



# Inside China's Subtle FMCG Recovery

China Shopper Report 2021, Vol. 1

**KANTAR WORLDPANEL**  
A CTR SERVICE IN CHINA

**BAIN & COMPANY** 

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## Executive summary

This is the tenth consecutive year that we have tracked the shopping behaviors of Chinese consumers. Our continuing research has given us a valuable long-term view across 106 fast-moving consumer goods (FMCG) categories purchased for home consumption in China. As in each of the past nine years, we analyzed the key 26 categories<sup>1</sup> that span the four largest consumer goods sectors: packaged food, beverages, personal care and home care. We also looked at another 17 categories<sup>2</sup> to form a more comprehensive view of the market. This report, which updates the findings from China Shopper Report 2020, Vol. 2, *After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG*, includes Kantar Worldpanel shopper behavior data for 2020 and the first quarter of 2021.

### A look back at 2020

#### FMCG value is back to 2019 levels

Covid-19 in the first half of 2020 walloped overall FMCG value growth, which revived in the second half to deliver 0.5% value growth for the full year—landing at almost exactly the pre-Covid level.

Yet there were notable changes in 2020. For example, while personal care and home care categories grew faster than food and beverage categories over the past five years, their two-speed trajectories converged in 2020, as more cautious shopper behavior dampened the overall value growth in personal care, while food categories benefited from shoppers' Covid-19 stock-ups.

Also, locked-down and anxious consumers were more restrained and bought less expensive items, leading to deflation in FMCG prices for the first time in a half decade. With FMCG prices rising slower than inflation, volume gains—not prices—contributed the most to overall value growth in China.

#### Volume growth in home care, volume gains in Tier 5 cities

Our analysis tracked the unique growth patterns and contributors to that growth across four sectors: food, beverages, home care, and personal care. Food categories experienced 3% price deflation, which was offset by 5.7% volume growth to deliver 2.7% value growth. The deflation and value gains resulted from consumers purchasing large quantities of instant noodles, quick soup, and other relatively inexpensive ready-to-eat food categories during the lockdown. Value in the beverage sector fell 4%, the result of 2.3% deflation and a 1.8% drop in volume, and reflecting the steep decline in social gatherings at home and gifting occasions.

Among the four sectors, home care achieved the strongest value growth, 7.7%, which was slightly lower than in each of the previous two years. Home care volume grew 6.1% as health-conscious consumers stocked up on hygiene products such as household cleaner and tissue during the

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pandemic year. Home care was the only sector to benefit from rising prices, albeit a modest 1.5%, still lower than inflation

The same hygiene awareness led to a 3% volume gain in personal care products such as personal wash. But personal care prices dropped by 2%. The combined effect was 1.1% value growth, far lower than 11.8% in 2019.

While total FMCG spending in the country's large Tier 1 and 2 cities fell 1.5% and 1.1%, respectively, Tier 3, 4, and 5 cities enjoyed growth. In fact, the smaller the city, the faster the growth in FMCG spending in 2020. The highest growth was in Tier 5, at 3.6%. The population in lower-tier cities continues to increase due to rural migration. Also, because residents of lower-tier cities typically travel less, they were less impacted by Covid-19 outbreaks. Each household's purchased volume continued to grow relatively insulated from Covid-19 disruptions.

**Unstoppable momentum for online and O2O**

Covid-19 accelerated many channel trends that existed before the pandemic in China. Among them: the robust shift of FMCG sales to online channels and the steady growth of online-to-offline (O2O) channels—both at the expense of all offline channels other than convenience stores. E-commerce grew by 31% in 2020, roughly the same impressive rate the channel enjoyed before Covid-19.

In the physical world, convenience stores represented the only channel to hold up during a year in which many shoppers were either quarantined or too anxious to venture into shops. Convenience store FMCG spending declined by only 1% in 2020, largely because of a strong recovery in the second half as lockdowns lifted.

In 2020, online channel penetration continued accelerating for all categories, and our four-cluster segmentation still holds. The quarantine gave a big boost to O2O, where FMCG spending grew more than 50% in 2020. Locked-down consumers turned to O2O and maintained their habits after lockdowns ended.

Livestreaming accelerated during Covid-19 and continues to thrive after the pandemic, but there now are two distinct flavors: key opinion leader (KOL) livestreaming on platforms like Taobao and Douyin, as well as brands' self-running shows that are gaining popularity due to relatively high reliability, consumer stickiness, and better economics.

Foreign brands increased their value share faster than domestic companies for the first time in 2019, but fared worse than their Chinese counterparts in 2020. Foreign brands' value declined 3.1%, compared with a 0.5% drop for domestic companies. Here, too, volume was king. For example, while foreign brands' average selling price (ASP) rose 1.0%, that was not enough to compensate for a 4.1% volume decline. By comparison, volume grew 3.6% for Chinese brands, while ASP fell 4.1%. What was behind the uneven volume performance? Chinese brands, aided by their strong local supply chain, reacted more quickly to shifting consumer sentiments and captured more volume growth by lowering ASP.

## What's ahead in 2021

### Compared with “normal”

To understand the full impact of Covid-19 on FMCG sales in China, we compared performance in the first quarter of 2021 with the same prepandemic period in 2019. Overall, growth is regaining traction, but remains subdued. The slow FMCG spending recovery and modest gains in the first quarter of 2021 contributed to a 1.6% year-over-year value growth rate, slower than the 3% growth achieved two years earlier.

Value grew 1.6% despite a 1% decline in ASP. Volume was the key contributor to value growth, spurred by a recovery in the frequency of shopping trips. Meanwhile, as the pandemic eased in China, the typical two-speed growth-rate difference between food and beverage sectors vs. the home care and personal care sectors returned.

As we reported in the China Shopper Report 2020, Vol. 2, FMCG categories showed four distinct trajectories of growth due to Covid-related factors. Three full quarters after the height of the pandemic in China, those growth patterns are now less prominent.

In some categories, Covid-19 led to some unexpected consumption habits that, when combined with a return to prepandemic market trends, compounded the effect. In China, ice cream was not a popular treat at home until the pandemic, when locked-down consumers sought comfort food. Now they are still buying ice cream at record rates. In that case, the new pandemic-inspired behavior, combined with a long-term shift to premium products, is delivering record sales for that category. Similarly, when Dr. Zhang Wenhong (张文宏), a prominent expert on infectious disease, suggested that milk should be a part of the Chinese breakfast, sales of milk rose dramatically—and continue to rise, propelled in part by the years-long trend toward food and beverages that are perceived to be healthy. In the same vein, many consumers first started purchasing large-pack packaged water for home cooking during the pandemic, feeling it was healthier than tap water. Even as the pandemic eases, demand for large-pack water is still growing.

Covid-19 has been a boon to O2O channels, and its impact seems to be long-lasting. In large numbers, locked-down consumers who turned to O2O for FMCG purchases are staying. As a sign of its stickiness, the O2O retention rate between the first half of 2020, when many consumers were stuck at home, and the second half of the year was 53%. In the first quarter of 2021, the penetration rate was 38%, not much lower than 41% a year earlier, when O2O was one of the few options available.

Another trend that took root in the pandemic: community group buys. In this growing trend, Internet platforms source directly and sell to “community captains” who coordinate orders and manage offline pickup points. The new distribution approach resulted in 27% penetration by the first quarter of 2021 and is becoming so important that all major retail Internet platforms are investing heavily in it to stay connected with consumers.



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Meanwhile, consumers in most categories are trending toward repertoire behavior, in which they purchase items from more brands. This behavior results from such factors as the proliferation of insurgent brands, easier access to consumers through diversified touchpoints, and specialized consumer needs. In categories where consumers rely on e-commerce for easy access to new products, the online channel is leading to more repertoire behavior. This is true in such categories as makeup and biscuits. Yet when online is used as a bulk-buy channel for stockpiling such categories as fabric detergent, online consumer behavior tends to be more loyalist.

### **What's ahead?**

China's economy is recovering, with analysts forecasting 8% to 9% GDP growth for all of 2021. Along with that expansion, FMCG is expected to continue growing, boosted by the changes introduced by Covid-19 as well and the return of fundamental prepandemic trends. For example, Chinese consumers' pursuit of health and hygiene, which existed before Covid-19 and accelerated during the pandemic, is likely to be around for the long haul. Lower-tier cities will remain a strong growth engine for FMCG after Covid-19, exhibiting the same resilience they demonstrated during the pandemic.

Even so, FMCG's muted performance in the first four months of 2021 could be a good preview of the remainder of 2021. There are plenty of uncertainties ahead. Sporadic Covid-19 outbreaks have resulted in tentative shopper behavior and a more subdued FMCG recovery than we would have seen if the pandemic fully ended. In addition, new Covid-19 cases in Guangzhou and Shenzhen raise the potential risk of future lockdowns and limits on social gatherings. Another sign that China's consumers are remaining cautious is the increase in the savings rate<sup>3</sup> to 39% in the first quarter of 2021 from 35% two years earlier.

## **Implications for Brands and Retailers**

### **Implications for brands**

Covid-19 will have lasting implications, and to quickly transform themselves and stay ahead, brands need to:

- restructure their product and brand portfolio to better fit post-Covid market conditions and consumer demands;
- adapt the entire cost structure to serve both the premium oriented and the value-driven consumers;
- focus more on recruiting new consumers and increasing penetration and usage, especially in lower-tier cities;

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- customize strategies and approaches to different online platforms; and
- develop tools to track rapidly evolving market, consumer, and channel trends.

