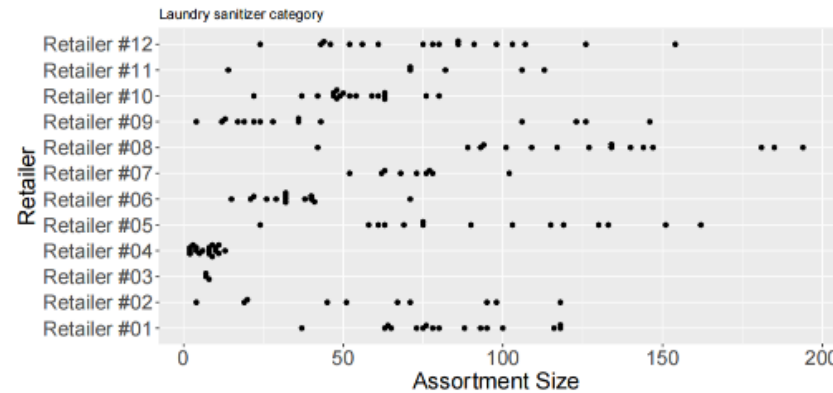
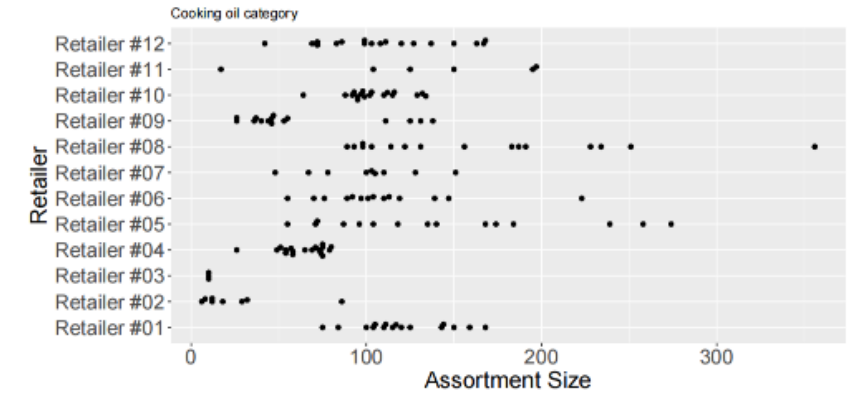
Rank	Packaged Milk	Cooking Oil	Laundry Detergent	Bottled Water
1	Foreign	Local	Foreign	Local
2	Local	Foreign	Local	Foreign
3	Foreign	Local	Foreign	Local
4	Foreign	Foreign	Local	Local
5	Local	Foreign	Local	Local
6	Foreign	Local	Local	Local
7	Local	Foreign	Local	Foreign
8	Local	Local	Foreign	Local
9		Local	Local	Foreign
10		Local	Foreign	Foreign

Foreign retailers drive nearly half of private brand SKUs

- Across 4 categories, foreign retailers account for over 40% of 38 SKUs
- Breakdown by category:
 - Packaged Milk: 4/8
 - Cooking Oil: 4/10
 - Laundry Detergent: 4/10
 - Bottled Water: 4 /10

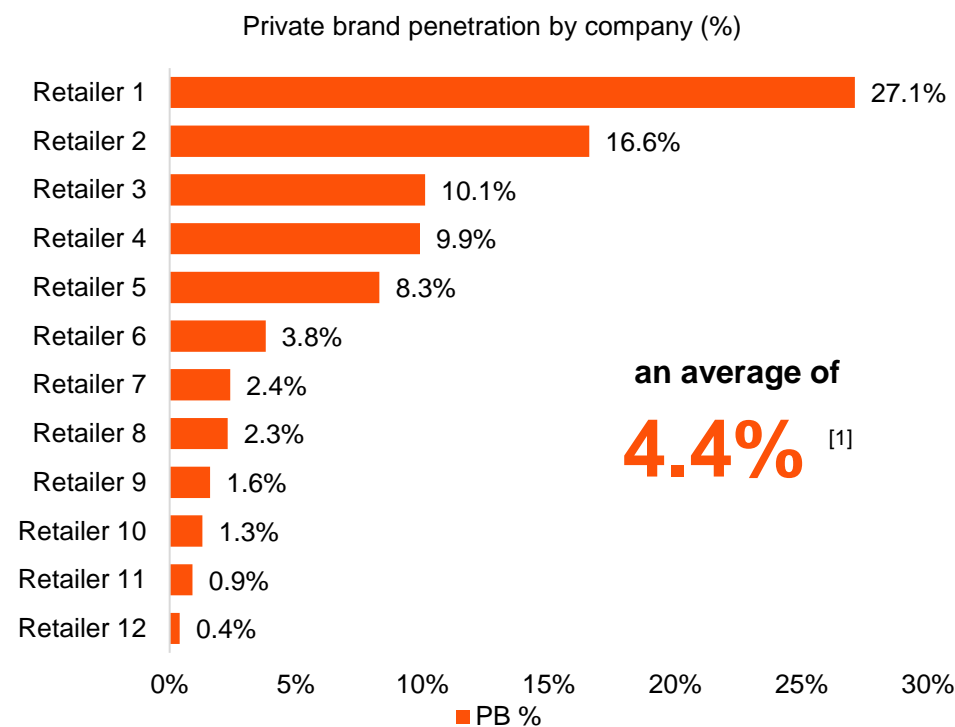
Assortment varies across stores for same retailer

- Assortment width differs significantly among stores under the same retailer
- Variations may reflect:
 - Deliberate choice (store size or local market demand)
 - Operational inefficiency (lack of standardisation in assortment planning)
- Some retailers show a consistent SKU range, others vary widely, highlighting different levels of category management maturity across retailers



