



After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

China Shopper Report 2020, Vol. 2

KANTAR WORLD PANEL
A CTR SERVICE IN CHINA

BAIN & COMPANY 

About the authors and acknowledgments

Bruno Lannes is a partner with Bain & Company's Consumer Products and Retail practices, and is based in Shanghai. You can contact him by email at bruno.lannes@bain.com.

Derek Deng is a partner who leads Bain & Company's Consumer Products practice in Greater China and is based in Shanghai. You can contact him by email at derek.deng@bain.com.

Jason Yu is managing director at Kantar Worldpanel Greater China. You can contact him by email at jason.yu@ctrchina.cn.

This report is a joint effort between Bain & Company and Kantar Worldpanel. The authors extend gratitude to all who contributed to it, especially Chris Miao, Joe Wang and Laura Chen from Bain; and Tina Qin, Robin Qiao and Lorna Peng from Kantar Worldpanel.

This work is based on secondary market research, analysis of financial information available or provided to Bain & Company and a range of interviews with industry participants. Bain & Company has not independently verified any such information provided or available to Bain and makes no representation or warranty, express or implied, that such information is accurate or complete. Projected market and financial information, analyses and conclusions contained herein are based on the information described above and on Bain & Company's judgment, and should not be construed as definitive forecasts or guarantees of future performance or results. The information and analysis herein does not constitute advice of any kind and is not intended to be used for investment purposes. Neither Bain & Company nor any of its subsidiaries or their respective officers, directors, shareholders, employees or agents accept any responsibility or liability with respect to the use of or reliance on any information or analysis contained in this document. This work is copyright Bain & Company and Kantar Worldpanel and may not be published, transmitted, broadcast, copied, reproduced or reprinted in whole or in part without the explicit written permission of Bain & Company and Kantar Worldpanel.

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

At a Glance

- ▶ While spending did recover for fast-moving consumer goods in China in the second and third quarters, it was not enough to offset the impact that Covid-19 had in the early months of 2020. Overall value declined primarily due to lower average selling prices—the first FMCG deflation in five years.
- ▶ If there was a bright spot, it was home care categories, which enjoyed a healthy 9% value growth as consumers stocked up on necessities. Also, innovative healthy alternatives and increased home consumption boosted sales of carbonated soft drinks, which achieved 16% volume growth.
- ▶ For the first time, we have analyzed both online and offline shopping behavior across the eight distinct consumer segments developed in 2019 with Alibaba to help consumer goods companies more clearly understand who is buying their products and the untapped potential for growing their brands.

China's dependable growth in the overall value of fast-moving consumer goods (FMCG) took a pause in 2020 amid dramatic shifts in consumer behavior caused by the Covid-19 pandemic. There was a sharp decline in overall spending in the early months of 2020, as cautious consumers stocked up on necessities, sought out lower-priced goods and held off on anything deemed unessential. Overall, FMCG spending did recover in the second and third quarters (*see Figure 1*). However, those recent gains were not enough to outweigh the significant slowdown earlier in the year. Sales were essentially flat in the first nine months of 2020 after three straight years of more than 5% annual growth.

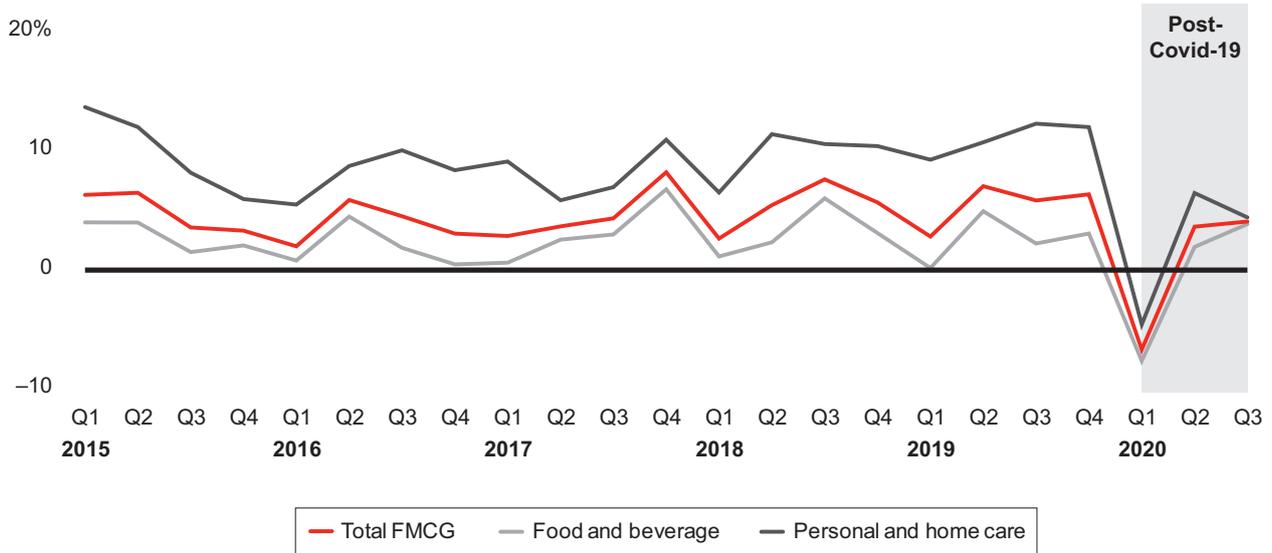
While volume growth remained steady at the same 2% level of 2019, the biggest contributing factor to the flat sales performance was a major decline in average selling prices (ASP). Those prices dropped by an average 2.1% in the first three quarters, with consumers buying more mass-market products and making more of their purchases online, where products typically are sold at promotional rates. The ASP loss represents more than a 5% drop when you consider the 3.4% increase in 2019 (*see Figure 2*). Indeed, after years in which selling prices outpaced inflation, the long run of premiumization—or the ability to increase ASP above the rate of inflation—ended this year, another victim of Covid-19.

This is the ninth consecutive year that we have tracked the shopping behaviors of Chinese consumers. Our continuing research has given us a valuable long-term view across 106 fast-moving consumer goods (FMCG) categories purchased for home consumption in China. As in each of the past eight years, we analyzed the key 26 categories¹ that span the four largest consumer goods sectors: packaged food, beverages, personal care and home care. We also looked at another 19 categories² to form a more comprehensive view of the market. This report, which updates the findings from China Shopper Report 2020, Vol. 1, *Amid Stable Growth, Covid-19 Changed Shopper Behavior*, includes Kantar Worldpanel shopper behavior data for the first three quarters of 2020.

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

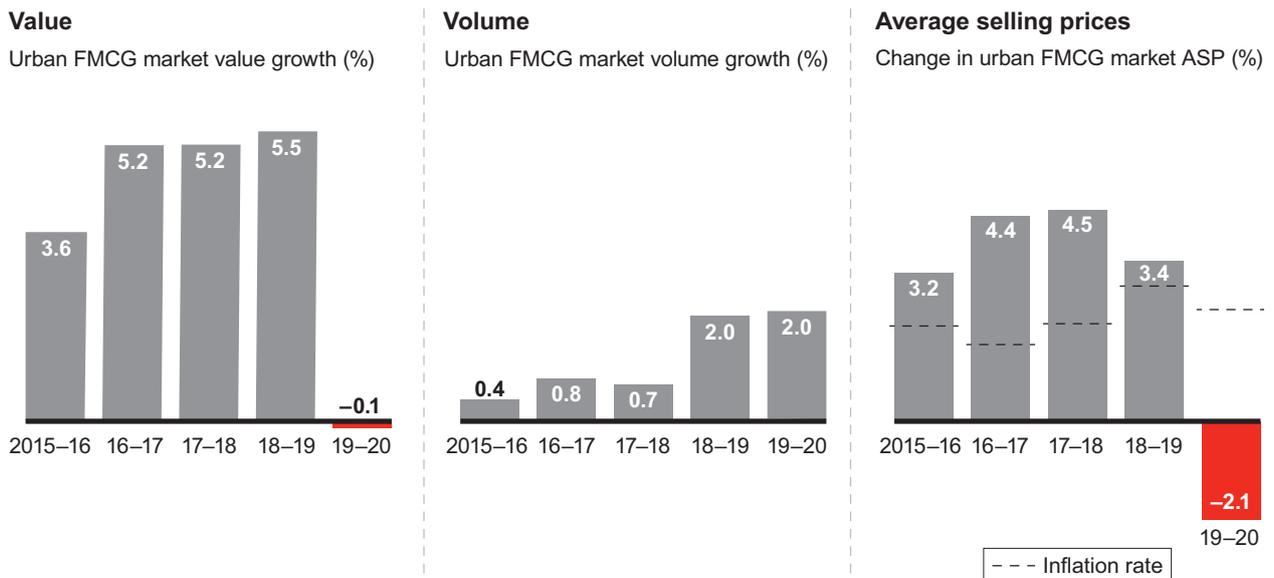
Figure 1: Battered by Covid-19 early in the year, China’s FMCG spending recovered in the second and third quarters of 2020