#### **Implications for retailers**

The retail landscape also will be profoundly impacted by Covid-19, and retailers need to:

- redefine the retailing value proposition to shoppers in an increasingly digitalized and omni-channel environment;
  - win with fresh, high-quality food offerings
  - focus on categories with low online penetration, and price competitively to differentiate from online platforms
  - build holistic value propositions for high-value shoppers via membership programs
- double-down on winning formats and shopper experiences;
  - prioritize O2O and small-to-midsize stores in convenient locations
  - enhance the physical store experience, upgrading digital features to make stores more appealing to younger consumers
- reduce complexity in operations and establish a new cost baseline.





# A look back at 2020

## FMCG value is back to 2019 levels

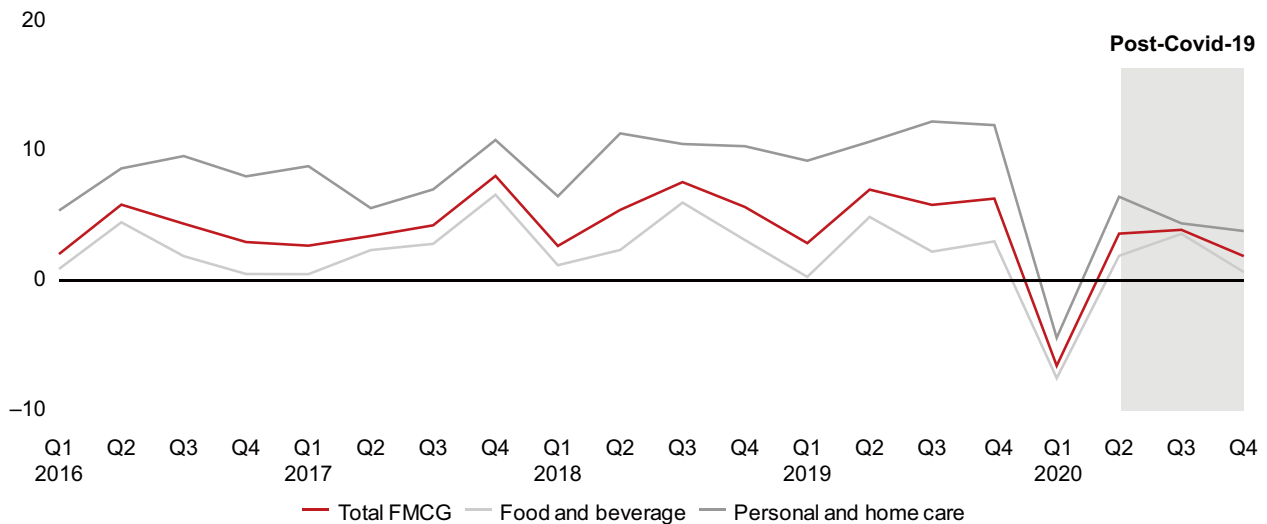
In many ways, China's market for fast-moving consumer goods has returned to where it was in 2019.

In the first half of 2020, Covid-19 dealt a major blow to overall value growth, which revived in the second half to deliver 0.5% value growth for the full year—landing at almost exactly the pre-Covid level. Yet there were notable changes in 2020. For example, while personal care and home care categories grew faster than food and beverage categories over the past five years, their two-speed trajectories converged, with both sectors growing by 1% to 4% in the second half of 2020 (see *Figure 1*), as more cautious shopper behavior dampened the overall value growth in personal care, while food categories benefited from shoppers' Covid-19 stock-ups.

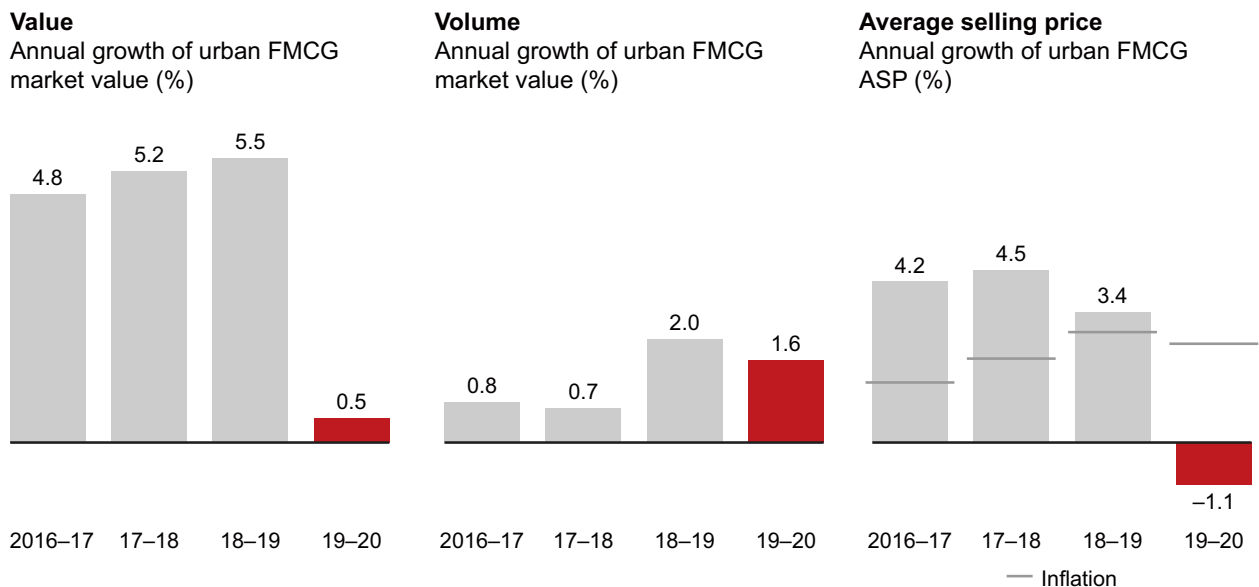
Also, until the Covid-19 pandemic, FMCG companies enjoyed a steady five-year run of premiumization. Those constantly rising average selling prices were a big factor in value growth in many categories and across different channels during those years. However, locked-down and anxious consumers were more cautious and bought less expensive items during the pandemic, leading to deflation in FMCG prices for the first time in a half decade (see *Figure 2*). With more cautious shopper behaviors after Covid-19, we expect a weak recovery in the near term. Consumer confidence will be key to a general return to ASP growth and premiumization.

With FMCG prices rising slower than inflation, volume gains—not prices—contributed the most to overall value growth in China. Increased frequency of shopping trips played a role in the volume growth, too. But to understand the hefty impact of price deflation, consider that the 1% ASP decline in 2020 resulted in an actual 3.5% decline when inflation is factored in.

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**Figure 1:** FMCG spending rebounded in Q2 2020, with food and beverage growth converging with personal and home care**Year-over-year change in urban shoppers' total spending on fast-moving consumer goods (%)**

Note: Kantar Worldpanel excluded cigarettes from total FMCG data in 2017 and adjusted online channel weighting for paper products to better reflect the market in 2020; consumer universe update in 2021; changes may lead to inconsistencies with previous years' data  
 Sources: Kantar Worldpanel; Bain analysis

**Figure 2:** Overall FMCG value in China grew 0.5% in 2020, as higher volume offset price deflation

Notes: Kantar Worldpanel excluded cigarettes from total FMCG data in 2017 and adjusted online channel weighting for paper products to better reflect the market in 2020; consumer universe update in 2021; changes may lead to inconsistencies with previous years' data; average selling prices based on RMB per kg/l, except for diapers and toothbrushes per piece, skin care and makeup per pack, and toilet and facial tissues per 100 sheets/rolls  
 Sources: Kantar Worldpanel; National Bureau of Statistics; Bain analysis

## Inside China's Subtle FMCG Recovery

This is the tenth consecutive year that we have tracked the shopping behaviors of Chinese consumers. Our continuing research has given us a valuable long-term view across 106 fast-moving consumer goods categories purchased for home consumption in China. As in each of the past nine years, we analyzed the key 26 categories<sup>1</sup> that span the four largest consumer goods sectors: packaged food, beverages, personal care, and home care. We also looked at another 17 categories<sup>2</sup> to form a more comprehensive view of the market. This report, which updates the findings from China Shopper Report 2020, Vol. 2, *After Five Years of Premiumization, Covid-19 Delivers Deflation in China FMCG*, includes Kantar Worldpanel shopper behavior data for 2020 and the first quarter of 2021.

## Volume growth in home care, volume gains in Tier 5 cities

Our analysis tracked the unique growth patterns and contributors to that growth across four sectors: food, beverages, home care, and personal care.

Prices fell for both packaged food and beverages in 2020, but packaged food volume grew as consumers stocked up (see *Figure 3*). The 3% price deflation for food categories was offset by 5.7% volume growth to deliver 2.7% value growth, as consumers purchased large quantities of instant noodles, quick soup, and other relatively inexpensive ready-to-eat food categories during the lockdown. The beverage sector's value declined 4%, the result of 2.3% deflation and a 1.8% drop in volume, reflecting the steep decline in social gatherings at home and gifting, especially in the first half of 2020.

