Adapting to Change: The New Consumer Dynamics in China's FMCG Sector

China Shopper Report 2024, vol. 2

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This report is a joint effort between Bain & Company and Kantar Worldpanel. The authors extend gratitude to all who contributed to it, especially Enqing Wang, Kate Liu, Matthew Wu, Jelly Guo, Yongqi Si, Borui Wang from Bain; as well as Tina Qin and Sallian He from Kantar Worldpanel.

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Executive Summary

This is the 13th consecutive year we have tracked the shopping behaviors of Chinese consumers. Our ongoing research provides a valuable, long-term perspective across 106 fast-moving consumer goods (FMCG) categories purchased for home consumption in China. As in the previous 12 years, we analyzed 26 key categories across the four largest consumer goods sectors: Packaged Food, Beverage, Personal Care, and Home Care. This year, we updated our tracking to include Nutrition Supplements, Coffee, and Sanitary Pads, while removing Toothbrushes and Fabric Softener, bringing our total tracked categories to 27 to better reflect evolving market dynamics.

In this report, we will provide updates on the following two topics, and then close with the implications for brands:

- **Topic 1: Overall FMCG performance in China for Q3 2024 year-to-date (YTD).**
- **Topic 2: The fundamentals of brand growth, and changes compared to previous years.**

Overall FMCG growth in China has slowed during the first three quarters, becoming slightly negative in Q3 and further declining in September (P10). Specifically, FMCG growth rates were 2.0% in Q1, 1.6% in Q2, -1.1% in Q3, and -3.5% in P10. For Q3 2024 YTD, the average FMCG growth of 0.8% was influenced by a 4.6% increase in volume alongside a 3.6% decline in average selling price (ASP). This decline represents the most significant drag on FMCG performance in China since we began observing the deflationary trend in 2021. Throughout the three quarters, price deflation accelerated, with ASP declines of -1.5% in Q1, -4.2% in Q2, -5.1% in Q3, and -5.2% in P10. Among the major categories, Personal Care and Beverage experienced the largest ASP declines and have faced depressed prices for the past five years. Home Care and Packaged Food also reversed their ASP growth in Q3 2024 YTD, entering a period of decline. This accelerating deflationary trend highlights the increasing price sensitivity of consumers and the heightened promotional focus of platforms and retailers.

In Q3 2024 YTD, offline channels outperformed the market, gaining 1% market share for the first time since the inception of e-commerce. This gain was driven, in part, by the expansion of discount chains and club warehouse formats, as well as by smaller formats such as Grocery, CVS, and Super/mini markets. The slight downturn in online channels stemmed from robust volume growth, which was offset by a similar-sized ASP decline due to heavy promotions across nearly all platforms. Within the e-commerce landscape, Douyin continued to experience double-digit growth, surpassing JD to become the second-largest e-commerce channel by gross merchandise value.

As outdoor activities have surged following the post-Covid reopening, we have noticed a slight decline in food and beverage spending at home, now accounting for 55% in Tier 1 and Tier 2 cities. In this context, catering to On-The-Go consumers in the food and beverage sector has become the primary focus for grocery stores and convenience stores.

At a time of increased promotional activations by brand and platforms, it is important to remember the fundamentals of brand growth. The starting point is to understand that categories behave differently along the "repertoire-loyalist" continuum. We have looked at this question three times in the past (in 2013, 2016, and 2019). Given the significant changes since 2019, we have decided to provide an updated analysis of this important topic. As previous readers may recall, in repertoire categories, increased shopping frequency typically results in consumers purchasing a greater variety of brands. Conversely, in loyalist categories, higher purchase frequency does not lead to an increase in the number of brands bought. This year, we arrived at several conclusions—some consistent with previous findings, while others differ:

- Shoppers across most repertoire categories have become more repertoire-oriented over time, likely due to intensified competition and an increase in available brands.
- Online penetration has minimal impact on either repertoire or loyalist shopper behavior. This holds true across both categories with high online penetration, such as baby diapers and make-up, and those with low online penetration, like candy and packaged water.
- Markets remain highly competitive, with a significant share of market potential still up for grabs. Among the 27 categories studied, an average of 18% of the top 10 brands dropped from the list in 2023 compared to 2019.
- Consistent with previous years, the main factor driving performance for leading brands compared to others is brand penetration, which surpasses frequency and repurchase rate.
- On average, shoppers have shown lower engagement with brands (as measured by average purchase frequency), with a steady decline over the past decade.
- The revenue contributions from low-frequency shoppers have become increasingly significant across most categories over time.
- Thus, the shopper base for brands resembles a "leaky bucket," particularly for smaller and non-leading brands. Consequently, brand teams must prioritize the continuous recruitment of new consumers to expand their shopper base.

Implications for the brands

To prepare for success in 2025, brands should concentrate on five key strategies:

#1 Re-examine and keep innovating portfolio – Align product offerings and value propositions with genuine consumer needs and channel specific requirements. Consumers are becoming more rational and are looking for "true value", not necessarily lower price, so innovation will continue to play a key role.

#2 Maximize physical availability, both online and offline – Capitalize on the full potential of omnichannel approaches, connecting online and offline efforts through large consumer data sets to establish a connected commerce strategy.

#3 Embrace out-of-home opportunities for food & beverage categories with specific portfolios and route-to-market, as consumers have returned to out-of-home eating and drinking occasions.

#4 Capture mental availability – Implement focused marketing campaigns aimed at recruiting consumers. To navigate through media channel dynamics, brands must follow a 1+N+X approach (1 stands for brand core value proposition, N stands for key marketing campaigns, X stands for tailored marketing content per media channel) to focus on brand building while adapting to the diversified content expression on different media channels.

#5 Continue to manage costs, given the persistent deflationary environment, including the investigation of partnership opportunities and asset-lite operating models.

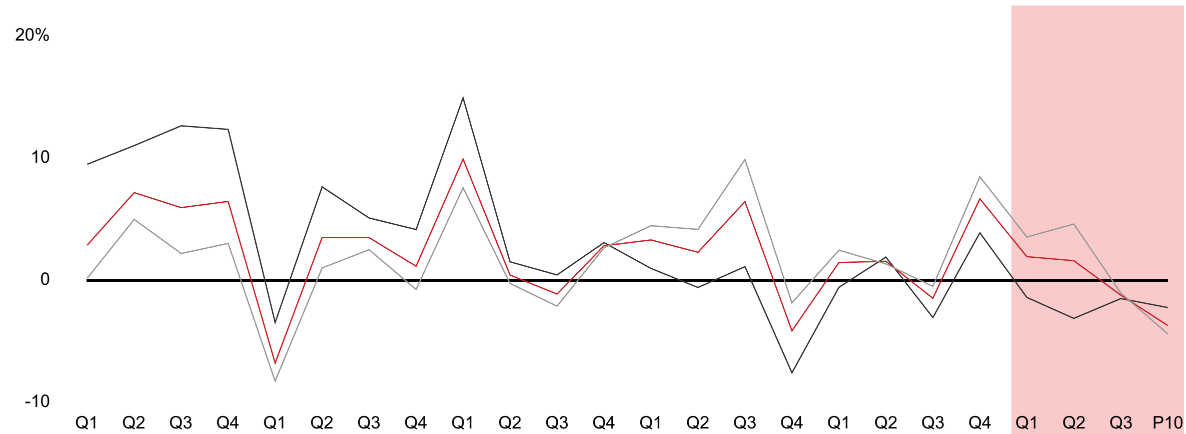
Reflection on the first three quarters of 2024

In the first three quarters of 2024, China's fast-moving consumer goods (FMCG) industry experienced modest growth of 0.8% year-to-date. This growth included a promising recovery in the first half of the year, with increases of 2% in Q1 and 1.6% in Q2. However, this was followed by a decline of 1.1% in Q3 and a more pronounced decline of 3.5% in September (P10). (*See Figure 1*)

The performance lagged total retail sales, which rose by 2.8% excluding catering, partly due to the country's pro-consumption policies aimed at durable goods. Initiatives such as the consumer equipment upgrade and trade-in program have stimulated domestic demand, as evidenced by a significant increase of 20.5% in home appliance sales in September and 39.2% in October. There has also been a continuous reallocation of consumer expenditure towards the service sectors such as dining and travel, with retail sales in these areas experiencing a 6.7% increase during the first three quarters of 2024.

Figure 1: China FMCG growth has been decelerating over the first three quarters and was slightly negative in Q3 and widened decline in P10

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



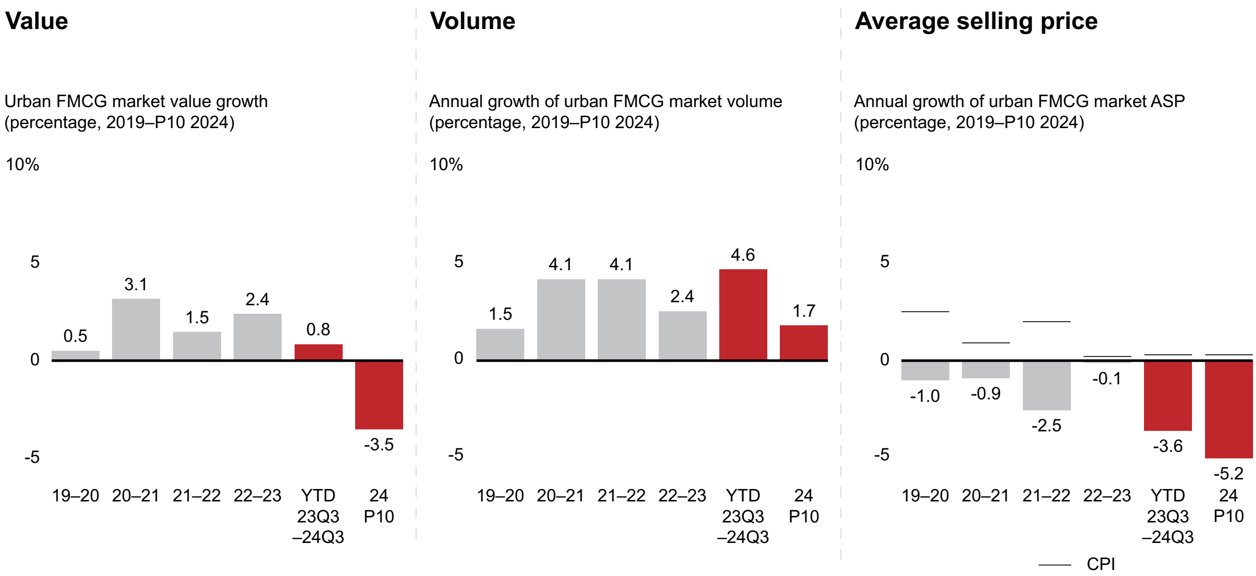
	2019	2020	2021	2022	2023	2024 YTD			
Year-over-year value growth	5.6%	0.1%	3.1%	1.5%	2.4%	2.0%	1.6%	-1.1%	-3.5%

Total FMCG — Food and beverage — Personal and home care

Notes: FMCG = fast-moving consumer goods; Kantar updated the consumer universe in 2022 and 2023, leading to some inconsistencies with previous years' data; 24Q3 = June 17–Sept. 6, 2024; P10 = week of Sept. 7–Oct. 4, 2024
Sources: Kantar Worldpanel; Bain analysis

2024 marks the second year following the lifting of COVID-19 restrictions in December 2022. Although the year-to-date growth of 0.8% was similar to the 1% recorded in Q3 2023 year-to-date, the underlying dynamics were significantly different. In Q3 2023, growth was driven by a 1.2% increase in volume, coupled with a 0.2% decrease in average selling prices (ASP). In contrast, Q3 2024 recorded a solid volume increase of 4.6% *(see Figure 2)*; however, the ASP experienced a significant decline of 3.6%, the highest drop since 2019, while the Consumer Price Index rose by 0.3% during the same period. Deflation became increasingly pronounced over the three quarters, with rates of -1.5% in Q1, -4.2% in Q2, -5.1% in Q3, and -5.2% in September *(see Figure 3)*. Of the 27 tracked categories *(see Figure 4)*, 16 experienced price deflation in Q3YTD 2024, driven by consumers increasingly seeking value for money, intense competition, and a lack of innovation.