Year-over-year change in urban shoppers’ total spending on fast-moving consumer goods



Note: Kantar Worldpanel excluded cigarettes from total FMCG data, updated all category data in 2017, and adjusted online channel weighting for paper products to better reflect market realities in 2019; the changes may lead to some inconsistencies with previous years’ data
Source: Kantar Worldpanel; Bain analysis

Figure 2: Overall FMCG value in China dropped by 0.1% in the first three quarters of 2020, as average prices declined for the first time in five years



Note: 2019–20 comparisons are based on the first three quarters of each year; Kantar Worldpanel excluded cigarettes from total FMCG data, updated all category data in 2017, and adjusted online channel weighting for paper products to better reflect market realities in 2019; the changes may lead to some inconsistencies with previous years’ data; average selling prices based on RMB per kg/l, except for diapers and toothbrushes per piece, skin care and makeup per pack, and toilet and facial tissues per 100 sheets/rolls
Source: Kantar Worldpanel; Bain analysis

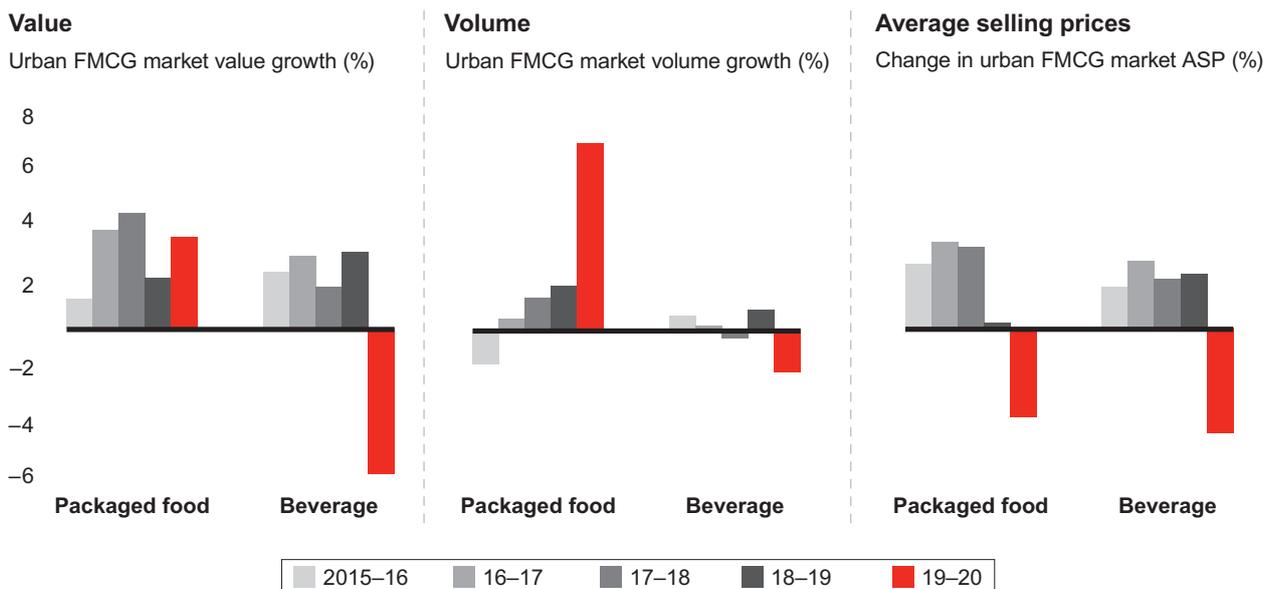
After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

This year we also added a new dimension to our research. We evaluated shopper behavior across the eight consumer groups we first identified in the 2019 *Online Strategic Consumer Groups Report: Innovate for Consumers with Insights from Big Data*. For that report, we drew on proprietary Alibaba data to paint the clearest picture ever of who China’s online shoppers are, how they shop and what it all means for companies hoping to sell to them. To sketch out the profiles of those eight consumer groups, we relied on the data produced by hundreds of millions of Tmall and Taobao consumers. In this report, we further look at both their online and offline behaviors.

Pandemic silver linings: packaged foods and home care sales

China shopper behavior resulted in dynamic trends in 2020 and none was more striking than the divergent performance of packaged foods and beverages. Both sectors dealt with deflated prices, which declined 3.4% for packaged foods and 4.1% for beverages (see Figure 3). However, the similarities end there. The volume of packaged foods grew 7.2% in the first nine months, as consumers stocked up on instant noodles, frozen food and other staples to get them through lockdown and a tentative recovery. The volume gains for packaged foods represent a more than threefold increase over the same period in 2019. Yet, as package food sales boomed, beverage volumes fell by 1.6%, the result of a hiatus on social occasions. While rising volumes contributed to a 3.5% overall value growth for packaged foods, lower volumes for beverages resulted in a 5.6% decline in value during the first three quarters of 2020.

Figure 3: Packaged food and beverage prices declined in the first three quarters of 2020, while their volumes moved in opposite directions



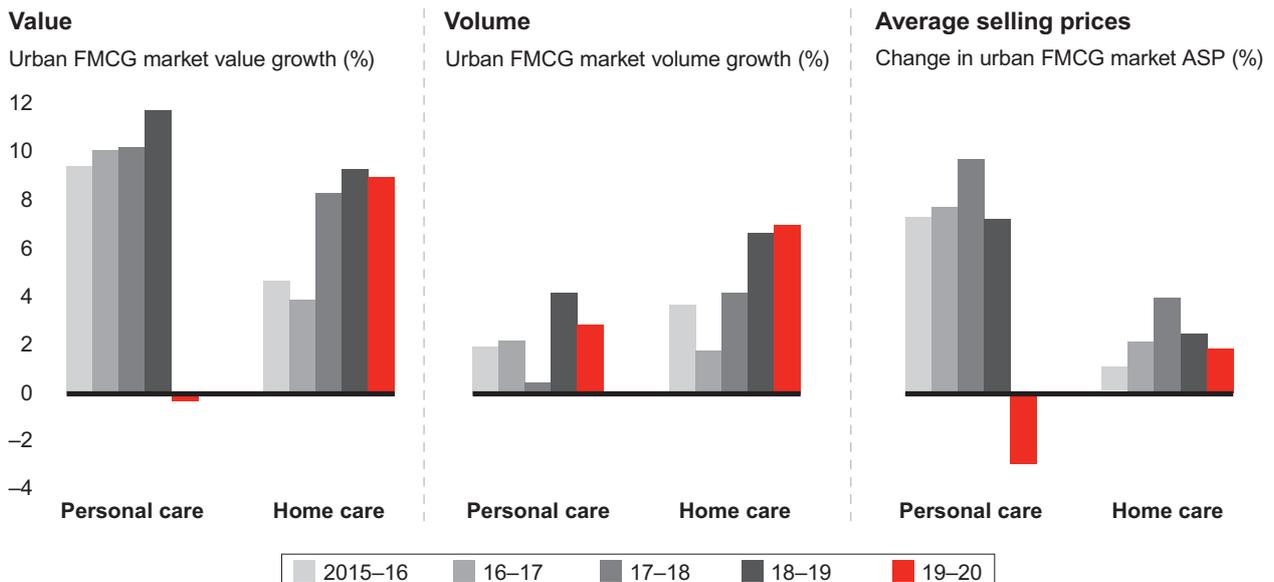
Note: 2019–20 comparisons are based on the first three quarters of each year; Kantar Worldpanel excluded cigarettes from total FMCG data, updated all category data in 2017, and adjusted online channel weighting for paper products to better reflect market realities in 2019; the changes may lead to some inconsistencies with previous years’ data; average selling prices based on RMB per kg/l, except for diapers and toothbrushes per piece, skin care and makeup per pack, and toilet and facial tissues per 100 sheets/rolls
Source: Kantar Worldpanel; Bain analysis

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

Despite the disappointing performance in beverages, some categories bucked the trend. For example, carbonated soft drink volume rose 16%, driven by increases in home occasions, new products such as sugar-free/diet sodas from insurgent brands Genki Forest and Hey Tea, and the greater focus of major brands on the same segment, which appeals to consumers' growing demand for products that foster health and wellness.