Among the sectors, home care achieved the strongest value growth, 7.7%, slightly lower than the previous two years. Home care volume grew 6.1% as health-conscious consumers stocked up on hygiene products such as household cleaner and tissue during the pandemic year (see *Figure 4*). Home care was the only sector to benefit from higher prices, which rose by a modest 1.5%, still lower than inflation. Home care categories like disinfectants and wet tissues experienced a surge in demand and a period of shortage due to supply constraints, resulting in an overall price increase.

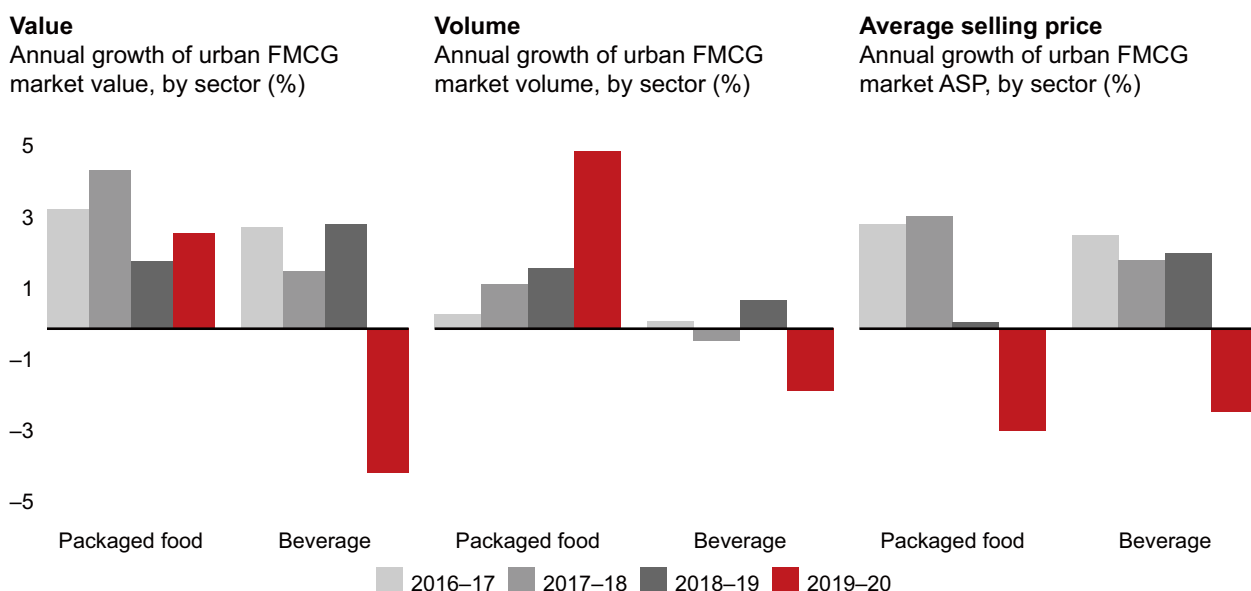
The same hygiene awareness led to a 3% volume gain in personal care products such as personal wash. But personal care prices dropped by 2%. The combined effect was 1.1% value growth, compared with 11.8% in 2019. The home quarantine and remote working arrangements in 2020 sharply decreased the need for personal care categories like makeup and skin care.

While total FMCG spending in the country's Tier 1 and 2 cities declined 1.5% and 1.1%, respectively, Tier 3, 4, and 5 cities enjoyed growth (see *Figure 5*). In fact, the smaller the city, the faster the growth in FMCG spending in 2020. The highest growth took place in Tier 5 cities (e.g., Muyang, Jiangsu and Changxing, Zhejiang), where FMCG spending rose 3.6%.

What is behind the gains? The population in lower-tier cities continues to increase due to rural migration. Also, because residents of lower-tier cities typically travel less, they were less impacted by Covid-19 outbreaks. Each household's purchased volume continued to grow relatively insulated from Covid-19 disruptions.

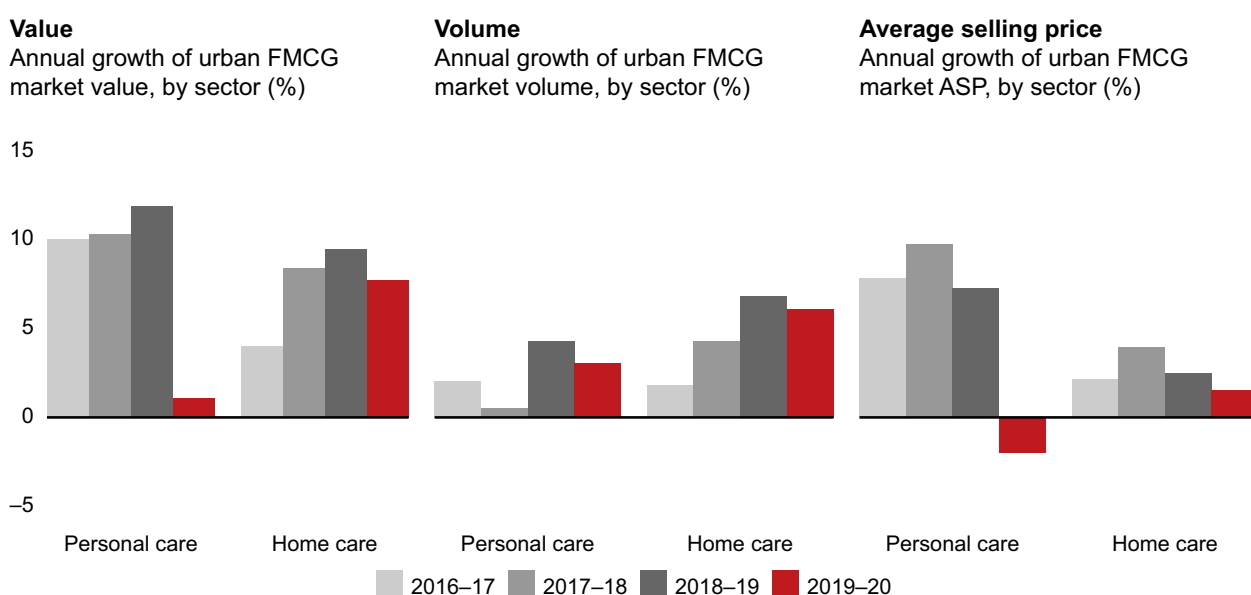
## Inside China's Subtle FMCG Recovery

**Figure 3:** Prices declined in 2020 for both beverages and packaged food, but packaged food volume grew as consumer stocked up



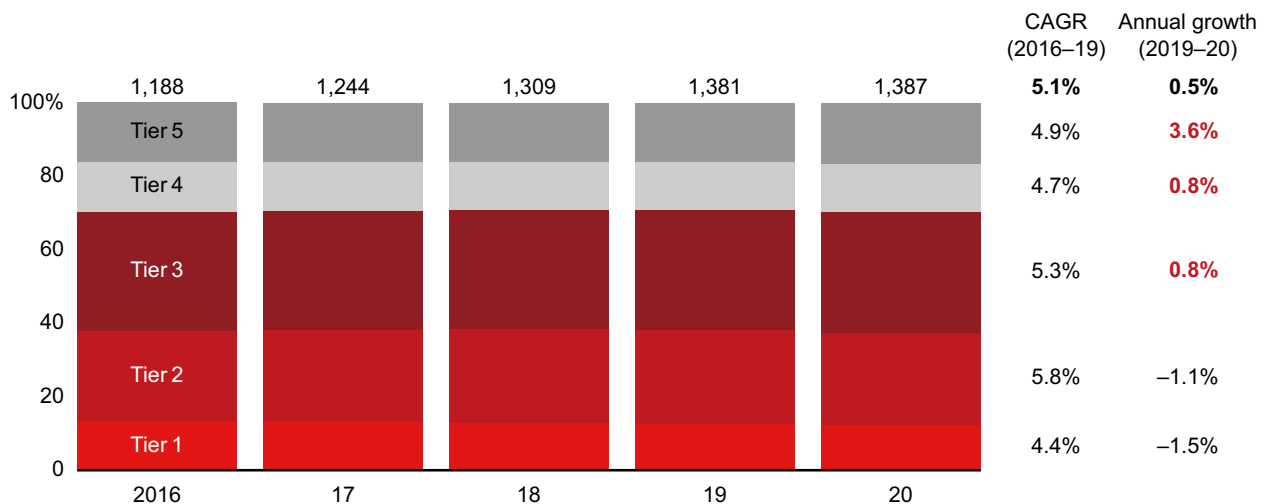
Notes: Kantar Worldpanel excluded cigarettes from total FMCG data in 2017 and adjusted online channel weighting for paper products to better reflect the market in 2020; consumer universe update in 2021; changes may lead to inconsistencies with previous years' data; average selling prices based on RMB per kg/l, except for diapers and toothbrushes per piece, skin care and makeup per pack, and toilet and facial tissues per 100 sheets/rolls  
Sources: Kantar Worldpanel; National Bureau of Statistics; Bain analysis

**Figure 4:** Personal care and home care grew mainly because of higher volume; home care prices rose with increasing concerns about hygiene



Notes: Kantar Worldpanel excluded cigarettes from total FMCG data in 2017 and adjusted online channel weighting for paper products to better reflect the market in 2020; consumer universe update in 2021; changes may lead to inconsistencies with previous years' data; average selling prices based on RMB per kg/l, except for diapers and toothbrushes per piece, skin care and makeup per pack, and toilet and facial tissues per 100 sheets/rolls  
Sources: Kantar Worldpanel; National Bureau of Statistics; Bain analysis

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**Figure 5:** Consumption in Tier 3, 4, and 5 cities proved more resilient during the pandemic**Value share in urban FMCG spending, by city tiers (B RMB)**

Notes: Kantar Worldpanel excluded cigarettes from total FMCG data in 2017 and adjusted online channel weighting for paper products to better reflect the market in 2020; consumer universe update in 2021; changes may lead to inconsistencies with previous years' data; average selling prices based on RMB per kg/l, except for diapers and toothbrushes per piece, skin care and makeup per pack, and toilet and facial tissues per 100 sheets/rolls  
 Sources: Kantar Worldpanel; National Bureau of Statistics; Bain analysis

**Unstoppable momentum for online and O2O**

Covid-19 accelerated many channel trends that existed before the pandemic in China. Among them: the robust shift of FMCG sales to online channels and the steady growth of online-to-offline (O2O) channels—both at the expense of all offline channels other than convenience stores. E-commerce grew by 31% in 2020, roughly the same impressive rate as the channel enjoyed before Covid-19. By comparison, groceries and hypermarkets registered the sharpest declines, 14% and 11%, respectively (see Figure 6).

