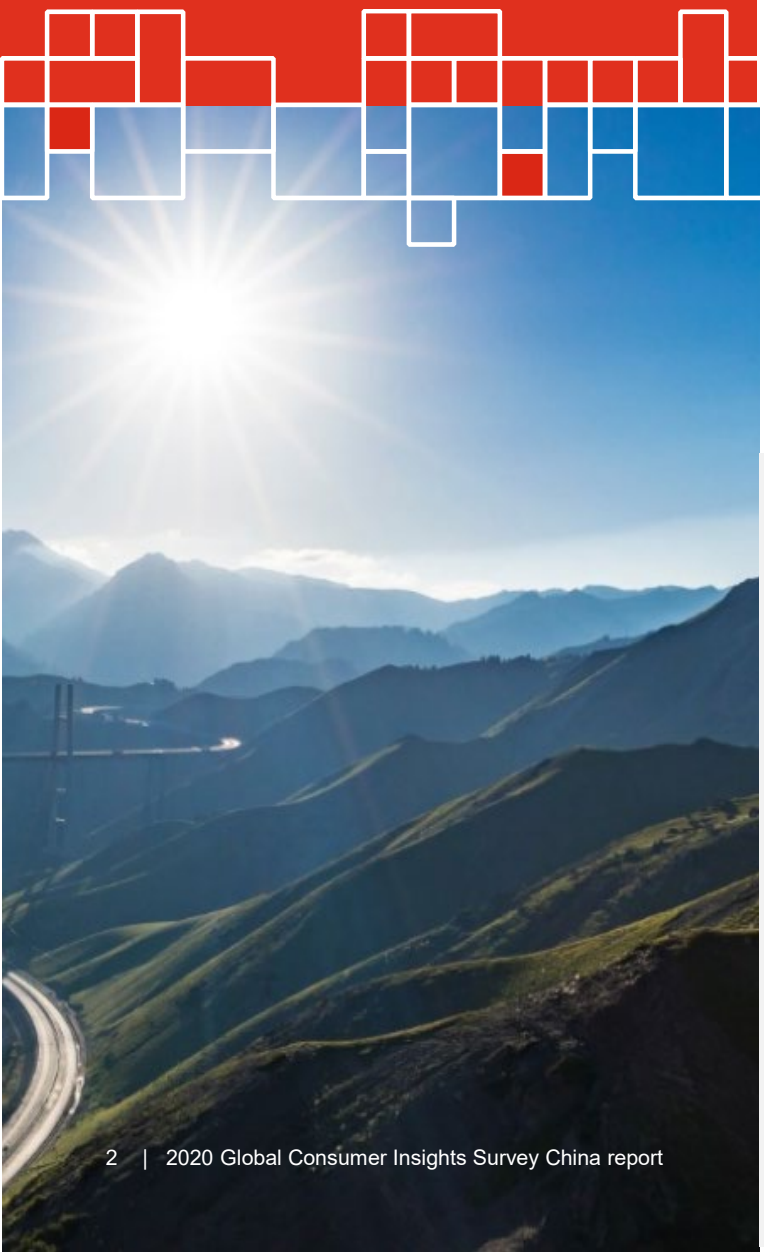
Recover, restart and regrow: How consumer trends ignite transformation in China's New Retail

2020 Global Consumer Insights Survey China report

Foreword



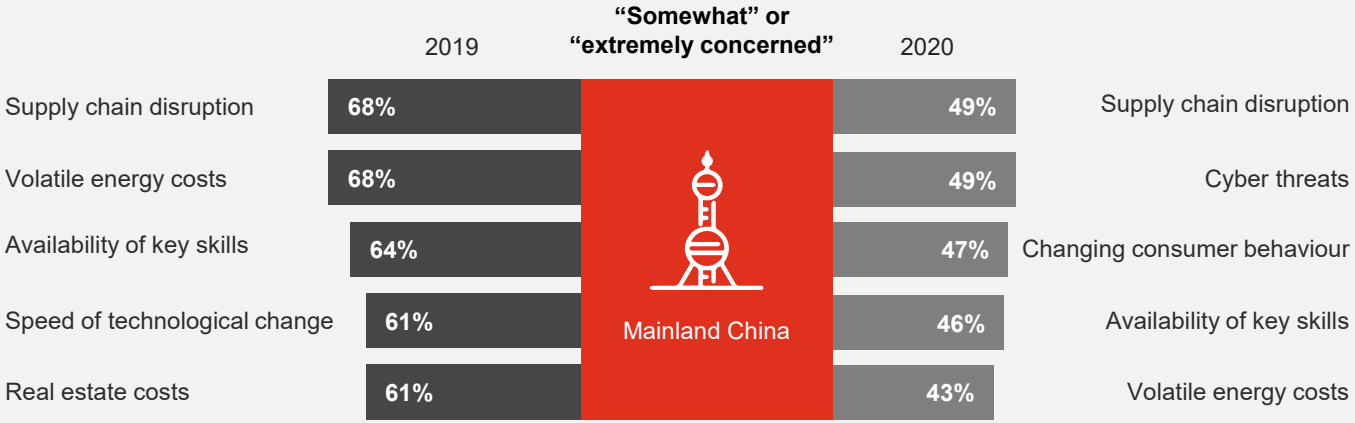
So much has been said about the C-word these days. Hardly a day went by without news broadcasting cases of infection, jobless claims, business closures, and so on.

Global supply chains were thrown off kilter following worldwide closure of production facilities. Even after China resumed capacity subsequently, new factory orders from overseas were halted while existing ones were hard to fulfil due to disrupted supply of intermediate products and raw materials.

All these events took place against a rather unstable macro-economic backdrop. China-US trade tensions recently flared up with increases in tariff measures, airline bans, and other barriers. Aggregate demand weakened and oil prices continued to be volatile. China's total retail sales of consumer goods in the first half of 2020 declined by 11.4% year on year to 17.2 trillion yuan, according to National Bureau of Statistics.

In the face of macro-economic headwinds, Chinese retailers are bearing the brunt of consequences as sales from brick-and-mortar shops plunged during the lockdown of major cities including Wuhan. The average Chinese consumers are left with an uncertain future; their worries include slower growth in living standards, job losses and lower incomes.

Figure 1: Business threats to organisations' growth prospects cited by mainland China CEOs



Source: PwC's Global CEO Survey

PwC's Global CEO Survey is conducted every year with CEOs to collect their economic and business outlook for the coming year. The above results of China CEOs did not include the impacts of COVID-19 or related risk factors as an option in the questionnaire. Looking forward to 2021, we would expect their views to change significantly in terms of business threats and their degree of concern as impacted by the current pandemic.

Meanwhile, businesses in China are facing a myriad of imminent challenges brought by supply chain disruption, changing consumer behaviour, availability of key skills, volatile energy costs, amongst others, as suggested by PwC's 23rd CEO Survey.