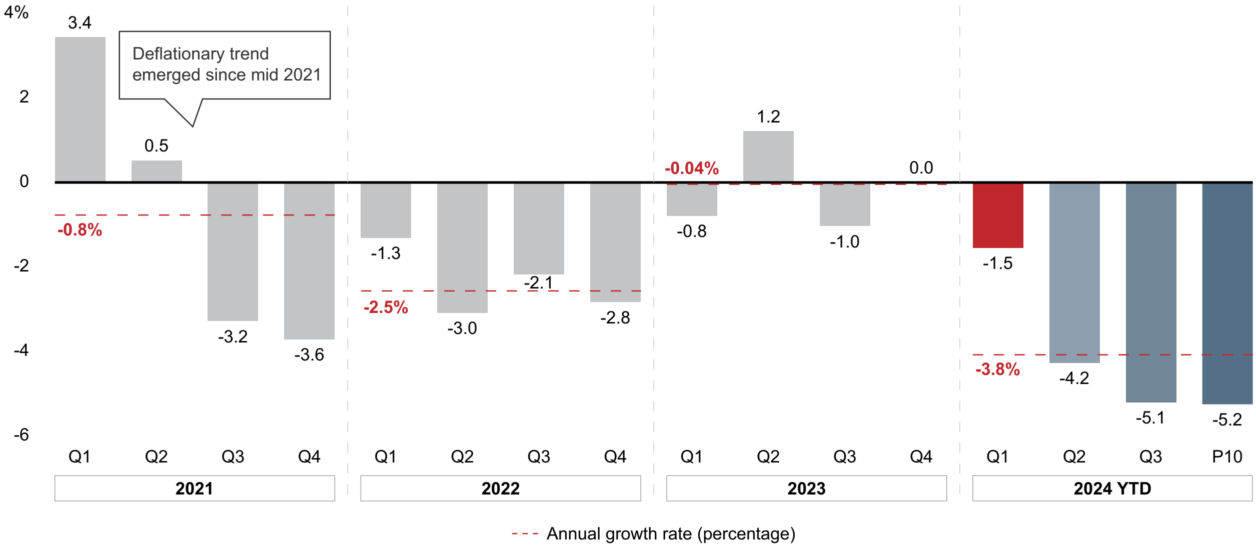
Figure 2: For YTD Q3 2024, the average FMCG growth of 0.8% was driven by 4.6% increase in volume and an ASP decline of 3.6%



Notes: ASP = average selling price; CPI = Consumer Price Index; FMCG = fast-moving consumer goods; 1) All Average selling prices are calculated based on RMB per kg/L except Skin Care and Makeup is per pack, and Facial Tissue is per 100 sheets/rolls; 2) CPI data is as of Oct 2024 from National Bureau of Statistics and include all consumer goods; All changes may lead to some inconsistencies with previous years' data; P10 = week of Sept 7 – Oct 4, 2024; 3) Market value growth = (1+ volume growth) / (1+ASP growth) – 1, e.g. YTD23Q3 – 24Q3 = 0.83% = (1+4.59%) * (1-3.6%)-1
Sources: Kantar Worldpanel; National Bureau of Statistics; Bain analysis

Figure 3: After a slight improvement in 2023, the deflationary trend that started in 2021 accelerated in 2024

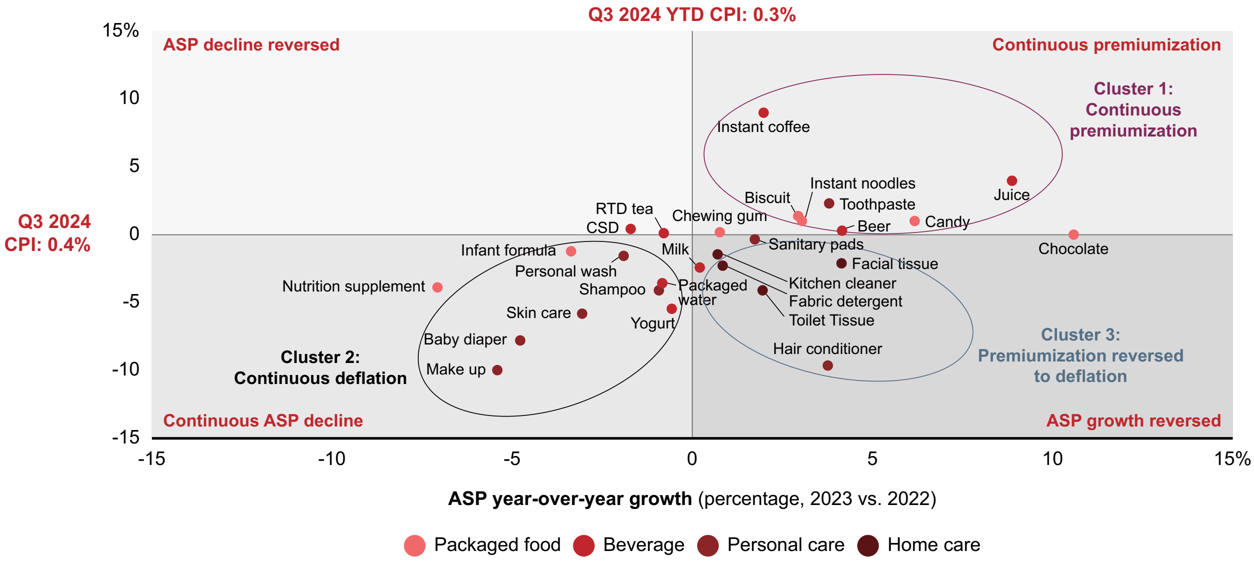
Urban FMCG ASP growth by quarter
(percentage, Q1 2021–P10 2024)



Notes: ASP = average selling price; FMCG = fast-moving consumer goods; P10 = week of Sept. 7–Oct. 4, 2024
Sources: Kantar Worldpanel; Bain analysis

Figure 4: Only a few categories premiumize throughout the first three quarters of 2024

ASP year-over-year growth (percentage, YTD Q3 2024 vs. YTD Q3 2023)



Notes: ASP = average selling price; CSD = carbonated soft drink; RTD = ready-to-drink
Sources: Kantar Worldpanel; Bain analysis

Trade-up: Among the 27 categories tracked, 9 did not experience a drop in average selling price (ASP). Most of these categories maintained a flat ASP, with changes between 0-1%. Only juice, instant coffee, and toothpaste saw increases exceeding 1% in ASP. This growth can be attributed to rising demand for health and wellness products, along with innovations within the categories. For example, the juice category experienced heightened demand for higher quality and richer flavors, with coconut water emerging as a rapidly growing sub-category. Instant coffee also benefited from innovations such as freeze-dried instant coffee pods.

K-Shape: Certain categories displayed a K-shaped pattern, where innovations met consumer needs but faced fierce price competition. The home care segment exemplified this trend most clearly. In facial tissue, the mass segment grew by 18%, driven primarily by volume, while the premium segment experienced significant value growth due to innovations such as four-layer (36%), five-layer (93%), and lotion facial tissues (26%), although these figures originated from smaller bases.

Continuous deflation: Among the 16 categories experiencing a decrease in ASP, 4 saw declines exceeding 5%, all within the Personal and Home Care segments. These categories included hair conditioner (-10%), skincare (-6%), makeup (-10%), and baby diapers (-8%). The notable price deflation was caused by several factors: increasing cost-consciousness among consumers, competitive pressure from duty-free channels, aggressive competition among platforms for traffic, domestic brands offering value-for-money products, and a lack of breakthrough innovations in these categories.

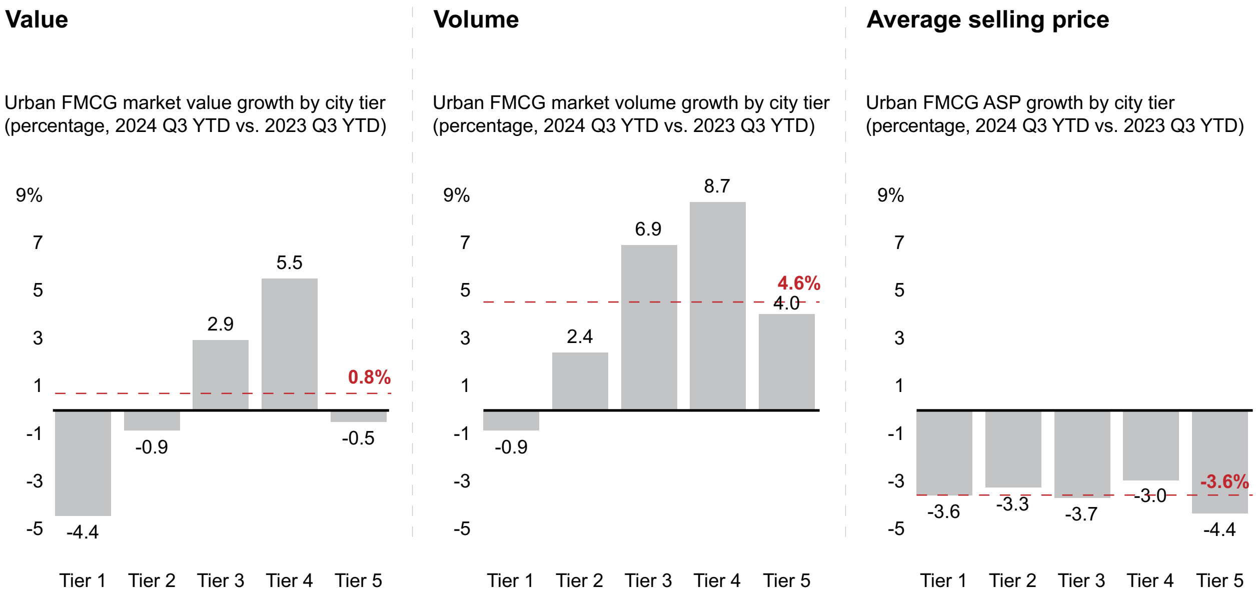
Geographic Pattern: Growth patterns aligned geographically with total retail market trends, as Tier 3 and Tier 4 cities outperformed Tier 1 and Tier 2 cities *(see Figure 5)*. For Q3 year-to-date, Tier 3 and Tier 4 cities grew by 2.9% and 5.5%, respectively, while Tier 1 and Tier 2 cities faced declines of 4.4% and 0.9%. Volume led growth across all city tiers, while ASP declined across all city tiers.

China's economy grew at its slowest pace since early 2023 in the third quarter, at 4.6%, falling short of the full-year GDP growth target of around 5%. Authorities have committed to implementing additional stimulus measures and providing guidance to support household consumption since late September. While it will require patience and time for the stimulus to take full effect, it is likely to progressively build consumer confidence which will later translate into higher consumption.