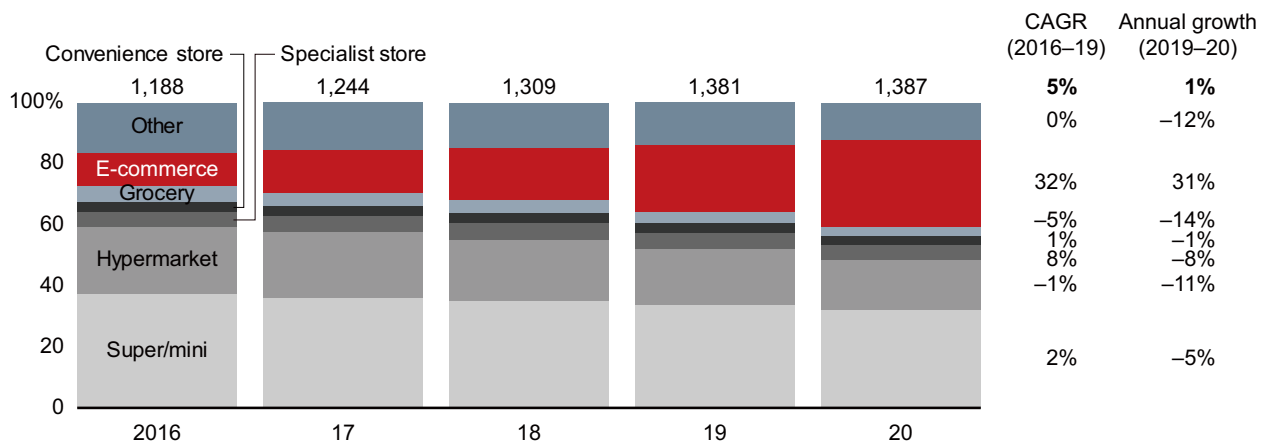
In the physical world, convenience stores represented the only channel to hold up during a year in which many shoppers were either quarantined or too anxious to venture into shops. Convenience store FMCG spending declined by only 1% in 2020, largely because of a strong rebound in the second half as lockdowns lifted. Lawson, one of the largest convenience chains in China, was among the retailers that reported a second-half recovery of daily FMCG sales in Shanghai and other major cities.

As in previous reports, we tracked online penetration by segmenting product categories into four clusters (see Figure 7). In 2020, online channel penetration continued accelerating for all categories, and our four-cluster segmentation still holds.

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**Figure 6:** E-commerce was the only retail channel with rapid growth, though convenience stores almost matched the pre-Covid level

**Value share in urban FMCG retail market, by channel (B RMB)**

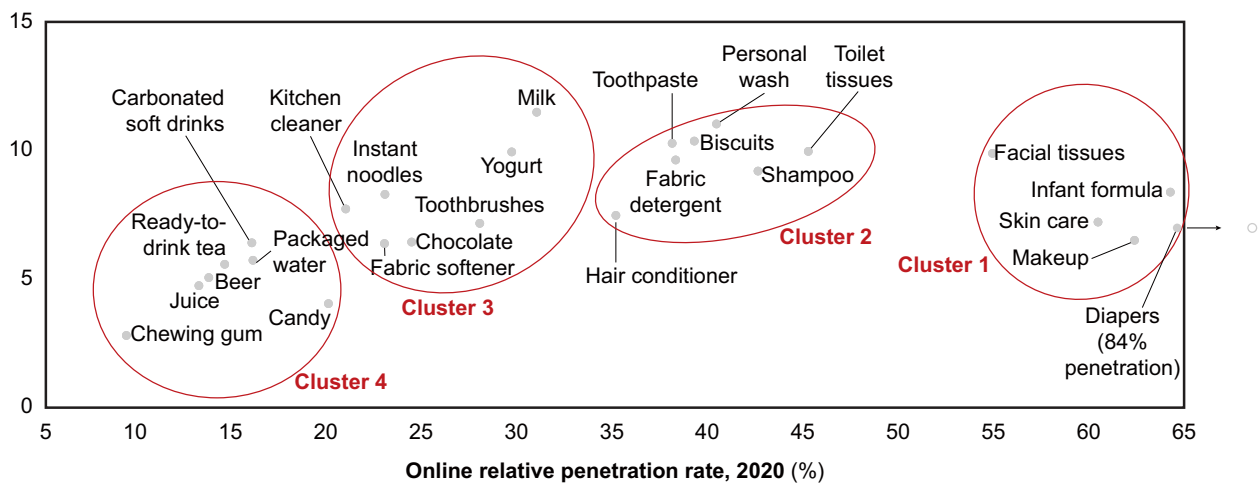


Notes: Hypermarket refers to stores of more than 6,000 square meters and includes key accounts representing 83% (based on 2018 revenues); super/mini refers to stores of 100 to 6,000 square meters; convenience category includes chain and individual convenience stores (operating more than 16 hours a day); grocery refers to stores smaller than 100 square meters; other includes department stores, free market, wholesalers, work units, direct sales, overseas shopping, family shopping, drugstores, beauty salons, milk stores, and new retail (since 2018); Kantar Worldpanel has excluded cigarettes from total FMCG data, updated all category data in 2021, and adjusted online channel weighting for paper products to better reflect the market in 2019; changes may lead to inconsistencies with previous years' data

Sources: Kantar Worldpanel; Bain analysis

**Figure 7:** The shift to online continued across all categories in 2020

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



Notes: Online relative penetration is defined as the total number of online purchasers divided by the number of purchasers of the category; Kantar Worldpanel excluded cigarettes from total FMCG data in 2017 and adjusted online channel weighting for paper products to better reflect the market in 2020; consumer universe update in 2021; changes may lead to inconsistencies with previous years' data; infant formula and diapers include only Tier 1 and 2 cities; toilet tissues excludes flat tissues; kitchen cleaner includes only dish soap

Sources: Kantar Worldpanel; Bain analysis



## Inside China's Subtle FMCG Recovery

The first cluster consists of categories with relatively high online penetration and continued penetration growth. Many of these categories—including diapers, infant formula, skin care, makeup, and others—are approaching the limits of online penetration growth. With that plateau in plain sight, some companies are now moving to omnichannel strategies.

The second and third clusters, encompassing categories such as paper products, fabric detergent, chocolate, and biscuits, are steadily growing in online penetration. The additional penetration boost in 2020 came from brands shifting online as the lockdown reduced offline channel potential.

The fourth cluster comprises categories such as beverages, chewing gum, and candy. For these categories, either the high cost of fulfillment (i.e., beverages) or a lack of purchase occasions (chewing gum) limits the potential for substantially increasing online penetration.

It is important to note, however, that the environment is changing as e-commerce platforms have become more fragmented. As a sign of that fragmentation, Alibaba and JD.com's 87% share in 2016 dropped to 73% in 2020. With channel dynamics changing, brands need to think more strategically about their portfolio of online channels and platforms, and be more precise about targeting shoppers and shopping occasions.

The quarantine gave a big boost to O2O, where FMCG value grew more than 50% in 2020 (see *Figure 8*). Locked-down consumers turned to O2O and then maintained their habits after lockdowns ended. Livestreaming, accelerated during Covid-19 and continuing to thrive post-pandemic, has two distinct flavors now: KOL livestreaming on platforms like Taobao and Douyin, as well as brands' self-running shows on central platforms (Taobao, Douyin, etc.) and self-owned apps gaining popularity (see *Figure 9*).

KOL livestreaming's credibility took a hit in 2020 amid exposés of top KOLs like Xinba and Viya, who were accused of selling fake or counterfeit products. Despite this setback, livestreaming with the top KOLs still generates as much as 70% of all livestreaming sales and remains important for brands hoping to boost volume, raise awareness, and introduce new products. Skin care companies like Winona (薇诺娜) continue to collaborate with Viya and Austin Li, for example, while Bestore (良品铺子) relies on Douyin's alliance KOLs to test new snacks.

