



Charting a resilient path: Navigating uncertainty and building momentum

China Shopper Report 2023, Vol. 2

KANTAR WORLDPANEL
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Authors and acknowledgments

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

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

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

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Executive summary

This is the twelfth 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 11 years, we analyzed the 26 key categories that span the four largest consumer goods sectors: packaged food, beverages, personal care, and home care.

This report updates the findings from our China Shopper Report 2023, Vol. 1, *Slowly Rebounding from Turbulence with Optimism for the Rest of 2023*, and includes Kantar Worldpanel shopper behavior data for the first three quarters of 2023.

During the period consumer behavior showed steady recovery from the COVID-19 pandemic. We also explore consumer trends from the first three quarters of 2023, after dynamic Zero-COVID policies were lifted. The report also includes implications for consumer goods companies and retailers.

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A look back at 2023's first three quarters

Unlike last year, when it was largely affected by the COVID-19 pandemic, the FMCG market witnessed a soft recovery during the first three quarters of 2023, which was primarily volume-driven. This indicates a shift towards more judicious consumption patterns. The recovery gained further momentum as optimism revived, and consumer spending intent returned to levels reminiscent of the pre-pandemic era.

While the FMCG sector's growth appears moderate, this doesn't necessarily signify a decrease in overall consumer spending. Instead, there is a reallocation of expenditure towards sectors like dining out and travel, reflecting a post-pandemic shift in consumer priorities. For instance, data from the National Bureau of Statistics of China show that national retail sales in service sectors—including transportation, dining, and lodging—experienced a significant 18.9% increase in the first three quarters of 2023.

The overall growth of China's FMCG industry was modest at 1%, predominantly propelled by a 1.2% increase in volume. The FMCG market exhibited diverse performance in the third quarter of 2023 compared to the previous year, primarily due to the 2022 baseline. In the third quarter of 2022, China saw a notable recovery with a 6% growth rate after the easing of COVID-19 lockdowns. This set a high benchmark for 2023, resulting in a challenging comparison and a slight decrease of 0.9% in the same quarter this year.

Moreover, a noteworthy increase of 5.3% materialized in the first 4 weeks post Q3, aided by a resurgence in consumer demand, specifically centered around heightened holiday spending. The increased expenditure during this period was not counted in our report but it also suggests that the overall recovery of the FMCG market is continuing.

Category update: Home care surges as other categories stabilize at pre-crisis level

During the first three quarters in 2023, the Chinese FMCG market exhibited a nuanced picture across the four major sectors.

The home care group sustained its growth momentum, driven by robust consumer stockpiling behavior and continued health and hygiene concerns, particularly for essentials like toilet paper and tissues. Facial tissues exhibited an impressive 16.9% growth, while wet tissues saw a notable 14.9% increase due to persisting practice of stocking up and focus on health.

The growth trajectory in the packaged foods sector showed a deceleration, aligning with stabilized demand for staples at pre-crisis levels post-pandemic. The once-thriving home dining sector, which experienced a robust 6.2% growth rate in 2022, encountered a slowdown in 2023's first three quarters. Products that were in high demand during the peak of the COVID-19 period, such as instant noodles, witnessed a 3.1% decline in value. Similarly, formerly popular items like cheese and biscuits also experienced a downturn. This shift in consumer behavior was further emphasized by the

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diminishing demand for packaged food, as more individuals resumed dining out following the easing of pandemic restrictions.

In the beverages segment, the landscape remained predominantly stable in 2023's first three quarters, characterized by higher volumes and a focus on affordability. Consumers exhibited a clear preference for value-driven choices, prompting a shift towards more economical products. While the annual growth in this segment was fueled by a 1.6% increase in volume, it was offset by a 1.5% decline in average selling price (ASP). Notably, functional drinks, ready-to-drink tea, and foreign spirits spearheaded the growth.

Within the personal care segment, growth was moderated by lower average selling prices, reflecting the consumer trend of seeking greater value for money. The standout performer in this category was the makeup segment, which experienced a 3.2% growth as social occasions increased after the pandemic. Conversely, personal washes, once a key performer during the pandemic period, observed a 2.1% decline in 2023's first three quarters.

During the first three quarters in 2023, a discernible surge was noted in the 'high-speed' category of products, with health-oriented items leading the way. Functional drinks and nutrient supplements registered substantial growth rates of 24% and 19%, respectively, reiterating a sustained consumer focus on health even after the pandemic. On the flip side, products that thrived on increased at-home consumption during the pandemic, such as cheese and ice cream, experienced downturns with declines of 18% and 6%, respectively.

Channel update: FMCG market evolves as smaller formats thrive, e-commerce competitive dynamics shift, and O2O continues to soar

With the soft recovery of China's FMCG market in the first three quarters of 2023, one notable trend during this period was the shift towards smaller store formats, such as super/mini and grocery stores. These smaller formats gained traction and became increasingly popular among consumers. On the other hand, hypermarkets experienced a decline in market share as some players made the decision to close their underperforming stores across the country.

In the e-commerce sector, overall growth was observed, outperforming the overall market with a 4% year-on-year increase when comparing year-to-date figures from Q3 2023 to Q3 2022. The year 2023 marks a return to pre-pandemic levels of online penetration, with e-commerce adjusting from the significant impacts of the pandemic, such as supply chain disruptions.

A continued notable highlight in the e-commerce market was the emergence of interest EC platforms, including Kuaishou and Douyin. These platforms captured more than 6% of the market share compared to 2022's first three quarters. Douyin, in particular, experienced an impressive 1.5x increase in its market size, mainly at the expense of Taobao/Tmall, which faced negative growth during the same period.

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Online-to-offline (O2O) shopping continued its growth post-pandemic. A 15.8% increase in frequency was the key growth driver for the O2O channel.

At home shopping still popular, while OOH is changing

Despite the easing of pandemic restrictions, the trend of at-home food and beverage spending has remained consistent with our previous year's finding, where at-home dining accounted for 56% of overall spending by the end of the third quarter. This trend aligns with pre-pandemic habits, indicating that people still have a strong inclination towards dining at home.

In terms of specific categories, milk and beer emerged as the dominant categories in both at-home and out-of-home consumption. Milk accounted for a 29% share of at-home consumption, while beer took a 34% share in the out-of-home consumption segment. These categories continue to be popular choices for consumers, whether they are enjoying their meals at home or dining out.

When it comes to out-of-home consumption, although people are going out more frequently, there is a tendency to spend less per outing, with cost-efficient travel trends gaining popularity (特种兵旅游). The OOH sector is rebounding, yet the increase in value is not as pronounced, indicating a market driven by occasions rather than impulse.

While FMCG ASP remains negative, premiumization drives growth in some categories

While ASP across most categories has seen a decline, certain categories that have undergone premiumization in recent years, such as chocolate, facial tissue, and hair conditioner, have witnessed growth. This indicates that consumers are increasingly willing to pay a premium for products in these categories, essentially for better quality and experiences.

Conversely, value-focused products saw a decline in market share, as consumers started moving towards premium products. Additionally, the percentage of market value sold on promotion has declined, with beverage and personal care categories experiencing a more substantial drop. The decline in promotion levels may be partially attributed to the adoption of Every Day Low Pricing (EDLP) strategies, as evidenced by consistently low prices on platforms like PDD and Douyin.

Online channels continue to exhibit higher promotion participation, driven by the impulsive nature of online consumers and the aggressive promotion strategies employed by e-commerce platforms. The promotion trends within each category continue to be predominantly influenced by the online penetration rate. The convenience and accessibility of online shopping make it easier for consumers to engage with promotions and make quick purchasing decisions.

However, there has been no increase in overall promotion participation (in fact a 0.8% decline) in 2023's first three quarters. Categories that were heavily reliant on offline channels, such as traditional brick-and-mortar stores, saw lower participation in promotions. This shift in consumer behavior suggests that the online promotion landscape remains dynamic and the promotion rules are evolving in response to changing consumer preferences.

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What's next—and implications for brands and retailers

As the Chinese market gradually recovers from the COVID-19 pandemic, it's a critical time for brands and retailers to reshape strategies and strengthen market adaptability.

Implications for brands

Brands must keenly identify and adapt to more “value sensitive” and “experience sensitive” consumer behavior, a characteristic magnified by the pandemics. Focusing on brand building is crucial, as consumer emphasis on brand value intensifies. Gaining quick traffic and becoming an internet sensation is easy, but achieving enduring popularity is hard. Only businesses that consistently invest in their brand can weather the cycles. (流量打法网红容易，长红难；坚持品牌投入的企业才能穿越周期)

Adapting to changing channel dynamics is key, necessitating an integrated and carefully planned approach to effectively reach customers via online, offline and O2O channels. As a result, brands should concentrate on formulating cohesive marketing strategies for each channel, ensuring they are harmoniously integrated to enhance the brand's appeal without compromising its core values. This also requires a specific execution plan by channel, determining the most suitable products and packaging sizes for each sales channel to optimize reach and conversion of target audience.

Finally, considering the evolving consumer needs in the post-COVID era, it's crucial for brands to stay attuned to and swiftly respond to recent consumer trends, channel trends and new consumer occasions such as city walk.

Implications for retailers

For retailers, the focus should be on enhancing customer loyalty and offering differentiated shopping experiences. This includes strengthening the integration of online and offline channels, particularly in an environment where the O2O trend is becoming more pronounced.

The emergence of discounters offering a limited but highly differentiated range of SKUs creates a balance between online and offline offerings, ensuring that physical stores serve more than just as showrooms.

Retailers need to leverage data and technology to better understand consumer behavior, thus optimizing their product mix and promotional strategies. Additionally, with the market's growing demand for high-quality and high-value products, retailers need to balance maintaining competitive pricing while focusing on product quality, product innovation, supply chain, and sourcing.