There was a similar divergence between personal care and home care categories. Personal care volume grew a moderate 2.9%, but a 3% decline in ASP led to a 0.2% decline in value (see Figure 4). The personal care story reflects consumer sensitivities during the Covid pandemic. For example, consumers spent considerably more on soap products to maintain their hygiene, leading to a 15% volume growth in personal wash categories. At the same time, locked-down and worried consumers delayed purchases in such categories as skin care and makeup. Makeup, in particular, felt another consequence of the pandemic: ASP dropped by 6.6% as price competition was exacerbated by declining volumes due to Covid-19. Homebound consumers preferred to purchase online, where products typically are sold with large promotional discounts. By contrast, the home care sector enjoyed a healthy 9% value growth as consumers stocked up on facial tissues, toilet paper, paper towels and other home necessities. Home care was the bright spot for the first nine months of 2020, with volume growing 7.1% and ASP rising by 1.8%, making it the only one of the four major sectors to see increased prices.

Figure 4: Lower prices depressed growth in China's personal care market, while home care maintained strong growth



Note: 2019-20 comparisons are based on the first three quarters of each year; Kantar Worldpanel excluded cigarettes from total FMCG data, updated all category data in 2017, and adjusted online channel weighting for paper products to better reflect market realities in 2019; the changes may lead to some inconsistencies with previous years' data; average selling prices based on RMB per kg/l, except for diapers and toothbrushes per piece, skin care and makeup per pack, and toilet and facial tissues per 100 sheets/rolls
Source: Kantar Worldpanel; Bain analysis

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

Four paths to recovery

As we reported in China Shopper Report 2020, Vol. 1, Covid-19 affected FMCG companies in four distinct ways (see Figure 5). A first group of categories surged during the pandemic and continued booming in the recovery. This is the growth trajectory of hygiene categories such as personal wash, CSD and other products that were widely used in stay-at-home situations. Sales of these products remained strong as restrictions were lifted, with consumers' renewed commitment to their health.

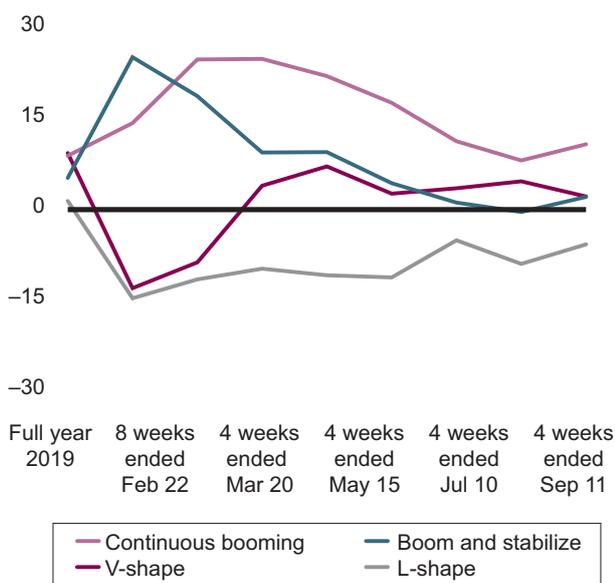
A second group of categories boomed in the lockdown weeks, then stabilized as restrictions were lifted. Consumers who stocked up on such categories as frozen food, packaged water and household cleanser did not need to buy more.

A third group of categories, many of them relating to health and nutrition, went through a V-shaped recovery. Sales dropped dramatically during the pandemic, only to quickly recover as consumers repurchased the products. Categories such as milk and infant formula even generated stronger growth than in previous years.

A final pattern: Categories such as makeup, which was not essential for consumers wearing masks, and impulse categories such as candy declined, but are slowly improving. However, the recovery speed of those categories was slower than the expected U-shape, presenting an L-shape pattern instead.

Figure 5: The four distinct trajectories of category growth continued through 2020, but have converged toward stabilized consumption since May

Year-over-year growth in FMCG sales value (%)



Product categories and their growth patterns since the pandemic

Continuous booming	Soy sauce	Carbonated soft drinks	Personal wash	
	Household cleanser	Packaged water	Diaper	Instant noodles
Boom and stabilize	Frozen food			
	Milk	Skin care	Shampoo	Hair conditioner
V-shape and stabilize	Toothpaste	Toothbrushes	Fabric detergent	Fabric softener
	Toilet tissues	Facial tissues	Pet food	Infant formula
	Beer	Chinese spirits/sake		
	Candy	Chocolate	Biscuits	Chewing gum
L-shape	Makeup	Juice	Ready-to-drink tea	Yogurt
	Wine/foreign spirits			

Note: January was combined with the 5 weeks ended Feb. 22 to minimize the impact of the earlier Chinese New Year (Jan. 25, 2020 vs. Feb. 4, 2019)
Source: Kantar Worldpanel; Bain analysis

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

As consumption continues to return to normal, we see these diverging consumption patterns converging toward the pre-Covid normal.

As we mentioned, the drop in selling prices was the biggest cause for declining overall FMCG value growth in the first three quarters of 2020. Evaluating the overall FMCG market, we see three major pricing trends (*see Figure 6*). The first involves spending polarization in pricing tiers. Mass segments are growing as fast as premium segments, with both outpacing midrange segments in categories such as instant noodles, personal wash, fabric detergent and infant formula. The polarization trend in consumption mirrors the polarization of household incomes and is expected to continue even after Covid ends.

The second pricing trend relates to the heavy promotions that companies offered in makeup and other categories that suffered heavily during the pandemic. Brands sold goods at unprecedented discounts, especially online. Goods sold as part of online promotions grew to 41% of sales, compared with around 22% for offline promotions in the first nine months of 2020, as companies strived to stimulate online sales (*see Figure 7*).

The final pricing trend we identified: As Covid worries led cautious consumers to switch to lower-priced necessities such as toilet tissues and packaged water, leading e-commerce players have focused more on bargain-conscious consumers to fuel growth this year. The trend is reflected in the rapid growth of Pinduoduo and the fact that the top two retailers invested in lower-priced platforms: Alibaba's Taobao Deal and JD's Jingxi. As consumer confidence improved, sales of premium products gradually recovered from the first to third quarters, but this premiumization trend was not enough to offset the negative pressure on prices.

Online channels continued to attract China's shoppers during the early months of the pandemic and the recovery that followed. E-commerce represented 26.7% of all FMCG sales in the first three quarters of 2020, up from 21.9% in 2019 (*see Figure 8*). E-commerce is growing largely at the expense of hypermarkets and groceries, despite the rapid growth of online-to-offline (O2O) sales, which are captured in offline channels by Kantar. (We discuss O2O growth later in this report.)

As in previous reports, we track online penetration by segmenting product categories into four clusters, which all increased their penetration significantly in the first three quarters of 2020 as the pandemic accelerated the shift online (*see Figure 9*).

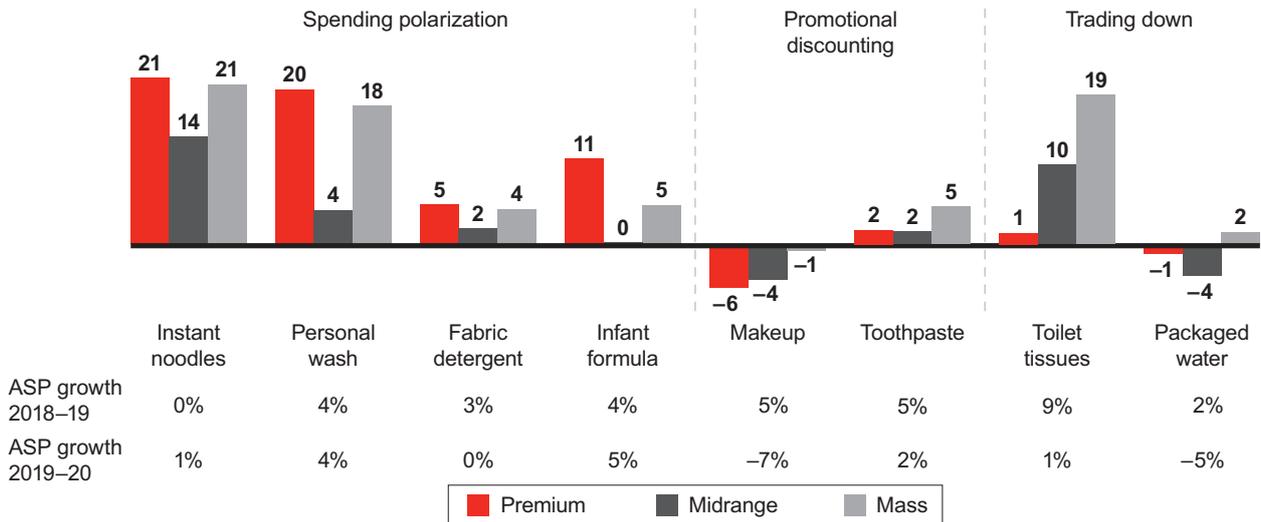
The first cluster consists of categories with very high online penetration and which historically had low penetration growth. Many of these categories—including diapers, infant formula, skin care and makeup—were approaching the limits of online penetration growth. However, the Covid-19 crisis boosted their online penetration by an unprecedented seven percentage points or more. Diapers achieved 81% penetration, for example.