Private brands penetration

Private brand penetration by retailers

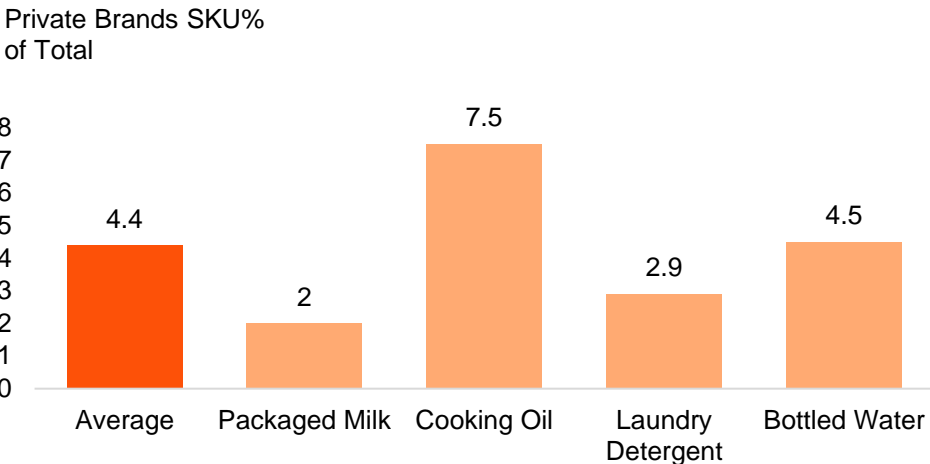


Source:

[1] 4.4% represents the average share of Private Brand SKUs among total SKUs across four categories in sampled stores, similar to Statista's 5.5% estimate for China (Share of sales of private label business in leading 100 supermarkets in China)

[2] <https://www.mordorintelligence.com/industry-reports/china-dairy-market>

Private brand penetration by category

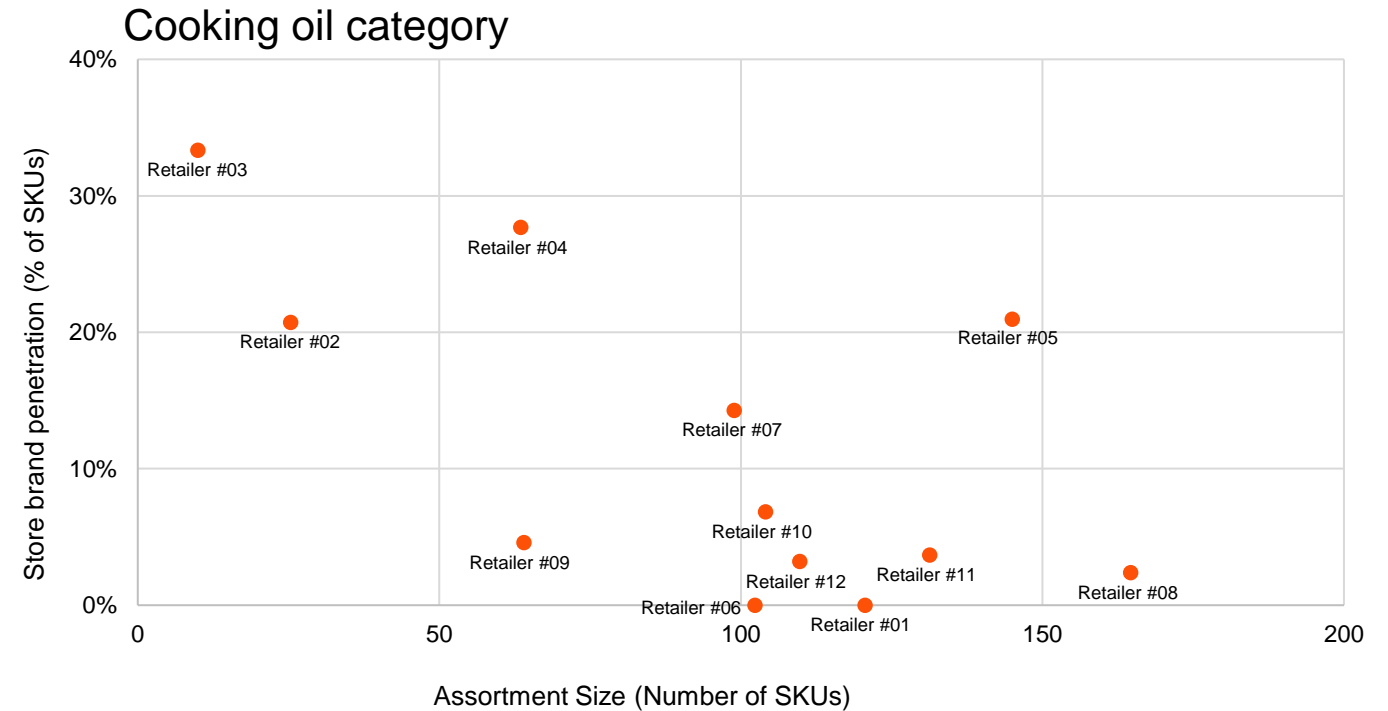


Packaged Milk shows the lowest private brand penetration at around 2%, which may be due to

- Dominant national players: The Chinese dairy market is dominated by two major domestic players - Yili Group and Mengniu Dairy ^[2], setting strong brand and quality benchmarks
- Cold-chain complexity: End-to-end cold-chain adds cost and shrinkage risk, leaving little room for Private Brand margins.
- High consumer sensitivity: Milk is a high-frequency, all-age staple , any quality concern (e.g., melamine incident) drives consumers to trusted national brands.

Relationship between assortment size and private brand penetration

- There is a negative relationship between assortment size (total number of SKUs) and Private Brand penetration
- Some retailers choose to offer large assortments with very few Private Brands while others offer smaller assortments with a relatively large number of Private Brands in their assortment.
- A similar negative relationship also exists in the United States, but the strength of the relationship is not as strong



The data shows a negative relationship between assortment size (total number of SKUs) and private brand penetration (number of store brand SKUs)

Categories with higher degrees of product innovation and differentiation have broader assortment and lower private brand penetration

Product innovation drives assortment size

- Categories with low innovation have smaller assortments (e.g., Bottled Water)
- Categories with high innovation and differentiation feature broader assortments
 - Laundry Detergent: new formats (pods, two-in-one formulas) expand SKUs
 - Cooking Oil: multiple variants (avocado, canola, olive, vegetable) drive SKU increase
 - Packaged Milk: introduction of plant-based alternatives adds diversity