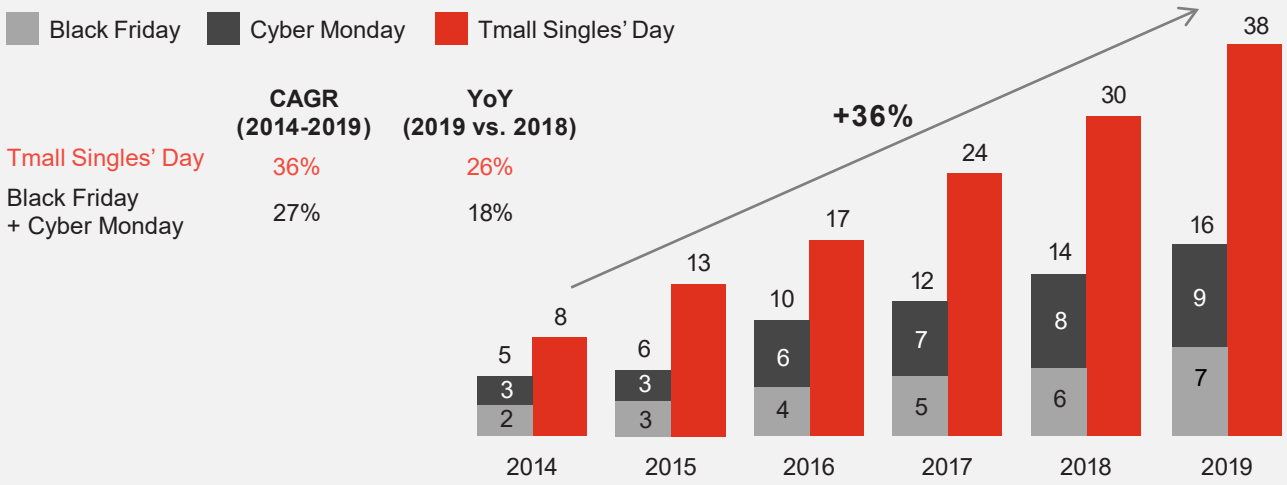
For Chinese consumers, taking routine trips to buy hygiene products with masks and goggles on one's face was less than conventional before the outbreak of COVID-19. So was the rare experience of watching online classical concerts and having virtual client meetings with zero human interaction. Consumers have changed almost every facet of their behaviour, some of which may very well be long-lasting.

Given the dramatic shift in consumption patterns, never before has there been a period of time where brands and retailers are so worried and excited at the same time - with so much market turbulence, uncertainty, and yet new hotspots of opportunities.

For one thing, shopping activities of home-bound consumers are gaining traction online. More demand is being channelled towards e-commerce platforms. China's 2019 11/11 Singles' Day, the world's largest yearly online shopping event exceeded the sales volume of previous years setting a new record of 268.4 billion yuan ($US 38 billion) in total sales volume on Alibaba's Tmall, outpacing that of Cyber Monday and Black Friday combined. The number of internet users surged to over 904 million people as of the first quarter of 2020 during the nationwide lockdown period.

Domestic consumption will be the key growth driver in the coming years amid global trade uncertainties. On 1 June 2020, the Chinese central government released the Master Plan for the Construction of Hainan Free Trade Port ("FTP"). The Plan sets forth a package of tailored made policy concessions on trade, investment and financing, and so on. The construction of a world-leading FTP is expected to bring a new wave of business opportunities in the consumer sector.

Figure 2: Tmall 11/11 vs Black Friday vs Cyber Monday, Gross Merchandise Value (GMV) ($US billion)



Source: Alibaba, Adobe Analysis and PwC Analysis

(Exchange rate: 1USD=RMB7.03)

PwC conducted the 2020 Global Consumer Insights Survey (GCIS) capturing the views of over 23,000 urban consumers globally (of which 1,500 are from mainland China) from October to November 2019, including a short survey conducted after the outbreak of COVID-19 to take the "pulse" of urban consumers to see how this pandemic has altered their behaviour. This report is based on the survey results of Chinese urban consumers and our in-house market intelligence and perspectives.

Last year we explored the theme of ROX (Return on Experience) and focused on how organisations can make customer centric solutions work for them. This year we take on a broader lens to explore the top seven emerging trends of the Chinese consumers market as it evolves against the global backdrop of social, political and economic uncertainties, and analyse from the commercial perspective what these trends mean to retailers for their long-term success.

This report is a story of challenges, resilience and recovery of the consumer space in transformation. I urge you to read it for a deep dive into our perspectives of how retailers recover, restart, and regrow their business to ride on emerging consumer trends.

-Michael Cheng, PwC Asia Pacific, Mainland China and Hong Kong Consumer Markets Leader

Reality check:

Macro environmental changes through the lens of consumers

2020 has been a year of unprecedented challenges and unparalleled opportunities. COVID-19 has brought global economy to a standstill. In a matter of weeks since the virus was first detected, hospitals were overloaded with patients followed by massive closure of factories, restaurants, movie theatres, and other public places.

Panic-induced stockpiling has extended beyond emergency items to grocery basics and essentials, such as canned goods, bottled water, toilet paper and cleaning products. Social distancing and movement control have kept consumers homebound with unfulfilled needs and a future to worry about.

The situation at home has been complicated by international events such as the ongoing trade tensions between US and China and the wide fluctuation in oil price, let alone the abrupt disruption of global supply chains affecting manufacturing outputs. The World Trade Organisation has predicted that global trade is set to contract up to 32% for the whole year in the aftermath of the health crisis.

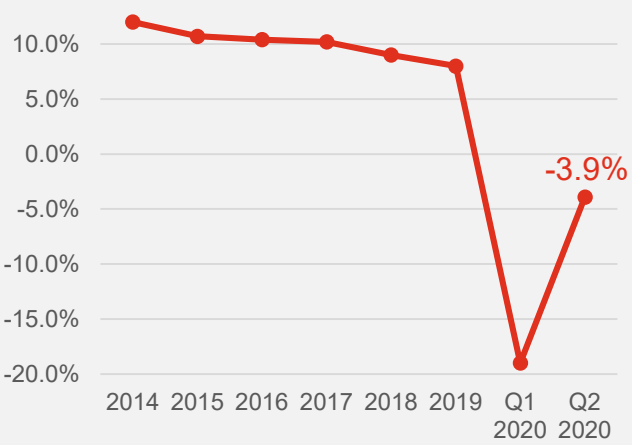
Nonetheless, the second quarter GDP growth in China recovered to positive territory, up 3.2% year-on-year after seeing the steepest decline of 6.8% last quarter. Decline in Q2 retail sales narrowed considerably to 3.9% year-on-year, compared to 19% in the previous quarter.

The consumer confidence index showed a reduced reading of 115.8 in May 2020, the lowest since beginning of the year, according to National Bureau of Statistics, as consumers weigh purchasing decisions against an uncertain economic prospect. The surveyed urban unemployment rate in the country receded to 5.7% in June, down from the high of 6.2% in February when the impacts were most severe.