Online penetration for the second cluster, spanning daily essentials categories such as personal wash, toothpaste, facial and toilet tissues, also rapidly grew to more than 30%.

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

Figure 6: Three main trends have affected pricing for different products and price tiers in China

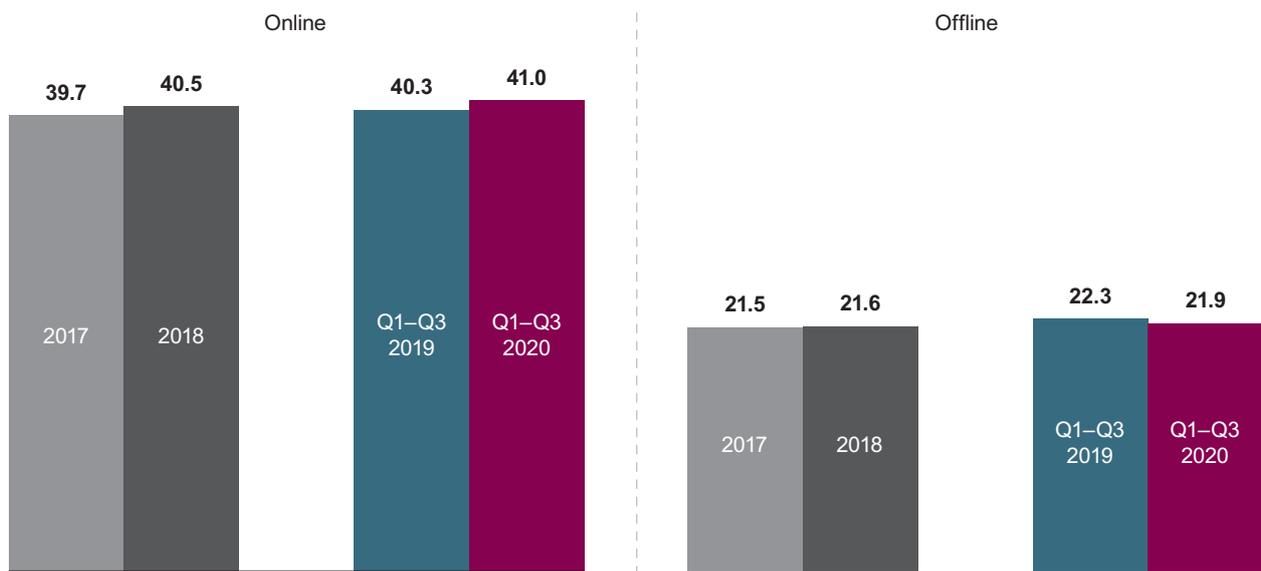
Value growth by product category and price tier, 2019–20 (%)



Note: 2019–20 comparisons are based on the first three quarters of each year; premium SKUs are defined as having more than 1.2 times the category average price each year; midrange SKUs have 0.8 to 1.2 times the category average price each year; mass SKUs have less than 0.8 times the category average price each year; Kantar Worldpanel excluded cigarettes from total FMCG data, updated all category data in 2017, and adjusted online channel weighting for paper products to better reflect market realities in 2019; the changes may lead to some inconsistencies with previous years' data; average selling prices based on RMB per kg/l, except for makeup per pack and toilet tissues per 100 rolls
 Source: Kantar Worldpanel; Bain analysis

Figure 7: Promotions in 2020 have increased on online channels, while decreasing on offline channels

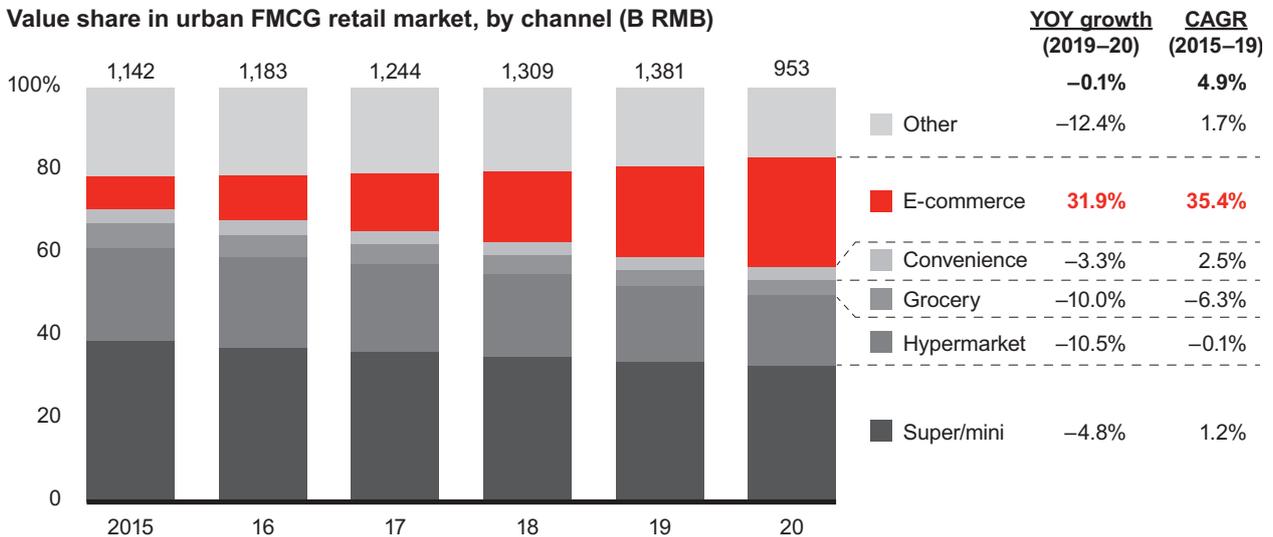
Percentage of sales that involve promotions, by value



Source: Kantar Worldpanel; Bain analysis

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

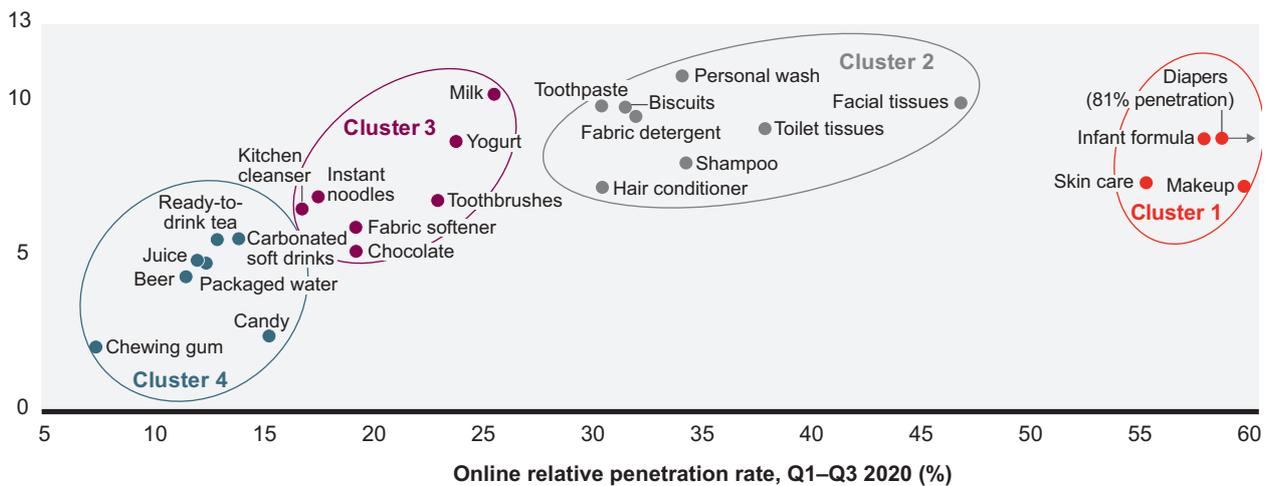
Figure 8: E-commerce’s market share continued to grow, to 26.7% of FMCG sales in 2020