Innovation creates barriers to private brand penetration

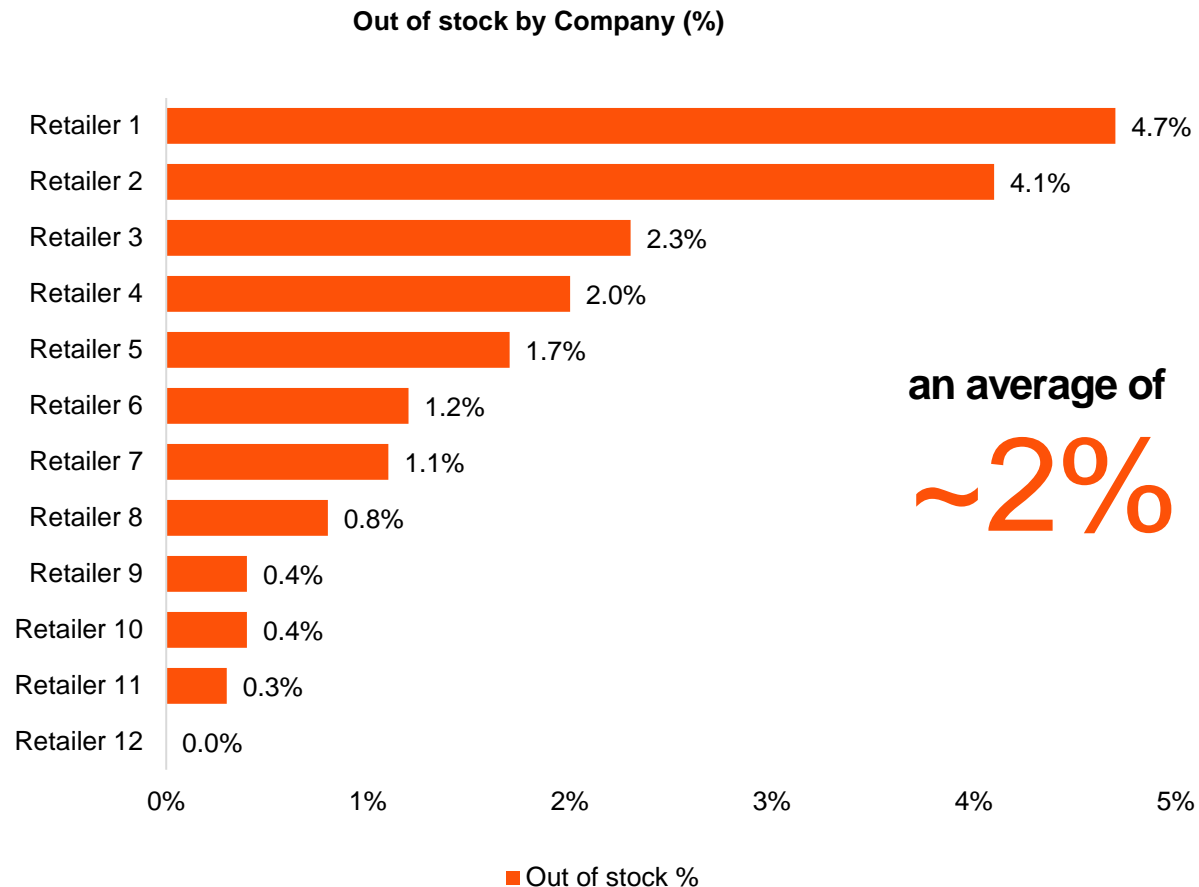
- Private brand penetration is higher in categories with low differentiation (e.g., Bottled Water), lower in categories with high innovation
- In high-innovation categories, private brand penetration remains lower due to:
 - Knowledge and technical gap between retailers and suppliers
 - Higher R&D cost and product development barriers

Implication:

Retailers should focus private brand expansion on low-differentiation categories, while partnering with manufacturers for innovation-driven ones



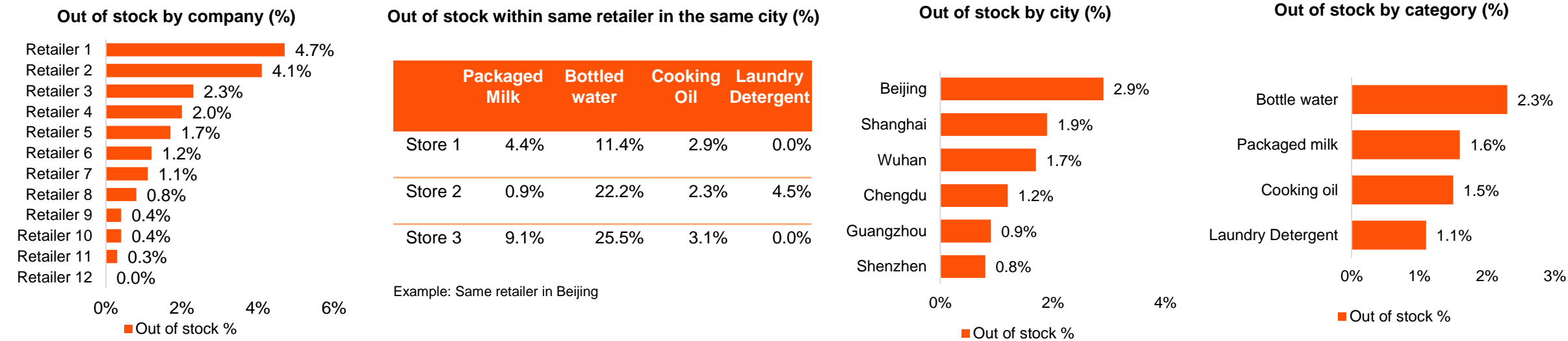
Out of stock by company



Average stock-out rate remains low across twelve retailers and six cities

- Both retailers and suppliers set key performance indicators and continuously monitor and oversee inventory levels.
 - Retailer example: An MNC grocery retailer operates a strict monitoring system with two key indicators - *zero inventory availability rate* and *three-day availability rate*. A dedicated Data Management Center (DMC) is responsible for data analysis and replenishes fast-moving items quickly to reduce stockouts.
 - Supplier example: Domestic FMCG suppliers conduct production and supply coordination meetings during peak seasons, setting targets for delivery rate and inventory turnover. The use of RFID tracking (one-item-one-code) enables real-time visibility of goods flow, sales, and stock levels.
- Chinese retailers benefit from lower labour costs, allowing more frequent replenishment and manual shelf recovery, unlike Western markets, where higher labour costs constrain restocking frequency

Out of stock varies across retailers, stores and cities



Across retailers

Different retailers adopt different inventory strategies. Some manage inventory independently, while others collaborate with suppliers to jointly control replenishment and reduce stockout risks

Across stores (within same retailer)

Store-level execution quality differs. Inventory control and replenishment effectiveness depend heavily on store manager leadership and on-floor execution discipline