Figure 3: China GDP Growth, 2014 – 2020 Q2

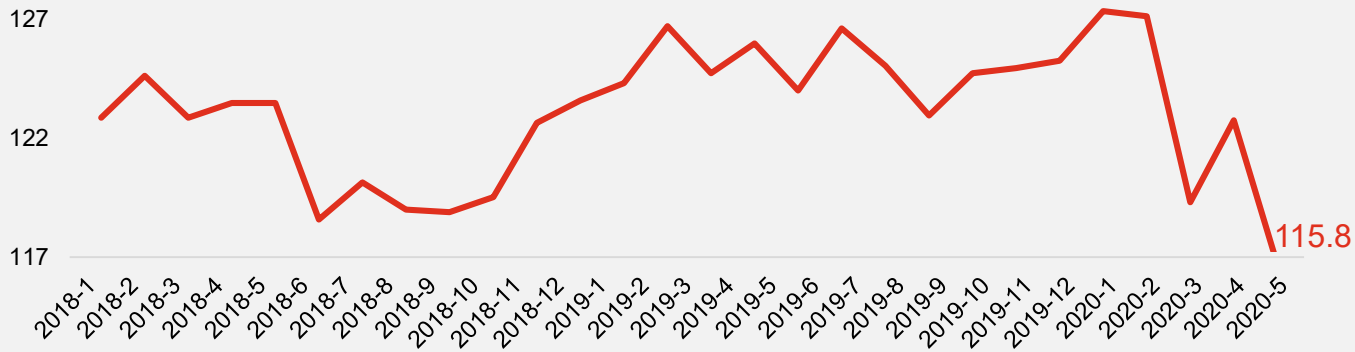
Source: National Bureau of Statistics

Figure 4: China Total Retail Growth Rate, 2014 – 2020 Q2



Source: National Bureau of Statistics

Figure 5: China Consumer Confidence Index, 2018 – 2020 May



Source: National Bureau of Statistics

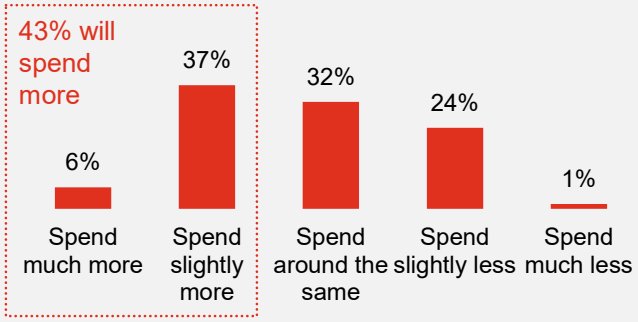
According to our survey, in the aftermath of the health crisis, one out of four consumers in China experienced a decrease in household income, while a half saw an increase in their household bills. However, the propensity to spend is still significantly higher than the global average of 33%. 43% of surveyed consumers in China expect to spend more in the next few months.

Impact of COVID-19 on income and spending

25% of consumers in China have experienced a **decrease in household income**

…**half** have experienced an **increase in household bills**

Figure 6: Expected change in household spend of Chinese consumers in the next few months



Source: PwC's 2020 Global Consumer Insights Survey

In fact, amid uncertainties surrounding the external environment, domestic consumption has been highlighted as the most critical driver for economic growth, as the country gradually shifts away from investment and export-driven economy towards a more internal growth model.

Up to 58% of economic growth in 2019 came from increase in consumer spending. The orientation to encourage the willingness and financial capacity of domestic consumers has been reaffirmed in the latest Government Work Report released on May 22.

According to the report, the Government has also given priority to "stabilising employment and ensuring standard of living" as ways to boost domestic consumption. China plans to create over 90 million jobs in 2020, while maintaining urban unemployment within 6%, with its stimulus measures including further tax cuts and reduced fees for businesses.

As the first country taking the impact of COVID-19 and subsequently recovering from the health crisis, China has shown exceptional resilience and adaptability. We have seen the rollouts of multiple stimulus measures to support and revive domestic consumption since the onset of the pandemic.

Likewise, Chinese consumers are taking a confidence vote on the economy with their continued spending, as the country shifts its focus towards restarting the economy and revitalising affected sectors and businesses.

In the following sections we discuss the seven emerging consumer trends for brands and retailers to take note of in their pursuit of market opportunities and sustainable growth.

Seven emerging consumer trends to look out for

1. Urban consumption in lower-tier cities as a new growth driver
2. The evolution of digital platforms to appeal to digital-savvy Chinese consumers
3. Supply chain reconfiguration and the rise of C2M model
4. Inexorable shift to online-based consumption post COVID-19
5. A new frontier of opportunities unearthed by Generation Z
6. Divergence of spending patterns across categories: luxury goods versus non-discretionary
7. Seeking return on health and sustainability

1 Urban consumption in lower-tier cities as a new growth driver

Cross-border e-commerce platforms have appealed to sophisticated consumers in lower-tier cities

Urban consumers, by their sheer size and numbers, are the propellers for China's enormous spending machine. According to estimates by National Bureau of Statistics, some 850 million people, representing about 60% of China's total population, will be living in urban areas by 2020, up from about 650 million in 2010. Over the past decade, urbanisation has helped migrate millions of workers and consumers to developed areas especially tier two and tier three cities.

Lower-tier cities are the hidden gems of Chinese consumer market. Faster disposable income growth and stronger purchasing power are propelling spending in lower-tier markets. According to the National Bureau of Statistics, the growth of disposable income in lower-tier cities was 9.6% in 2019, higher than 7.9% in major cities though the difference in absolute income between two segments is still up to nearly 70%.

The further penetration of e-commerce platforms including global ones are speeding consumers' adoption of quality and more premium products. In particular, cross-border e-commerce platforms have appealed to sophisticated consumers in lower-tier cities, with the whole market projected to reach $164 billion by end of 2020, according to Statista.

A recent Alibaba study indicated that lower-tier markets have overtaken their first and second-tier counterparts in terms of sales of 3C products (which includes computers, communication devices, and consumer electronics).

COVID-19's impacts on perception of Chinese cities

In terms of features of a city that are important to urban dwellers in China, 50% of our surveyed consumers cited safety and security as the most critical factor when considering where to reside, followed by healthcare and employment prospects. Up to 88% said their respective city was well prepared to deal with the impacts of COVID-19.

Figure 7: Most important features of city in China (ranked top 3)

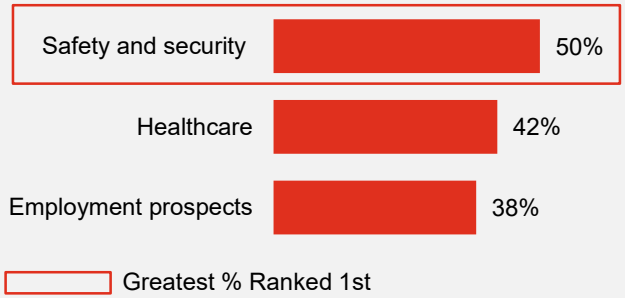
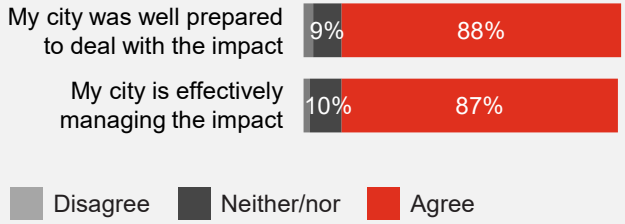


Figure 8: Perceived impacts of COVID-19 on city



Source: PwC's 2020 Global Consumer Insight Survey

Contrary to higher-tier cities that are full of expats, and are more concerned about privacy and social distance, consumers in lower-tier cities are living in a close-knit social networks. Friend-circle and community are fundamental social mechanisms, thus the recommendations and introductions from neighbours and friends play an important role in “seeding” new products and influencing peers’ final purchase decision.

As a result, the phenomenon of “hit item” prevails in lower-tier cities due to their mindset to keep up with the mainstream and follow the trend. For example, sales of the top 1% local cosmetic brands contributed more than 60% of the total category revenue. The prosperous cosmetic market in lower-tier cities largely depends on the success of a few “hit items”.

In addition, the stable and slow-paced lifestyle in lower-tier regions has led to rising demand for entertainment, education and travel. Since consumers in less developed cities enter parenthood earlier, they are very much willing to spend on educational programs and content. Their desire to provide better education for their children is reflected recently in the number of high and continuously-growing penetration of online education apps.

As China actively promotes domestic consumption, more cities are poised to benefit from stronger policy support in the future. In particular, Hainan has been positioned by the central government as an international hub for consumption and tourism as part of the FTP initiative. The implementation of new duty-free shopping policies in the tropical island has boosted local consumption dramatically. The offshore duty free allowance has more than tripled to 100,000 yuan while the range of duty free categories is being expanded, drawing tourists from other cities to shop in Hainan, rather than abroad, especially during the pandemic.