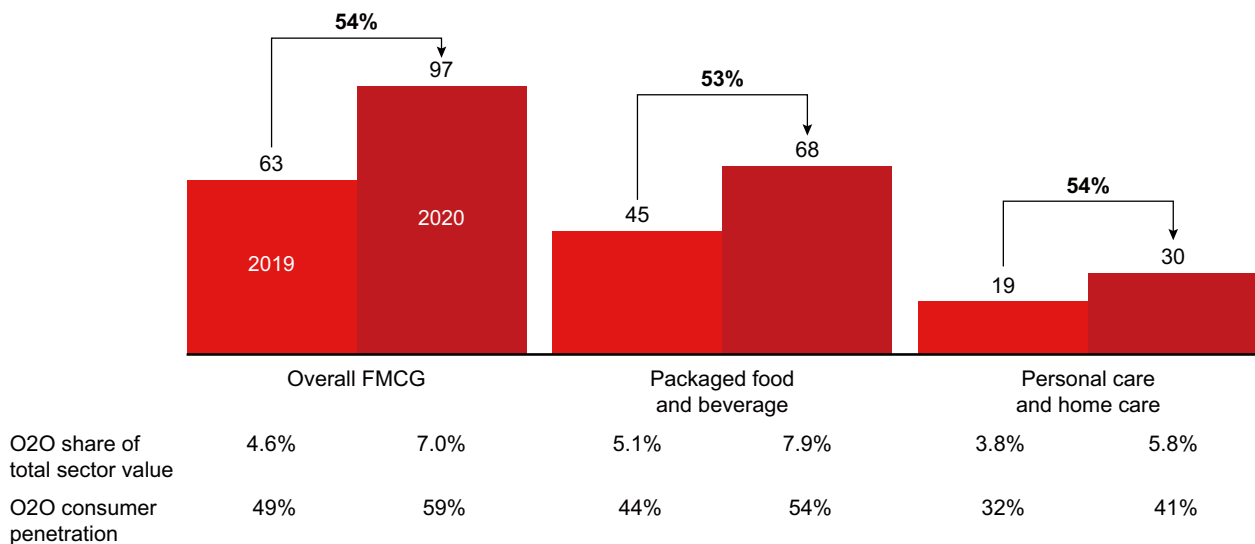
Those FMCG companies also took advantage of the self-running livestreaming formats. Self-running livestreaming shows, which are gaining in popularity, deliver a high degree of consumer stickiness, in part due to their reliability, and the economics are good. Meanwhile, for brands with strong offline footprints, livestreaming with offline assets and store employees has become a cost-effective way to leverage brick-and-mortar locations, as companies livestream from the stores and provide immediate delivery after consumers place orders. Bestore (良品铺子) turned more than 300 offline stores into livestreaming studios during Covid-19, attracting more than 240,000 viewers.

Livestreaming has helped these companies boost online activity. For example, Winona's (薇诺娜) online skin care sales grew 39%, compounded from the first quarter of 2019 to the first quarter of 2021. At Bestore (良品铺子), online sales accounted for 46% of its total biscuit sales, compared with the average 14% for the biscuit category in the first quarter of 2021.

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**Figure 8:** As more consumers shopped from home during the pandemic, O2O sales grew more than 50%

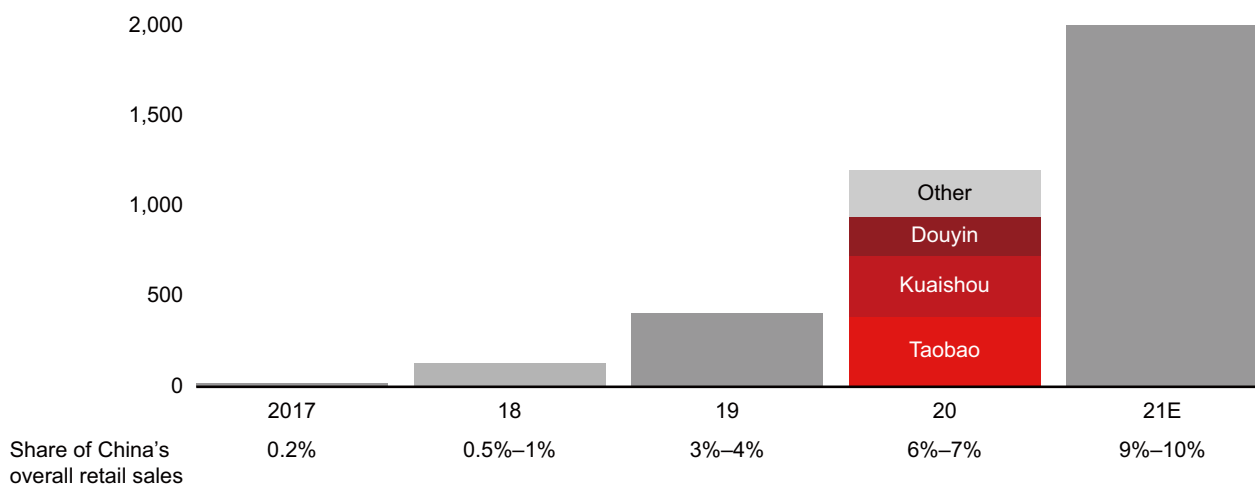
**Online-to-offline sales of urban FMCG, by sector (B RMB)**



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

**Figure 9:** Livestreaming e-commerce more than doubled in 2020, led by apparel, skin care and packaged food

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

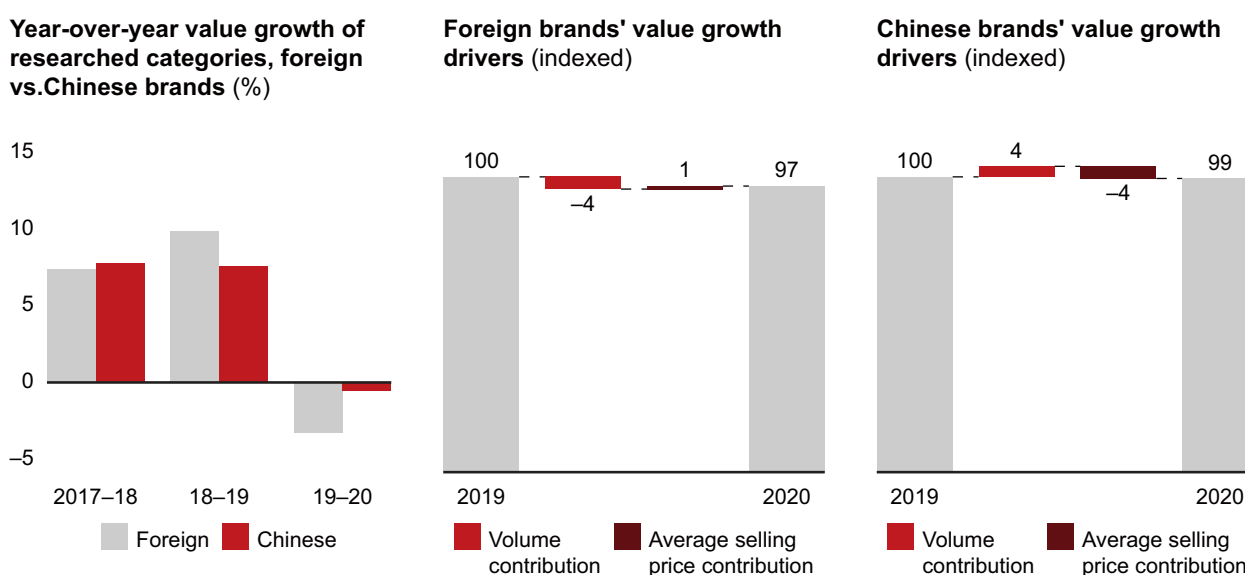


Notes: Other includes JD, Red, Pinduoduo, and other platforms; China overall retail sales include fast-moving consumer goods, apparel, and electronics categories; 2021 estimate is based on 2017–19 CAGR; packaged food refers to snacks, nuts, and local specialty; other home care and personal care includes tissues, sanitary protection, personal wash, household cleaner, and fragrance  
Sources: Alibaba annual reports; Kuaishou annual reports; analyst reports; Xiaohulu.com; National Statistics Bureau; iiMedia Research; Southern Finance Omnimedia Corp.; literature research; Bain analysis

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Additionally, we have been tracking the intense competition between foreign and domestic brands since 2013. In the first five years, local brands achieved stronger growth until multinationals started narrowing the gap in 2018. Foreign brands gained enough traction that in 2019, they outpaced their Chinese competitors in market value growth. However, the pandemic reversed this trend. Foreign brands fared worse than their Chinese counterparts in 2020, with foreign brands' value declining 3.1%, compared with domestic companies' 0.5% drop (see *Figure 10*). Here, too, volume was king. The 1.0% increase in ASP for foreign brands could not compensate for a 4.1% volume decline. By comparison, volume grew 3.6% for Chinese brands, while ASP fell 4.1%. What was behind the uneven volume performance? Chinese brands, aided by their strong local supply chain, reacted more quickly to shifting consumer sentiments and captured more volume growth by lowering ASP.