Note: 2020 data is for the first three quarters; 2019–20 comparison is based on the first three quarters of each year; hypermarket refers to stores of more than 6,000 square meters and includes key accounts representing 83% of sales for the channel (based on 2018 revenues); super/mini refers to stores of 100 to 6,000 square meters; convenience category includes chain and individual convenience stores (operating more than 16 hours a day); grocery refers to stores with less than 100 square meters; other includes department stores, free market, wholesales, work unit, direct sales, specialty store, overseas shopping, family shopping, drugstore, beauty salon, milk store and new retail (started to report in 2018); Kantar Worldpanel excluded cigarettes from total FMCG data, updated all category data in 2017, and adjusted online channel weighting for paper products to better reflect market realities in 2019; the changes may lead to some inconsistencies with previous years’ data
Source: Kantar Worldpanel; Bain analysis

Figure 9: Online penetration increased for all clusters of products, even those with already high rates, and gains were most robust in Cluster 2

Online relative penetration change, 2019–20 (percentage points)



Note: 2019–20 comparisons are based on the first three quarters of each year; online relative penetration is the total number of online purchasers divided by the number of purchasers of the category; for impulse categories like milk, chocolate and biscuits, shoppers buy more large packages and gifting boxes online, leading to relatively high online relative penetration and upward trend; Kantar Worldpanel excluded cigarettes from total FMCG data, updated all category data in 2017 and adjusted online channel weighting for paper products to better reflect market realities in 2019; the changes may lead to some inconsistencies with previous years’ data; infant formula and diapers include Tier 1 and 2 cities; tissues excludes flat tissue
Source: Kantar Worldpanel; Bain analysis

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

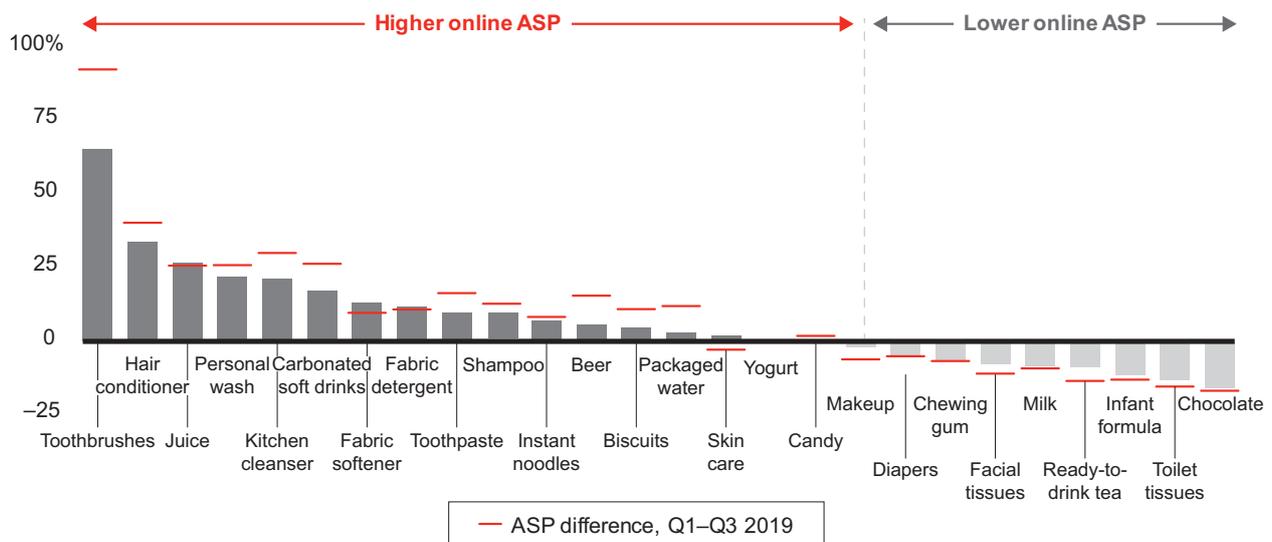
The third cluster, which is made up of less essential categories such as chocolate, yogurt and fabric softener, boosted its online penetration to 20% to 25%.

The fourth cluster consists of impulse categories such as chewing gum, candy and beverages. For these categories, the high cost of fulfillment limits the potential for significantly boosting online penetration. In addition, many of these categories, with the exception of beer, packaged water and carbonated soft drinks, are experiencing the L-shaped recovery mentioned above. As companies increase online penetration, they have reaped more value in some categories than others (see Figure 10). Relative online ASP is higher in categories such as toothbrushes and hair conditioner, for example. But their online price premium has declined from 2019, an indication of this year's overall price deflation. Increased competition from Insurgent Chinese brands has also played a role. Consider that in electric toothbrushes, competitors such as Saky, Xiaomi and Usmile have introduced low-priced versions in online channels. Also, Saky and Xiaomi both collaborated with top Taobao livestreamers riding on the livestreaming trend. Categories with lower online ASP tend to be heavily promoted online. Moreover, categories such as toilet tissues and facial tissues sell larger pack sizes online at lower prices per kilogram.

In China Shopper Report 2020, Vol. 1, we reported on the livestreaming video boom. Livestreaming, which burst onto the retailing scene in 2019, provides immersive experiences, personalized recommendations and, as the country locked down during the Covid-19 pandemic, an entertaining alternative to physical shopping trips. Virtually nonexistent three years ago, livestreaming sales account for as

Figure 10: Most categories with higher online ASPs sell more premium products vs. offline, while those with lower online prices tend to be heavily promoted

Online average selling price vs. category overall ASP, Q1–Q3 2020



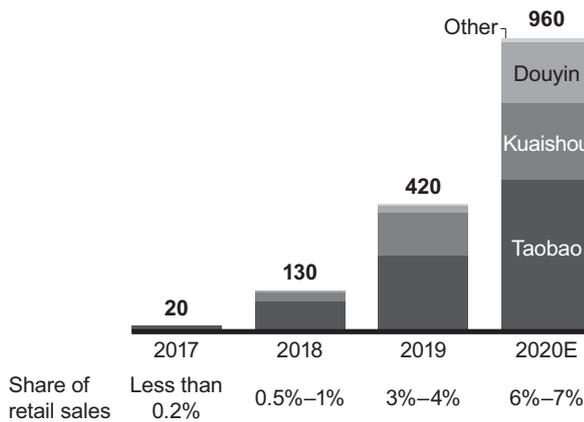
Note: Kantar Worldpanel excluded cigarettes from total FMCG data, updated all category data in 2017 accordingly, and also adjusted the online channel database to reflect the new market realities and rapid pace of e-commerce growth; the updates lead to some inconsistencies with previous years' data; all ASPs are calculated based on RMB per kg/l, except diaper and toothbrushes on per piece basis and toilet and facial tissues per 100 sheets/rolls; infant formula and diapers include Tier 1 and 2 cities data only; toilet tissue excludes flat tissues; and kitchen cleanser includes dish wash only
Source: Kantar Worldpanel; Bain analysis

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

Figure 11: Livestreaming e-commerce continued to make gains in 2020, led by apparel, skin care and packaged food

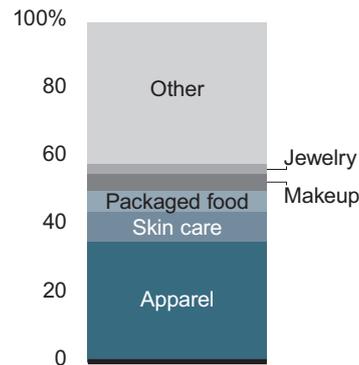
Livestreaming e-commerce value more than doubled in 2020, as leading platforms surged

China livestreaming e-commerce gross merchandise value (B RMB)



Apparel, skin care, packaged food and makeup categories lead livestreaming sales

Taobao's top 100 livestreaming key opinion leader sales, by category (January to May, 2020)



Note: Other includes platforms such as Red and Pinduoduo; retail sales include fast-moving consumer goods, apparel and electronics categories; packaged food refers to snacks, nuts and local specialty items
 Source: Analyst reports; iMedia Research; National Bureau of Statistics of China; expert interviews; lit search; Bain analysis

much as 7% of total FMCG, apparel and electronics sales (see Figure 11). Apparel, skin care, packaged food and makeup comprise more than half of all livestream sales. Most recently, for example, as top livestreamers on Taobao, Austin Li and Weiya each sold more than RMB 3 billion of FMCG products in just one night during the Double 11 campaign. Livestreaming brings with it a challenge in that many of the products are sold on promotion, which reduces ASP.