Overall, brands and retailers must remain agile in adapting to the ever-changing market environment to maintain competitiveness and market share. This involves continuous monitoring of consumer trends, flexible adjustment of channel strategies, and sustained investment in marketing and product innovation. Despite the challenges, the FMCG market has consistently demonstrated long-

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term resilience and potentials for growth. As the Chinese market progressively recovers from the pandemic, it presents not only new opportunities and challenges but also a platform for remarkable innovation and growth. Brands and retailers must continuously adapt and innovate to meet the evolving needs and expectations of consumers, positioning themselves to grow along with the FMCG sector.

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The full report

In our report, we recap the fast-moving consumer goods (FMCG) performance in the first three quarters of 2023, a period during which consumer behavior continued to recover from the negative effects of the COVID-19 pandemic.

This is our twelfth consecutive year of tracking 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 11 years, we analyzed the 26 key categories that span the four largest consumer goods sectors: packaged food, beverages, personal care, and home care.

This report updates the findings from our China Shopper Report 2023, Vol. 1, *“Slowly Rebounding from Turbulence with Optimism for the Rest of 2023”*, and includes Kantar Worldpanel shopper behavior data for the first three quarters of 2023.

A look back at 2023’s first three quarters

In a year marked by resilience and adaptation, the FMCG sector has adeptly navigated the complexities of post-pandemic re-calibration and evolving consumer trends. Against a backdrop of gradual economic stabilization and lingering geopolitical uncertainties, brands have transitioned from a cautious approach to one of strategic advancement.

While the FMCG sector’s growth appears moderate, it does not necessarily indicate a decrease in overall consumer spending. Instead, there is a reallocation of expenditure towards sectors such as dining out and travel, showcasing a post-pandemic shift in consumer priorities. For instance, data from the National Bureau of Statistics of China show that national retail sales in service sectors—including transportation, dining, and lodging—experienced a significant 18.9% increase in the first three quarters of 2023.

In the first half of the year, China’s FMCG market displayed encouraging signs of recovery, with both Q1 and Q2 witnessing a growth of 1.8% as the market gradually bounced back from the impacts of the pandemic. However, this upward trajectory was slightly dampened by a 0.9% decrease in Q3, resulting in a modest year-to-date expansion of 1% (see *Figure 1*). It is worth noting that this growth was primarily driven by a 1.2% increase in volume, while average selling price (ASP) remained relatively stable compared to the previous year, with a decrease of 0.2% (see *Figure 2*). Despite this stability, the movement in ASPs within the FMCG market has not kept pace with mild inflation rate. This discrepancy has presented a significant challenge for FMCG companies, as they now grapple with the dual objectives of sustaining profitability and meeting consumer demands amid rising operational costs.

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The FMCG market exhibited diverse performance in the third quarter of 2023 compared to the previous year, primarily due to the 2022 baseline. In the third quarter of 2022, China saw a notable recovery with a 6% growth rate after the easing of COVID-19 lockdowns. This set a high benchmark for 2023, resulting in a challenging comparison and a slight decrease of 0.9% in the same quarter this year.

Furthermore, there was a remarkable 5.3% increase observed in the first 4 weeks post Q3, fueled by a resurgence in consumer demand, particularly centered around heightened holiday spending. Although this increased expenditure is not reflected in our report, it suggests that the overall recovery of the FMCG market is persisting.

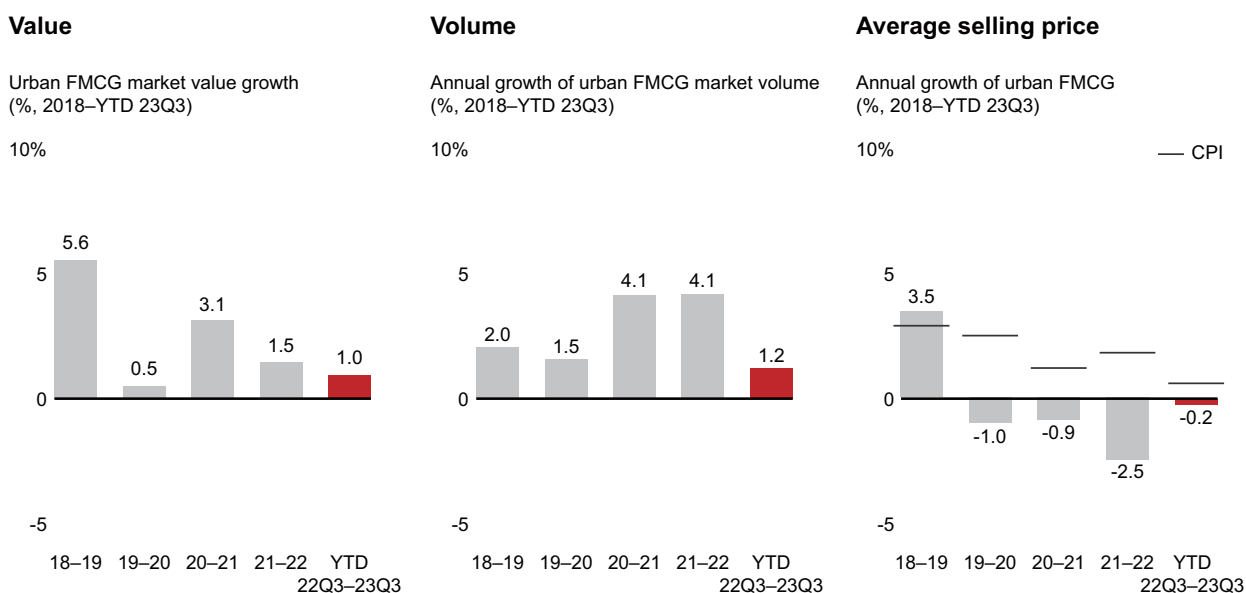
Figure 1: China’s FMCG market still needs time for full recovery, landing at 1% YTD growth compared with 2022

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



Note: 1) Skin Care/Make-up covers age 15–64 in Tier 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 Skin Care and Makeup is per pack, and Facial Tissue is per 100 sheets/rolls; 3) CPI data is as of YTD 23Q3 from National Bureau of Statistics and include all consumer goods; All changes may lead to some inconsistencies with previous years' data
Source: Kantar Worldpanel; National Bureau of Statistics; Bain analysis

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Figure 2: Volume growth drove overall FMCG value growth in 23Q1-3 as prices deflated

Note: 1) Skin Care/Make-up covers age 15-64 in Tier 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 Skin Care and Makeup is per pack, and Facial Tissue is per 100 sheets/rolls; 3) CPI data is as of YTD 23Q3 from National Bureau of Statistics and include all consumer goods; All changes may lead to some inconsistencies with previous years' data
Source: Kantar Worldpanel; National Bureau of Statistics; Bain analysis

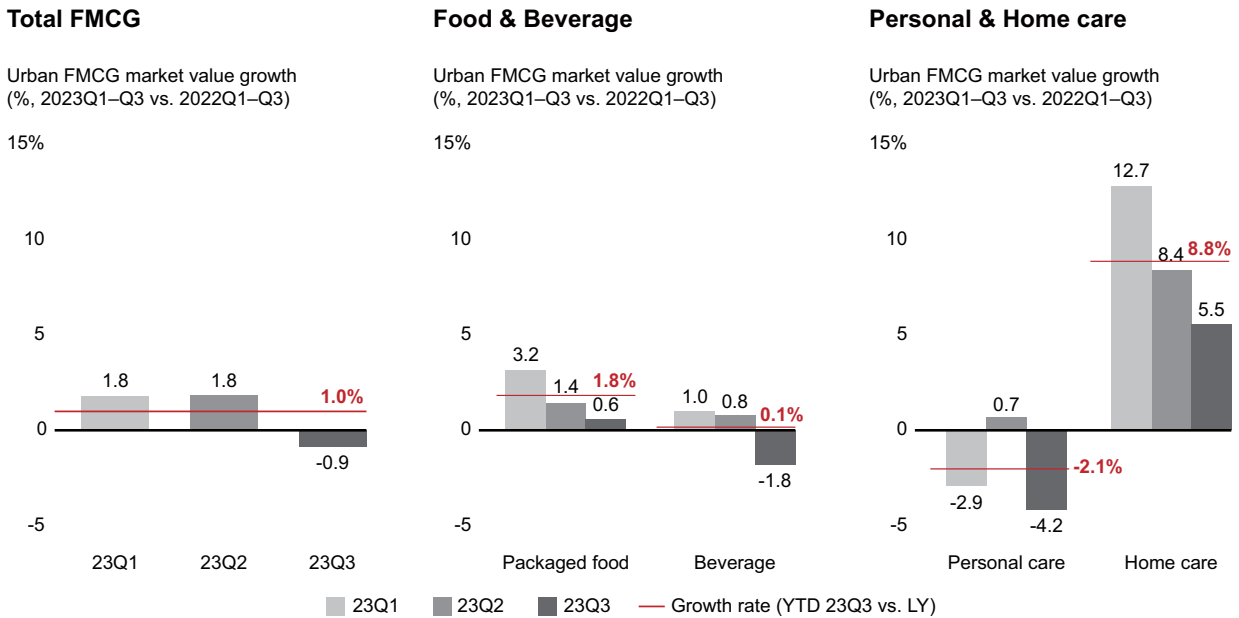
Home care continues to grow

During the first three quarters in 2023, a nuanced landscape emerged across the four major sectors during the period under review. Notably, the home care sector sustained its growth momentum in the post-pandemic era, with a remarkable 8.8% increase in value (see Figure 3). This growth in value was driven by a combination of a 7.1% surge in volume and a 1.5% uptick in ASP (see Figure 4).

In the wake of the pandemic, consumers have displayed an increased focus on health-consciousness and a discerning approach to their choices. This shift in consumer preferences has spurred a demand for products that contribute to a healthier and higher-quality lifestyle, particularly within the home care category. As a result, there has been a surge in innovation, leading to the development of products tailored to specific consumer segments and designed to address specific use cases.