**Figure 10:** Higher volume helped local brands withstand the Covid-19 pandemic better than foreign brands



Notes: Data covers the 26 categories Bain usually tracks; foreign brands based on Kantar's "top performing brands" in the 26 categories; brands categorized as "foreign" or "Chinese" according to the largest shareholder; for M&A, the brand changes grouping three years after the deal is completed; Kantar Worldpanel excluded cigarettes from total FMCG data in 2017 and adjusted online channel weighting for paper products to better reflect the market in 2020; consumer universe update in 2021; changes may lead to inconsistencies with previous years' data  
Sources: Kantar Worldpanel; Bain analysis

# What's ahead in 2021

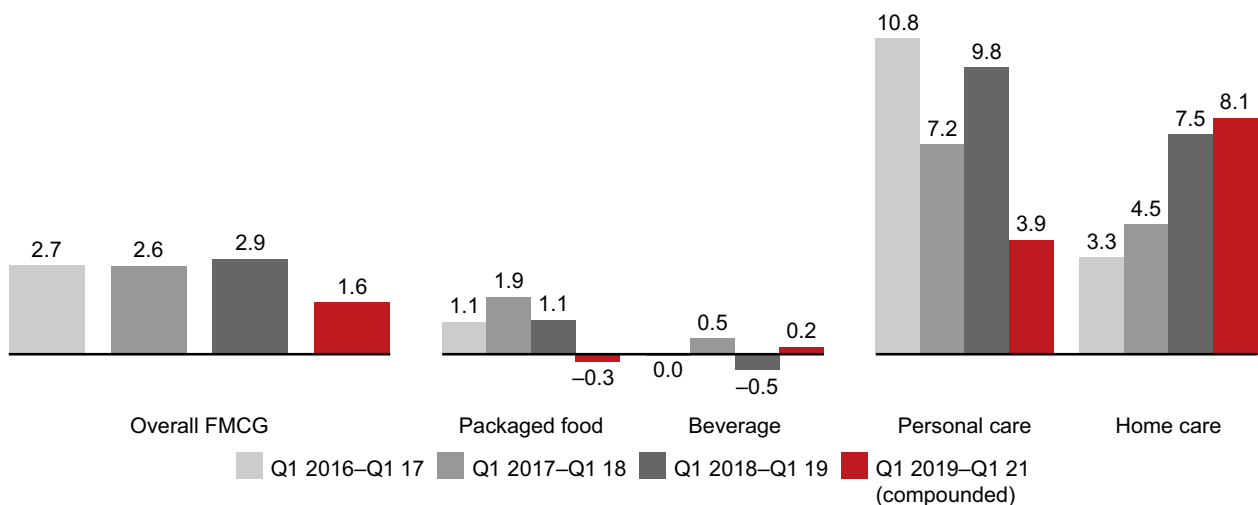
## Compared with “normal”

To understand the full impact of Covid-19 on FMCG sales in China, we compared the first quarter of 2021 with the same period two years earlier. Overall, growth is gaining traction, but remains subdued. The slow FMCG spending recovery and modest gains in the first quarter of 2021 contributed to 1.6% year-over-year growth in value, which is slower than the 3% growth achieved in first quarter of 2019 over the same period a year earlier (see Figure 11).

That 1.6% growth came despite a 1% decline in ASP. Volume was the key contributor to value growth—and a recovery in shopping frequency spurred that volume growth. Meanwhile, as the pandemic

**Figure 11:** China's overall FMCG growth is slower than before Covid-19

### Growth in urban market value for fast-moving consumer goods, by sector (%)



Notes: Kantar Worldpanel excluded cigarettes from total FMCG data in 2017 and adjusted online channel weighting for paper products to better reflect the market in 2020; consumer universe update in 2021; changes may lead to inconsistencies with previous years' data; average selling prices based on RMB per kg/l, except for diapers and toothbrushes per piece, skin care and makeup per pack, and toilet and facial tissues per 100 sheets/rolls.  
Sources: Kantar Worldpanel; Bain analysis

## Inside China's Subtle FMCG Recovery

eased in China, the two-speed growth rate difference between the food and beverage sectors and the home care and personal care sectors returned to a similar spread, with the spread widening to 7 percentage points in the first quarter of 2021 (see *Figure 12*). Covid-related growth patterns have become less prominent, and many categories are resuming prepandemic growth trends.

As we reported in the China Shopper Report 2020, Vol. 2, FMCG categories showed four distinct growth trajectories<sup>4</sup> due to Covid-related factors. Three full quarters after the height of the pandemic in China, those Covid-inspired growth patterns are now less prominent (see *Figure 13*). Here is how those categories are faring.

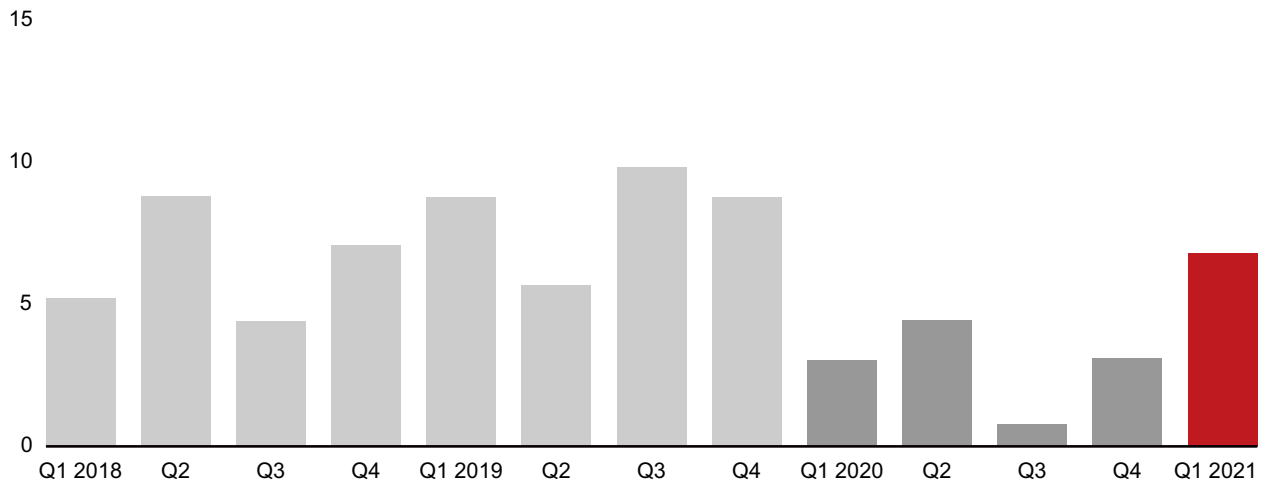
- **Categories that benefited from Covid-19, but growth was not sustained into 2021.**  
Instant food/cooking-related categories (e.g., soy sauce, frozen food, instant noodles) boomed during the pandemic, but have declined in the subsequent quarters as work-from-home requirements and other pandemic restrictions largely have been phased out.
- **Categories that boomed during Covid-19, then slowed to stable growth.**  
Hygiene products (e.g., personal wash, household cleaners) continue to have stable demand after the pandemic.
- **Categories that accelerated post-Covid-19.**  
The pursuit of health and wellness fueled the growth of packaged water, which replaced tap water at home, and milk, which was recommended for its immunity-boosting benefits. Both categories are maintaining that growth as the pandemic eases.
- **Categories that continued to decline post-Covid-19.**  
Some categories that consumers consider less healthy, such as processed foods with sugar and fats, have continued to decline after the pandemic; categories strongly associated with gifting and social gatherings, such as spirits and nutritional supplements, have not recovered due to the “stay put” policy instituted in the first quarter of 2021 as part of the government’s effort to curb new Covid-19 outbreaks.

In some product categories, Covid-19 has led to unexpected consumption habits that, when combined with a return to the prepandemic market trends, compounded the effects (see *Figure 14*). In China, ice cream was not a popular treat at home until the pandemic, when locked-down consumers sought comfort food. Now they are still buying ice cream at record rates. In that case, the new pandemic-inspired behavior, combined with a long-term shift to premium products, is delivering impressive sales for that category. When Dr. Zhang Wenhong (张文宏), a prominent expert on infectious disease, spoke about Covid-19 prevention and control in April 2020, he suggested that Chinese consume more milk and eggs for breakfast, instead of the traditional congee, citing the immunity-boosting qualities of milk. That single speech turbocharged demand for milk, which already was benefiting from the years-long trend toward food and beverages that are perceived to be healthy. However, milk’s surge came at the expense of yogurt, another source of high protein that could be consumed at breakfast but is usually associated with aiding digestion rather than immunity.