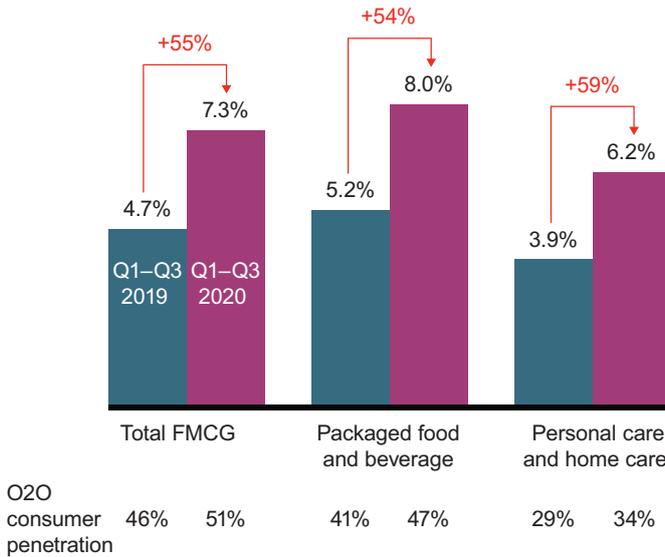
Convenience is a big factor in livestreaming's appeal and is also at the heart of another retailing phenomenon: O2O retailing, which now represents 7.3% of total FMCG value—up from 4.3% last year (see Figure 12). The O2O channel boomed in both food and nonfood categories, capturing more than 50% increases in value share through three major O2O models: Horizontal platforms, New Retailer platforms and Traditional retailers. Many of these retailers have independent apps or mini apps on WeChat, but rely on partners for delivery. For example, RT-Mart collaborates with Taoxianda and Walmart with JD Home Delivery to reduce costs and improve the customer experience.

Consolidation is improving profitability in O2O delivery and is expected to continue. Horizontal platforms such as Dmall, with its digital category management and supply chain management capability, continued to grow amid Covid-19 and now ranks as the No. 1 O2O fresh products app in terms of monthly active users. Meanwhile, Carrefour further integrated Suning's supply chain capability this year, to execute more timely deliveries. In summary, consumers really enjoy O2O, but the companies involved are still looking for a way to make the model profitable.

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

Figure 12: Amid the pandemic, the value share of the O2O channel soared more than 50% for both food and nonfood categories, through three main models

Offline-to-online share of the urban FMCG market and consumer penetration, by product category



Note: O2O refers to the shopping journey starting from online platforms, leading to offline purchases and reaching consumers by delivery services
 Source: Kantar Worldpanel; Bain analysis; lit research

Horizontal platforms, partnering with brands/retailers



Online and offline New Retailer platforms



Self-run O2O platforms by Traditional retailers



With the pursuit of safety and convenience accelerating consumer demand for O2O retailing during the pandemic and recovery, platforms continued to innovate to compete for consumers. Hema, the leading New Retail player, not only expanded its footprint, but also innovated its store format, introducing Hema Station to serve top-tier cities’ suburban areas and Hema Mini for lower-tier cities.

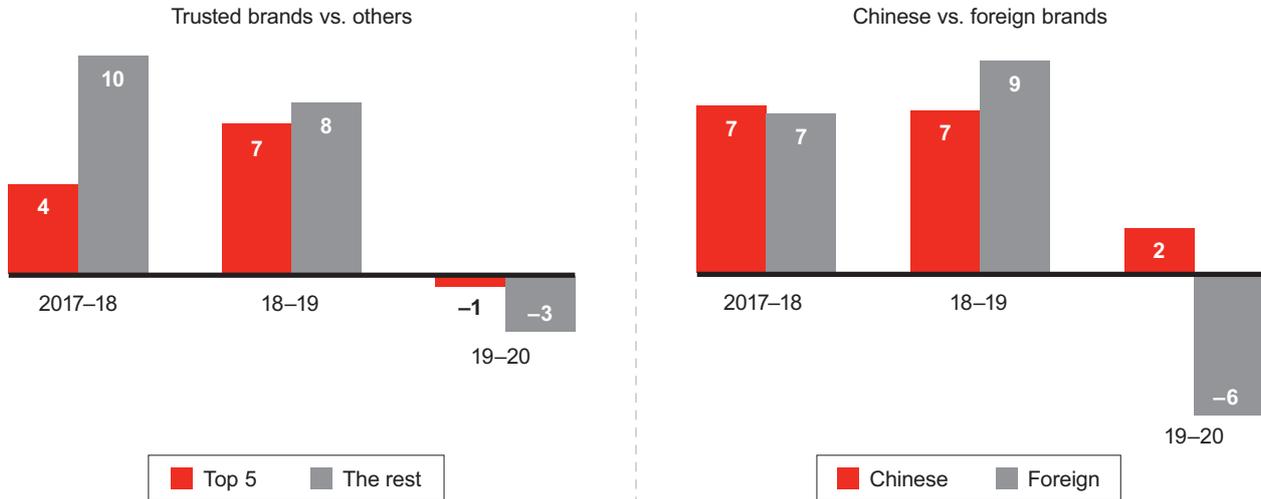
As Covid-19 helped spur growth in O2O retailing, it also gave a boost to trusted and local brands, which both withstood the Covid-19 pandemic (see Figure 13). Our analysis compares the performance of brands based on their size. Young insurgent brands—many of them Chinese—have been posing increasing competition for incumbent brands. But trusted, established brands weathered Covid-19 relatively well and continued to outperform smaller brands in most categories throughout 2020, driven partly by safety and health concerns.

Additionally, we have been tracking the intense competition between foreign and domestic brands since 2013. In the first five years, local brands achieved stronger growth until multinationals started narrowing the gap in 2018. They were learning from their Chinese competitors how to sell in China by taking a “4D” approach: design for China, decide in China, deliver at China speed, and digitalize the China business (see the Bain Brief “Consumer Products: Now’s the Time to Double Down on China”). Foreign brands gained enough traction that in 2019 they outpaced their Chinese competitors in market value growth. However, the pandemic caused this trend to change course. In the early months of 2020, local brands suffered less than multinationals, mainly due to fewer supply chain disruptions and a boost in online sales.

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

Figure 13: Trusted and local brands withstood the Covid-19 pandemic better than smaller or foreign brands

Year-over-year growth in market value (%)



Note: 2019-20 comparisons based on the first three quarters of each year; 2017-18 and 2018-19 data includes the 26 categories we usually track, 2019-20 comparison excludes three of those categories (beer, candy and kitchen cleanser); foreign brands are based on Kantar's "top performing brands"; foreign and Chinese designations are based on the largest shareholder; in M&A cases, the brand may change classification three years after the deal is completed; Kantar Worldpanel excluded cigarettes from total FMCG data, updated all category data in 2017, and adjusted online channel weighting for paper products to better reflect market realities in 2019; the changes may lead to some inconsistencies with previous years' data
Source: Kantar Worldpanel; Bain analysis

When considering all of these factors, top Chinese packaged food brands benefited the most. For example, top Chinese instant noodle brands such as Master Kong and Baixiang outperformed a category that already was surging in overall consumption. Also, top Chinese brand Firmus in infant formula far outperformed most foreign brands. But foreign brands were better positioned to withstand the challenges in personal care, which suffered more than home care categories during the pandemic. As Covid-19's early impact erodes, both small and foreign brands are catching up, although they still are lagging behind large brands and Chinese competitors.

Understanding shopper behavior by consumer segments

Relying on Alibaba's mountain of data and our insights gained from working with consumer goods and retail companies in China, last year we identified eight strategic segments of China's online consumers, the demographics and consumption behavior that define each distinct group, the role they play in a host of timely category trends, and the touchpoints that appeal best to them. (See the *2019 Online Strategic Consumer Groups Report: Innovate for Consumers with Insights from Big Data*.) Those consumer groups are Rookie White Collars, Wealthy Middle Class, Supermoms, Small-Town Youth, Gen Z, Urban Gray Hairs, Small-Town Mature Crowd and Urban Blue Collars. Collectively they account for 80% of Tmall and Taobao FMCG platform users and represent over 90% of gross merchandise volume. To help brands more clearly understand the consumer segments that are buying their products—and the potential for boosting sales—this year's report analyzes Kantar sales data for both online and offline sales of these eight segments.