Category update throughout the first 9 months of 2024: Home care continued to lead growth in the FMCG sector, closely followed by beverages

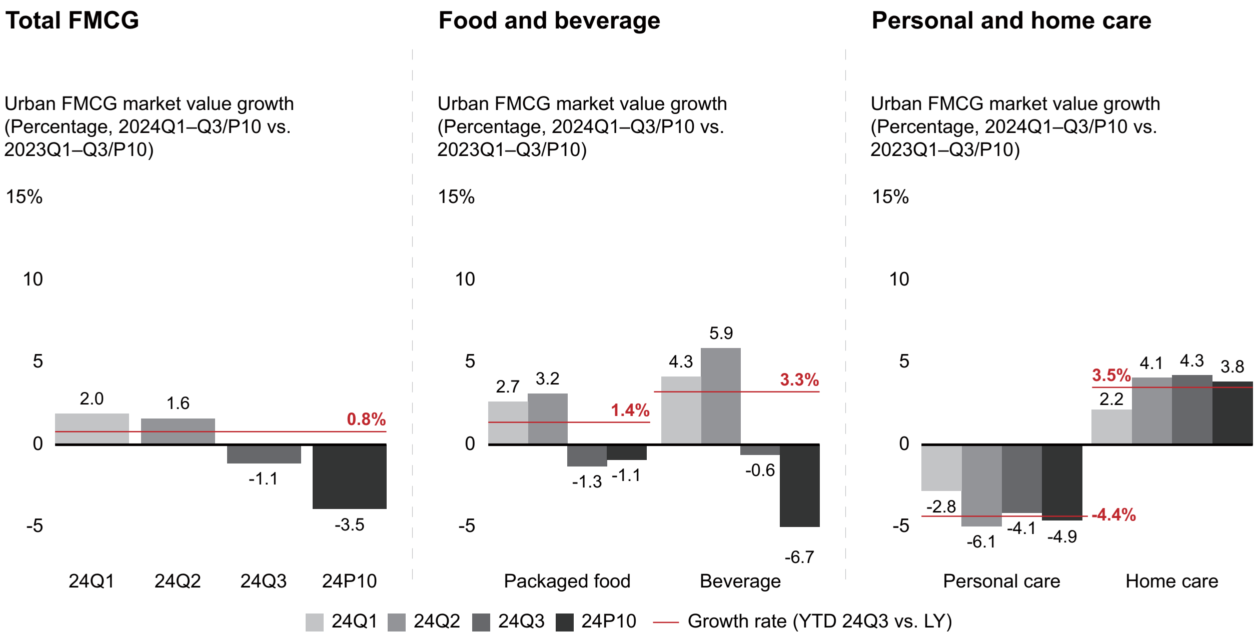
Among the four major sectors *(see Figure 6)*, home care experienced the highest growth with a value increase of 3.5%, just ahead of beverages at 3.3%. Packaged food saw more moderate growth at 1.4%, while personal care faced an increased decline compared to 2023, returning to a level similar to that of 2022 with a decrease of 4.4%. This marks a decline from -2.0% in 2023 and -4.8% in 2022.

Figure 5: Tier 3 and 4 cities led the growth at 2.9% and 5.5% respectively, while ASP was depressed across all city tiers



Notes: ASP = average selling price; FMCG = fast-moving consumer goods; Tier 1 cities: Beijing, Shanghai, Guangzhou; Tier 2 cities: province capital excluding Beijing, Shanghai, Guangzhou, adding Tianjin, Chongqing, Shenzhen, Dalian, Qingdao; Tier 3 cities: prefecture-level city, excluding Dalian and Qingdao; Tier 4 cities: county-level city; Tier 5 cities: the residence of the county government
Sources: Kantar Worldpanel; Bain analysis

Figure 6: Home care grew throughout 2024 YTD, while food & beverage declined in Q3 and in P10, and personal care remained depressed



Notes: FMCG = fast-moving consumer goods; LY= Last year; P10 = week of Sept. 7–Oct. 4, 2024
Sources: Kantar Worldpanel; Bain analysis

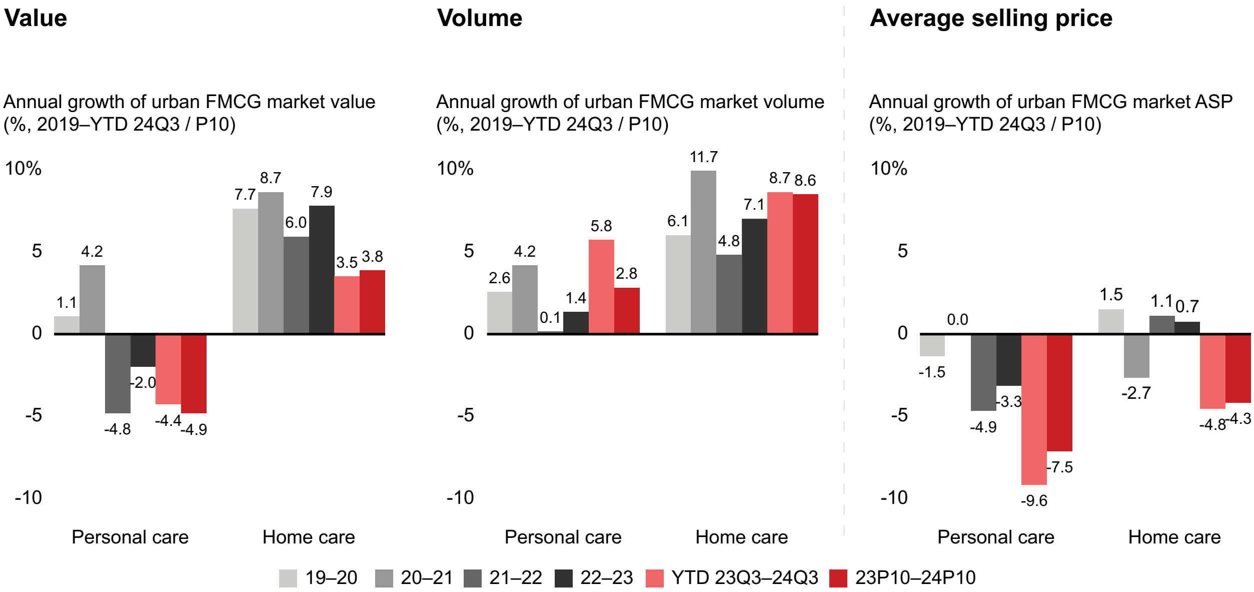
Home care delivered a +3.5% growth *(See Figure 7)*, driven by robust volume growth of +8.7%, surpassing the +7.1% volume growth recorded during the same period in 2023. This segment experienced the least average selling price (ASP) deflation among all sectors, with its volume growth being the strongest. The overall volume increase was supported by both greater product penetration and frequency of use, reflecting heightened health and hygiene concerns, alongside a growing desire for self-indulgence and an improved quality of life at home. Consumers are increasingly seeking products that have a lower impact on health and the environment, enhanced fragrance and aesthetics, as well as professional-grade efficiency and effectiveness. **Fabric detergent and kitchen cleaners** both recorded significant growth at +6%, driven by high volume increases of +8%, despite a slight decline in ASP. In the kitchen cleaner category, fruit and vegetable wash achieved a remarkable +26% value growth with premium pricing, while value packs of 2-3L and 3L saw strong increases at +14% and +25%, respectively. Cleaning occasions in kitchens and bathrooms continued to rise, becoming more specialized with products targeting drain cleaning, water stain removal, and toilet odor elimination. **Facial tissues** grew by 6%, a slowdown from the 18% growth observed during the same period in 2023, yet still demonstrating relative strength, propelled by an 8% volume increase despite a -2% ASP decline. This segment shows divergence in ASP, with higher-end options, including multi-layer and lotion-infused varieties, commanding a premium and growing at over +25%. Innovations have also emerged in the mass segment, with hanging tissues experiencing growth exceeding +800% from a small base. Conversely, **toilet tissue** declined by -8.5% (with rolled tissues comprising 90% of its total value), which included a -4.4% volume decline and a -4.2% ASP decline. This decrease is attributed to a shift towards alternative formats (such as hanging tissue, cotton tissue, and wet tissue) and consumers opting for more value-for-money products.

Personal care decline widened to -4.4% (see Figure 7), compared to -2.0% in 2023. However, makeup, along with scalp serum and leave-in hair treatments, contributed to a strong recovery in volume demand, which rose by +5.8%, up from +1.4% in the previous year. **Shampoo** experienced a value increase of 2% alongside a volume growth of 7%. In contrast, **hair conditioner** saw a value decline of 1% but enjoyed a volume increase of 9%. **Makeup** also recorded a value decrease of 2% while achieving a volume growth of 9%. These figures indicate that the personal care sector faced accelerated average selling price (ASP) deflation of -9.6%, compared to -3.3% during the same period in 2023. This trend persisted throughout the year, with Q1 at -7.5%, Q2 at -10.6%, and Q3 at -10.5%. The decline was driven by consumers' heightened cost-consciousness, competitive pressure from duty-free channels, aggressive promotions from online platforms, and domestic insurgent brands offering value-for-money alternatives. Both **hair conditioner** and **makeup** experienced steep ASP declines of -10%. **Skincare** recorded a value drop of -4% with modest volume growth of 2%, while personal wash achieved a value increase of 3% alongside a volume rise of 4%. This growth was fueled by a trend to simplify skincare routines, despite the expansion of sub-occasions like knee cream. Consumers are increasingly focused on functionality and ingredients, opting for value-for-money products when they do not perceive tangible benefits from higher-priced options. **Toothpaste** was the only category within the sector that experienced premiumization, showing a value increase of 7%, volume growth of 5%, and an ASP rise of 2%. This trend can be attributed to its low-ticket-price nature and functional-need-driven premiumization. **Sanitary pads** remained flat in both volume and ASP due to a lack of breakthrough innovations this year. **Baby diapers** declined by -12% in value and -5% in volume, reflecting similar results to the same period in 2023, which saw a -11% decline. This downturn was driven by broader demographic trends, and like sanitary pads, this category has not seen significant new developments that could positively impact ASP.

Beverage growth increased by +3.3% in value (see Figure 8), surpassing the same period in 2023, which recorded only +0.1% growth. This rise was fueled by robust volume growth of +4.5%, compared to +3.4% in 2023, although there was a slight decline in average selling price (ASP) of -1.2%, higher than last year's -0.1%. The trend towards near-water drinks continues as consumers shift from high-sugar options to low or no-sugar alternatives, particularly those with Chinese ingredients, especially in ready-to-drink tea. As a result, **Juice** recorded impressive growth of +20%, following a +24% increase in 2023. **Ready-to-drink tea** grew by +11%, down from +14% last year, while **packaged water** increased by +6%, a decrease from +9% in 2023. Notably, coconut water, a segment within juice, surged by +129% after remarkable growth of +203% in the same period of 2023, significantly boosting overall juice performance. Carbonated soft drinks (CSD) faced a moderated decline of -3%, with sugared options down by -1% and zero-sugar varieties dropping by -12% year-to-date, as consumers express concerns over the potential carcinogenic effects of aspartame sweetener. **Beer** experienced growth of +7% driven by volume increases, benefiting from the trend of home being the new center of life and a slowdown in catering services. However, prices did not rise as they had in previous years, signaling a more challenging environment for brands attempting to premiumize their offerings, particularly in Q3. **Instant coffee** growth slowed to +3% in value compared to +6% last year, influenced by competition from value-for-money fresh options. Nonetheless, premiumization remained significant, accompanied by an ASP increase of +9%, driven by freeze-dried instant coffee pods. **Milk** declined by -4%, with low-single-digit decreases in both volume and ASP due to a lack of innovation and expansion into new occasions. Similarly, **yoghurt** witnessed a -4% decline, primarily due to a -5% drop in ASP resulting from insufficient new developments.