PwC’s point of view

E-commerce and social commerce will continue to be the growth catalyst for retailers in lower-tier cities. However, competition is also becoming fierce with more brands entering the market with digital advertising budget. Hence, improving digital marketing efficiency and providing a variety of quality products at reasonable price will be the key to attracting leads, retaining customers, and enhancing repurchase.

Instead of investing heavily in branding and large-scale product awareness, emphasising on promotion on the hero product and cultivating authentic word-of-mouth around it on video and livestreaming platforms can quickly create an anchor point in the market.

Though living in relatively under-developed areas, internet has opened new possibilities for urban dwellers in lower-tier cities. Consumers’ unmet needs are now being identified and fulfilled by entertainment and education content as well as other data-driven online services. It is safe to presume that their needs for online consumption will continue to grow. In order to capture the new demand, retailers should reconsider their existing approach in content marketing, and leverage product-relevant content or mechanism on selective entertainment and education platform to enhance purchase conversion.

2 The evolution of digital platforms to appeal to digital-savvy Chinese consumers

Live streaming has gained prominence in recent years as a viable way to market, communicate, and sell products online

Highlights from Tmall Global 6.18 Campaign – One of China's largest Cross Border Shopping Festivals
400,000 new products introduced by 25,000 brands
4,000 brands double GMV* YOY

*GMV is the total value of orders settled through Alipay on Tmall Global

The strict limits on people movement put in place to rein in the spread of COVID-19 have given rise to more instances of online shopping and spurred further growth in e-commerce.

In particular, live streaming has gained prominence in recent years as a viable way to market, communicate, and sell products online. The forced closure of physical stores has prompted retailers to sell their products online via live streaming.

Real-time visuals and audio allow hosts to showcase the product being used, to demonstrate various applications, to point out the benefits, and to respond to questions raised by the viewers. Most importantly, live streaming enables brands to be introduced to consumers through a richer experience, let alone addressing many of the pain points currently faced by consumers in an online setting.

It is estimated that live-streaming shows will drive a transaction volume of 500 billion yuan (about $US 71.4 billion) on Taobao. Many social platforms are jumping on the bandwagon to capitalise on the significant growth and success of commercial livestreaming. Little Red Book (小红书) and Pinduoduo (拼多多) reportedly introduced live streaming features in 2020, while Wechat mini programs have already been used by retailers for livestream shopping.

Social commerce allows consumers to buy products directly through social media networks. It offers them the ability to purchase directly within the network they're using at that moment which is more streamlined and removes the complexity of relying on redirects from one platform to another.

Pinduoduo, which built its success on social group buying, has consistently reported triple-digit revenue growth since 2015, while user-generated content (UGC)-based shopping app Little Red Book now vies for one of the top spots of China's leading social commerce channels.

Apart from online shopping, technology enablement in all walks of life continues to be a common scene for the average Chinese consumer. The government's measures to control movement and contact between people has laid a good foundation for the accelerated adoption of artificial intelligence, automation, and robotics.

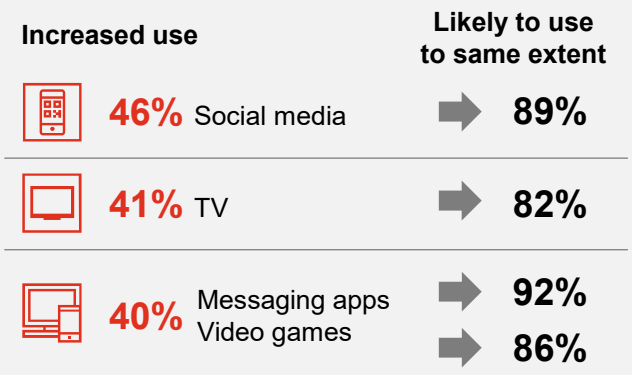
To achieve zero human-to-human interaction, tech companies have increased their use of automated delivery services. For instance, Online retailer JD.com used drones and robots to distribute medical materials in Hubei province during the lockdown period, while Baidu deployed autonomous vehicles to serve various purposes in the epidemic area.

Chinese consumers have high expectations for 5G applications: 50.5% of consumers are more interested in 5G network compared to other technology inventions; 42.1% for 4K/8K high-resolution video equipment; 39.2% for AR/VR content, as stated in a report by Trendforsee Consulting.

Over half of all urban consumers in China currently own a smart home voice assistant, while 31% plan to purchase one in the next 12 months. Voice assistants are primarily seen as a method of keeping informed and entertained. 43% of Chinese consumers said they have become informed about conditions in their city (eg traffic and weather). 37% said the device has prompted them to purchase other smart home devices to connect their home, and same proportion started their internet searches with the device. 21% also reported an increase in total shopping spend via use of digital assistants.

According to our survey, there was a spike in online activities including increased use of social media, messaging apps, and even consumption of video games as a result of lockdown. Such trends are expected to continue post-pandemic. 46% of surveyed consumers in China said they will increase the use of social media during and after COVID-19, while 40% said the same when it comes to messaging apps and video games.

Figure 9: Top 3 media channels in China where changes are the greatest and most likely to continue to use post isolation



Source: PwC's 2020 Global Consumer Insights Survey

According to a recent survey by Kantar, instant messaging app WhatsApp has seen a 40% spike in global usage as people look to stay connected amid the rapidly changing public health situation. Overall Facebook usage has increased 37%. China experienced a 58% increase in the use of local social media apps including WeChat and Weibo.

However, despite the relative dominance of online activities, it would be premature to write-off physical stores, especially when retail foot traffic started recovering after the lockdown. Online and offline stores are far from a zero-sum game. Rather, they can and should co-exist for greater synergy in creating a more complete, multi-faceted experience for customers.

PwC's point of view

Retailers should embed social media engagement capabilities into their organisation. Furthermore, they should realign digital marketing strategies in China especially on KOL and KOC (key opinion consumers) for sales driving and brand building. KOCs have a powerful influence on the decision-making process of their followers due to content authenticity and reliability. Contrary to KOLs who are usually paid to promote a specific brand or product, KOCs are early adopters who decide for themselves which product to review and recommend. Brands are making the most of KOC marketing by nurturing a community of KOCs with a post-ranking mechanism that favours relevance and quality over volume of followers.

Direct sales via live streaming (直播带货) has emerged as a new and promising channel leveraging the strength of both KOLs and KOCs. KOL live streamers are "internet celebrities" who are paid by brands to generate traffic, stories, and engagement around products; while KOCs operate in the more fragmented mass market managing sales operations for smaller retailers.

Consumers in China are increasingly shifting away from traditional mass media and looking to mobile and electronic devices for information and entertainment.

Live streaming has brought "retailtainment" (零售娱乐) to the next level, with the added benefits of enhancing supply chain efficiency and cash turnover for retailers. It has also provided brands with greater customer responsiveness, continuous engagement and higher conversion rates.

3 Supply chain reconfiguration and the rise of C2M model

The current crisis has exposed the vulnerability of the global supply chain and accentuated the drawbacks of having a supply chain that is over-reliant on a single market or geography.

Many economies including China have experienced varying degrees of supply disruption of input materials due to factory shutdowns at the height of COVID-19. A number of consumer categories, especially high value-added items involving upstream and downstream supply such as consumer electronics and medical equipment, have seen a lengthening of production cycles.