Across cities

Localisation and regional factors matter. Around 5–20% of category decisions are made at the regional level (based on executive interview), reflecting the need for localized assortment strategies. City-level differences mirror consumer preferences, supply chain radius, and policy or logistical constraints

Across categories

Staple categories (milk, oil, water) are essential daily items where stockouts are more costly, prompting retailers to maintain stricter replenishment control and higher safety stock

Role of store manager

Consistent private brand advantage in certain stores of same retailer

- Even within the same retailer and city, certain stores show consistently higher private brand penetration across all categories, suggesting that store-level execution, led by store managers, plays a critical role.
- Store B shows notably higher private brand shares in Cooking Oil (12.5%), Laundry Detergent (2.8%), and Bottled Water (2.3%), outperforming other stores across every category where private brand is available.
- The difference could stem in part from differences in the consumers that shop at these stores, and store size and layout. Multiple retail experts that we have spoken to feel the variation might stem in large part from differences in store manager capabilities.

Private brand penetration by store (same retailer, same city) Example: Large national Supermarket chain, Beijing

Store	Packaged Milk	Cooking Oil	Laundry Detergent	Bottled Water
A	0.0%	2.6%	1.2%	1.3%
B	0.0%	12.5%	2.8%	2.3%
C	0.0%	0.0%	2.4%	0.0%

In-store planogram execution



Planogram photos reveal variations across retailers and across stores within a retailer in terms of the overall appeal of shelf displays (e.g., some stores do a better job at rearranging products to minimize the negative visual impact of stockouts)

Implications

- **Store execution matters.** Similar to other international markets, Store managers play a critical role in ensuring consistent visual merchandising and shelf performance across stores.
- **Identify and replicate best practices.** Retailers should identify top-performing stores and educate store managers to adopt similar shelf management practices across all locations.
- **Competitor replication might be challenging.** While it may be difficult to copy another retailer's merchandising approach, internal best-practice replication is both feasible and impactful.

Category management and private brands for The New Consumer

4

China’s real personal disposal income has grown steadily over the past decade

- 1. **Steady economic growth:** China’s GDP per capita has grown steadily over the past decade: rising by 63% from US\$ 8,175 in 2015 to US\$ 13,303 in 2024.
- 2. **Disposable income trends:** Real personal disposable income grew by an average of 5% p.a. from 2015 to 2024, and is forecasted to grow between 3.99% to 4.7% p.a. from 2025 to 2029.

+63%

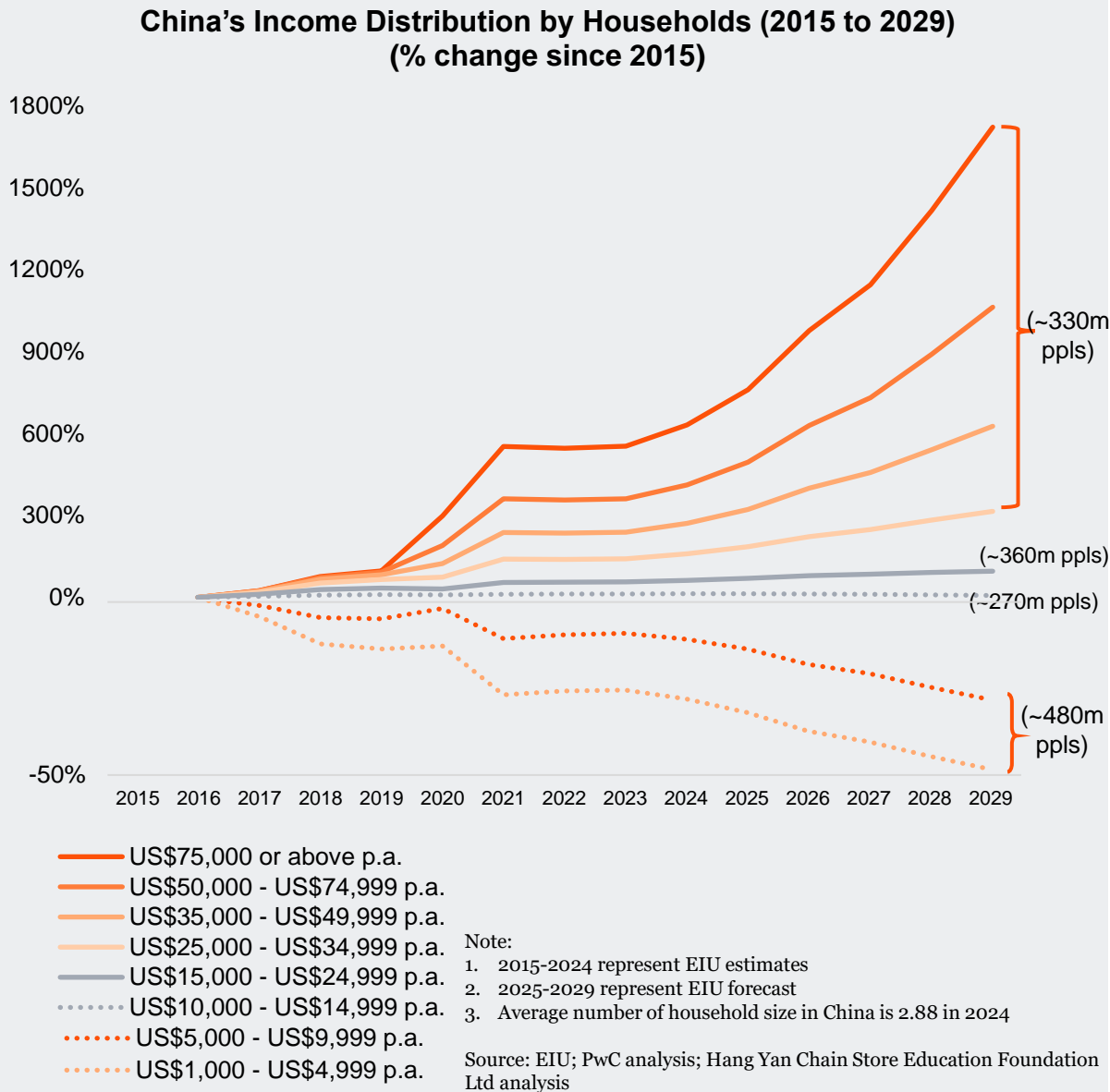
China’s GDP per capita has grown steadily over the past decade