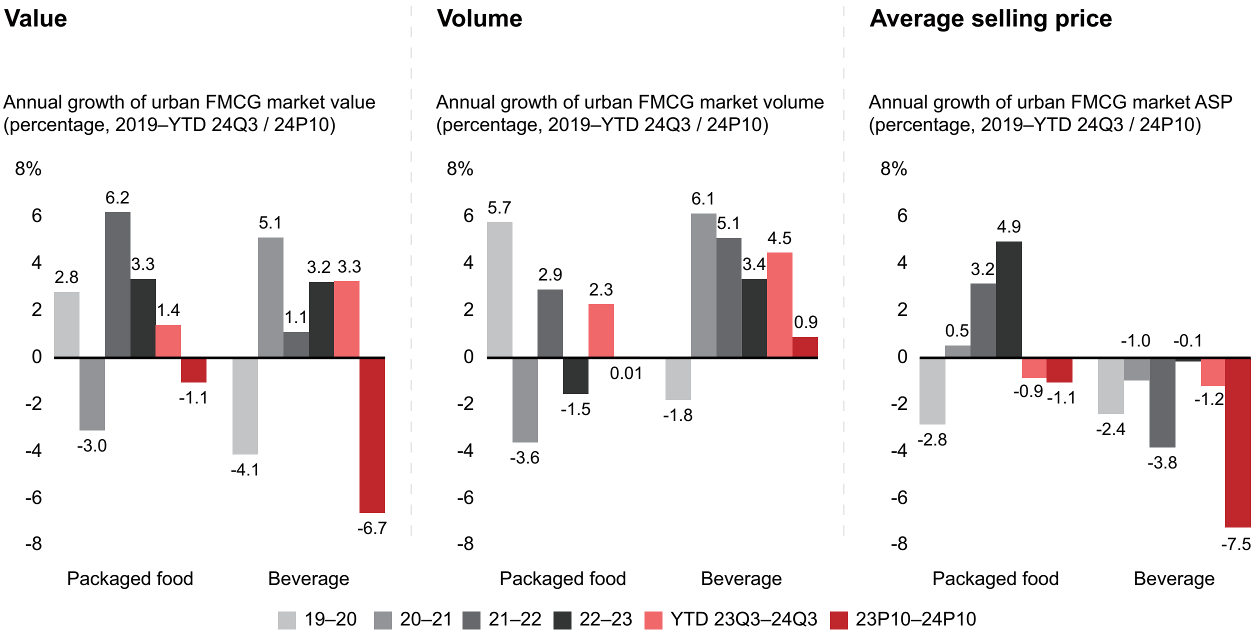
Packaged Food: In the China Shopper Report 2023, Vol. 2, we observed that the packaged food sector experienced significant deceleration in the first three quarters of 2023. This trend corresponds with the stabilization of demand for staple items, which returned to pre-crisis levels in the post-pandemic environment. This year, we recorded moderate growth of 1.4%, with volume rebounding to +2.3%, compared to a decline of -1.5% in 2023. However, the premiumization trend has halted, leading to a decline in average selling price (ASP) of -0.9%, in contrast to increases of +4.9% in 2023 and +3.2% in 2022. **Instant noodles** emerged as the fastest-growing category within this segment, achieving +8% growth, fueled by a mix of volume recovery and product innovation, particularly from leading brands like Baixiang. **Nutrition supplements** continued to grow but at a much slower pace of +2%, down from +21% in 2023. The penetration curve began to flatten, with less than 1 percentage point gain compared to a 7 percentage point increase last year. Additionally, consumers increased their average number of items purchased by +24% last year. The ASP for nutrition products continued to decline due to competition from domestic brands, though this decline moderated to -4%, compared to -7% in 2023. **Infant formula** also experienced a more modest decline than in 2023, with an overall decrease of -8%, consisting of a volume drop of -7% and ASP deflation of -1%, influenced by demographic trends. Other segments, including **candy, chocolate, and biscuits**, generally saw solid volume recovery ranging from 5% to 6%, with stable ASP growth between 0% and 1%. This stability in ASP was largely attributed to innovations that brands introduced to meet consumers' increasing demand for value-for-money alternatives. Notably, there were pockets of growth within these segments; for instance, soda biscuits grew by +46%, and private-label varieties increased by +32%, as consumers perceived them as healthier and more cost-effective options.

Figure 7: In last five years, home care continued to grow driven by volume, while personal care suffered ASP decline



Notes: ASP = average selling price; FMCG = fast-moving consumer goods; skincare/makeup covers ages 15–64 in Tiers 1–5, and infant formula covers 0–36 months in Tier 1–5; 2) All ASP are calculated based on RMB per kg/L except skincare and makeup, which is per pack, and facial tissue, which is per 100 sheets/rolls; All changes may lead to some inconsistencies with previous years' data; P10 = week of Sept. 7 – Oct. 4, 2024
Sources: Kantar Worldpanel; Bain analysis

Figure 8: In the last five years, beverage growth was propelled by volume, while packaged food had a more erratic performance



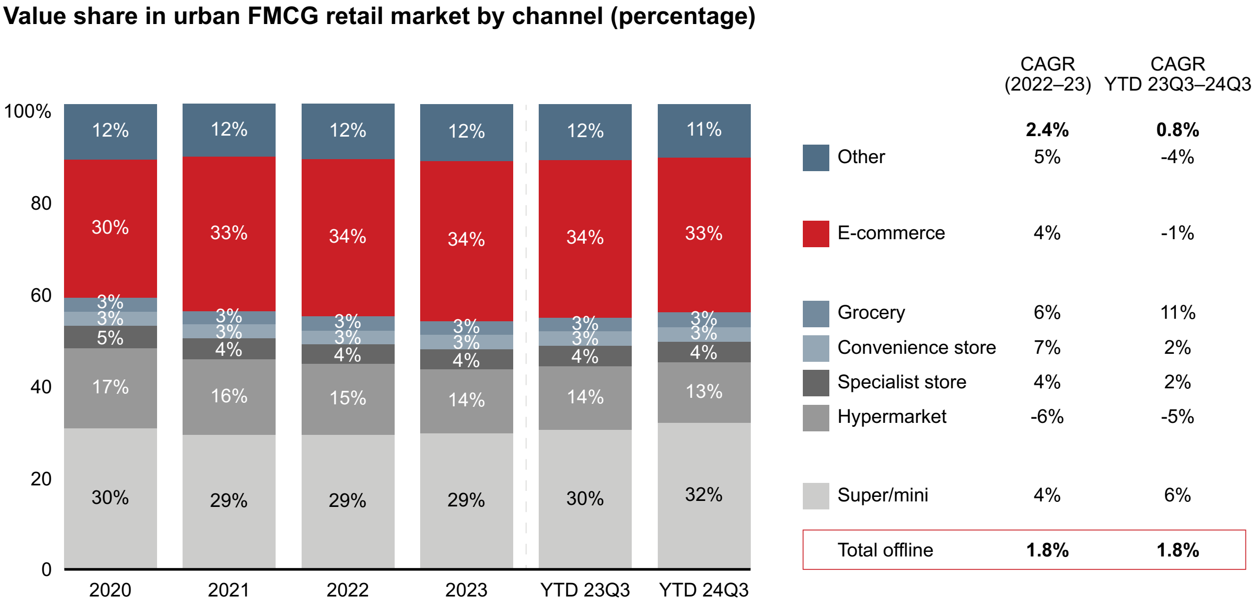
Note: P10 = week of Sept. 7 – Oct. 4, 2024
Sources: Kantar Worldpanel; Bain analysis

Channel update: Offline channels have outperformed the market in the first 9 months of 2024, while online-to-offline services, excluding community group buying, have seen a slight decline due to the recovery of offline traffic. Additionally, online penetration has plateaued.

Offline channels: Fueled in part by the growth of discount chains and club warehouse formats, offline channels recorded a year-to-date growth rate of 1.8% and experienced less price deflation at -3%, compared to an -6% average selling price (ASP) for online channels. This segment has gained market share *(see Figure 9)*. Consumer loyalty to specific channels remains low, with the average shopper using 4.5 different offline outlets. The channel landscape is evolving, with smaller formats gaining share and discounters outperforming non-discounters. Super/mini formats and grocery stores have accelerated growth compared to last year, with super/mini formats increasing by 6% versus 4% in the same period of 2023, and grocery stores growing by 11% compared to 6% previously.

There are two types of offline discounters: hard discounters, which leverage scale and operational efficiency along with private labels to offer value (e.g., Ling Shi Hen Mang, ALDI), and soft discounters that sell near-expiration products at reduced prices (e.g., HotMaxx). Both types have experienced significant growth. Hypermarkets have continued to decline at a mid-single-digit rate, while club warehouses have seen notable growth of 17%, though this is a slowdown from 58% in the same period of 2023. This growth is supported by China's expanding middle class, which is seeking premium quality and differentiated products at good value. Notably, club warehouses in Tier 1 and Tier 2 cities have grown by 11% year-to-date, while those in Tier 3 and Tier 4 cities have seen impressive growth of 59%, as retailers expand into relatively affluent lower-tier cities such as Yangzhou and Jiaxing.

Figure 9: E-commerce declined slightly, while offline channels maintained their growth momentum started in 2023



Notes: Kantar updated the consumer universe in 2022 and 2023, leading to some inconsistencies with previous years' data; in Kantar Worldpanel, online-to-offline (O2O) sales value is attributed to the channel of actual transaction of goods; gift channel value is allocated into each channel by its respective weight
Sources: Kantar Worldpanel; Bain analysis