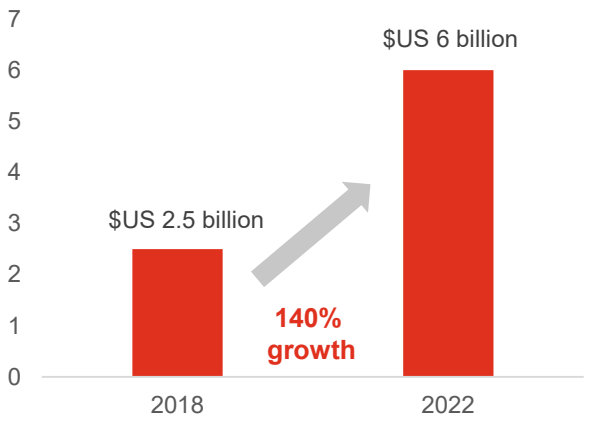
With increasing digitisation of production processes, some enterprises have started to implement more efficient and larger-scale manufacturing models shaped by customer driven demands

In response to supply chain disruption, we have seen that manufacturers and retailers are increasingly adopting a “China + 1” strategy as a way to mitigate their supply chain risks while retaining their exposure to China’s market opportunities. This strategy involves dual or multiple supply chains – with the core one catering to the Chinese market (also known as in-China for-China strategy), while others may be sourced offshore based on benefits of specific operations.

With increasing digitisation of production processes, some enterprises have started to implement more efficient and larger-scale manufacturing models shaped by customer driven demands, or the C2M (Customer to Manufacturer) model, and have achieved considerable benefits in cost savings and improved customisation.

Pinduoduo, through integrating a C2M design into its social commerce platform, has managed to offer it users highly competitive pricing through connecting individual manufacturers and factories with consumer insights, such as their location, preferences, and behaviours. Its direct-to-customer platform has become popular among bargain-seeking customers, particularly in lower-tier cities, where buyers tend to be more price sensitive and more likely to engage in group-buying.

Figure 10: Projected growth of C2M market in China



Source: Data from iResearch

Premium jewelry brand Chow Tai Fook (周大福) has pioneered C2M platform in mainland China, named D-ONE, through which it offers a unique customisation experience connecting new orders with its production bases in China. Products with highly-personalised features are made available for delivery within 24 hours from customer order.

To cater to the growing demand for C2M products, Alibaba launched Special Offers, a new app on Taobao, which works directly with factories instead of brands to create C2M products. It has the ambition of creating “super factories” to directly supply customers across 1000 categories over the next three years. Buyers can directly purchase from a network of manufacturers offering unbranded, customised items from hair dryers to kitchen ware.

PwC’s point of view

The evolution of digital platforms is not only about virtual commercialism – the journey is not complete without a stronger integration with the physical supply chain. It is during this time of pandemic-induced disruption that retailers with efficient production and distribution capability would have a clear edge over those who don’t. One example of success in this area is the adoption of a customer-to-manufacturer (C2M) business model.

Data from iResearch pointed to the remarkable growth of C2M market - reaching US$2.5 billion in 2018 and projecting to exceed US$6 billion by 2022. Despite being a relatively new field taking up only a fraction of China’s e-commerce market, C2M is clearly a viable model increasingly used by retailers to address challenges in demand forecasting, product customisation, and inventory management.

C2M could well be a new driver in the e-commerce landscape. In 2019, some 420 million C2M-related bookings and sales were registered in a single day during 618 shopping festival, the second-largest online spending event in China.

4 Inexorable shift to online-based consumption post COVID-19

The crisis has opened up new hotspots of online-based consumption including online education, remote office, e-sports and other stay-at-home activities

The epidemic has caused a massive offline-to-online migration of consumers across various categories. Among the many categories that are thriving are remote office and video-conferencing, web-based education, online sales of fresh produce, e-sports and gaming, to name a few.

As people resort to online means of consumption, demand for food delivery services has surged dramatically. The number of recent orders and new customers of Deliveroo has increased by 50% to 60% compared to three months ago. Meituan's (美团) stock price has surged to new high recently on optimism of larger order size of food delivery and influx of premium restaurants joining its network.

In the past several months we have seen a variety of innovative, unlikely partnerships in grocery. For example, ALDI joined with Deliveroo to complete last-mile local deliveries, while other retailers have teamed with Uber.

JD.com forecasted at least 10% rise in revenue for the epidemic-hit first quarter, benefiting from partnerships with supermarkets for delivering fresh produce and groceries to shoppers choosing to stay indoors in fear of infection.

Local supermarkets have responded quickly to provide a much simpler online shopping experience by directly taking orders via WeChat groups and offering same-day grocery delivery. Miss Fresh (每日优鲜) saw 237% increase in the number of new middle-aged and older users.

Carrefour reported six-fold growth in vegetable delivery during the Lunar New Year period. JD.com saw an increase of 215% in online shopping grocery sales to 15,000 tons in just the first 10 days of February.

Apart from food items, Chinese consumers are more actively using online channels to shop for non-food merchandise even after the lockdown period – a trend that has further spurred internet adoption and the prevalence of e-commerce.

Inditex, the parent company of Zara, has made the strategic shift to focus on e-commerce committing to EUR 1 billion investment in its online platform over the next three years, in a bid to revive its falling physical store sales in Q1 2020 during the lockdown period.

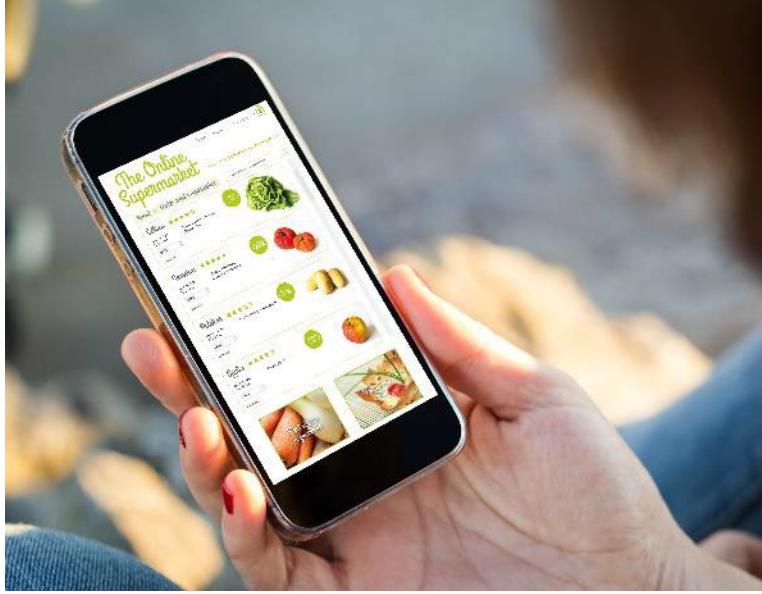


Figure 11: Consumers in China are using online channels more to shop for non-food items

- ↓ **52%** shopping **less** in **in-store**
- ↑ **58%** shopping **more** on **smartphone**
- ↑ **31%** shopping **more** on **computer**

Source: PwC's 2020 Global Consumer Insights Survey

China's Ministry of Education announced in late January it was postponing the start of the spring semester in response to the virus outbreak, posing a challenge to 276 million students countrywide. At the same time, it asked that schools provide remote education to home-bound students via recordings, live streaming, and cloud-based learning platforms. The national cloud learning platform, launched on February 17 by the Ministry of Education, offered learning materials for primary to senior high schools and the platform can serve up to 50 million students at a time.

This has given a boost to the growth of online education. Chinese children have been accustomed to home-schooling during the past few months with the aid of video-conferencing app such as Zoom. The internet has revolutionised the path of learning much like the dissemination of products.