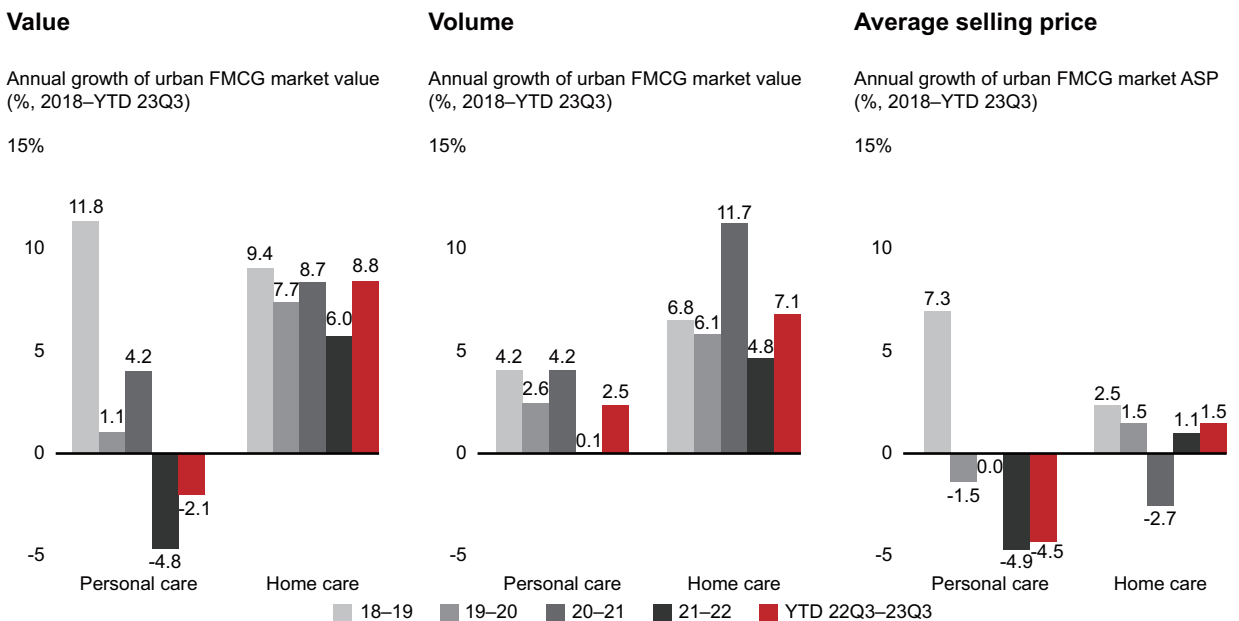
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Figure 3: Home care led the growth in Q1-3, while beverage and personal care suffered



Note: 1) Skin Care/Make-up covers age 15–64 in Tier 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 Skin Care and Makeup is per pack, and Facial Tissue/Toilet Tissue is per 100 sheets/rolls; All changes may lead to some inconsistencies with previous years' data
Source: Kantar Worldpanel; Bain analysis

Figure 4: Personal care value dropped due to falling ASP, while home care continued the growth mainly driven by volume



Note: 1) Skin Care/Make-up covers age 15–64 in Tier 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 Skin Care and Makeup is per pack, and Facial Tissue/Toilet Tissue is per 100 sheets/rolls; All changes may lead to some inconsistencies with previous years' data
Source: Kantar Worldpanel; Bain analysis

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In the first three quarters of 2023, people's immune systems have been compromised, resulting in a higher number of individuals suffering from colds compared to the previous year. This has led to a surge in the use of facial tissues. In response, several brands have introduced facial tissues infused with skincare-grade lotion ingredients, targeting consumers with sensitive noses and effectively alleviating the redness caused by frequent nose wiping. Consumers have shown a willingness to pay a premium for these innovative products, driving a noticeable trend towards premiumization within the home care segment.

Furthermore, the habit of stockpiling, which was adopted during the pandemic, appears to be persisting. Facial tissues experienced an impressive growth rate of 16.9%, while wet tissues saw a notable increase of 14.9% as the practice of stocking up continued (*see Figure 6*). As the market continues to evolve, it will be essential for brands to stay attuned to consumer preferences and continue to develop products that cater to their evolving needs.

Packaged food shows a deceleration

The growth trajectory in the packaged foods sector has experienced a noticeable deceleration, aligning with the stabilization of demand for staple products at pre-crisis levels in the post-pandemic period. The once-thriving home dining sector, which had witnessed a robust growth rate of 6.2% in 2022, encountered a notable slowdown in 2023's first three quarters (*see Figure 5*). The volume decreased by 2.9% while the ASP increased by 4.9%.

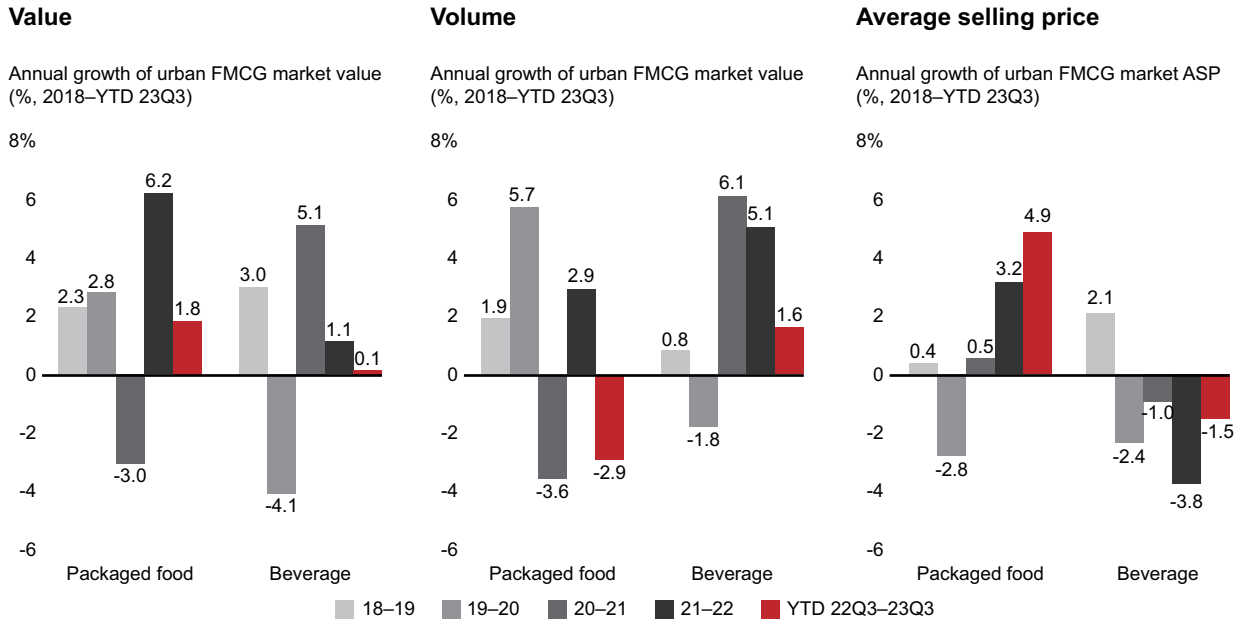
Products that were in high demand during the peak of the COVID-19 period, such as instant noodles, faced a decline in value by 3.1%. Similarly, previously popular items like cheese and biscuits also experienced a downturn in demand. This shift in consumer behavior has been further emphasized by the decreasing interest in packaged food, as more individuals have opted for dining out following the relaxation of pandemic restrictions.

The slowdown in the packaged foods sector can be attributed to the evolving consumer preferences and the resumption of normalcy. As restrictions eased, people have shown a renewed inclination to explore dining options outside their homes, seeking the convenience and experience of restaurant meals. This change has resulted in a decrease in demand for packaged food items that were once favored during the pandemic.

It is important for brands in the packaged foods sector to adapt to this shifting landscape and explore innovative strategies to regain consumer interest. This may include introducing new and enticing product offerings, focusing on quality and convenience, and actively engaging with consumers through targeted marketing campaigns. By staying attuned to consumer preferences and responding effectively, brands can navigate the evolving market dynamics and regain growth momentum in the packaged foods sector.

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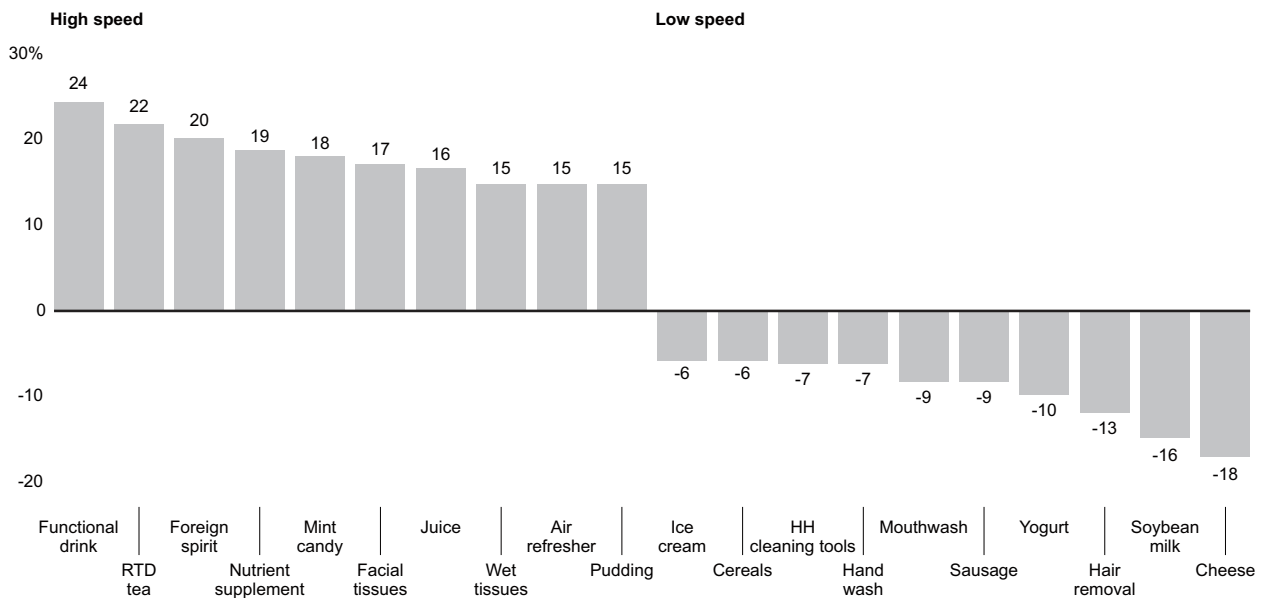
Figure 5: Spend on packaged food and beverage both increased, while value increase slowed down