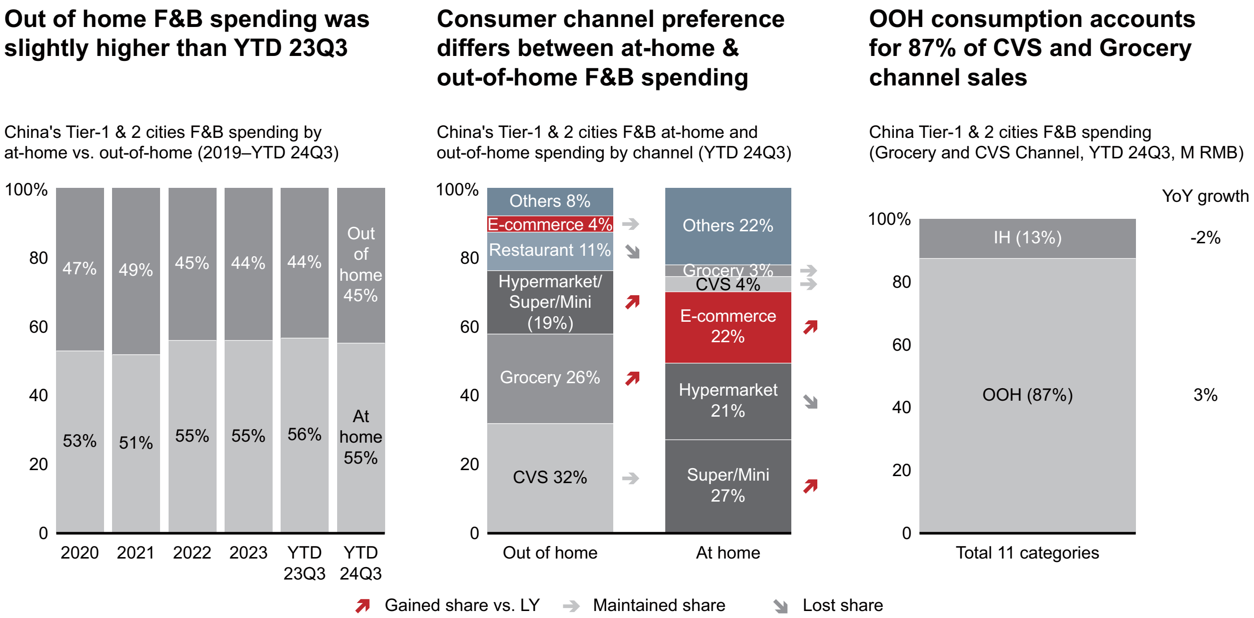
Online channels: E-commerce saw rapid growth during the COVID-19 pandemic, with its market share increasing from 23% in 2019 to 33% in 2021. However, in 2022 and 2023, there was relative stagnation as offline consumption recovered. Compared to the year-to-date in Q3 2023, overall online penetration remained stable, with traditionally high online penetration categories—such as skincare, beauty, and infant formula—slightly expanding their online share. In 2024, e-commerce faced a slight decline of 0.6% and lost market share for the first time since its inception. This downturn was driven by robust volume growth of 6%, offset by a similar-sized decline in average selling price (ASP) due to extensive promotions across nearly all platforms. Within the e-commerce landscape, the interest-based e-commerce platform Douyin continued to grow at a double-digit rate of 35%, although this was slower than the 65% growth seen in 2023. Douyin has now surpassed JD to become the second-largest e-commerce channel by gross merchandise volume (GMV). Discount platforms like Pinduoduo experienced lower growth compared to 2023, while Kuaishou declined by 12%. Traditional e-commerce platforms also faced accelerated declines, contributing to the overall downturn in the channel.

O2O (Online-to-Offline): The O2O segment experienced an 11% decline. Both the number of buyers and purchase frequency decreased at a mid-single-digit rate, while basket size remained stable. Within sub-segments, community group buying was the primary contributor to this decline, dropping by 21%. This decline is attributed to platforms like Duoduo Maicai (多多买菜) and Meituan Youxuan (美团优选), which focused more on improving profitability rather than on gross merchandise volume growth. Horizontal marketplaces also saw a slight decrease of 5%, driven by a 1.2% reduction in buyer numbers and a 7.8% drop in basket size, as offline traffic to stores—particularly expanding formats like discounters and club warehouses—grew rapidly. Across categories, we observed that high ASP categories (such as skincare, alcohol, and shampoo) declined significantly, with high double-digit decreases, while aggregator platforms (such as Meituan and Ele.Me) led this decline.

For the 11 food and beverage categories we track in both home and out-of-home (OOH) channels, the share of at-home spending has declined for the first time in recent years.

During the Covid-19 pandemic, the at-home share of food and beverage spending increased from 47% in 2016 to 55% in 2022. Despite the easing of pandemic restrictions at the end of 2022, at-home spending continued to gain share in 2023, partly due to lower ticket sizes for OOH options. By the end of the third quarter, at-home spending accounted for 56% of overall food and beverage expenditures in Tier 1 and Tier 2 cities. However, in 2024, as outdoor activities continued to recover, the trend for at-home spending reversed, losing share to OOH while still representing 55% of total food and beverage consumption in Tier 1 and Tier 2 cities (*see Figure 10*).

Figure 10: For relevant F&B categories, out-of-home consumption slightly gained share, driven by convenience store and grocery channels



Notes: F&B = food and beverage; F&B consumption covers categories overlapped by at-home and out-of-home, incl. Beer, Chewing Gum, Chocolate, Yogurt, Milk, Candy, Biscuit, Packaged Water, RTD Tea, Juice, and CSD; CVS=Convenience store channel, same definition on following figures
Sources: Kantar Worldpanel; Bain analysis

In the 11 food and beverage categories we tracked, out-of-home (OOH) consumption constitutes 87% of sales in CVS and grocery stores. This trend is consistent across all categories. For instance, OOH occasions account for 93% of beer sales, 91% for ready-to-drink tea, and 75% for milk in CVS and grocery stores. Consequently, brand teams should prioritize convenient pack sizes and promotional materials for "on-the-go" consumption in these channels.

This year, we also analyzed consumption patterns for the same 11 food and beverage categories at a national level across Tier 1 to Tier 5 cities. At-home consumption was lower at 52% across all tiers, compared to 55% for Tier 1 and Tier 2 cities. This indicates that at-home consumption in Tier 3 to Tier 5 cities is significantly lower than in Tier 1 and Tier 2 cities. Consistent with the trends observed in Tier 1 and Tier 2, the at-home channel lost share to OOH across all tiers, with a decline of 1 percentage point compared to the same period in 2023.

What drives brand growth

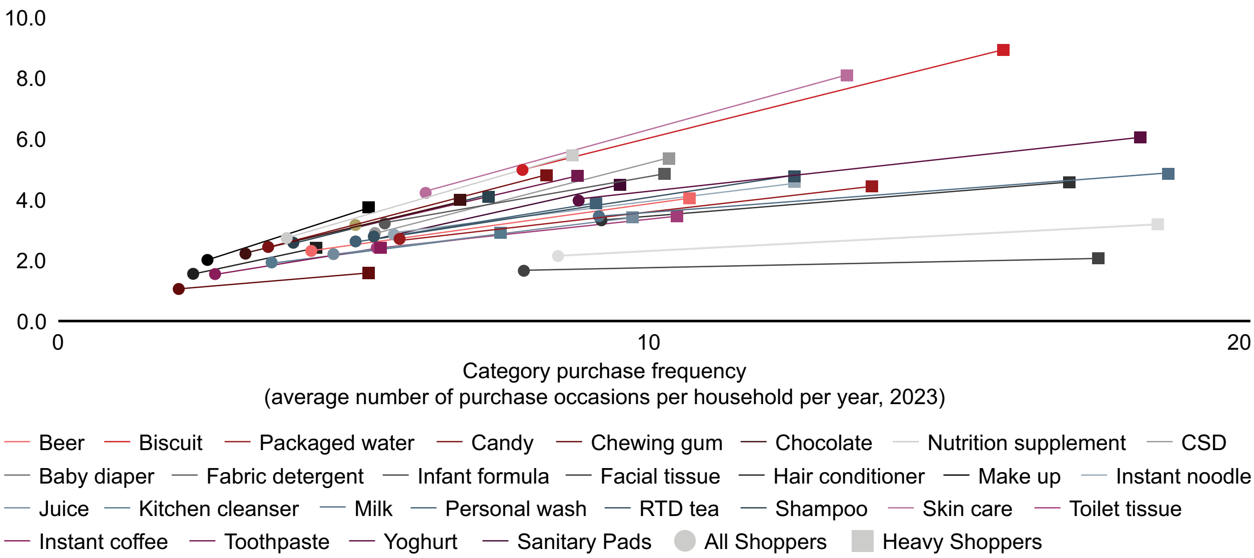
In an era of heightened promotional activities by brands and platforms, it is crucial to revisit the core principles of brand growth. We have explored this topic in previous Shopper reports (2013, 2016, 2019), and given the significant changes in consumer behavior, retail dynamics, and the FMCG landscape in China since 2019, it is time to reassess our findings. As before, our analysis relies on Kantar Worldpanel data, which reflects actual consumer behavior rather than self-reported actions from surveys.

To begin, it's crucial to recognize that categories behave differently along the "repertoire" and "loyalist" spectrum *(see Figure 11)*. In repertoire categories (such as Biscuit and Skin care), the more frequently consumers shop, the more brands they buy. For example, in Biscuit as of 2023, an average household buys 7.8 times per year and buy 5 brands. However, household with heavy shoppers buys 15.8 times per year, and buy 8.9 brands. The more vertical the slope in Figure 11, the more repertoire the category is.

In loyalist categories (such as Infant formula, Baby diaper), shoppers buy the same brands regardless of increasing frequency. As a result, the slope in Figure 11 is more flat.

Figure 11: As purchase frequency increases, shoppers buy more brands and become more repertoire in certain categories

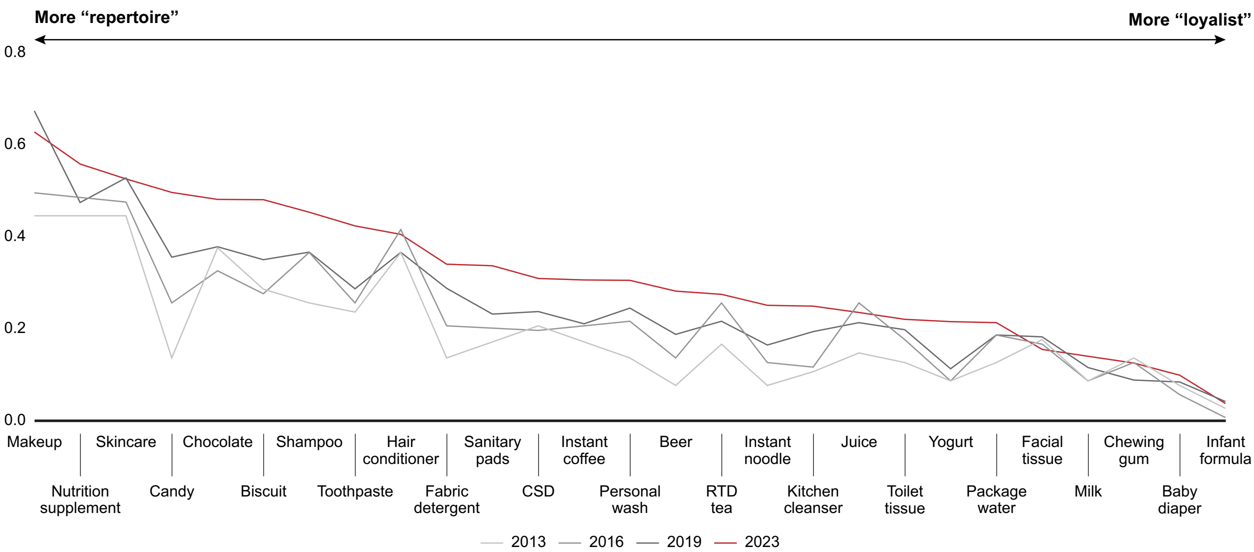
Average number of brands purchased per household per year (2023)



Source: Kantar Worldpanel; Bain analysis

Figure 12: In most repertoire categories, shoppers became more repertoire over the last 10 years

Slope of number of brands purchased vs. purchase frequency between heavy shoppers and average shoppers (2019 vs. 2023)