China GDP growth and Real Personal Disposal Income growth

	GDP (YOY growth %)	Real Personal Disposal Income growth (% change pa)
2015	7%	7.11%
2019	6.1%	6.17%
2024	5.0%	5.44%
2025	5.1%	4.29%
2026	4.6%	4.06%
2027	4.5%	4.51%
2028	4.3%	4.7%
2029	4.1%	3.99%

Note:
2015-2024 represent EIU estimate
2025-2029 represent EIU forecast
Real personal disposable income (% change pa) : Real growth rate of total personal income after taxes and deductions, % change.
Source: : EIU; PwC analysis, Hang Yan Chain Store Education Foundation analysis

China ranks 2nd globally in the number of individuals with household disposable income of US\$35,000 pa or more



- Expansion of the upper middle income:** The rise of the upper middle income ¹ population is prominent. According to EIU estimates, the number of households with a disposable income of **US\$25,000 p.a. or more tripled in the last decade** (from 21 million to **64 million**) and is forecast to almost double to **116 million households (or 330m people)** in 2029.
- Market premiumisation:** The number of households with income exceeding **US\$35,000 pa reached 26.8million in 2024** and is expected to rise to **56 million (or ~ 161 million people)** in the next five years. This presents an attractive trend for operators of **premium and luxury brands**. China currently ranks second only to the **US** for individuals at this income level, followed by **Germany, Japan, the UK and France**.

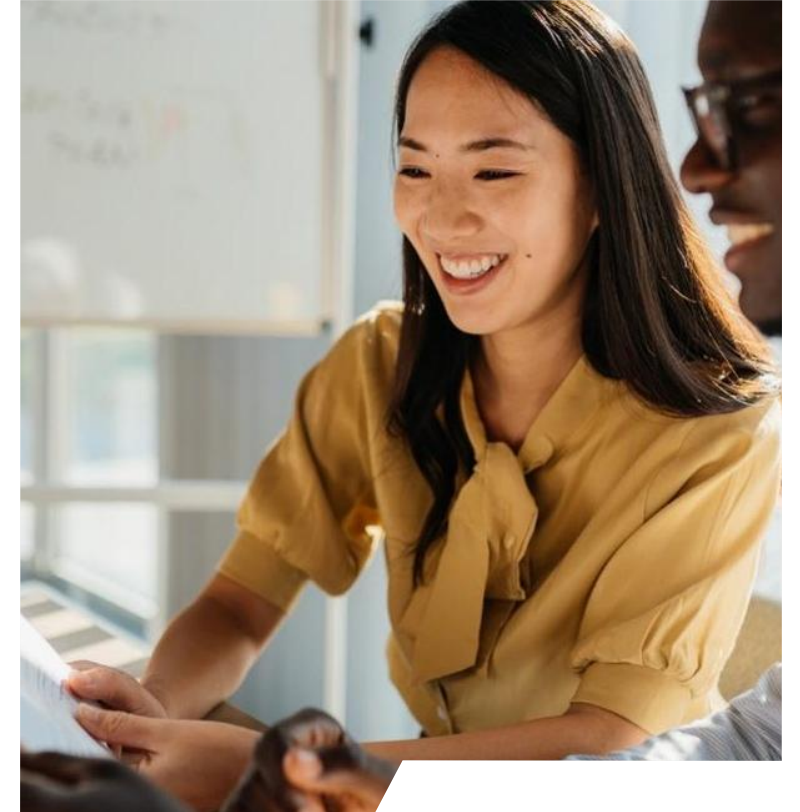
Source: 1. CEIC, China National Bureau of Statistics

Note: Disposal income per capita represents nominal disposal income (ie personal income after taxes and deductions)

<u>Disposal income per capita</u>	<u>Disposal household income per capita</u> (household income x 2.88 headcount)
Upper Middle: RMB53,359	~RMB154,000
Urban Upper Middle: RMB68,151	~RMB196,000
Middle: RMB33,925	~RMB98,000
Urban Middle: RMB48,508	~RMB140,000

Broad middle income spending power and the saving paradox

1. **Broad middle income spending power:** If the middle income and upper middle income population in 2024 are defined as having an income of **US\$15,000 p.a. or above**, this group comprises **167 million households** (480 million individuals), representing **35% of the total population** in 2024. These consumers are increasingly sophisticated and demanding, yet **attractive to both retailers and manufacturers with their rising spending power**.
2. **The savings paradox:** Despite this growth, falling property prices, economic slowdown in recent quarters has tempered consumer sentiment, resulting in cautious spending and heightened savings levels. By the end of 2024, personal **bank deposits reached US\$21 trillion, exceeding the national GDP of US\$19 trillion**.



China's income distribution by households (2015 to 2029)

Income Bracket (US\$p.a)	No. of households (million)			Change % (10 Year)	Change % (5 Year)	No. of households (%)		
	2015	2024	2029	2015-2024	2025-2029	2015	2024	2029
75,000 or above	0.3	2.4	6.1	631%	112%	0.1%	0.5%	1.2%
50,000 - \$74,999	1.3	6.7	15.3	412%	95%	0.3%	1.4%	3.1%
35,000 - \$49,999	4.8	17.7	34.6	271%	72%	1.1%	3.7%	6.9%
25,000 - \$34,999	14.4	37.2	59.6	160%	45%	3.3%	7.7%	11.9%
15,000 - \$24,999	63.7	103.7	125.1	63%	15%	14.6%	21.5%	25%
10,000 - \$14,999	87.1	99.1	93.9	14%	-5%	19.9%	20.5%	18.8%
5,000 - \$9,999	143.1	127.8	102.7	-11%	-17%	32.7%	26.5%	20.5%
1,000 - \$4,999	122.6	88.2	63.3	-28%	-24%	28.0%	18.3%	12.6%
Total	437.3	482.8	500.6	10%	3%	100%	100%	100%

Note:

1. 2015-2024 represent EIU estimates
2. 2025-2029 represent EIU forecast
3. Average number of household size in China is 2.88 in 2024

Source: EIU; PwC analysis; Hang Yan Chain Store Education Foundation Ltd analysis

While low-income households have reduced steadily, they still represent 33% of the population

1. **Poverty reduction:** Low-income households (with income of less than US\$10,000 p.a.) decreased by **50 million to 216 million from 2015 to 2024**. The EIU forecasts a further reduction to **166 million by 2029**. This represents a significant milestone, 50 million households (144 million individuals) lifted from the low-income bracket in past ten years.
2. **Affordability concern:** By 2029, for the remaining **33%** of the population, affordability is still a significant concern. This is a **compelling reason for retailers to develop private brands of “reasonable quality” products** that are **accessible** to this consumer group.
3. **Policy support:** China’s 15th Five-Year Plan (2026-2030) reaffirms the long-term goal of raising China’s GDP per capita to that of a **moderately developed** country by 2035. Expanding domestic demand remains the third pillar of this plan.
4. **Boosting confidence:** To boost consumer confidence, the Chinese leadership has implemented many initiatives to **stabilise the housing market** and **strengthen the social safety net**. This includes a nationwide childcare subsidy program, increased basic retirement pensions, and extended medical and pension insurance coverage to gig-workers – groups traditionally excluded from formal welfare systems ¹.