Note: 1) Skin Care/Make-up covers age 15-64 in Tier 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 Skin Care and Makeup is per pack, and Facial Tissue/Toilet Tissue is per 100 sheets/rolls; All changes may lead to some inconsistencies with previous years' data
 Source: Kantar Worldpanel; Bain analysis

Figure 6: Post-pandemic phenomenon is evident, with health-focused products leading the growth

Percentage point change in value CAGR (YTD 22Q3 vs. YTD 23Q3)



Source: Kantar Worldpanel; Bain analysis

Beverages remain stable

In the beverages segment, the landscape remained predominantly stable throughout 2023's first three quarters, characterized by higher volumes and a focus on affordability. The annual growth in this segment was primarily driven by a 1.6% increase in volume, albeit offset by a slight 1.5% decline in ASP (*see Figure 4*). As health and wellness have taken center stage in post-pandemic consumer choices, a noticeable shift in beverage preferences has become increasingly evident.

Functional drinks, juices, and ready-to-drink (RTD) tea emerged as front-runners in driving growth within the market. The growth of functional drinks, which initially gained traction in late 2022, continued to surge in 2023. This category benefited from a significant increase in consumer awareness surrounding "electrolyte water" towards the end of 2022. Furthermore, heightened health consciousness and the complete resumption of outdoor activities and sports since the beginning of 2023 further fueled the consumption of functional drinks.

Personal care experiences a downturn

Within the personal care segment, growth has moderated, with a 2.5% growth in volume offset by a 4.5% reduction in ASP in the first three quarters in 2023, showcasing the prevailing consumer trend of seeking greater value for money (*see Figure 4*). However, amid this backdrop, the standout performer in this category has been the makeup segment, which experienced a notable 3.2% growth as social occasions returned post-pandemic. On the other hand, personal washes, once a key performer during the pandemic period, observed a decline of 2.1% in 2023's first three quarters.

The trend of premiumization, once spearheaded by prominent international brands, has witnessed a shift in ASP due to changes in consumer attitudes. The traditional narrative of luxury is being challenged by domestic substitutions, and external economic factors are making consumers more rational and cautious when it comes to their spending habits. Consumers are now meticulously evaluating the value of products, comparing mechanisms and price differences across various platforms, and carefully considering their expenditure on each category. While the concept of "value for money" remains a priority, consumers are still willing to invest in premium products.

Two-speed growth pattern still evident

During the first three quarters in 2023, a discernible surge was observed in the "high-speed" category of products, with health-oriented items taking the lead. Functional drinks and nutrient supplement recorded impressive growth rates of 24% and 19% (*see Figure 6*), respectively, highlighting the ongoing consumer focus on health even after the pandemic subsided. Health is not just about F&B, it also covers categories such as wet and facial tissues and air refresher, which have all enjoyed high speed as well. There is also a trend towards gathering, indicated by the strong performance of foreign spirits.

However, there were contrasting fortunes for products that thrived on increased at-home consumption during the pandemic, such as cheese and ice cream, as they experienced downturns with declines of 18% and 6% (*see Figure 6*), respectively.

Smaller formats thrive and e-commerce competitive dynamics shift

One continuous trend that emerged during 2023's first three quarters was the notable shift towards smaller store formats, including super/mini and grocery stores, which gained traction and became increasingly popular among consumers. In contrast, hypermarkets continued to experience a decline in market share as some players made the decision to close their underperforming stores across the country, reflecting changing consumer preferences and shopping habits. However, within hypermarkets, as we observed in Vol. 1, club warehouses continued to achieve remarkable growth of 58% in 2023 YTD. This trend underscores the consumer demand for quality products at reasonable prices. Club warehouses stand out due to their distinctive business model, which allows them to provide greatest value for money without sacrificing quality. They achieve this by capitalizing on bulk buying and membership fees. Additionally, these stores enhance their appeal through a strong brand value proposition, assuring consumers of the quality of their private label products, thereby boosting price competitiveness. The membership model also adds an element of exclusivity, appealing emotionally to middle-class families seeking both value and quality.

In the e-commerce sector, overall growth was observed, outperforming the overall market with a 4% year-on-year increase when comparing year-to-date figures from Q3 2023 to Q3 2022 (*see Figure 7*). The year 2023 marks a return to pre-pandemic levels of online penetration, with e-commerce adjusting from the significant impacts of the pandemic, such as supply chain disruptions. However, the market share in the e-commerce sector was lower compared to the first three quarters in 2022. This can be attributed to the impact of the Double 11 shopping festival in Q4 of 2022, which significantly boosted overall e-commerce performance during that period.

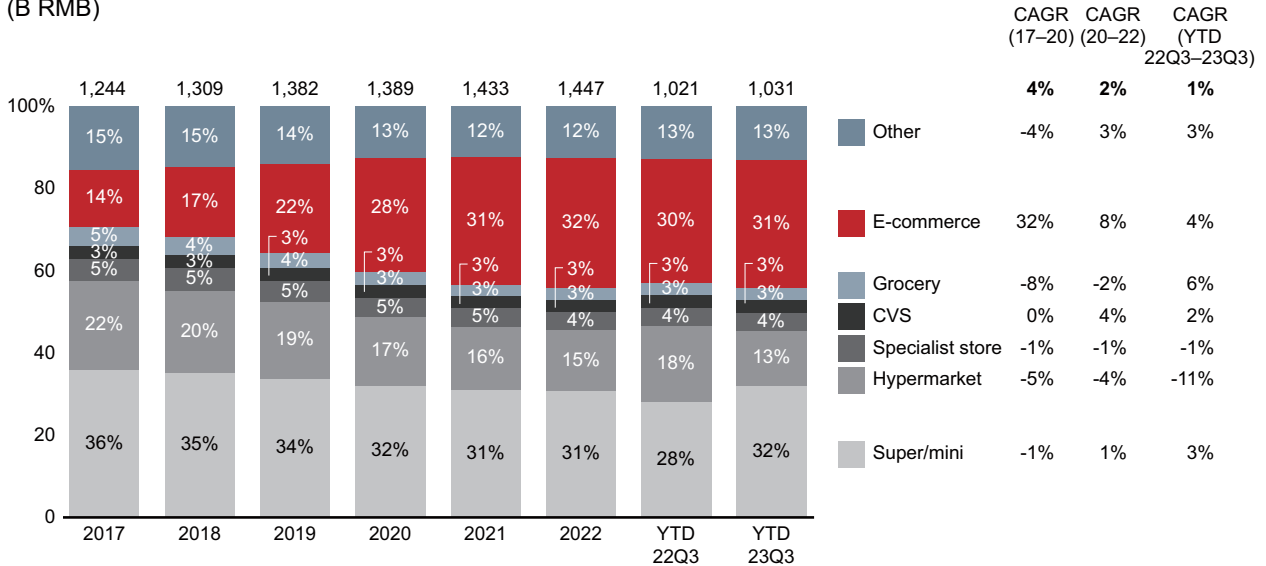
One significant trend observed was the expansion of discount channels. Notably, within the O2O sector, community group buying platforms like Duoduo Maicai (多多买菜) and Meituan Youxuan (美团优选) have continued to play a pivotal role. Additionally, the rise of specialized discount stores is gaining traction, reflecting a more rational approach by consumers towards daily expenditure. Meanwhile, Freshippo's value-focused brand, Freshippo Outlets, is undergoing expansion across China. Freshippo is actively optimizing its product assortment by strategically distributing products among various store types. This strategy not only caters to a variety of shopping preferences but also demonstrates Freshippo's dedication to making price reductions in its existing stores. Such adaptations underscore a commitment to providing an inclusive and cost-effective shopping experience for all customer segments.

Another continuous highlight in the e-commerce market was the growth of interest EC platforms, including Kuaishou and Douyin, which captured an incremental 6% of the market share compared to 2022's first three quarters (*see Figure 8*). Douyin, in particular, experienced an impressive 1.5x increase in its market size, mainly at the expense of Taobao/Tmall, which faced negative growth during the same period. Platforms like Douyin continued to expand their user base, particularly in lower-tier cities, as mid to low-income families showed a preference for purchasing products on Douyin rather than on Tmall/Taobao, further fueling the platform's user growth. This trend of emerging platforms gaining ground is expected to persist as more consumers veer away from traditional promotions like Double 11 and 618.