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

Let's look at the segments one by one.

Rookie White Collars are educated people in their early 30s who live in Tier 1–3 cities. Their careers are advancing. They work in a fast-paced environment and greatly value convenience—hence, they prefer online shopping. They represent higher per-capita spending on Tmall and Taobao.

Wealthy Middle Class consists of financially stable consumers, typically in their early 40s. They live in Tier 1–3 cities, and primarily work as civil servants or in corporate middle or senior management. They are less passionate than their younger counterparts when buying the latest new products. As more deliberate consumers, they value quality, and a higher proportion of their online purchases are premium products.

Supermoms are women who are pregnant or have children under the age of 12. They live in Tier 1–3 cities and are concerned about raising healthy families while taking great care of their own careers—and their own health and beauty. They are the main shoppers for their families and are willing to pay a premium for convenience. Among all groups, they have the strongest spending power. It is reflected in the number of categories and brands they buy, their shopping frequency and the amount they spend.

Gen Z consists mainly of students in college or graduate school, or freshmen in the job market, living in Tier 1–3 cities. These consumers are digital natives. Unlike their older counterparts, they value trendy items over established brands and are major fans of insurgent brands. This group represented the fastest per-capita spending growth on Tmall and Taobao FMCG.

Small-Town Youth are consumers in their 20s in Tier 4 or smaller cities. They take their cues from big-city youth, eagerly following the latest urban trends. Without the pressure of exorbitant housing prices, they have considerable disposable income at their fingertips. The slow pace of life also provides them with enough time to enjoy games, video streaming and other online leisure activities. Their income and free time make them a huge potential force in online shopping.

Urban Gray Hairs are consumers born before 1970 who live in Tier 1–3 cities. The majority of them are retired and have substantial pensions. This group could be considered a hidden gold mine for online sellers. They now spend relatively little online.

Small-Town Mature Crowd consumers are older than 35 and live in Tier 4 or smaller cities. With their slow pace of life, they typically have an abundance of time to watch videos or news online. They make most of their purchases offline, a preference that allows them to socialize with acquaintances face-to-face.

Urban Blue Collars are less affluent consumers in Tier 1–3 cities who are typically engaged in such professions as catering, transportation or retail. They are familiar with the same e-commerce infrastructure and online channels that influence their middle-class counterparts. Yet, compared with the Rookie White Collars or Wealthy Middle Class groups, they are more concerned about value for their money when shopping online and tend to buy fewer items. Their per-capita spending on Tmall and Taobao is far below that of middle-class shoppers.

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

As the main shoppers for their families, Supermoms are the biggest consumers, spending an average RMB 2100 on FMCG in the second quarter of 2020, with the highest average number of trips and spending per trip (see Figure 14). At the opposite end of the spectrum are Gen Z consumers, who lag in both frequency and spending per trip.³

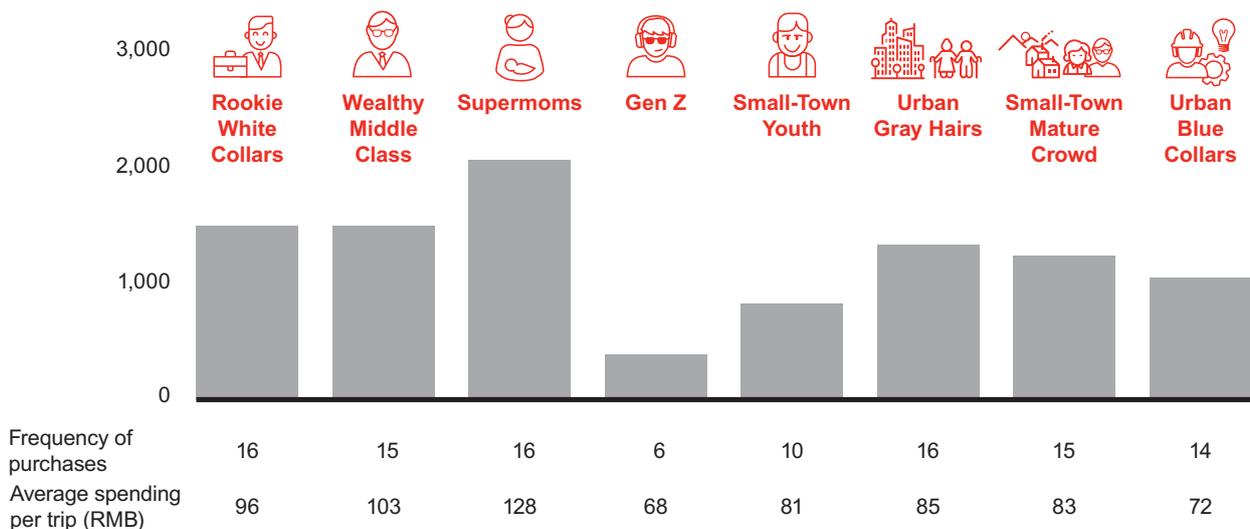
Different consumer segments showed distinct category preferences. As expected, consumers with babies—Supermoms, Small-Town Youth and Urban Blue Collar—spent more on products such as infant formula and diapers (see Figure 15). However, younger consumer segments are aggressively spending on their appearance. Makeup and skin care were top-three categories for Rookie White-Collars, Small-Town Youth and Gen Z.

Rookie White Collars and Gen Z consumers are spending 1.3 to 1.5 times the average on carbonated soft drinks and 1.2 times the average for candy, a category that is benefiting from imports and such innovations as Uha brand fruit gummy candy. Meanwhile, older and lower-income consumer segments (Urban Gray Hairs, Small-Town Mature Crowd and Urban Blue Collars) are spending relatively more for daily essentials such as tissues, toothpaste and fabric detergent.

Finally, we analyzed the spending by these eight segments according to the channels in which they purchase (see Figure 16). E-commerce is preferred for most Tier 1 to Tier 3 city consumers. Hypermarkets are the No. 2 channel for high-income urban groups, while supermarkets and minimarkets are popular with young consumer segments. Wealthy consumers in top-tier cities—Rookie White

Figure 14: Supermoms make a high number of purchases, with the highest average spending per trip

Online and offline per-capita FMCG spending, Q2 2020 (RMB)

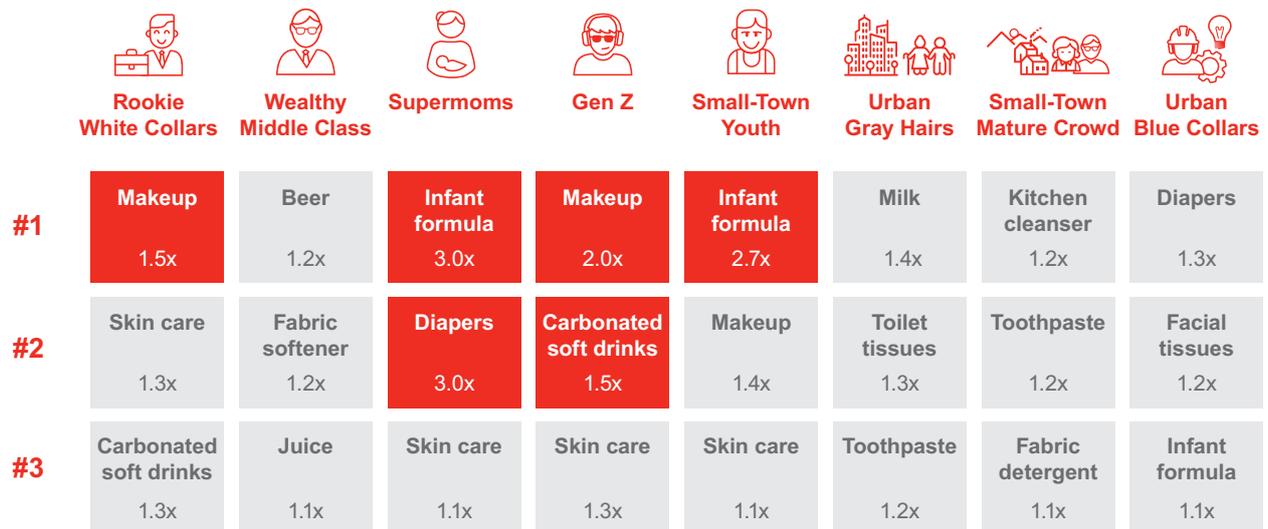


Note: As Kantar Worldpanel data is based on 40,000 urban households with a different sample structure and tags than Tmall data, differences may exist across consumer groups; for Gen Z, Kantar data excludes students who live in school dormitories and generally have higher FMCG consumption, thus the Gen Z per-capita spending is underestimated
Source: Kantar Worldpanel; Bain analysis