## Inside China's Subtle FMCG Recovery

**Figure 12:** In the first quarter of 2021, the two-speed spread between the subsectors returned

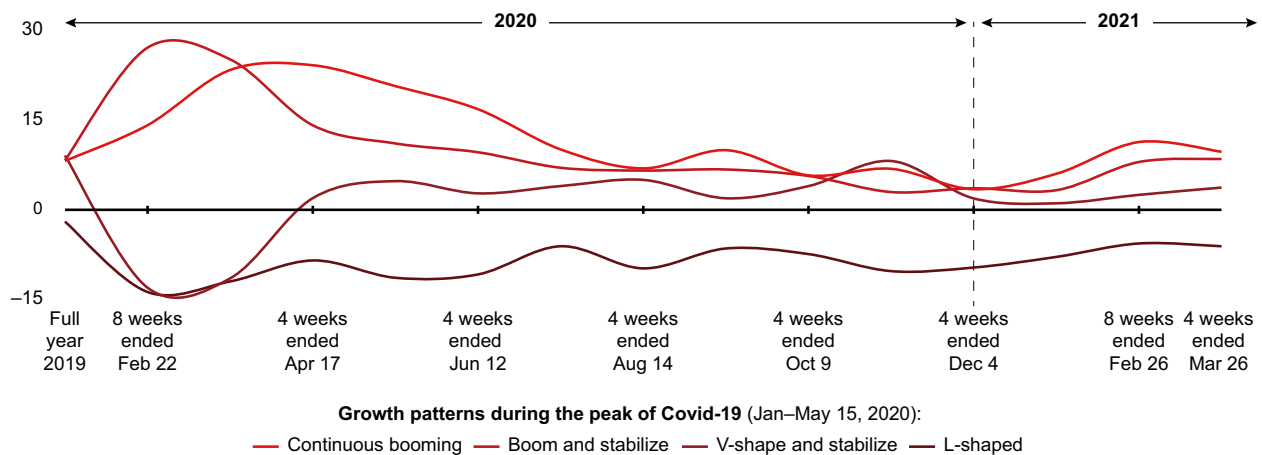
**Year-over-year growth difference between personal care and home care vs. packaged food and beverage (percentage points)**



Notes: The annual growth rate of personal care and home care minus the annual growth rate of packaged food and beverage; Kantar Worldpanel excluded cigarettes from total FMCG data in 2017 and adjusted online channel weighting for paper products to better reflect the market in 2020; consumer universe update in 2021; changes may lead to inconsistencies with previous years' data; average selling prices based on RMB per kg/l, except for diapers and toothbrushes per piece, skin care and makeup per pack, and toilet and facial tissues per 100 sheets/rolls  
Sources: Kantar Worldpanel; Bain analysis

**Figure 13:** The four distinct category growth trajectories have converged since H2 2020, and the Covid-based differences no longer apply

**Year-over-year FMCG sales value growth, 2019–March 2021 (%)**



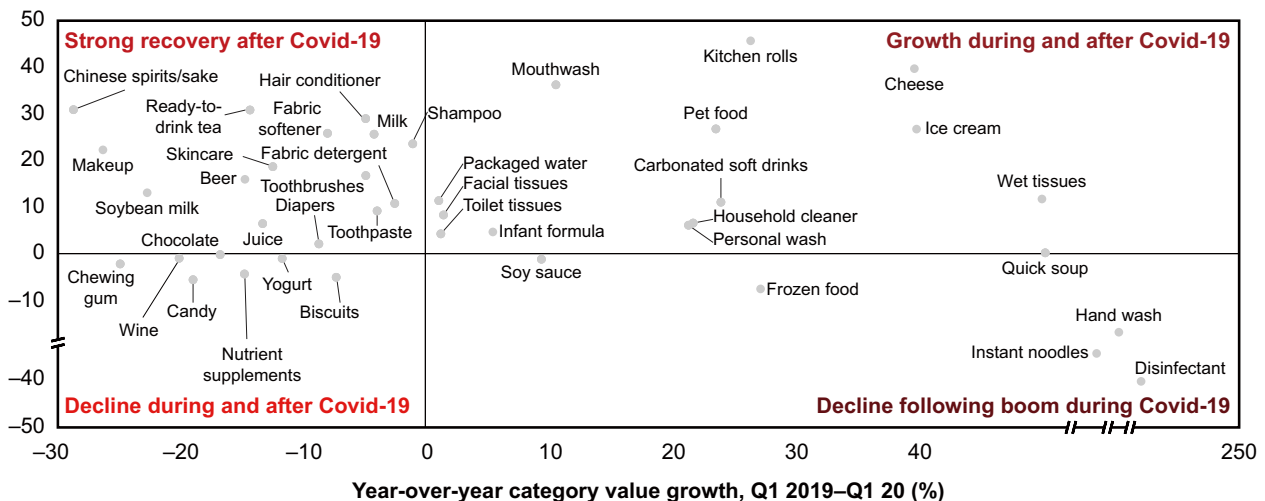
Notes: Growth rate in 2021 is compounded growth rate vs. 2019 of the same periods; frozen food and pet food categories are updated vs. 2020 Vol. 2 starting from the four weeks ending on Jun 12, 2020; the four weeks ending on Jan 25, 2021 are combined with the four weeks ending on Feb 22, 2021 to minimize effects from an earlier Chinese New Year in 2021; the frozen food category's four weeks preceding the 618 Online Shopping Festival and the four weeks including the 618 festival are averaged to smooth out pandemic frozen food stocking up during the 618 festival; data adjusted vs. China Shopper 2020, vol. 2 due to Kantar's adjusted category definitions; Kantar Worldpanel excluded cigarettes from total FMCG data in 2017 and adjusted online channel weighting for paper products to better reflect the market in 2020; Kantar consumer universe was updated in 2021; changes may lead to inconsistencies with previous years' data  
Sources: Kantar Worldpanel; Bain analysis



## Inside China's Subtle FMCG Recovery

**Figure 14:** Some product categories are returning to pre-Covid trends, while others are feeling a lasting impact

Year-over-year category value growth, Q1 2020–Q1 21 (%)



Notes: Includes 26 categories Bain usually tracks, plus Covid-emerging categories, such as ice cream; Kantar Worldpanel excluded cigarettes from total FMCG data in 2017 and adjusted online channel weighting for paper products to better reflect the market in 2020; consumer universe update in 2021; changes may lead to inconsistencies with previous years' data  
Sources: Kantar Worldpanel; Bain analysis

In the same vein, many consumers began purchasing large-pack packaged water for such purposes as home cooking and tea steeping during the pandemic, feeling it was healthier than tap water. Even as the pandemic eases, demand for large-pack water continues to rise.

Covid-19 has been a boon to O2O channels, and its impact seems to be long-lasting. In large numbers, locked-down consumers who turned to O2O for FMCG purchases are staying. As a sign of its stickiness, O2O's retention rate between the first half of 2020, when many consumers were stuck at home, and the second half of the year was 53%. In the first quarter of 2021, O2O's 38% penetration rate was not much lower than the 41% rate a year earlier, when O2O was one of the few options available (see Figure 15). The endurance of O2O has led brands like Simple Love (简爱酸奶) to rely on it as a key channel of growth.

## Inside China's Subtle FMCG Recovery

**Figure 15:** O2O continues to gain market share and penetration after Covid-19**Online-to-offline channel penetration for urban FMCG consumers, by sector (%)****Four types of O2O platforms**

Offline retailers offering O2O services via self-owned or third-party delivery capabilities



Vertical grocery e-commerce apps with self-owned dark stores and delivery capabilities



Community-based group-buying platforms with "community captains" to coordinate orders and manage offline pickup points



Horizontal marketplaces serving retailers and brands with O2O distribution capabilities



Notes: O2O refers to the shopping journey starting from online platforms, leading to offline purchases, and reaching consumers by delivery services; dark stores are small warehouses that serve as fulfillment centers

Sources: Kantar Worldpanel; literature research; Bain analysis

**There are four models for O2O**

- Offline retailers, such as RT-Mart (大润发), Walmart, and Freshhema (盒马鲜生), offering O2O services via self-owned or third-party delivery capabilities
- Vertical grocery e-commerce retailers, such as Dingdong Maicai (叮咚买菜) and MissFresh (每日优鲜), with self-owned dark stores and delivery capabilities
- Community-based group-buying platforms, such as Duoduo Maicai (多多买菜), Xingsheng Youxuan (兴盛优选), and Chengxin Youxuan (橙心优选), with "community captains" coordinating orders and managing offline pickup points
- Horizontal marketplace platforms, such as Meituan (美团) and Ele.me (饿了么), serving retailers and brands with their O2O distribution capabilities

While the community group-buy O2O phenomenon often involves fresh food, it is increasingly important for FMCG sales, too. In this growing trend, Internet platforms source directly and sell to a "community captain", who manages consumer offline pickup points. This approach accelerated during the initial Covid-19 period and has expanded to a 27% rate of household penetration. That success has attracted the attention of Internet giants Meituan, Taobao, Pinduoduo, and Didi, which have invested to create self-owned business units to compete in this market. Among the benefits: it is a high-frequency activity that can help them expand consumer touchpoints, and a cost-effective