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Figure 7: Small store format (super/mini, grocery) gained more share after pandemic while hypermarket continued to decline

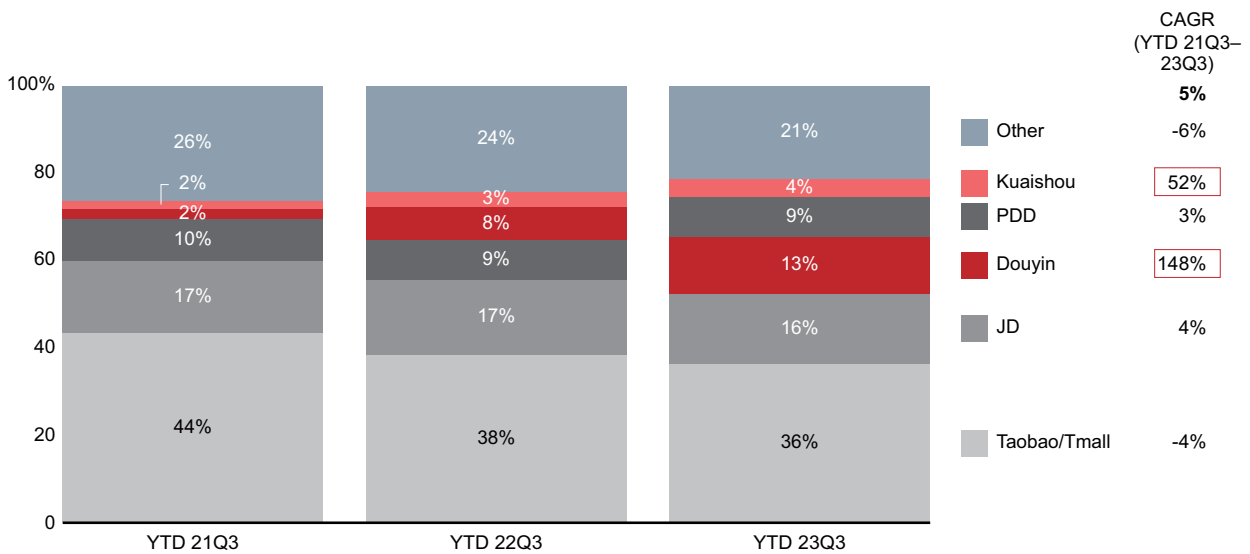
Value share in urban FMCG retail market by channel
(B RMB)



Note: 1) Hypermarket refers to stores with more than 6,000 square meters; hypermarket channel includes top named KA hypermarket retailers, representing 83% (based on 2018 revenues); super/mini refers to stores with 100-6000 square meters, CVS category includes chain and individual convenience stores (operating hours>16 hours); grocery refers to stores with less than 100 square meters; other includes department stores, free market, wholesales, work unit, direct sales, overseas shopping, family shopping, drugstore, beauty salon, milk store and new retail (starting to report in 2018); 2) Skin Care/Make-up covers age 15-64 in Tier 1-5, and Infant Formula/Baby Diaper covers 0-36 months in Tier 1-5; 3) All ASP are calculated based on RMB per kg/L except Skin Care and Makeup is per pack, and Facial Tissue/Toilet Tissue is per 100 sheets/rolls; All changes may lead to some inconsistencies with previous years' data
Source: Kantar Worldpanel; Bain analysis

Figure 8: Interest EC platforms (Douyin & Kuaishou) continues to gain share from traditional EC platforms (Taobao/Tmall)

China FMCG EC market share by platform GMV (%)¹



Note: 1) Others incl. Red, VIP, Suning, Yunji, Kaola and other longtail platforms; Kuaishou and Douyin includes GMV of transactions redirected and completed on 3rd party platforms
Source: Kantar Worldpanel; Annual reports, Bain analysis

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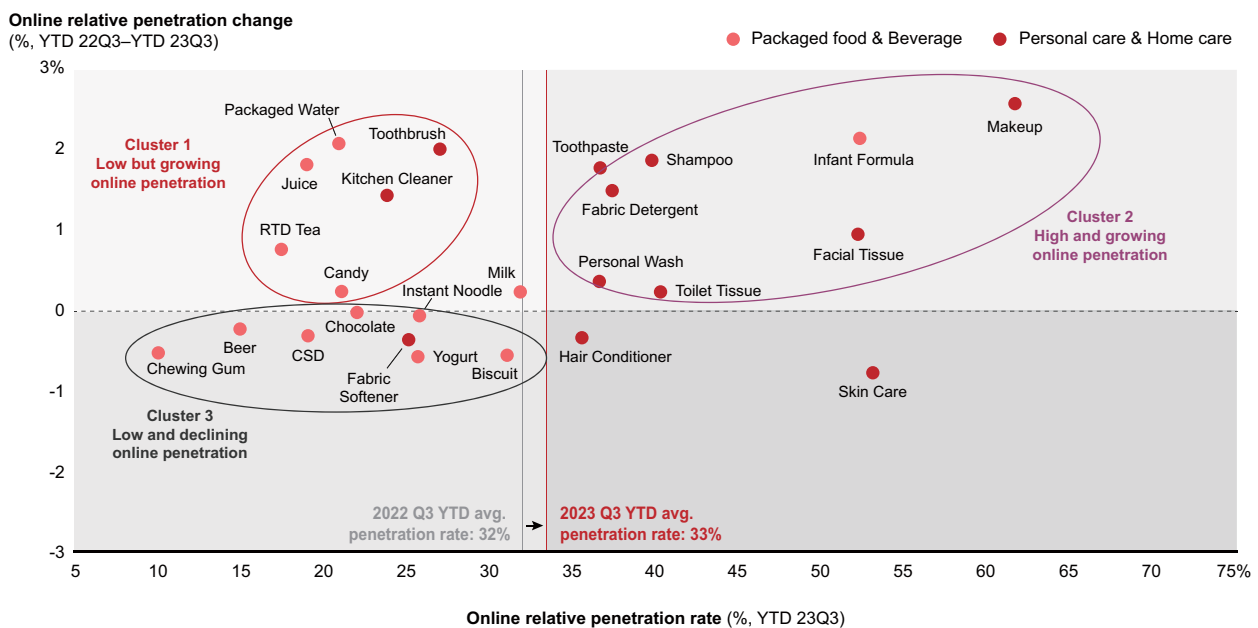
Online penetration returns to pre-pandemic level

In first three quarters in 2023, Chinese internet penetration experienced another 1% increase, following the substantial impact of COVID-19 and a decline in penetration rates in 2022. Notably, categories that already had a strong online presence, categorized as cluster 2 (see Figure 9), witnessed further expansion in online engagement. However, within this cluster, several products, including makeup, facial tissue, and toilet tissue, saw a reduction in online market penetration in 2022, indicating a return to more traditional levels of digital engagement in 2023 YTD.

In contrast, categories with low penetration rates, categorized as cluster 1 and 3, displayed greater variability in the percentage changes in their online presence. Cluster 1 primarily consists of categories with low but growing online penetration, mostly from the food and beverage sector. Products such as juices, packaged water, and candy continued to gain momentum in online sales as consumers became more accustomed to purchasing these items through online channels.

On the other hand, cluster 3, comprising categories with low but declining online penetration, maintained a similar trend as the previous year. Products in this cluster are often impulse purchases from offline stores, including chewing gum, biscuits or categories heavy to transport relative to their price such as carbonated soft drinks (CSD) and beer.

Figure 9: Overall online penetration grew slightly by 1%, with traditionally high online penetration (non-food) categories leading the growth



Note: 1) Online relative penetration is defined as the total number of online purchasers divided by the number of purchasers of the category; 2) Skin Care/Make-up covers age 15–64 in Tier 1–5, and Infant Formula covers 0–36 months in Tier 1–5; All changes may lead to some inconsistencies with previous years' data
Source: Kantar Worldpanel; Bain analysis

Charting a resilient path: Navigating uncertainty and building momentum

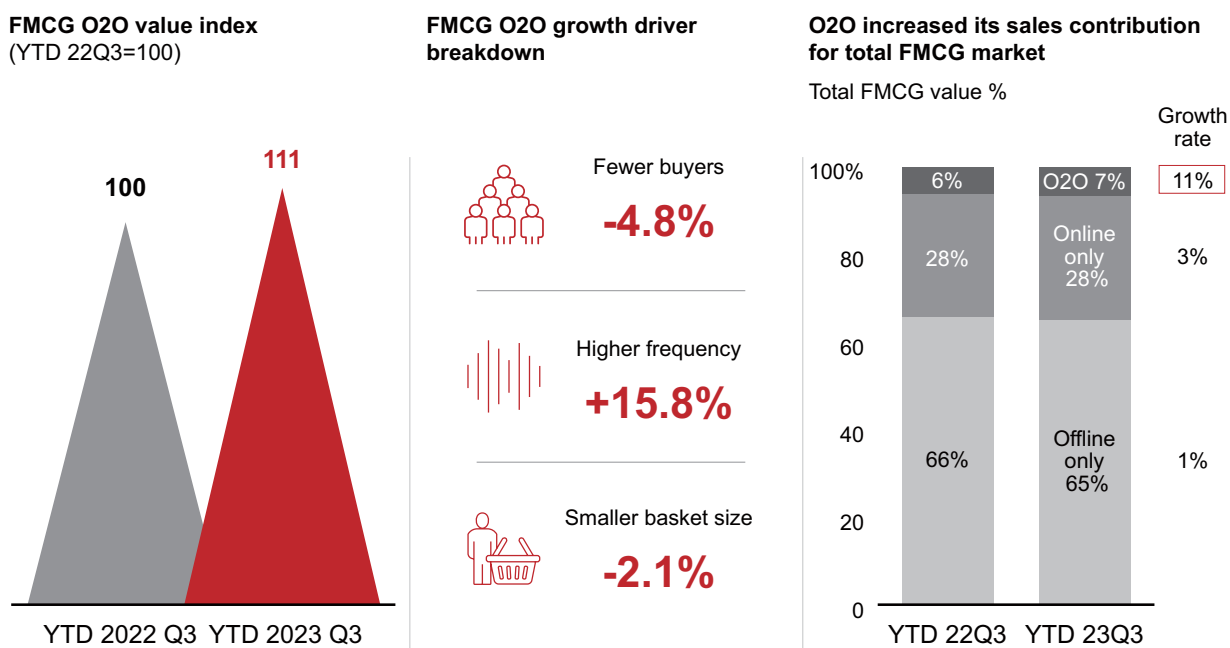
O2O continues to thrive in the retail market

The O2O (online-to-offline) model, which connects consumers with offline stores through online platforms, has continued to thrive in the retail market, playing a significant role in shaping consumer behavior and the overall retail landscape. For some grocery retailers, O2O can represent approximately half of their business. This highlights the significance of O2O in the retail market and its ability to bridge the gap between online and offline shopping experiences.