144m

individuals lifted from the low-income bracket in past ten years.

Source:

1. PwC China Economic Quarterly – H1 2025

Private consumption is still low as a percentage of GDP but is forecast to increase by 3% to 43% in 2029

1. **Historical context:** China's private consumption (% of GDP) has traditionally been low (**40%**) compared to its Western counterparts (**68% in the US and 61% in the UK**).
2. **Growth forecast:** The EIU forecasts private consumption to increase to **43% by 2029**. Based on 2024 GDP, a one percentage point increase in private consumption will translate into US\$190 billion.
3. **The Yuan appreciation effect:** Should renminbi appreciate in the coming years, combined with government stimulus measures, consumer sentiment is set to turn around significantly.
4. **Strategic preparation:** Retailer and manufactures must prepare now to jointly tap this **latent spending potential**, targeting **both premium and mass-market segments**.

+1%

increase would translate into

\$190bn

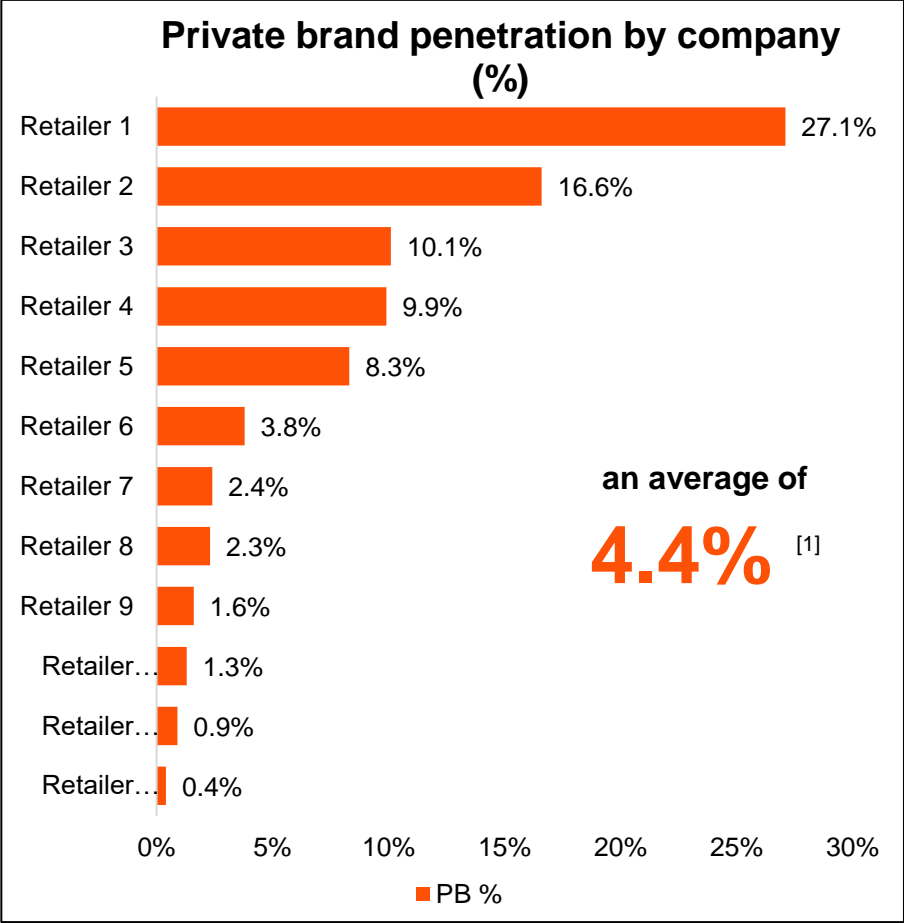
Retailers and manufacturers to collaborate and jointly tap latent spending potential

1. Retailers and manufacturers need to be well prepared to capture the growing pie of consumer spending. But the new consumers are knowledgeable and look for new value and experience.
2. Retailers need to leverage data and technology to significantly elevate the category management skills in assortment planning, merchandising and expansion of private brand offerings.
3. Retailer supplier collaboration with sharing of market and sales data, company and brand strategy, and working on common goals will have a favourable outcome over time.