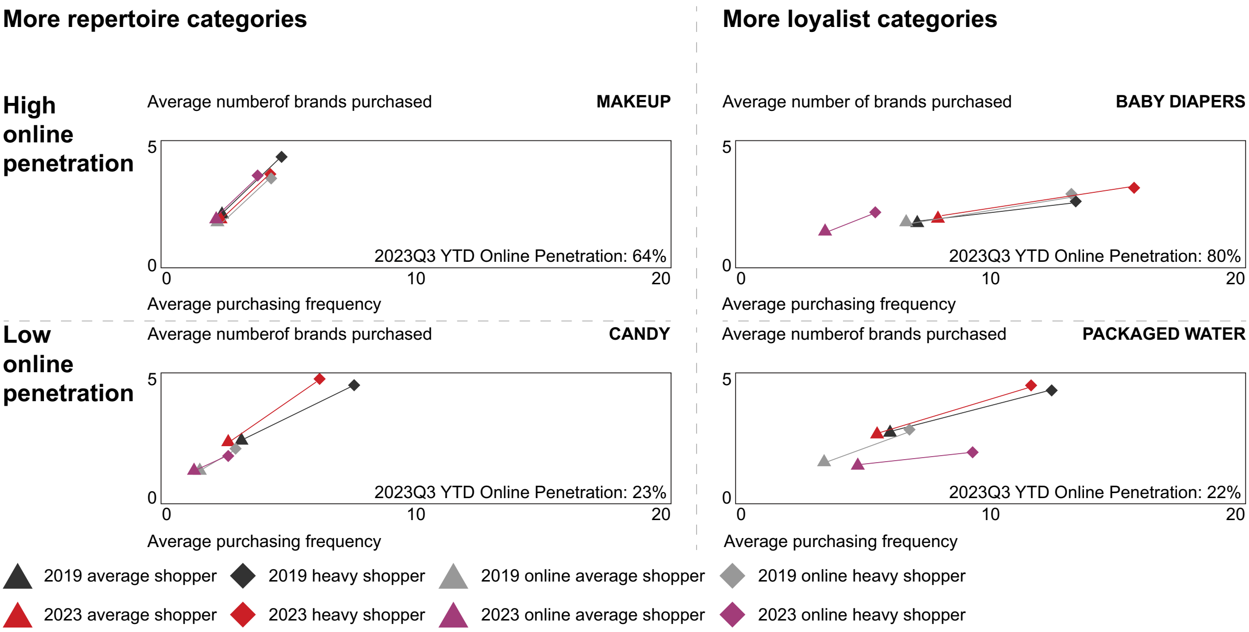


Note: Nutrition supplement, instant coffee, and baby diaper data points start from 2019; CSD = carbonated soft drink; RTD = ready-to-drink
Sources: Kantar Worldpanel; Bain analysis

Our findings indicate that these categories continue to demonstrate the same repertoire or loyalist traits as in previous years *(see Figure 12)*. Figure 12 shows the slope of the different categories, as calculated in Figure 11. For instance, categories like Milk, Diapers, and Infant Formula exhibit strong loyalist behavior, with shopper patterns in 2023 mirroring those from 2019 and 2013. However, in repertoire categories such as Makeup, Nutrition Supplements, Skin care, Shampoo, and Candy, consumers are now purchasing an even broader range of brands than in prior years. This trend is likely fueled by the influx of new brands, including digital insurgents, entering these markets.

Interestingly, similar to 2019, the level of online penetration of a category does not determine whether it is classified as a repertoire or loyalist category. For instance, categories like makeup (repertoire) and baby diapers (loyalist) exhibit high online penetration, while others, such as candy (repertoire) and packaged water (loyalist), show significantly lower levels. Additionally, shoppers exhibit similar behaviors online as they do offline *(see Figure 13)*. Although the vast selection offered by e-commerce led many to anticipate an increase in repertoire behavior online among consumers, the data indicates otherwise. What matters more is the inherent nature of the category itself.

Figure 13: Online penetration has limited impact on repertoire behaviors



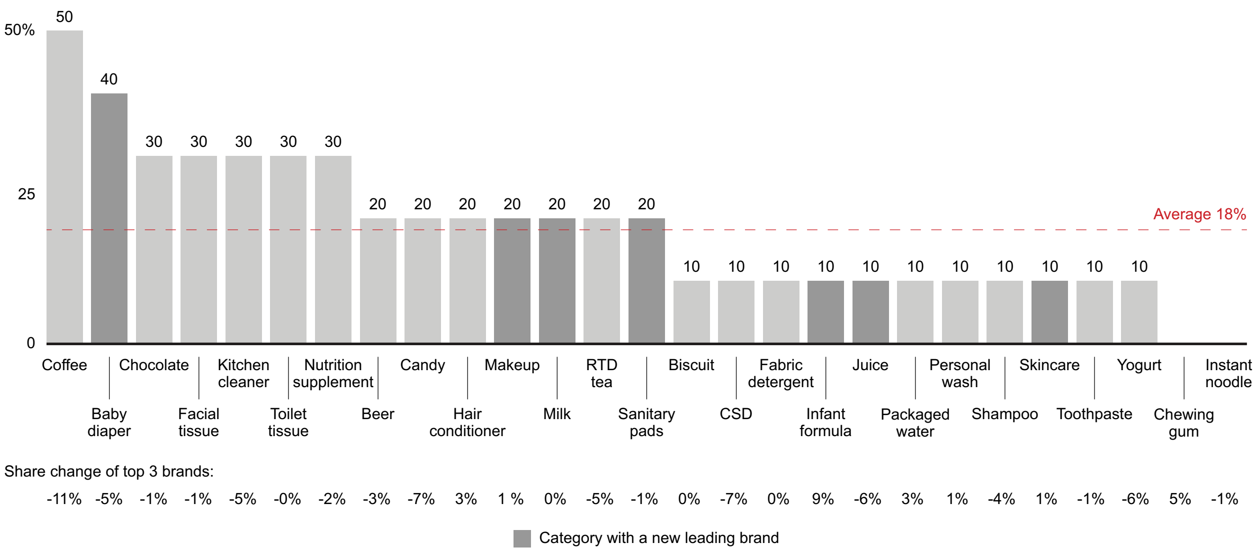
Notes: Data is based on per household per year; Calculating formula for online penetration = number of online shoppers / number of total shoppers for the category
Sources: Kantar Worldpanel; Bain analysis

Similar to our findings in 2019, all categories remain highly competitive, with market share still up for grabs. Among the 27 categories studied, 18% of the top 10 brands in 2019 have fallen off the list by 2023, and 7 categories now have different market leaders *(see Figure 14)*. In some categories, maintaining a leading position is particularly challenging. For instance, the market leadership in the Juice category has shifted between Nongfu Spring, Minute Maid, and Huiyuan over the past few years. Similarly, the leadership in Baby diapers has alternated between Huggies and Pampers, with 4 of the top 10 brands from 2019 experiencing a change in ranking four years later.

Market leadership is determined by a brand’s ability to boost and maintain household penetration, defined as the percentage of households in a market that purchase a particular brand within a year. As we explained in China Shopper Report 2014, Vol. 2 (Chinese Shoppers: Three Things Leading Consumer Products Companies Get Right), the key to growing market share is increasing penetration. This insight stems from research conducted by the Ehrenberg-Bass Institute for Marketing Science, summarized by Professor Byron Sharp, the Institute's director, in his book How Brands Grow, which is based on decades of observations of buying behavior. Furthermore, Bain & Company and Kantar Worldpanel shopper reports have validated this finding for China over the last 10 years (shopper reports looking at consumer behaviors in 2013, 2016 and 2019), even as online channels became more and more prevalent for consumers.

Figure 14: On average, approximately 18% of top 10 brands dropped out in 2023 in comparison with 2019

Percentage of top 10 brands that dropped out (percentage, 2023 vs. 2019)

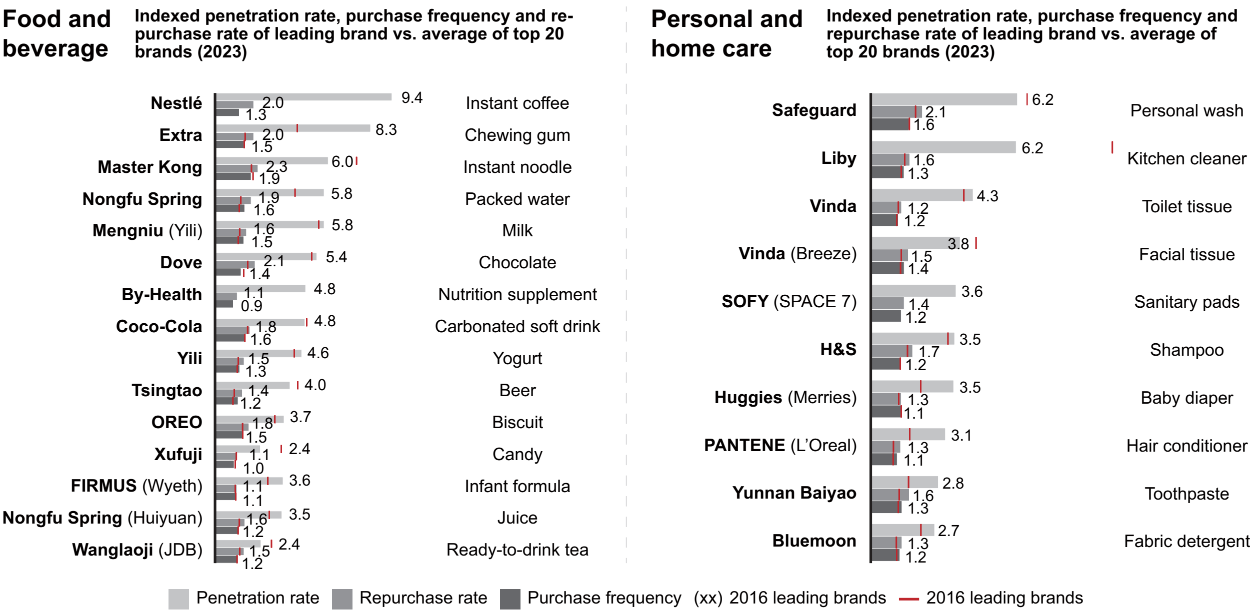


Note: CSD = carbonated soft drink; RTD = ready-to-drink; Data for infant formula and baby diapers are based on Kantar Worldpanel Baby
Sources: Kantar Worldpanel; Bain analysis

Across all categories studied, leading brands demonstrate significantly higher penetration than their competitors *(see Figure 15)*. For example, in the packaged water category, Nongfu’s penetration is 5.8 times that of average of the top 20 brands, while its purchase frequency and repurchase rate are only 1.9 and 1.6 times that of average of the top 20 brands’ average, respectively. In personal wash, Safeguard’s penetration is 6.2 times that of average of the top 20 brands' average, whereas its purchase frequency and repurchase rate are 2.1 and 1.6 times that of average of the top 20 brands respectively. The larger the market share of the leading brand, the greater the penetration compared to following brands. For example, in Instant coffee category, Nestle dominates the category with ~6X RMS (relative market share, calculated as No.1 market share divided by No. 2 market share). In RTD Tea category, Wanglaoji leads the category with ~1.2X RMS.

Similar to our findings in the past, we confirm that penetration is the key driver of market share for FMCG brands *(see Figures 16)*. The Fabric detergent example illustrate the importance of penetration to drive market share. In addition, we note that the higher the penetration rate, the higher the frequency and repurchase rate, creating a full virtuous cycle of brand growth *(see Figure 17)*.