Post-pandemic, O2O shopping has witnessed continued growth, with a key driver being a remarkable 15.8% increase in frequency. O2O experienced an impressive 11% year-to-date growth rate compared to the first three quarters of 2022, outpacing both offline-only and online-only channels (see Figure 10).

The integration of the online-to-offline (O2O) model with traditional offline channels enables businesses to effectively capture diverse consumer demands, including immediate, emergency, and new consumption occasions. By providing seamless connectivity between online platforms and offline businesses, O2O empowers retailers to offer a comprehensive and convenient shopping experience to consumers.

Figure 10: Online-to-offline shopping continues to boom, due to an increase in frequency; Traditional offline retailers increasingly transition businesses towards O2O



Source: Kantar Worldpanel; Bain analysis

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In-person and at-home shopping still popular, OOH spending is changing

Despite the easing of pandemic restrictions, the trend of at-home food and beverage spending has remained consistent with the previous year, particularly in Tier 1 and 2 cities. This analysis is based on 11 categories present in both at-home and out-of-home channels in Tier 1 and 2 cities. In these areas, at-home dining accounted for 56% of overall spending by the end of the third quarter, echoing pre-pandemic habits and signaling a continued preference for home dining.

Two categories that stood out in both at-home and out-of-home consumption were milk and beer, with milk constituting a 29% share of at-home and beer 34% share of OOH in their respective segments. These categories continue to be favored choices, showcasing the versatility in consumer preferences whether dining in or out.

In YTD Q3 2023, convenience stores (CVS) and grocery stores reported sales distribution of 13% for at-home (AH) consumption and 87% for out-of-home (OOH) consumption. This underlines the critical importance for brands in these 11 categories to cater to consumers' On the Go occasions with appropriate packaging and products in these channels.

For out-of-home consumption, convenience stores (32%) and traditional grocery outlets (25%) continue to be top choices, catering to on-the-go consumer needs with quick and accessible options (*see Figure 11*). However, a notable shift has been observed with a slowdown in e-commerce for out-of-home consumption, as more people return to restaurant dining, reflecting pre-pandemic dining patterns.

The out-of-home (OOH) category presents a mixed bag in terms of performance. While people are gradually returning to outdoor activities and spending more time outside their homes, there is a tendency to spend less per occasion. This shift in consumer behavior can be attributed to the rising popularity of cost-efficient travel trends, where individuals seek ways to optimize their spending and make more economical choices.

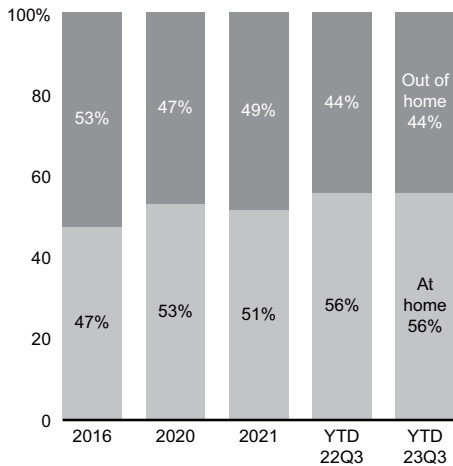
The OOH sector is rebounding, indicating an increase in activity and consumer engagement. However, the growth in value within this sector is not as pronounced, suggesting that the market is driven more by occasions and experiences rather than impulse. Consumers are becoming more selective in their spending and are actively seeking value-driven options when engaging in out-of-home activities.

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Figure 11: At-home consumption remained high post pandemic, with different channel and category dynamics than out-of-home consumption

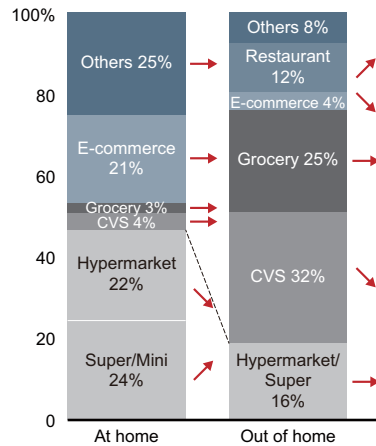
At-home consumption was same level as YTD 22Q3

China's Tier-1 & 2 cities F&B spending by at-home vs. out-of-home (2016–YTD 23Q3)



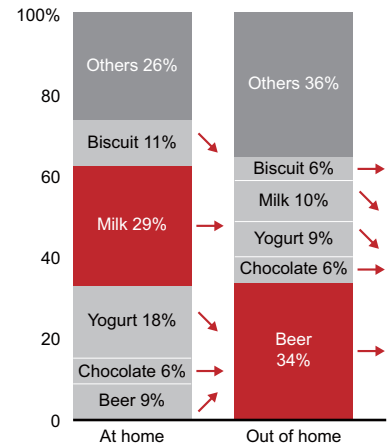
Consumers channel preference differs a lot between at-home & out-of-home consumption

China's Tier-1 & 2 cities F&B at-home and out-of-home spending by channel (YTD 23Q3)



Milk and beer is the biggest category for at-home and out-of-home consumption

China's Tier-1 & 2 cities F&B at-home and out-of-home spending by category (YTD 23Q3)



Note: F&B consumption covers categories overlapped by AH and OOH, incl. Beer, Chewing Gum, Chocolate, Yogurt, Milk, Candy, Biscuit, Packaged Water, RTD Tea, Juice, and CSD
 Source: Kantar Worldpanel; Bain analysis

↗ Gained share vs. LY → Maintained share ↘ Lost share

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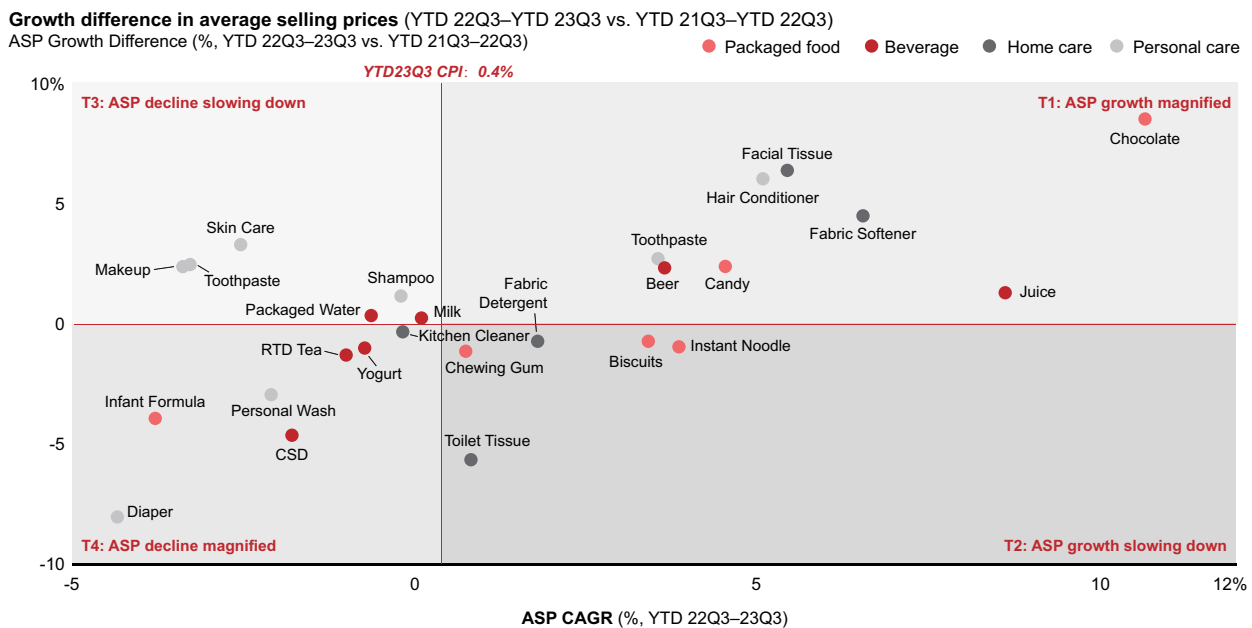
Decoding price dynamics

The trend of ASP deflation has continued through the first three quarters in 2023, but with a silver lining. The rate of decline has noticeably slowed down, narrowing the gap from the Consumer Price Index (CPI) to 0.6% (see Figure 2). Categories that experienced significant growth during the pandemic, such as instant noodles and biscuits, have shown a marked slowdown (see Figure 12). However, several categories have maintained their growth trajectory, signaling a shift towards genuine premiumization. Examples of such categories include juices, facial tissue, and fabric softener. These products have effectively communicated their value to consumers, leading to a willingness among consumers to pay a premium for these offerings.

Product innovation has played a crucial role in driving the premiumization of the juices category post-pandemic. Brands have introduced options with distinct “regions of origin”, niche flavors, and innovative “mixed flavors”, positioning them as “meal replacements”. These developments strategically cater to the evolving preferences of health-conscious consumers, providing them with a wider range of choices that align with their wellness goals.

In the realm of oral care, consumers are increasingly embracing the holistic health concept and recognizing the importance of oral hygiene. This trend has resulted in a willingness to invest more in toothpaste that offers high value added and advanced benefits. Products featuring enamel protection, stain removal, and combined anti-sensitivity plus whitening benefits are gaining prominence among consumers seeking multifaceted oral health solutions.