China's private brands penetration well below US and Europe

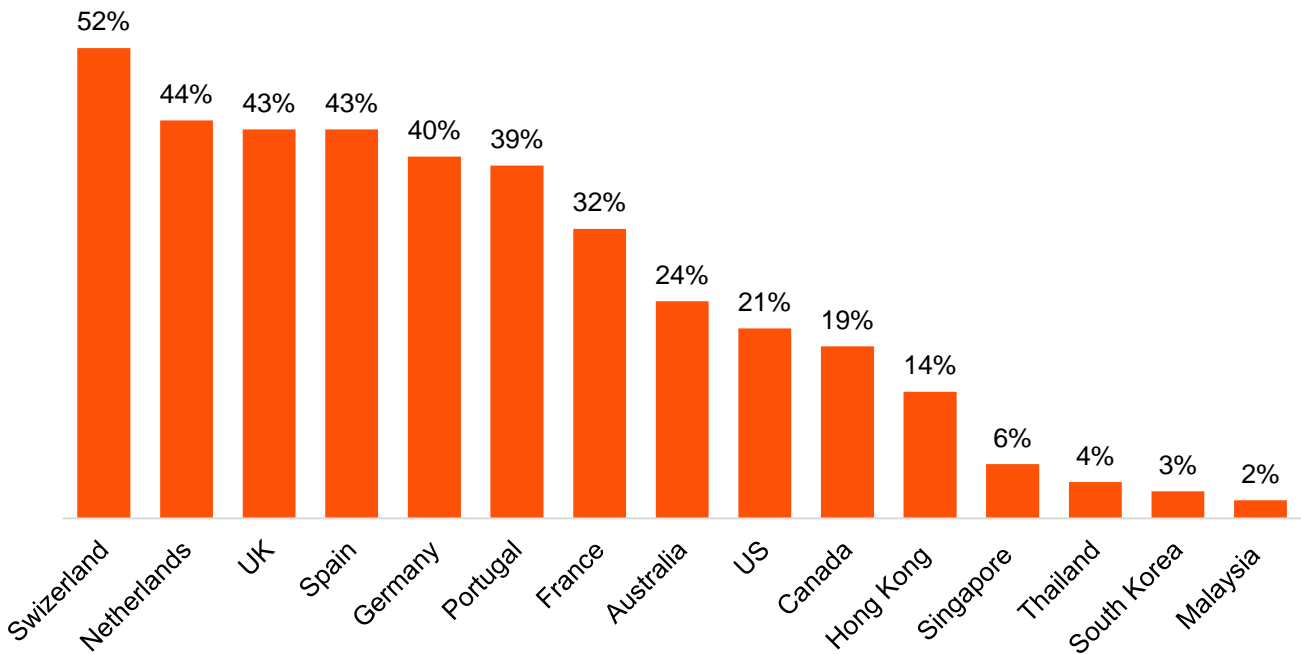
- 1. **Key part of category management strategy:** allowing retailers to **differentiate** and avoid direct price wars.
- 2. **A strategic lever:** enhance category **profitability**, **shopper loyalty**, and retailer bargaining power, while optimising the portfolio balance between private and national brands.
- 3. **Private brands portfolio:** launching private brands in one category **improves consumer perception** of the retailer's entire private brand portfolio, thus boosting sales across other categories as well.
- 4. **Foreign retailers lead:** our study findings **reveal that foreign retailers** lead in private brands, accounting for over 40% of the Top 10 SKUs across four categories:
 - U.S: Store-brand sales hit a record high in 2024 at 20.7% dollar share
 - Western Europe: Private brand value share averages ~ 38 %.
- 5. **China's private brand share:** ~5 % (top-100 supermarkets, latest public data 2022). **Chinese retailers have been stepping up** private brand offerings in the past few years, albeit much room to grow.



Source:
[1] 4.4% represents the average share of Private Brand SKUs among total SKUs across four categories in sampled stores, similar to Statista's 5.5% estimate for China (Share of sales of private label business in leading 100 supermarkets in China)

Increasing private brand's share is a global priority

Market share of Private Brand worldwide [1]



Source:
[1] Private Label Manufacturer Association's Private Label Report (2024 & 2025).

- 1. **A global priority:** Increasing private brand share is a global priority to improve financial performance and customer loyalty amid inflation and weak consumer sentiment.
- 2. **PLMA's 2025 Private Label Report:** US private brand sales in 2024 stood at **US\$271 billion**, an increase by 3.9% to **20.7%** in value compared to the previous year. Private brand sales have significantly increased over the past four years, totalling \$51.7 billion or **23.6%**.
- 3. **Europe private brand penetration:** high at an average 38%, there has been notable growth. Spain and Portugal achieved 43% and 39% share respectively in 2024.
- 4. **PLMA attributes this growth:** **value, quality, and innovation** that private brands provide, as consumers increasingly seek products that offer simple **health benefits and ethical choices**.

Key to private brand success: value, quality and innovation

The key to private label success is

“ Obsessing over quality, innovating to excite shoppers, controlling costs, and keeping our customers at the centre of everything we do.

– Dave Rinaldo, Aldi US



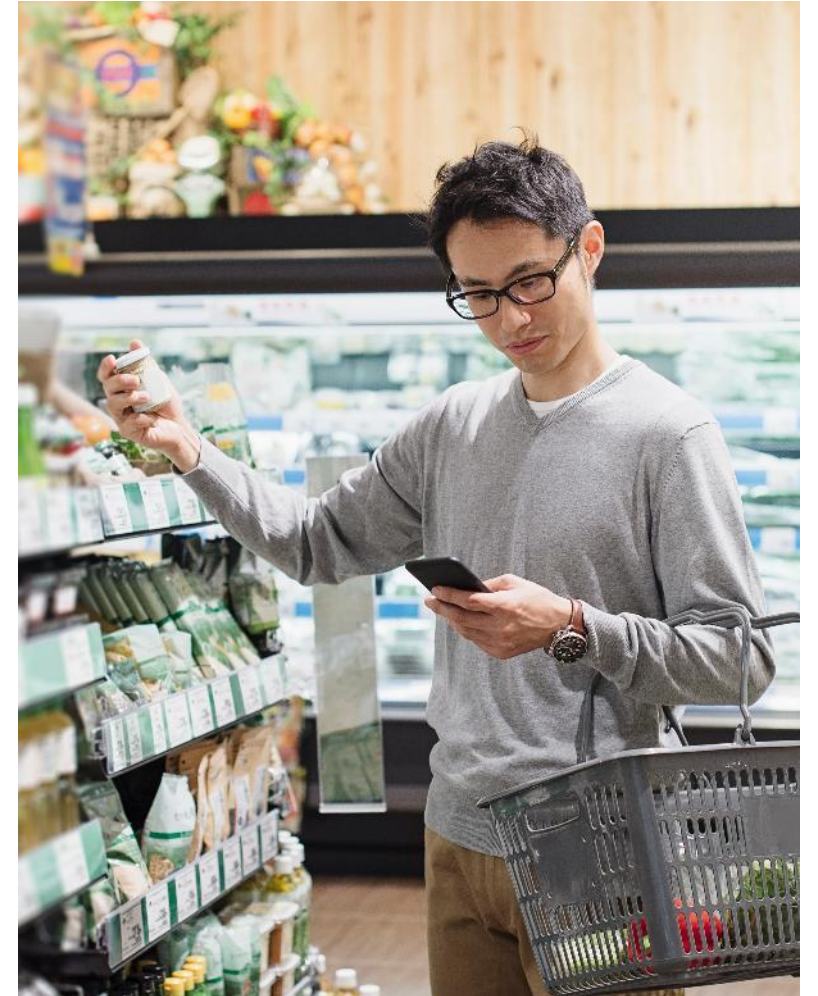
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The profitability of Our Brands is several hundred basis points higher than national brands.....once a customer tries Our Brands the repeat rate of customers coming back is incredibly high because what they find is there's no compromise on quality, and they have great value for the money.