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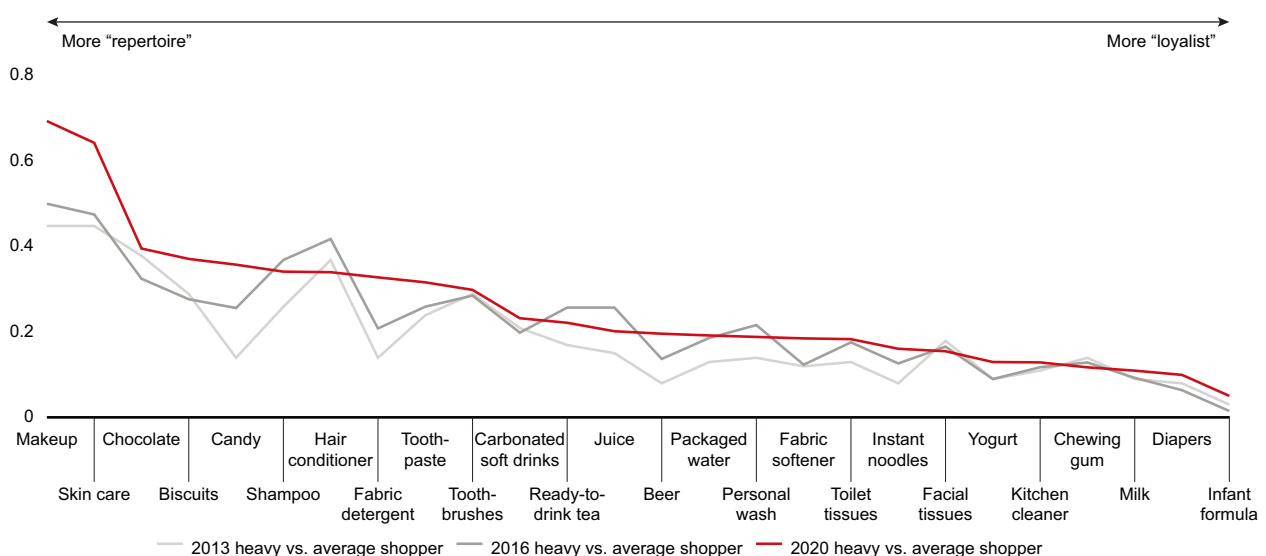
way to increase the number of daily active users. The demographics are particularly attractive. About 70% of community group-buy consumers are over 33 years old, and many live in the lower-tier cities where FMCG companies have an opportunity to increase penetration. Half of XSYX (兴盛优选) group-buy sales are made in strategically important lower-tier cities and counties, for example.

For 10 years we have tracked Chinese consumers' FMCG purchasing activity by evaluating repertoire and loyalist behavior across categories. In categories that are more repertoire, consumers show a low degree of loyalty compared with loyalist categories, in which consumers stick with particular brands. Our analysis looks at the repertoire vs. loyalist behavior by comparing different segments, such as heavy shoppers of a category vs. average shoppers of that category and online vs. offline shoppers of a category.

Since the last full review of the repertoire behaviors across 26 categories in 2017, consumer behavior has trended toward repertoire in most categories, driven by factors such as the proliferation of insurgent brands, easier access to consumers through diversified touchpoints, and specialized consumer needs such as different fabric detergents for different materials, or more niche skin care needs (see *Figure 16*). In categories where consumers rely on e-commerce for easy access to new products, the online channel results in more repertoire behavior. This is true in such categories as makeup and biscuits, for example. Yet when online is used as a bulk-buy channel for stockpiling such categories as fabric detergent, consumer behavior tends to be more loyalist (see *Figure 17*).

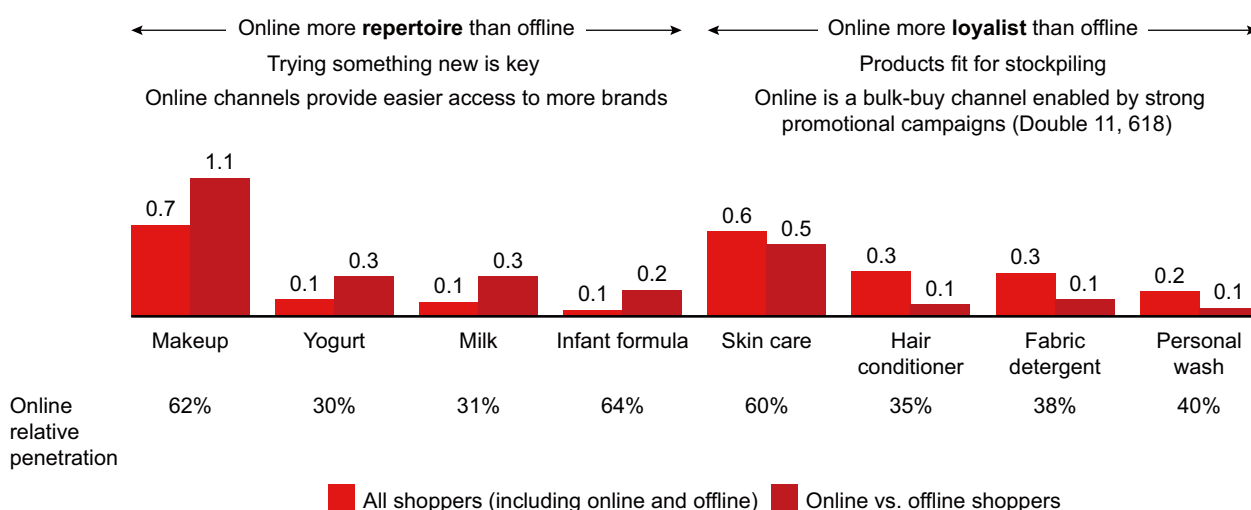
**Figure 16:** Chinese consumers are exhibiting more “repertoire” behavior in most categories

#### Slope of number of brands purchased vs. purchase frequency



Note: Heavy shoppers refers to the top 20% of most frequent category shoppers  
Sources: Kantar Worldpanel; Bain analysis

## Inside China's Subtle FMCG Recovery

**Figure 17:** Repertoire and loyalist shoppers follow two different patterns online**Slope of number of brands purchased vs. purchase frequency (2020)**

Notes: Slope for all shoppers compares heavy vs. average shoppers, with heavy shoppers referring to the top 20% of most frequent category shoppers; online shoppers refers to shoppers who bought a product from an online channel at least once; offline shoppers refers to shoppers who never bought a product from the online channel in a category; online relative penetration shows the total number of online purchasers divided by the number of purchasers of the category  
Sources: Kantar Worldpanel; Bain analysis

**What's ahead?**

China's economy is recovering, with analysts forecasting 8% to 9% GDP growth for all of 2021.

Along with that increase, FMCG is expected to continue regaining momentum, boosted by the changes introduced by Covid-19 as well and the return of fundamental prepandemic trends. For example, Chinese consumers' pursuit of health and hygiene, which existed before Covid-19 and accelerated during the pandemic, is likely to be around for the long haul. Categories like ice cream, milk, and packaged water have benefited from higher ASP, bucking the deflation that has beset so many other FMCG categories. Lower-tier cities will remain a strong growth engine for FMCG after Covid-19, exhibiting the same resilience they demonstrated during the pandemic.

Even so, FMCG's muted performance in the first four months of 2021 could be a good predictor of the rest of the year, and there are plenty of uncertainties ahead. Continuous Covid-19 outbreaks have resulted in more tentative shopper behavior and a more subdued FMCG recovery than would have occurred if the pandemic fully ended. In addition, new Covid-19 cases in Guangzhou and Shenzhen raise the potential risk of future lockdowns and limits on social gatherings. Another sign that China's consumers are remaining cautious is the increase in the savings rate<sup>3</sup> to 39% in the first quarter of 2021 from 35% two years earlier.



# Implications for brands and retailers

## Implications for brands

Covid-19 will have lasting implications, and to quickly transform themselves and stay ahead, brands need to:

- restructure their product and brand portfolio to better fit post-Covid market conditions and consumer demands;
- adapt the entire cost structure to serve both the premium oriented and the value-driven consumers; this will require to manage the tension between inflationary pressures on raw materials and the development of the new deflationary, volume-driven growth environment;
- focus more on recruiting new consumers and increasing penetration and usage, especially in lower-tier cities;
- customize strategies and approaches to different online platforms; and
- develop tools to track rapidly evolving market, consumer, and channel trends.

## Implications for retailers

The retail landscape also will be profoundly impacted by Covid-19, and retailers need to:

- redefine the retailing value proposition to shoppers in an increasingly digitalized and omnichannel environment;
  - win with fresh, high-quality food offerings
  - focus on categories with low online penetration, and price competitively to differentiate from online platforms
  - build holistic value propositions for high-value shoppers via membership programs

### Inside China's Subtle FMCG Recovery

- double-down on winning formats and shopper experiences;
  - prioritize O2O and small-to-midsize stores in convenient locations
  - enhance the physical store experience, upgrading digital features to make stores more appealing to younger consumers
- reduce complexity in operations and establish a new cost baseline.

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

2 These 17 categories are frozen food, cheese, soy sauce, ice cream, soybean milk, Chinese spirits/sake, foreign spirits, wine, mouthwash, disinfectant, wet tissues, pet food, kitchen rolls, quick soup, nutrient supplements, household cleaner, and hand wash.

3 Savings rate = 1 - expenditure per capita / disposable income per capita

4 China Shopper Report 2020, Vol. 1, identified four category growth patterns at the peak of the Covid-19 pandemic in China (growth data for the initial analysis spanned January to May 15, 2020). The four growth patterns were (1) "continuous booming," which contained categories that continued to boom during the Covid-19 period, such as soy sauce, carbonated soft drinks, personal wash (2) "boom and stabilize," where categories rose sharply at the start of the Covid-19 outbreak, then stabilized to a lower growth rate, such as household cleaner, packaged water, diapers, instant noodles, frozen food (3) "V-shape and stabilize," where categories initially declined sharply, then recovered to a positive growth rate, such as milk, skin care, shampoo, hair conditioner, toothpaste, toothbrushes, fabric detergent, fabric softener, toilet tissues, facial tissues, pet food, infant formula, beer, Chinese spirits/sake, and (4) "L-shaped," where categories declined sharply and continued to decline, such as candy, chocolate, biscuits, chewing gum, makeup, juice, ready-to-drink tea, yogurt, wine/foreign spirits.







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