Figure 12: While most categories saw a real-term decline in average selling price, select food and beverage and home care categories continued to premiumize



Note: 1) Skin Care/Make-up covers age 15–64 in Tier 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 Skin Care and Makeup is per pack, and Facial Tissue is per 100 sheets/rolls; All changes may lead to some inconsistencies with previous years' data
 Source: Kantar Worldpanel; National Bureau of Statistics; Bain analysis

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Promotion

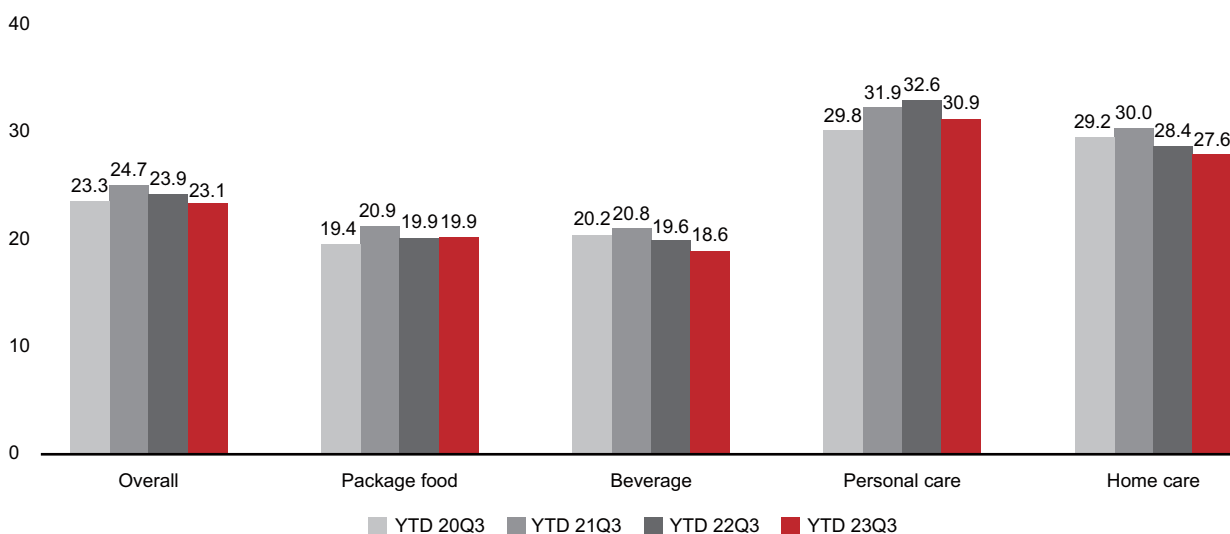
The percentage of market value sold on promotion has declined, with beverage (18.6%) and personal care (30.9%) categories experiencing a more substantial drop (see Figure 13). The slight decline in promotion levels may be partially attributed to the adoption of Every Day Low Pricing (EDLP) strategies, particularly evident on platforms like PDD and Douyin. These platforms' consistent approach to low pricing has reduced the reliance on short-term promotional campaigns, thereby changing consumer engagement with traditional promotions.

Furthermore, the market's oversaturation with promotional offers may have led to consumer fatigue. Over time, an incessant stream of discounts and promotions can lead to their diminished impact, making it harder for brands to capture consumer attention and drive participation. This overexposure risks devaluing the promotions in the eyes of the consumer, potentially leading them to question the authenticity or quality of products offered at discounted prices.

Figure 13: Consumers' overall participation in promotions slightly declined vs. last year

Percentage point of market value sold on promotion

% of market value sold on promotion (% , YTD 20Q3–YTD 23Q3)



Note: 1) The promotion data is collected by letting consumers record if they participated in promotional event when they purchased the products; 2) Skin Care/Make-up covers age 15–64 in Tier 1–5, and Infant Formula/Baby Diaper covers 0–36 months in Tier 1–5; All changes may lead to some inconsistencies with previous years' data
Source: Kantar Worldpanel; Bain analysis

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Online platforms have witnessed higher participation in promotions compared to their offline counterparts, largely due to the impulsive mindset of online consumers and the aggressive promotion strategies employed by e-commerce platforms (see Figure 14). The convenience and accessibility of online shopping make it easier for consumers to engage with promotions and make quick purchasing decisions. The promotion trends within each category continue to be predominantly influenced by the online penetration rate.

Healthy, value-for-money and differentiated products dominate consumer purchases

The post-pandemic recovery in 2023 has brought about significant changes to the overall market dynamics, leading to a polarization in price tiers and shifting consumer habits.

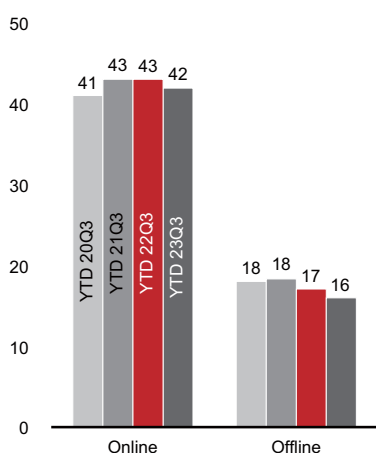
This polarization in price tiers can be attributed to changing consumer preferences and an increased focus on quality, uniqueness, and personalized experiences. As consumers become more selective in their purchasing decisions, they are willing to pay a premium for products and services that meet their specific needs and preferences.

Over the past few years, there has been a noticeable shift in consumer preferences towards products that are healthy, value-for-money, and exclusive across various categories. This change in consumer behavior has had a significant impact on the FMCG market, particularly in segments such as skin-care, CSD, and facial tissue (see Figure 15).

Figure 14: Category-level promotion trends can largely be explained by online penetration level; those relying more on offline showed lower participation

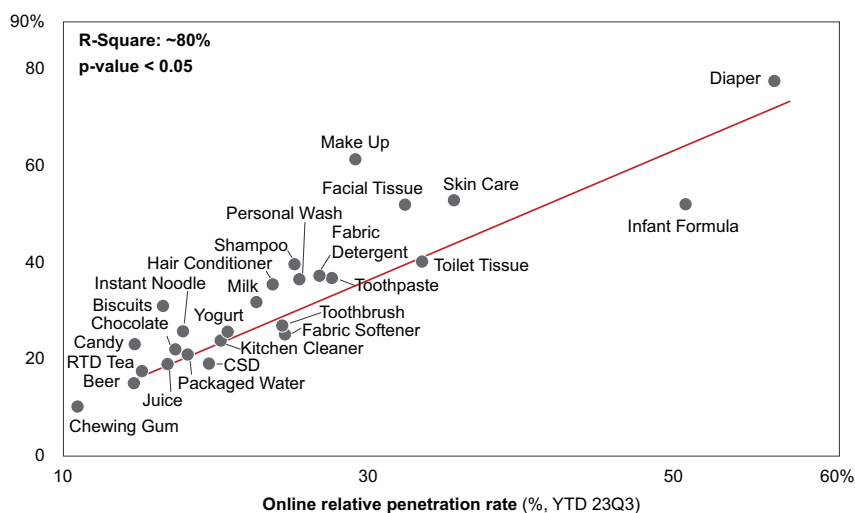
Online has higher promotion participation than offline

% of market value sold on promotion
(%, YTD 20Q3–YTD 23Q3)



Promotion trends in each category is mainly driven by online penetration rat

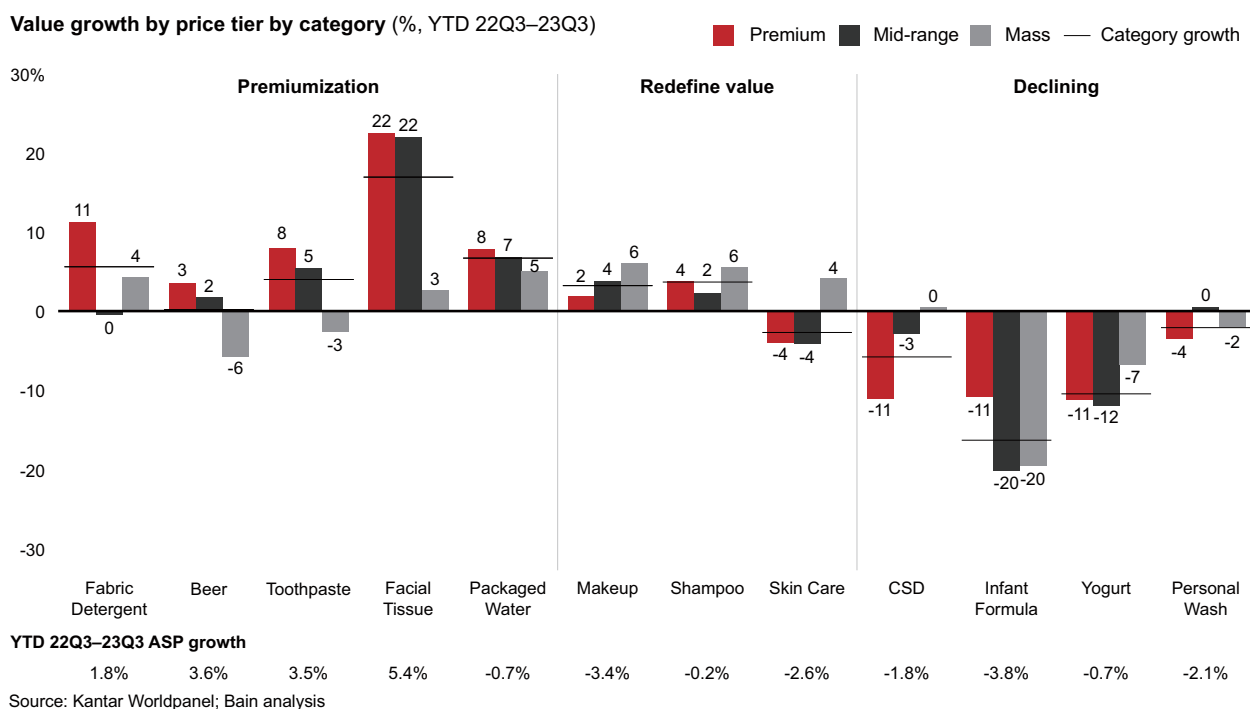
% of market value sold on promotion (%, YTD 23Q3)



Note: 1) The promotion data is collected by letting consumers record if they participated in promotional event when they purchased the products; 2) Online relative penetration is defined as the total number of online purchasers divided by the number of purchasers of the category; 3) Skin Care/Make-up covers age 15–64 in Tier 1–5, and Infant Formula/Baby Diaper covers 0–36 months in Tier 1–5; All changes may lead to some inconsistencies with previous years' data
Source: Kantar Worldpanel; Bain analysis

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Figure 15: Post-pandemic market reveals growing polarization in price tiers



Let us look at 3 distinct category examples.