– Kroger's CEO Rodney McMullen

Chinese consumers are ready for private brands and domestic national brands

1. After half a century of manufacturing experience, products made in China are of good quality at affordable prices, with significant improvements in food safety, product safety and reliability; and all are produced at quick response rates.
2. Consumers are now ready to embrace Chinese brands recognised for quality, innovation, and accessibility. The current study noted that local brands have a dominant share of the Top 10 SKUs across the four categories.
3. **In PwC's Voice of the Consumer 2025 Global Survey - China report**, it is noted that Chinese respondents buy locally produced goods because they think they are healthier (50% vs global 45%) and are of higher quality (43% vs global 40%)
4. The survey also reveals the **Chinese consumers favour food with high nutritional value (34% vs global 27%), which is organic (25% vs global 13%) and which addresses specific dietary needs (23% vs global 11%).**
5. These are areas which private brands and categories can research further to meet consumer aspirations. **It would be ideal if there were private branded foods which were healthy, environmentally friendly, affordable and with a reasonable margin.**



Private brand strategy – Insights and Recommendations

1. The **perceived quality gap** between national brands and private brands is narrowing.
2. Private brand pricing and shelf presence must be managed at the **category level** - too aggressive a stance risks cannibalising national brands, while too cautious an approach misses profit opportunities.
3. Launching a **private brand in one category** improves consumer perception of the retailer's entire portfolio, boosting private brand sales in other categories as well.
4. Private brands are strategically valuable beyond category profits: they generate **cross-category loyalty** and justify loss-leader pricing
5. Retailers can maximise spillover effect by first introducing Private Brands in **categories that build trust** (e.g. fresh food), then expanding into other categories.
6. Private brands achieve **higher market share in low-differentiation, low -innovation categories**, where quality perception gaps are smaller (e.g. bottled water, milk, and salt).
7. Innovation creates barriers to private brand penetration due to **knowledge and technical gap** between retailers and suppliers, higher R&D cost, and product development barriers.
8. Retailers should focus their private brand expansion efforts on **low-differentiation categories**, while **partnering with manufacturers for innovation-driven ones**.



Conclusion and recommendations

5

Comparison with Western retailers: Shared framework, different maturity

Similarities

Chinese and Western retailers operate under similar category management decision pillars - supplier relationships, assortment, pricing, merchandising, and private brand development

Areas where Chinese retailers excel

- Chinese retailers maintain ~2% stockout rate, supported by real-time inventory monitoring, lower labour costs, and agile replenishment systems.
- **Chinese retailers excel in maintaining low stockout rates, compared to their Western counterparts. Chinese retailers are also early adopters of technology and AI to improve sales and efficiency.** Selective retailers have strong tech-driven online-offline integration with instant delivery capabilities.

Areas that are still maturing

- **Western retailers have stronger relationships with manufacturers**
- Western retailers have mature private brands. Private brands have not yet reached maturity in China
- Western retailers rely heavily on category captains. Chinese retailers seem hesitant to work with category captains

Main takeaway:

- What Chinese retailers are going through right now mirrors what American retailers went through in the late 1990s and early 2000s. That is, **Chinese retailers acknowledge the importance of category management but need more time to 1) build stronger partnerships with suppliers to leverage their expertise and 2) develop stronger private brand programs.**
- Although it took decades for Western retailers to achieve these goals (e.g., the Wal-Mart and P&G relationship spanning four decades), **the advances in information technology might allow Chinese retailers to have a much faster pace and shorten the traditional development curve.**

The future of category management in China: Learning globally, localising deeply, “China can learn from China”

Evolving but uneven

Our analysis reveals wide variations across retailers and across stores within the same retailer in terms of assortment sizes, private brand penetration, and stockout rates.

This variation suggests that category management practices in China are still at an early stage, with inconsistent implementation and limited standardisation.

No proven advantage for multinational retailers

While many Chinese executives still regard multinational retailers as more mature in category management, our analysis finds **no systematic performance gap** in key indicators, such as stockout rates or shelf presentation.

Variation within the Chinese retail landscape is larger than the difference between local and international players - indicating that global know-how alone does not guarantee stronger execution in China’s complex market.

What China can learn from China

The next frontier for category management in China lies in **combining international best practice** (e.g., data-driven collaboration, trust-based supplier partnerships, mature private brand management) **with Chinese market realities** - such as regional diversity, evolving consumer trust, and omni-channel integration.

“China can learn from China” - identifying and amplifying *domestic success cases* in assortment precision, private brand building, and supply chain agility will accelerate capability development across the sector.



This study illustrates how category management, which has a proven track record in Western markets, can unlock significant growth and margin opportunities for Chinese retailers through collaborative and data-driven retailing.

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Strategic recommendations

For retailers (Front end → Back end)

- **Identify and scale domestic best practices across regions and store formats** to reduce performance variation and improve category management consistency
- **Enhance private brand penetration, beginning with low-differentiation categories** (e.g., bottled water, milk) where technical barriers are lower, before expanding into innovation-driven categories
- **Adopt a portfolio mindset in category decisions** - optimise the mix of national and private brands to maximise overall category performance, not just single-SKU profitability
- **Strengthen partnerships with suppliers** to access category expertise and co-develop product, pricing, and planogram strategies
- **Explore new forms of category captainship** that emphasise co-creation and data collaboration while preserving retailer autonomy
- **Leverage data and digital tools for end-to-end execution** - from assortment planning and pricing analytics to real-time stock monitoring and shelf optimisation

For suppliers (Collaboration → Capability building)

- **Engage as strategic partners, not just vendors** - collaborate closely with retailers to share consumer insights, category trends, and technical know-how
- **Serve as Category Captains in selected categories**, providing actionable advice on assortment, pricing, and merchandising that enhances overall category value
- **Co-build data and analytics platforms** to enable transparent, performance-based collaboration and faster decision cycles
- **Invest in supply chain flexibility and customisation**, enabling quicker product development, regional adaptation, and responsiveness to retailer needs
- **Develop sustainable and differentiated product pipelines**, aligning with retailers' assortment strategies and consumer expectations for premium quality and functional & emotional needs

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