The market size of online education, according to Mob Research, expanded significantly with a 20.7% increase in the number of online users of K12 education-related services to almost 400 million in 2019 compared to a year ago. Such growth is expected to accelerate further during and after the lockdown as parents and students realise benefits of home-schooling such as flexibility and time saved.

Another major trend driven by society's response to the epidemic is the popularity of home office, as the majority of white-collar jobs were executed at home. A number of studies have shown that productivity has increased or stayed the same for staff working from home. It is estimated that the smart office software industry in China will reach 48.6 billion yuan by 2024,up from 23.4 billion yuan in 2018, according to Qianzhan Industry Research Institute.

Online and mobile gaming has been on an uptrend in recent years spurred by the rise of the eSports culture. For example, online entertainment and games giant Tencent, owner of big hit titles like Honour of Kings (王者荣誉) and PUBG Mobile (絕地求生), has clearly benefited from measures to prevent the spread of COVID-19. Downloads of mobile games globally jumped 39% in February, with China taking the lion share of the increase, data from Sensor Tower suggested.

PwC's point of view

The outbreak of COVID-19 has been an unprecedented social catalyst to test the extent to which consumers accept online shopping and delivery as a primary medium of consumption. So far it has been a success which has translated into permanent change in consumer behaviour.

Looking forward, physical shops will need to transition into providing experience and interactions in order to stay relevant, as opposed to selling products alone. Winners of the post-pandemic period are likely those with a robust online presence and relevant physical setups that revolve around experience.

As the on- and offline worlds converge due to the outbreak of COVID19, consumers expect more than ever to consume products and services any time and any place, so omnichannel marketing and sales must reach a new level to adapt to the rise in consumer expectations.

Such convergence has brought vibrancy on the competitive landscape. Recently, JD.com announced strategic cooperation with household appliances and electronics retailer GOME (国美), where it will buy US$100 million worth of convertible bonds of the latter. Such partnerships reinforce the fact the trend that leading players within consumer sector, online and offline, are collaborating with each other to enhance their omnichannel presence – GOME with JD.com, Alibaba with Suning (苏宁), and Tencent-backed Pinduoduo with GOME.

5 A new frontier of opportunities unearthed by Generation Z

The Gen Z segment constitutes 25% of the country's population and yet 60% of growth in total spending

Source: PwC's 2020 Global Consumer Insights Survey

Gen Z consists of the younger population born after 1996. With less family burdens and more time outside of work, they are optimistic about their future and have little hesitation about spending their money.

Gen Z'ers are naturally digital-savvy being the first Chinese generation born into a fully digital era. Their participation in Tmall/JD.com Prime Membership is highest amongst all age groups surveyed. As a tech-empowered group they are keen to share their thoughts and feelings in the form of social media postings, blog articles, online reviews, and other modes of self-expression.

Our survey suggested that over one fifth of surveyed consumers plan to start shopping on Secoo (寺库), the world's largest premium lifestyle platform, while also shopping significantly more using Tmall in the next 12 months. Among the Gen Z group, 33% said they will shop significantly more on Tmall.

The Gen Z segment constitutes 25% of the country's population and yet 60% of the growth in total spending. They also represent the fastest per-capita spending growth on Tmall and Taobao FMCG, with per-capita spending growing 30% annually from 2016 to 2018, according to data from Alibaba.

Behind the spending power of Gen Z lies the idea of manifesting individual identity and self-expression. Gen Z and millennials are not only eager for more personalised products or services but are also willing to pay a premium for things that accentuate their individualism and life values.

Gen Z consumers are also brand-conscious followers who keep a close eye on trending items. They tend to show less loyalty in brands and instead seek products that match their character and personal style.

Faced with a major disruption of their social life during the nationwide lockdown period, a portion of the younger population started to reassess their spending patterns and revalue certain things such as personal health and family relationships. Some of them even subscribed to the trending concept of minimalism, or duansheli (断舍离), a phrase that means cutting off trivial things, so they can focus on pursuing more important things in life.

On the other hand, there has seen a surge in popularity especially among the younger generation for domestic brands or “guo huo” (国货), as opposed to foreign icons amid ongoing trade tension and growing patriotism at home. For instance, Huawei’s sales of smart phones in Q3 2019 surged by 65% in the Chinese market just at a time when it was facing scrutiny and regulatory hurdles in its export markets during the heat of the global trade debate.

Bosideng (波司登), the Chinese maker of down jackets, also saw an uplift in volume from the outpouring of support for local brands leading to rebounding sales and share price in 2019. Another example of beneficiary was Perfect Diary (完美日记), a young cosmetics maker based in Guangzhou that recorded 100 million yuan of sales within 13 minutes on Singles’ Day banking on the rise of “sentiment-driven” sales.

Conversely, Chinese consumers are not shy in using their spending power to vote with their money for what aligns with their values, in what is known as the “cancel culture” – where celebrities and brands are criticised or boycotted for a range of issues often related to homophobia, politics, or racism.

PwC’s point of view

What does it mean for retailers trying to appeal to this new generation? For one thing they have to work smarter on a wide range of attributes beyond price tags valued by Gen Z consumers, such as stylishness, convenience, and functionality.

Gen Z’ers are socially conscious consumers and they expect a certain standard of business ethics from the brands they patronise. Retailers should be mindful of how their brands are being perceived by Gen Z’ers across different attributes such as sustainability, animal welfare, data privacy, and other topics of their concern.

For instance, as one of the fastest growing social platforms featuring ACG (Anime, Comics and Game) style, Bilibiili (哔哩哔哩) has successfully captured the hearts of Gen Z which make up to over 80% of its user base. They are drawn into the ACG platform by a mix of enriched features that stimulate a high level of engagement and enjoyment through user-generated content.

To better manage the impact of sentiment-driven spending, brands are under pressure to incorporate cultural elements into their products and services, and show greater sensitivity to today’s current events.

Foreign brands need to recognise that Chinese millennials and Gen Z’ers have a very different profile than their western counterparts. This has warranted the need for a more conscious localisation strategy that is built on brand storytelling, customer engagement, KOL/KOC tactics, and above all – company values that resonate with the younger generation.

6 Divergence of spending patterns across categories: luxury goods versus non-discretionary

General consumption is expected to pick up, but the magnitude of spending varies widely across different categories

Figure 12: Keen demand for grocery shopping during and after the pandemic

Source: PwC's 2020 Global Consumer Insights Survey

The post-COVID recovery in consumer spending is uneven and unlikely to follow past patterns. General consumption is expected to pick up again as the immediate health crisis recedes, but the magnitude of spending has varied widely across different categories. We have seen polarisation of demand towards luxury and mass-market brands.

China's luxury market has proven to be one of the most resilient and best-performing sectors. Purchases by Chinese consumers accounted for about 40% of total luxury sales globally, and such proportion is forecasted to advance further to 50% by 2030, according to Équité.

Indeed, the luxury segment in China has welcomed a V-shaped recovery in sales. As the "revenge shopping" scenes on the Mainland with long queues outside of luxury mall stores persisted, prestige brands are seeing greater sales in China to counterbalance poor results elsewhere.