Facial tissue: Consumers willing to invest in premium brands. The value of the facial tissue premium segment saw a 22% increase compared to first three quarters in 2022 (see Figure 15), largely attributable to a growing consumer appetite for high-quality products. Within this premium segment, specific categories demonstrated impressive growth: embossed tissues grew by 39%, and lotion-infused tissues rose by 60%. Vinda's premium range experienced approximately 30% growth based on their latest annual report in 2023, reflecting their significant investment in premium product innovation. Vinda specifically addresses niche markets and occasions, with offerings like lotion tissues for babies and sensitive noses. Furthermore, Vinda has strategically focused on interest-based e-commerce platforms like Douyin, boasting approximately 5 million followers. Through its official Douyin flagship store, Vinda has hosted over 200 livestreaming events in the first half of 2023, effectively engaging with its audience.

Skincare: Increased competition on value. The premium skin care market observed a marginal decline of 4%, potentially influenced by unofficial channels such as Daigou and the travel retail sector (see Figure 15). Amid this trend, skincare consumers are exhibiting more rational spending habits, which has led to a 4% uptick in the mass skincare segment. There's an increasing demand for robust scientific evidence to substantiate skincare product claims, underscoring the value and effectiveness that consumers expect. The enhancement of e-commerce strategies for comprehensive brand development is becoming increasingly evident. Brands are now strategically deploying a mix of e-commerce platforms—encompassing traditional, interest-based, and private domains—to broaden their

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reach and effectively engage a diverse consumer base. A case in point is Mistine, which has adeptly spotlighted its star product, Mistine Aqua Sunscreen. The efficacy of this product is scientifically verified and further endorsed by a Nobel Prize winner in Chemistry, bolstering the brand's positioning. In alignment with the prevailing clean beauty movement, the formula has been upgraded to be ocean-friendly. From an EC standpoint, Mistine boasts a robust online presence, spanning both traditional and interest-based platforms, contributing to its commendable market performance.

Beverage - Carbonated Soft Drinks: Shifting towards adjacent healthy options. The CSD market witnessed a 1.8% decline in prices over the first three quarters of 2023 compared to the same period in 2022, largely due to an 11% decrease in its premium segment (*see Figure 15*). Conversely, categories like juice have seen an increase in ASP by 9%, primarily driven by a 37.3% growth in its premium segment. This aligns with the ongoing popularity of 'super fruits', as highlighted in our 2022 Report, Vol.2, suggesting a consumer shift towards premium, health-focused beverage options. Moreover, functional drinks and ready-to-drink (RTD) tea have experienced significant growth, registering increases of approximately 24% and 22% respectively, with their average ASP being 90% and 31% higher than the CSD category. In the post-pandemic era, consumers are discerningly opting for beverages that offer health benefits, such as metabolism enhancement, digestive improvement, and zero sugar content. The shift towards a healthier lifestyle, incorporating more physical activities, is influencing the beverage market, underscoring the need for products that align with the growing health and wellness trend.

Other categories: Health, value, and premiumization. The consumer trend towards opting for products that are healthy, value-for-money, and premium is not limited to the skincare, carbonated soft drinks, and facial tissue categories. It permeates across other FMCG segments as well.

In the food and beverage sector, for example, consumers are increasingly gravitating towards healthier options such as organic, natural, and functional foods. They are looking for products that offer nutritional benefits, clean labeling, and sustainable sourcing. Additionally, value-for-money options, such as private label brands and discount promotions, have gained popularity as consumers seek to make the most of their purchasing power.

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What's next—and implications for brands and retailers

As the Chinese market gradually recovers from the COVID-19 pandemic, it's a pivotal time for brands and retailers to reshape strategies and strengthen market adaptability.

How can brands best position themselves for success?

Focus on brand building: Focusing on brand building is more crucial than ever as consumer emphasis on brand value intensifies. Gaining quick traffic and becoming an internet sensation is easy, but achieving enduring popularity is hard. Only businesses that consistently invest in their brand can weather the cycles. This means investing not just in marketing, but also in product quality, customer service, and sustainable practices.

Embrace omnichannel and connected commerce: Adapting to changing channel dynamics is key, necessitating an integrated and carefully planned approach to effectively reach customers via online, offline, and O2O channels. Brands should also focus on developing cohesive online and offline marketing strategies. These strategies must be seamlessly integrated, enhancing the brand proposition without compromising its core values. A multi-channel approach, encompassing interest EC, e-commerce, and traditional retail, is essential for reaching a wider customer base. This entails a strategic distribution plan, determining the most suitable products and packaging sizes for each sales channel to optimize reach and conversion of target audience.

Align portfolio to consumer trends: Brands must strategically adapt their product offerings to align with current consumer trends, notably those intensified by the pandemic. Key trends include the emerging of new demographics, the increased interest in occasion experiences, for example, picnicking, camping, fishing and city walks, as well as the growing popularity of discount channels. Understanding these evolving preferences and adapting product development, pricing and marketing strategies accordingly is crucial. For example, the rise of occasion-driven consumers drives demand for innovative product offerings that provide an immersive lifestyle experience. Demographic shifts, such as the growing segment of single families, highlight the need for products that cater to their specific habits and lifestyle preferences. These consumers are often willing to invest more in brands that meet these specific needs. Therefore, it's imperative for brands to reevaluate and refine their product lines and pricing strategies to effectively serve these new consumer demographics.

What strategies can retailers employ to successfully position themselves?

Enhance customer loyalty and experiences: Retailers should focus on boosting customer loyalty and providing unique shopping experiences. This involves integrating online and offline channels effectively, especially in the growing O2O market, to offer seamless and immersive shopping experiences that combine the convenience of online with the tangibility of in-store shopping.

Balance online and offline offerings: With the rise of discounters providing a diverse range of SKUs, retailers need to ensure their physical stores offer more than just showroom experiences. This requires curating unique in-store experiences that complement their online presence, striking a balance between both platforms. Retailers are encouraged to refine their pricing strategies, placing a

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stronger emphasis on bolstering their brand equity and reinforcing supply chain robustness. This approach is essential enablers to achieve competitive pricing and to sustainably meet consumer demands.

Utilize data and technology for optimization: Retailers should leverage data and technology to gain insights into consumer behavior, allowing them to optimize their product mix and promotional strategies. As demand for high-quality and high-value products grows, maintaining competitive pricing while focusing on product quality, product innovation, supply chain, and sourcing is crucial. Collaboration with brands for exclusive products and data-driven merchandising strategies will be the key.

Conclusion

Overall, brands and retailers must remain agile in adapting to the ever-changing market environment to maintain competitiveness and market share. This involves continuous monitoring of consumer trends, flexible adjustment of channel strategies, and sustained investment in brand building and product innovation. Despite the challenges, the FMCG market has consistently demonstrated long-term resilience and potentials for growth. As the Chinese market progressively recovers from the pandemic, it presents not only new opportunities and challenges but also a platform for remarkable innovation and growth.

Notes

1. The scope of the FMCG market in this report doesn't include 12 new categories tracked by Kantar Worldpanel since 2022, therefore there might be some data discrepancies between this report and other Kantar publications. Kantar Worldpanel has excluded cigarettes from total FMCG data in 2017 and adjusted the online channel weight factor upper threshold for paper products to better reflect market realities in 2020. Skin care and makeup data are collected from the Kantar Worldpanel beauty panel, covering consumers aged from 15–64 in Tier 1–5 cities; infant formula and diaper data are collected from the Kantar Worldpanel baby panel, covering households with babies 0–36 months old in Tier 1-5 cities. All average selling prices are calculated based on RMB per Kg/L, except for diapers and toothbrushes, which are calculated based on RMB per piece; skin care and makeup, which are calculated based on RMB per pack; and toilet and facial tissue, which are calculated based on RMB per 100 sheets/rolls.
2. The 26 categories are (a) packaged food: biscuits, chocolate, instant noodle, candy, chewing gum, and infant formula; (b) beverage: milk, yogurt, juice, beer, ready-to-drink tea, carbonated soft drinks, and packaged water; (c) personal care: skin care, shampoo, personal wash, toothpaste, makeup, hair conditioner, diaper, and toothbrushes; and (d) home care: toilet tissue, fabric detergent, facial tissue, kitchen cleaner, and fabric softener.
3. In Kantar Worldpanel, online-to-offline (O2O) sales value is categorized in channels where the transactions happen: sales of O2O vertical grocery EC and community group buy are accounted for in e-commerce; O2O offline retailers' sales are categorized according to the retailers' main formats (e.g., Walmart O2O sales are categorized in hyper); O2O horizontal marketplaces' sales are calculated based on the end shopping entities (e.g., if consumer orders from 7-Eleven through Meituan/Ele, the value will be calculated in convenience store).
4. The 11 tracked key food and beverage categories are beer, chewing gum, candy, chocolate, milk, yogurt, biscuits, packaged water, ready-to-drink tea, juice and carbonated soft drinks.

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