After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

Figure 15: Parents' spending focuses on children, youths spend more for appearance and self-indulgence, while lower-income people allocate more for daily essentials

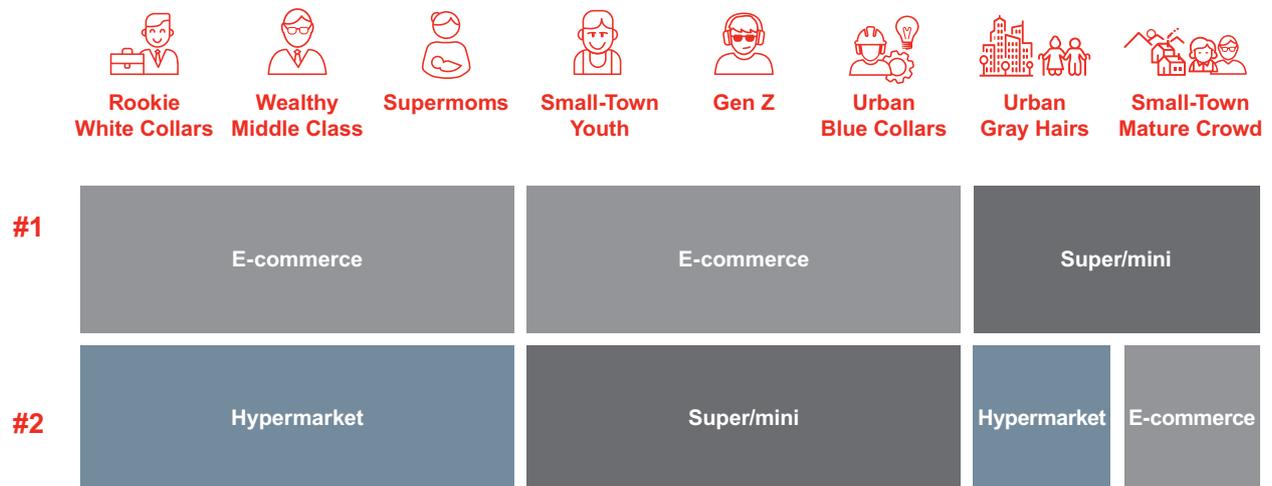
Products with the highest relative preference for consumer groups, Q2 2020



Note: Relative preference equals the consumer segment's value share of a product category divided by the average value share for all consumers
Source: Kantar Worldpanel; Bain analysis

Figure 16: E-commerce is the preferred channel for most consumer segments in China

Top channels for China's consumer segments, by value share (Q2 2020)



Source: Kantar Worldpanel; Bain analysis

 After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG

Collars and Supermoms—are the core e-commerce consumers, with 40% of their spending online. When they choose offline channels, it typically is for the physical store experience. They patronize hypermarkets, their preferred offline channel, as a one-stop location for their family needs.

Younger and Urban Blue Collar consumers devote 30% of their spending to e-commerce. Younger consumers shop online for convenience and the availability of new items. Blue-collar shoppers are influenced by their middle-class counterparts' online shopping behavior. Among offline channels, these consumers favor supermarkets and minimarkets for their convenience. For their part, Gen Z consumers prefer convenience stores.

The older consumer segments are the only ones that do not as regularly shop online; their e-commerce value share is a low 15% to 20%. When shopping offline, both of these older groups prefer supermarkets and minimarkets. As a sign of the infrequency of e-commerce shopping, Urban Gray Hairs spend more in hypermarkets than online, even if the gap is narrowing.

What to expect in 2021?

We will continue to track the ever-changing behavior of China's shoppers. Here is how we see the FMCG consumer landscape evolving.

Occasions and needs. The out-of-home category, a victim of Covid-19, will gradually recover. Even as it does, there still will be room for growth in categories for at-home consumption as well as for health- and wellness-related categories. Chinese consumers will continue to make purchases that will improve their well-being.

Digitalization. We expect consumers to continue increasing their spending in online and O2O channels. China's FMCG market will maintain its dynamic tradition. Consumers will become more demanding in their need for anywhere, anytime shopping and a seamlessly integrated omnichannel shopping experience.

Value proposition and price. As e-commerce steadily grows, so will the rate of heavy promotions. This will continue to serve as a challenge for most brands. The polarization trend of steady and simultaneous growth in both premium and mass categories will continue, making it critical for brands to compete with the right value proposition and price.

Organization. Rapid and unexpected shifts like the Covid-19 pandemic shake up industries. The best consumer goods companies will become prepared with nimble organizations that will enable them to address changing needs faster and better than their competitors.

1. These 26 categories are (a) packaged food: biscuits, chocolate, instant noodles, candy, chewing gum and infant formula; (b) beverages: milk, yogurt, juice, beer, ready-to-drink tea, carbonated soft drinks and packaged water; (c) personal care: skin care, shampoo, personal wash, toothpaste, makeup, hair conditioner, diaper and toothbrushes; and (d) home care: toilet tissues, fabric detergent, facial tissues, kitchen cleanser and fabric softener.

2. These 19 categories are soybean milk, mouthwash, oyster sauce, pet food, kitchen rolls, ready-to-drink coffee, hair colorant, quick soup, functional drinks, sesame sauce, hamburger, monosodium glutamate, soft cake, foreign spirits, leather care products, napkins, Chinese spirits, cooking oil and nutrient supplements.

3. As Kantar Worldpanel data is based on 40,000 urban households with a different sample structure and tags than Tmall data, differences may exist across consumer groups; also for Gen Z, Kantar data excludes students who live in school dormitories and generally have higher FMCG consumption as living independently from family, thus Gen Z's per-capita spending here is underestimated.



Bold ideas. Bold teams. Extraordinary results.

Bain & Company is a global consultancy that helps the world's most ambitious change makers define the future.

Across 59 offices in 37 countries, we work alongside our clients as one team with a shared ambition to achieve extraordinary results, outperform the competition and redefine industries. We complement our tailored, integrated expertise with a vibrant ecosystem of digital innovators to deliver better, faster and more enduring outcomes. Our 10-year commitment to invest more than \$1 billion in pro bono services brings our talent, expertise and insight to organizations tackling today's urgent challenges in education, racial equity, social justice, economic development and the environment. Since our founding in 1973, we have measured our success by the success of our clients, and we proudly maintain the highest level of client advocacy in the industry.

For more information, visit www.bain.com

AMSTERDAM • ATLANTA • BANGKOK • BEIJING • BENGALURU • BERLIN • BOGOTÁ • BOSTON • BRUSSELS • BUENOS AIRES • CHICAGO
COPENHAGEN • DALLAS • DOHA • DUBAI • DÜSSELDORF • FRANKFURT • HELSINKI • HONG KONG • HOUSTON • ISTANBUL • JAKARTA
JOHANNESBURG • KUALA LUMPUR • KYIV • LAGOS • LONDON • LOS ANGELES • MADRID • MELBOURNE • MEXICO CITY • MILAN
MINNEAPOLIS • MOSCOW • MUMBAI • MUNICH • NEW DELHI • NEW YORK • OSLO • PALO ALTO • PARIS • PERTH • RIO DE JANEIRO
RIYADH • ROME • SAN FRANCISCO • SANTIAGO • SÃO PAULO • SEATTLE • SEOUL • SHANGHAI • SINGAPORE • STOCKHOLM • SYDNEY
TOKYO • TORONTO • WARSAW • WASHINGTON, DC • ZURICH

KANTAR WORLD PANEL A CTR SERVICE IN CHINA

Kantar—Understand People, Inspire Growth

Kantar is one of the world's leading evidence-based insights and consulting companies. Kantar has a complete, unique and rounded understanding of how people think, feel and act, globally and locally in over 90 markets. By combining the deep expertise of Kantar's people with its data resources, benchmarks, innovative analytics and technology, Kantar helps clients understand people and inspire growth.

In the China market, the Worldpanel division is one of the services in CTR.

For more information, visit www.kantarworldpanel.com/global