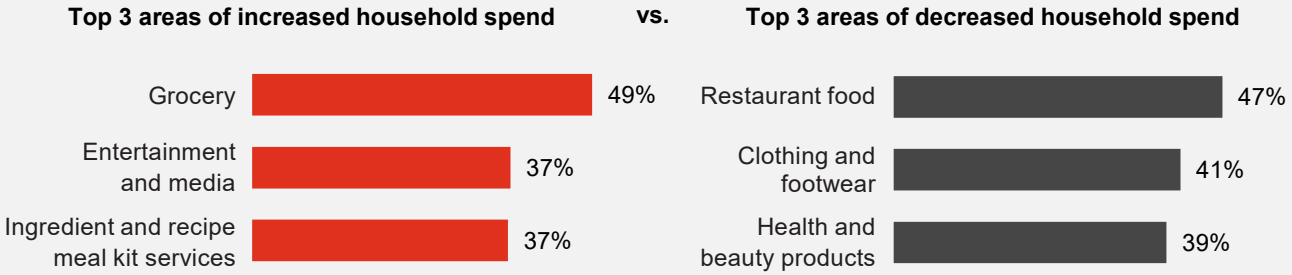
Under strict containment measures, many middle class Chinese shoppers who had suppressed their consumption previously are now spending more on premium brands like Hermès, Chanel, and Gucci because of their attractiveness as alternative investment and means of wealth preservation.

Increasingly, luxury retailers are taking the battlefield online. Alibaba's Tmall platform reported record-level participation from luxury brands for its 5.20 ("I love you" in Mandarin) sales campaign on May 20. Some 5,000 new products from 150 premium brands including Chanel, Cartier, Longines, Tom Ford, and Yves Saint Laurent Beauty debuted during the campaign and promoted special-edition gift boxes for the event.

Similarly on the other end of the spectrum we noticed consistently keen demand for grocery during and after the pandemic. Indeed, grocery shopping has changed in response to the outbreak. In China, 69% are now shopping online for grocery, 34% started to use a personal shopping service, 21% started to buy more food from local/independent stores, and 11% shopped at places that didn't sell food to the public previously.

Overall, as much as 49% of Chinese respondents said they increased their household spending on grocery, followed by entertainment and media (37%), and meal kit services (37%). What seems to suffer, at least in the short term, are mass merchandise or services in the mid-price range including restaurant visits (47%) and clothing and footwear (41%), which are expecting a fall in household spending.

Figure 13: Shopping and spending habits in China during social distancing measures



Source: PwC's 2020 Global Consumer Insights Survey

PwC's point of view

Compared to the rest of the world, China has been leading the "race of economic recovery" thanks to its continued government stimulus, lifting of domestic travel ban, and faster-than-expected recommencement of business activities.

This is reflected in sales of high-end merchandise, compared to other economies that are still bearing the brunt of lockdown impacts. In fact, foreign luxury brands are laser-focused on the buying power of Chinese consumers to recoup some of their losses elsewhere.

We maintain the view that the luxury market in China will continue to see a strong pickup in demand and sales benefiting from "revenge buying". The question is how long such trend will last as the containment measures ease. Brands need to take caution on their go-to-market and pricing strategies considering money flow of the affluent and ultra-rich, change in consumer tastes, and their own positioning.

Meanwhile, it appears that grocery will continue its COVID-19 accelerated evolution. Given the significant uptick of online grocery, the resilience of physical grocery visits, and the time it will take for consumers to feel confident going out, grocery appears to have very strong future next year. The massive move to online grocery also highlights the urgent need for delivery models to innovate.

It is important for retailers to wisely anticipate the rebound of their respective consumer segments, and be agile enough strategically and financially to act on new growth opportunities and policy directions as the recovery story plays out.

7 Seeking return on health and sustainability

Chinese consumers are more drawn to the “feel good factor” at times of challenges and uncertainties

Even before the virus outbreak, our survey has pointed out that, compared to their global counterparts, consumers in China are making dietary changes for health reasons. The majority also make time for exercise and wellness activities. 73% said they are adopting more plant-based food in their diet, 62% regularly take a supplement or vitamin for their health, and 57% are reducing or restricting unhealthy elements of their diet. After the outbreak, Chinese consumers are increasingly focused on taking care of their physical health and fitness (90%), diet (89%), mental health (87%), and medical needs (85%).

According to a recent study by Neilsen, home quarantine has further cultivated consumers’ online shopping habits, with 89% of consumers in China saying they will be more willing to buy daily necessities or fresh products online once the pandemic is over. Additionally, 80% said they would pay attention to eating healthy even after the epidemic is over.

Figure 14: Chinese consumers with more focus on taking care of themselves in terms of…

	% of Chinese consumers who strongly agree/agree
Physical health & fitness	90%
Diet	89%
Mental health	87%
Medical needs	85%

Source: PwC’s 2020 Global Consumer Insights Survey

Mental health is equally important. Consumers are more drawn to the “feel good factor” during a time of challenge and uncertainty. People have more time to spend on indulging themselves or looking after their wellbeing by, for instance, a pampering skincare routine. In fact, as many as 79% of Chinese consumers think grooming routines are a good way to reduce stress, according to Mintel research.

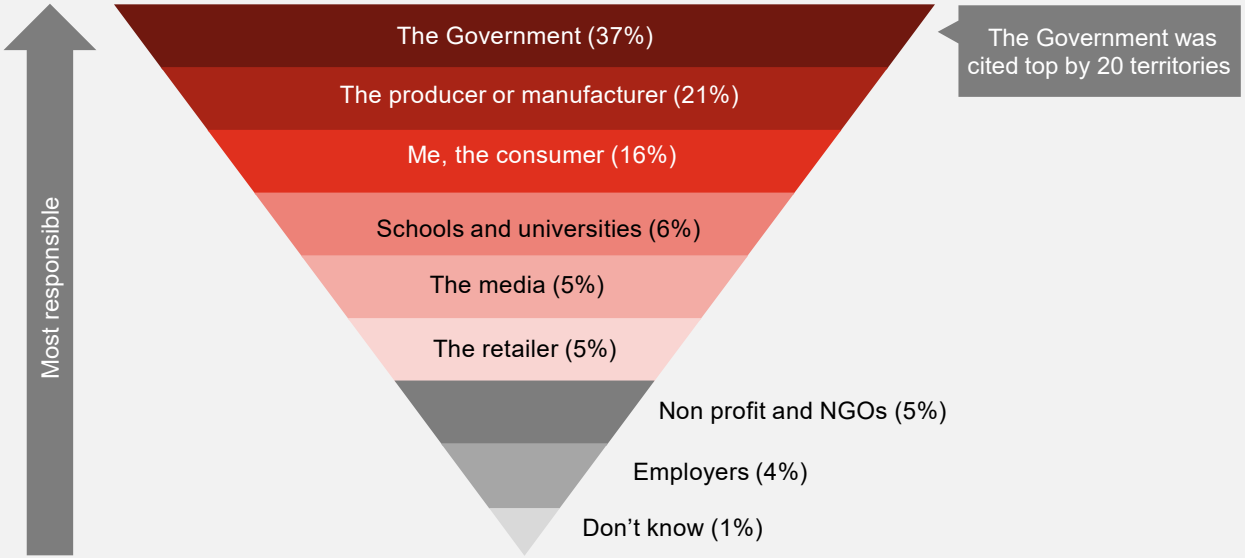
In the aftermath of COVID-19, increasingly more consumers have tuned in to a more responsible and sustainable pattern of living and spending. Looking at the NASA’s images of a greener planet taken during the global lockdowns, one can appreciate the positive impact of human inactivity on the eco-environment.

As consumers become more interested in caring for themselves and the planet, they are gravitating to models and systems that make their lives simpler, easier and exert less impact on the environment.