Figure 15: In most categories, leading brands have a much higher penetration, compared to repurchase rate and purchase frequency

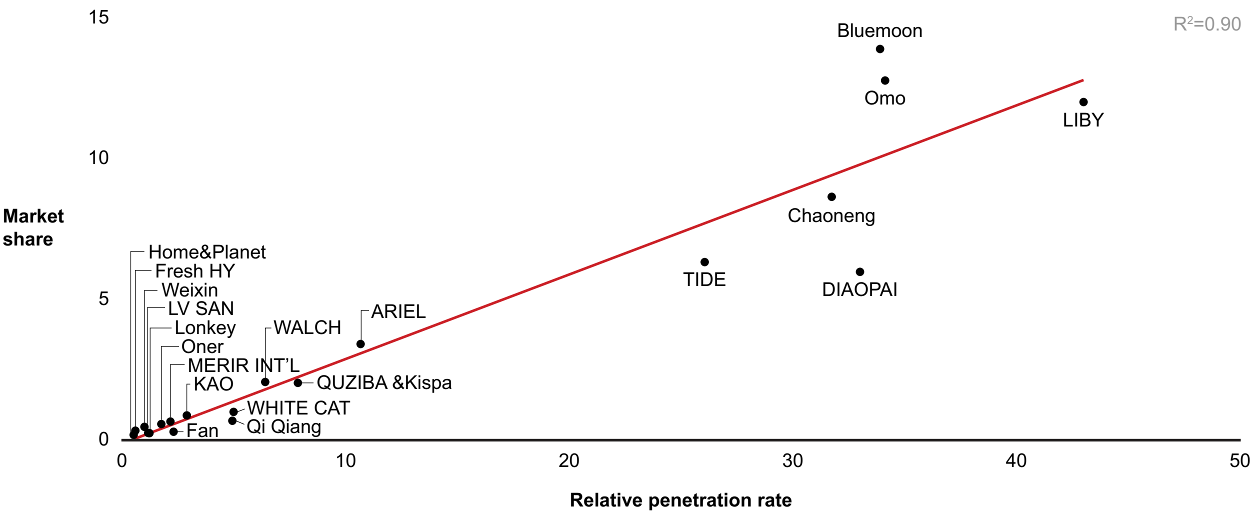


Note: 1) Repurchase rate refers to shoppers buying more than once a year as % of all brand shoppers; 2) Indexed penetration rate is calculated by dividing penetration rate of leading brand with the average penetration rate of top 20 brands, the same for purchase frequency and repurchase rate
Source: Kantar Worldpanel; Bain analysis

Figure 16: Penetration is the key driver of market share, taking fabric detergent as example

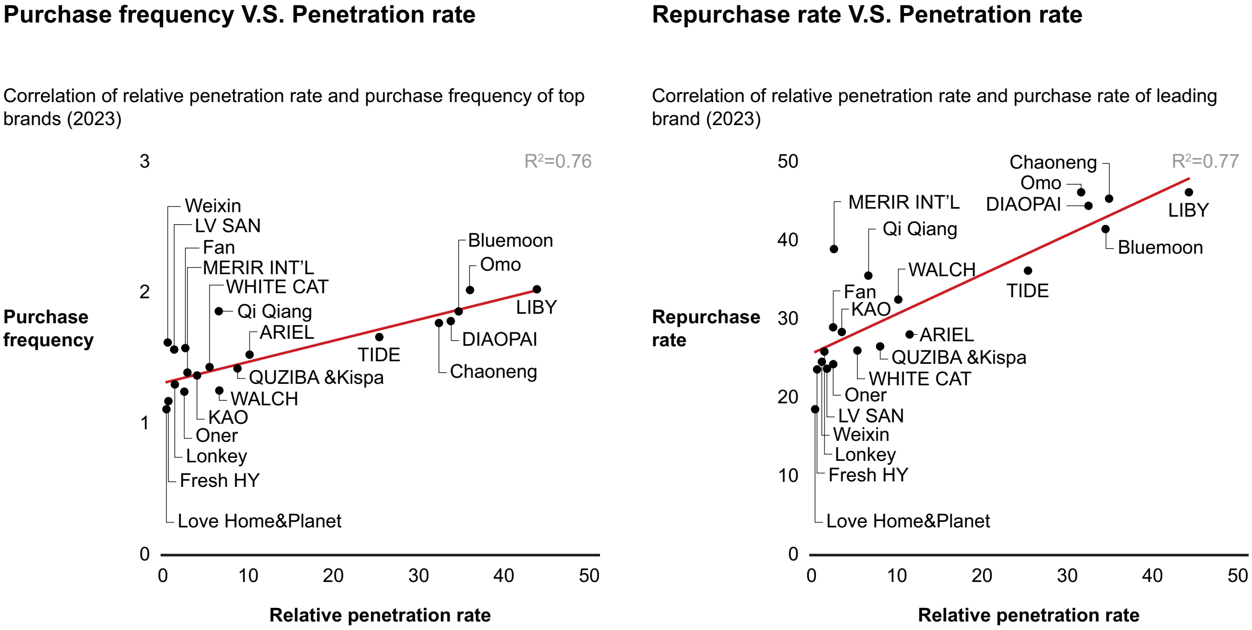
Market share V.S. Penetration rate

Correlation of relative penetration rate[1] and market share of top brands (2023)



Note: 1) Relative penetration is calculated by dividing brand penetration by total category penetration
Source: Kantar Worldpanel; Bain analysis

Figure 17: Higher penetration can also drive higher purchase frequency and repurchase rate, taking fabric detergent as example



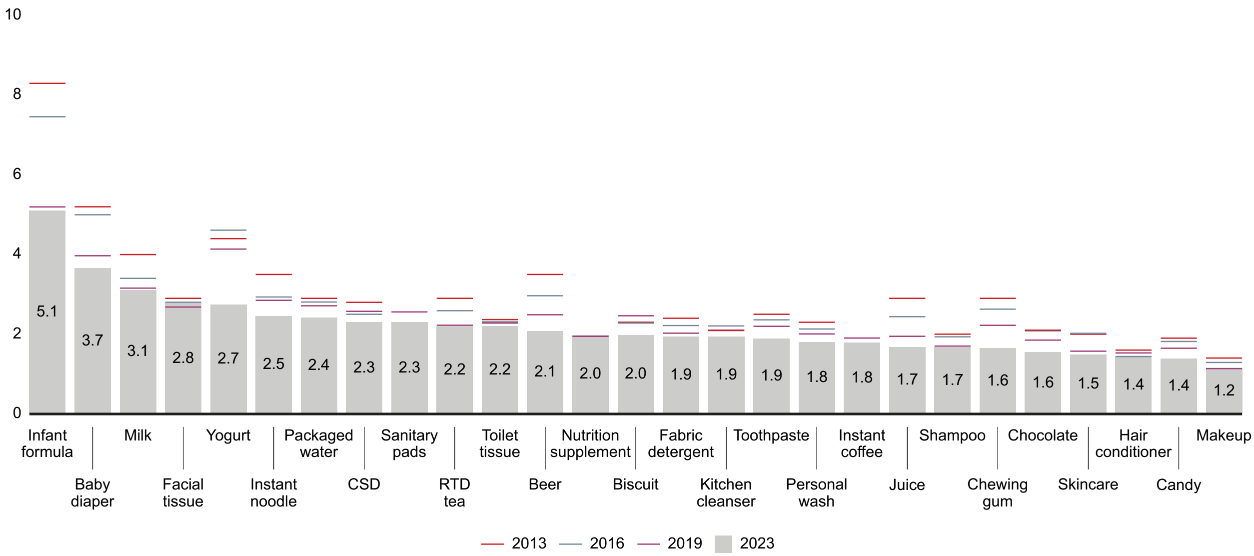
Sources: Kantar Worldpanel; Bain analysis

It is worth noting that shoppers' purchase frequency of the top brands in a category remains quite low and has decreased over time *(see Figure 18)*. For instance, in 2016, consumers bought one of the top three beer brands an average of only three times a year, compared to just two times a year in 2023. Similarly, consumers purchased one of the top three toothpaste brands an average of 2.4 times a year in 2016, which has dropped to 1.9 times in 2023. This data highlights shoppers' increasingly lower engagement with brands, even as e-commerce platforms actively promote these brands and make them widely available.

If penetration is key, then brand teams need to focus on low-frequency shoppers—those who purchase a brand only one or two times a year. For most brands, these consumers represent a significant portion of the shopper base and contribute a substantial amount of revenue. This trend has become more pronounced over the past decade *(see Figure 19)*. For example, among the top three juice brands, low-frequency shoppers contributed 48% of revenue in 2016 and 66% in 2023. Shoppers who bought Huiyuan once or twice a year comprised 80% of its shopper base and accounted for around 50% of its revenue in 2016; these figures rose to 88% and 68% in 2023. More strikingly, for the top three skin care brands, the revenue contribution from low-frequency shoppers increased from 26% in 2016 to 72% in 2023—a 46-percentage point increase. Low-frequency shoppers made up around 75% of Olay's shopper base and contributed approximately 40% of its revenue in 2016; these numbers changed to 91% and 70% in 2023, respectively.

Figure 18: Shoppers demonstrated much lower engagement with brands over the past 10 years

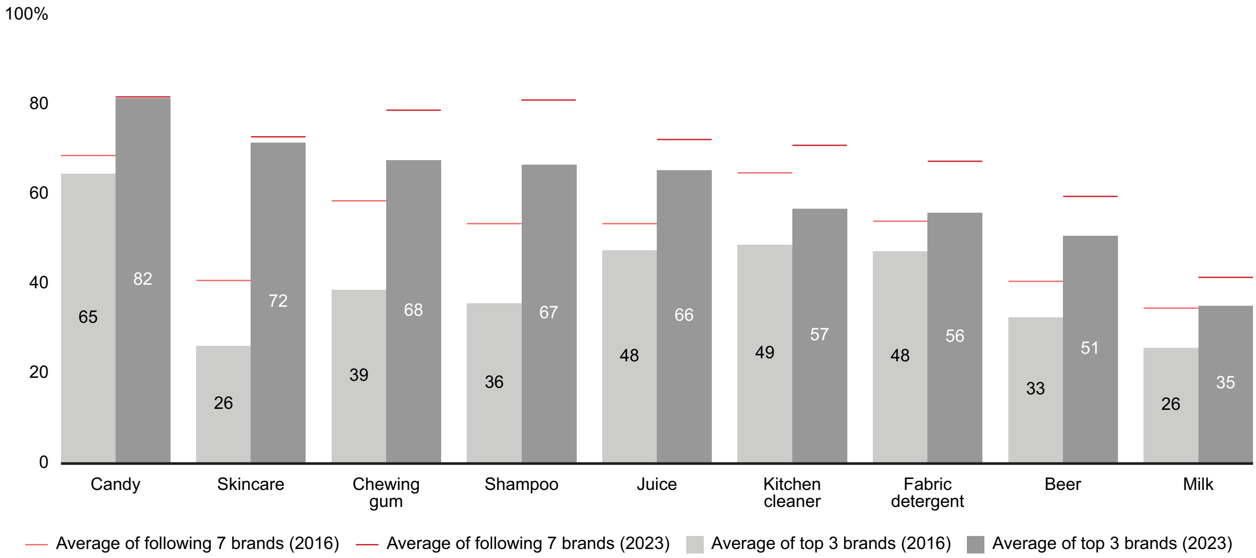
Average purchase frequency of top 3 brands in each category (2019–2023)



Sources: Kantar Worldpanel; Bain analysis

Figure 19: The revenue contribution of low frequency shoppers is important for most categories and has become more so over time

Revenue contribution by low-purchasing-frequency shoppers (1 or 2 times purchases per year) (percentage, top 10 brands, each brand's 2023 revenue = 100%)