Such behavioural change is likely to persist as consumers continue to lower their material footprints and resort to low-carbon activities such as digital entertainment, outdoor and fitness, and remote learning for oneself. 16% of our surveyed consumers in China (compared to 20% global respondents) considered themselves as the key driver for sustainable consumption, more so than the media, retailers, and employers.

It follows that all stakeholders - including the government, consumers, and producers or manufacturers - bear a shared responsibility for creating a sustainable world. Few expect the private sector to solve these issues on its own – instead the corporate sector must get better at joining with government and consumer groups to promote and sponsor sustainable consumption behaviours.

Figure 15: Chinese consumers look to their Government to drive sustainable behaviours



Source: PwC’s 2020 Global Consumer Insights Survey

PwC’s point of view

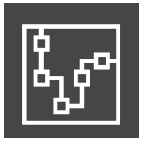
The public health crisis, with daily reported cases of infection and death, has forced consumers to take extra precautions on their personal hygiene, health, and long term well-being. Likewise, this is a perfect timing for retailers to become acutely aware of their customers’ concern for health and wellbeing. They should revisit and rebuild a more direct, genuine and caring relationship by interacting with them at a deeper level.

Athlete apparel companies Nike and Lululemon stayed engaged with their customers throughout the epidemic period by offering free exercise courses and encouraging at-home workouts via their social media apps. Nike reported that its activity apps have induced strong customer engagement and translated into 30% growth in digital commerce business for the company. Meanwhile, Lululemon enabled its community to connect and access online fitness and health resources through its newly-created “Community Carries On” content portal.

In sum, companies that offer healthy, nutritious products to care-centric customers are there to thrive. Faced with increasing awareness of sustainable consumption, brands should work closely with stakeholders, such as NGOs, trade associations, and academia, to re-examine their value propositions to enhance the “greenness” of their offerings.

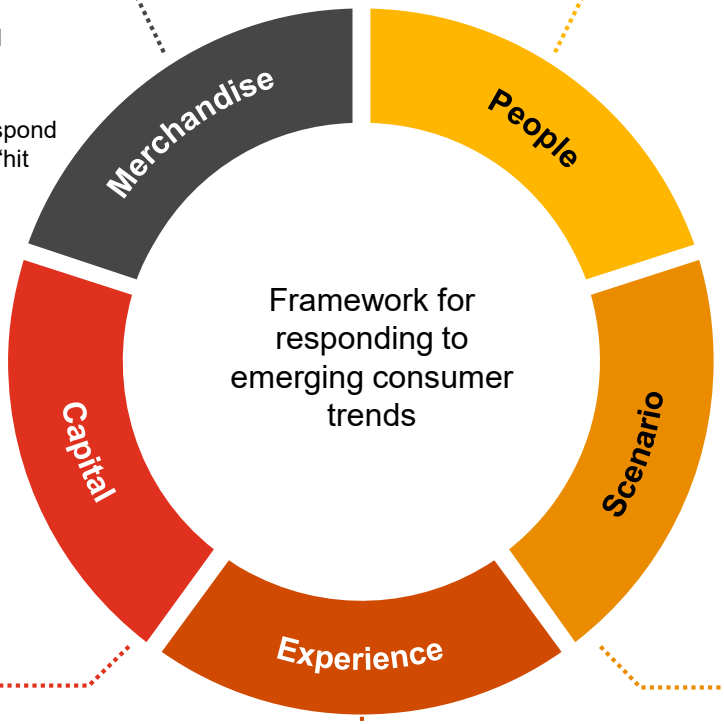
Closing remarks

In summary, we have identified some of the top emerging trends in consumer behaviour that are here to stay. Retailers should be mindful of how the paradigm shift in the ecosystem – especially the prevalence of digitisation – will impact their future growth and bottom line. We devise the following framework of key learnings for consumer goods companies through the lens of “people, merchandise, scenarios, capital, and experience”.



- **Be clear on the minimum viable basket** – the “anchor” products or services that must be available at all times and prioritised through the supply chain.
- **Develop more agile, real-time logistics strategies** to respond to short-term irregular demand for certain merchandise or “hit items”.
- **Practise flexible sourcing** to ensure stable supply by connecting directly to the production sources.

- **Understand how your customers’ priorities may have changed** and use this opportunity to re-evaluate your relationship with your customers.
- **Improve the digital “fitness” of your own employees** so they are better equipped to serve consumers in a more online-dominated setting.
- **Consider new pricing tactics and loyalty programmes** in the digital ecosystems to drive customer experience and engagement.
- **Enhance consumer trust in your brand** by addressing their special needs at this challenging time.



- **Develop a more refined measure** of cash flow estimation to ensure funds are used as efficiently as possible.
- **Revisit your capital expenditure pattern** to remove or minimise unnecessary expenses such as equipment sourcing and store renovation.
- **Shorten the product life cycle** to avoid build-up of inventory and fund lock-up via more accurate, data driven demand forecasting.

- **Diversify marketing scenarios** to ride on digital transformation and consumption upgrading. Capitalise on new spending patterns such as live streaming e-commerce, C2M products, unmanned delivery, and stay-at-home economy (宅经济).
- **Create spending scenarios around lifestyle destinations** encompassing green spaces, shops, restaurants, supported by transportation grids and work communities.

- **Decide how to offer a unique and distinct experience** for those who are less digitally inclined, by choice or by economic status, than others.
- **Invest in direct-to-customer platforms** to drive frictionless commerce and engagement and leverage network technology for more advanced customers segmentation.

Although it still takes time for China's economic immune system to tackle all the challenges ahead, the country's huge population base, continued acceleration of urbanisation, coupled with rich and convenient consumption scenarios will promote the development of consumption classification and upgrade. The new generation of Chinese consumers are interested in convenient, healthy and personalised products and services. Their changing taste and preferences will be reflected in future dollars spent.

COVID-19 has altered consumer behaviours in a fundamental way in China, both online and offline, and retailers are keen to adopt these changes for long-term success and sustainable growth. Regardless of how the pandemic plays out, the reality of New Retail transformation will go on – with accelerated pace in digitalisation, proliferation in e-commerce, and consumer tech adoption.

Looking forward, the consumer landscape in China is still full of dire challenges and untapped opportunities. Many traditional retail models are being challenged and displaced, while new opportunities have emerged for those who are prepared and agile enough to take advantage of the paradigm shift, characterised by the fundamental changes in consumer behaviour.

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Survey methodology

For its 2020 Global Consumer Insights Survey, PwC set out to understand urban dwellers' experiences. We polled more than 19,000 consumers globally, covering 74 cities in 27 territories (Australia, Brazil, Canada, China, France, Germany, Hong Kong SAR, Hungary, India, Indonesia, Ireland, Japan, Malaysia, Mexico, Middle East, Netherlands, Philippines, Russia, Singapore, South Africa, South Korea, Spain, Thailand, Turkey, UK, US, Vietnam).

The survey was translated into 19 languages and fielded in August and September 2019. The respondents were at least 18 years old and were required to have shopped online at least once in the previous year.

After COVID-19 hit, we worked closely with an online panel to reach consumers from key cities in nine territories (China, France, Germany, Italy, Middle East, Netherlands, Spain, Sweden, UK), collecting responses from 4,447 consumers.

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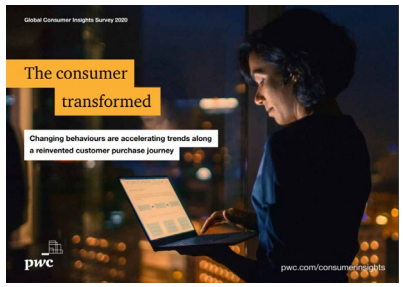

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