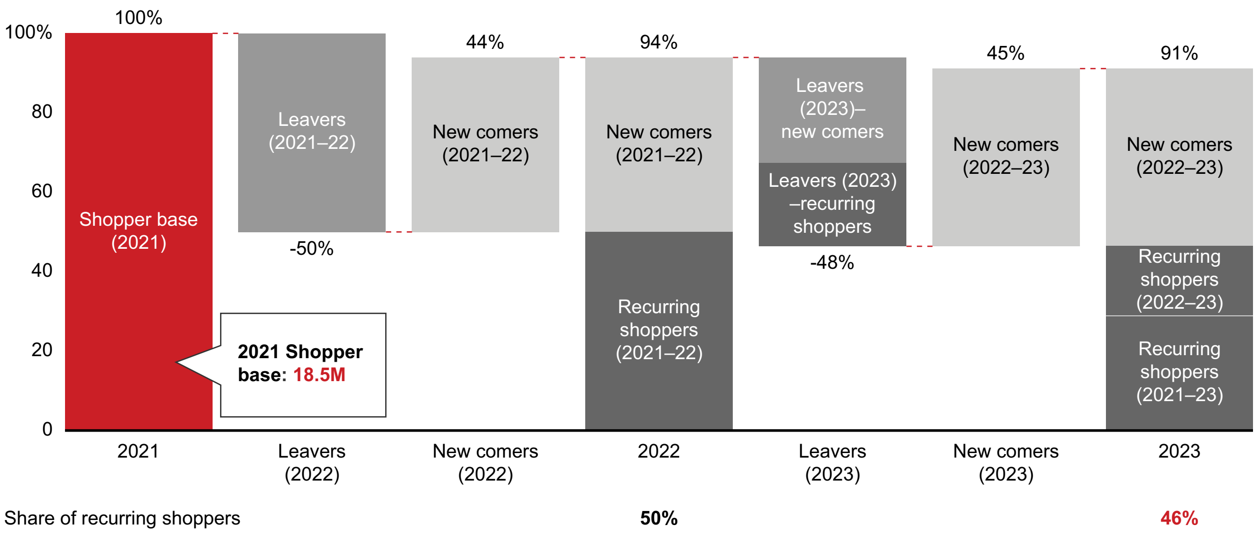
Sources: Kantar Worldpanel; Bain analysis

What this means is that the shopper base of a brand is like a "leaky bucket" for repertoire categories—and the holes in the bucket are getting bigger each year. For example, H&S, a shampoo brand, saw its recurring brand shoppers (defined as those who purchased the brand in the previous year) contribute 50% of its shopper base in 2022 and 46% in 2023 (see *Figure 20*).

Chinese shoppers still love brands, but many switch brands within a year *(see Figures 21 and 22)*. Among the 11 categories we studied in 2016 and 2023, 60% of the top five brands' shopper base left within 12 months in 2023, compared to approximately 55% in 2016. This shift accounted for 50% of their revenues, down from about 40% in 2016. Meanwhile, newcomers represented 60% of the shopper bases for the 11 brands in 2023, up from roughly 50% in 2016, and contributed to 50% of their revenues, compared to about 45% in 2016.

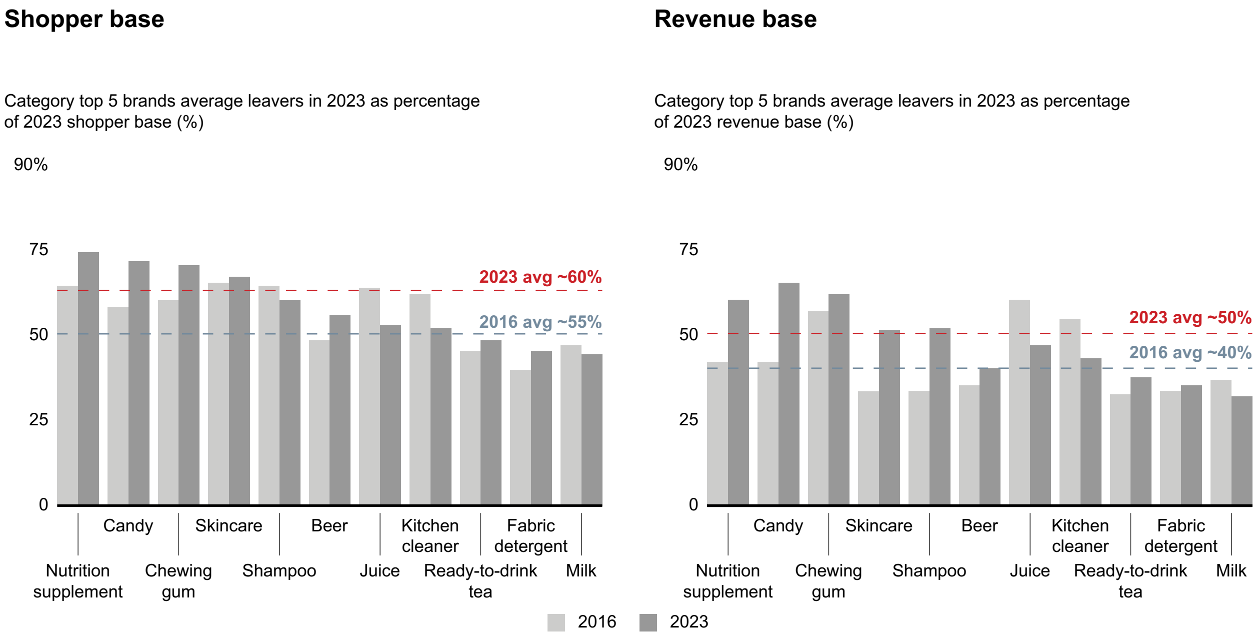
Figure 20: For all brands, shopper base is a leaky bucket, taking shampoo brand H&S as example

Customer base by leavers vs. newcomers (2021 shopper base = 100%) **/ H&S AS EXAMPLE**



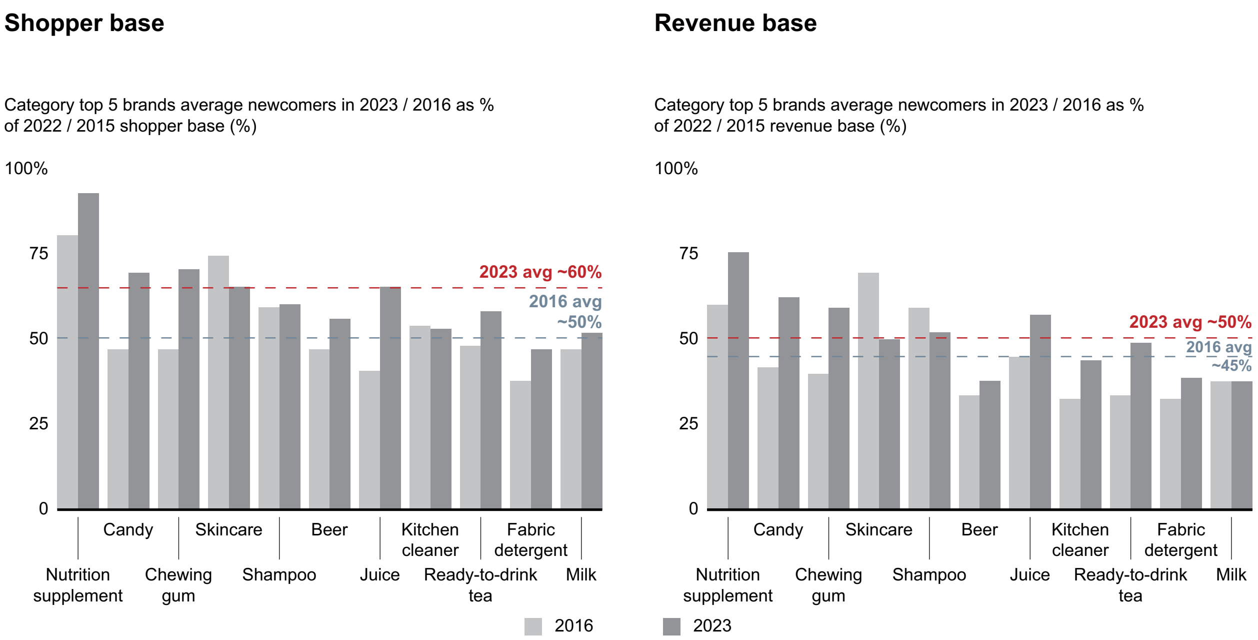
Note: 1) Data only covers all home channel for consumer spending
Sources: Kantar Worldpanel; Bain analysis

Figure 21: In 2023 on average, top five brands lost 60% and 50% of shopper and revenue base, an increase of 5% and 10% vs. 2016



Note: RTD tea category average leavers data in shopper and revenue base calculated based on top1-4 and No.6 brand for data availability
Source: Kantar Worldpanel; Bain analysis

Figure 22: At the same time, in 2023, the top five brands in these categories recruited 60% new buyers representing 50% of their revenues



Note: RTD tea category average newcomers data in shopper and revenue base calculated based on top1-4 and No.6 brand for data availability
Source: Kantar Worldpanel; Bain analysis

Implications to brands

China's recovery in the FMCG sector will take time. Although the Chinese government has recently launched a stimulus package, brands and retailers must carefully monitor its effects amid ongoing macroeconomic challenges. Consumption will be crucial for China's recovery, as evidenced by the government's measures to stimulate and support domestic spending. Over the past two years, Chinese consumers have shown strong price sensitivity, contributing to a persistent deflationary environment in the FMCG sector. Additionally, consumers are increasingly displaying repertoire behaviors, leading to a more competitive market landscape for brands.

To position themselves for success in 2025, brands should focus on several key strategies:

Develop a superior portfolio by aligning it with the true needs of consumers: Brands must strategically adjust their portfolios and value propositions to reflect current consumer trends and channel specificities. As macroeconomic challenges continue, consumers are becoming more discerning in their spending and choices. They are becoming more rational, looking for "true value", not just low prices. Therefore, innovation will continue to play a key role. This approach will help offer products and services that genuinely address those needs and differentiate the brand from the competition.

Maximize physical availability (online and offline) by unlocking the full potential of omnichannel and developing a connected commerce strategy: The shopper's journey now seamlessly integrates online and offline experiences. Brands must adapt to this dynamic landscape and engage consumers through an effective omnichannel approach, leveraging large sets of consumer data. Achieving this requires not only a refreshed route-to-consumer strategy that coordinates online and offline efforts, but also a carefully crafted portfolio strategy that considers suitable products and pack sizes for each channel.

Embrace the out-of-home opportunities: As out-of-home consumption recovers, packaged food and beverage companies must invest to capitalize on these prospects. The strategies for succeeding in out-of-home channels differ from those for at-home channels. To fully seize these opportunities, it is essential to have the right product offerings, a tailored route-to-market coverage model, and strong organizational capabilities.

Capture mental availability by running focused marketing campaigns to recruit consumers: As consumers become more selective and the leaky bucket phenomenon persists, brands must focus on expanding their shopper base through targeted marketing efforts. Brand building is more critical than ever and only brands that consistently invest in their brand can weather the cycle. To navigate through media channel dynamics, brands must follow a 1+N+X approach (1 stands for brand core value proposition, N stands for key marketing campaigns, X stands for tailored marketing content per media channel) to focus on brand building while adapting to the diversified content expression on different media channels.

Continue to manage costs: The deflationary trends encourage brands to seek opportunities for performance improvement, investigating partnership opportunities and asset-lite operating models, and reinvest in areas that are crucial for business growth, such as product innovation and marketing campaigns aimed at recruiting consumers.

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