



Complexity and Excellence— The Year Ahead

Foreword

Since the 1980s, BCG has been deeply engaged in the mainland China market. BCG’s Consumer Products team has witnessed the rapid growth of China’s consumer packaged goods (CPG), fashion and luxury, and retail markets over four decades. Today, more than 50 of our core experts are active in various industry tracks. We uncover consumer insights and industry trends, and partner with our clients in their growth and transformation.

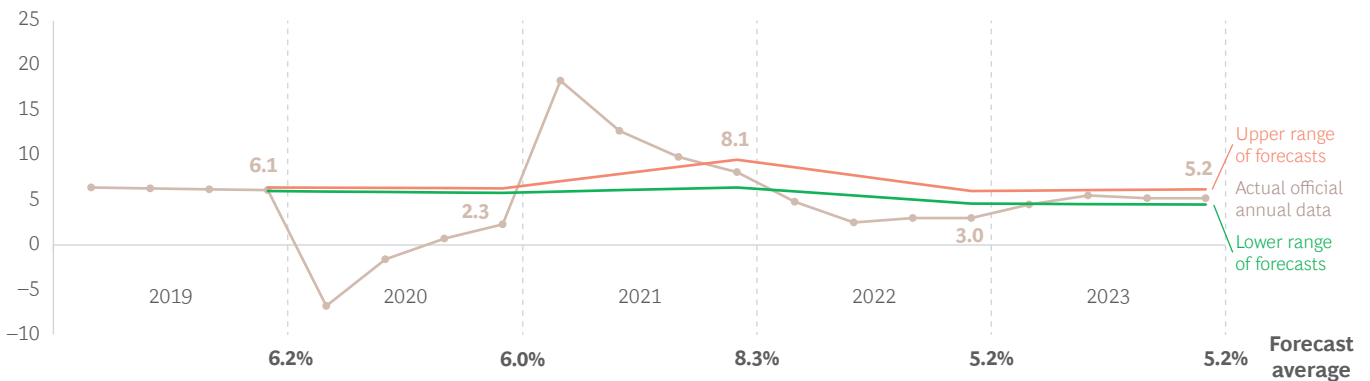
This year, we are launching a series of articles titled **China Consumer Market Quarterly Watch**. In this series, we will analyze the industry macro environment and provide forward-looking consumer insights and industry observations. We hope to be a partner in thought as well as in action as company executives lead their firms to new heights.

The Macro Economic Context

On January 17, 2024, China’s National Bureau of Statistics (NBS) released annual macro data 2023. The release shows that the GDP growth rate for 2023 was 5.2%, higher than the previous official forecast of 5.0%, almost in line with the forecast of eight domestic and foreign research institutions (5.19%), and 2.2 percentage points higher than that of 2022. (See Exhibit 1.)

Exhibit 1 - In 2023, China’s GDP Growth Exceeded Official Expectations, in Line with the Average of Eight Institutions

2019–2023 real GDP growth at constant prices
%, quarterly cumulative year-on-year, fourth quarter of each year for the full year



Sources: National Bureau of Statistics of China; WIND; Bibliography.

Note: Market forecasts come from eight domestic and foreign financial institutions including Goldman Sachs, Morgan Stanley, UBS, CICC, Huatai Securities, Bank of China Research Institute, China Macroeconomic Forum and OECD; Data covers Q1 2019 to Q4 2023.

Total retail sales increased by 7.2% for the year. Based on 2019 absolute values, total retail sales have been climbing in a roundabout manner over the past four years. The numbers for 2023 were moderate, with no uptick observed at the end of the year. The less-than-bullish results, together with the underlying lack of consumer spending confidence, partly echoes the fact that key economic indicators, such as real estate investment and sales, still need to be further repaired. It may also be a market response to the overall low consumer price index (CPI) for 2023, with the risk of deflation still lingering. (See Exhibit 2.)

2024 will continue to be a year of reboot and restoration. Based on the opinions of eight research institutions mentioned in Exhibit 1, the predicted average GDP growth rate in 2024 is 4.68% (in the 4.2% to 5.0% range). However, at the same time, institutional forecasts are mostly “conditional.” For consumer markets, the conditions for high or low growth are concentrated in the real estate sector, international trade, and the degree and speed of improvement in external demand. The volume-price relationship of growth is also affected by inflation rates. For the few institutions that published expected inflation rates, the prediction is well below the 2% mark (a common target of central banks).

Consumer Market Observations

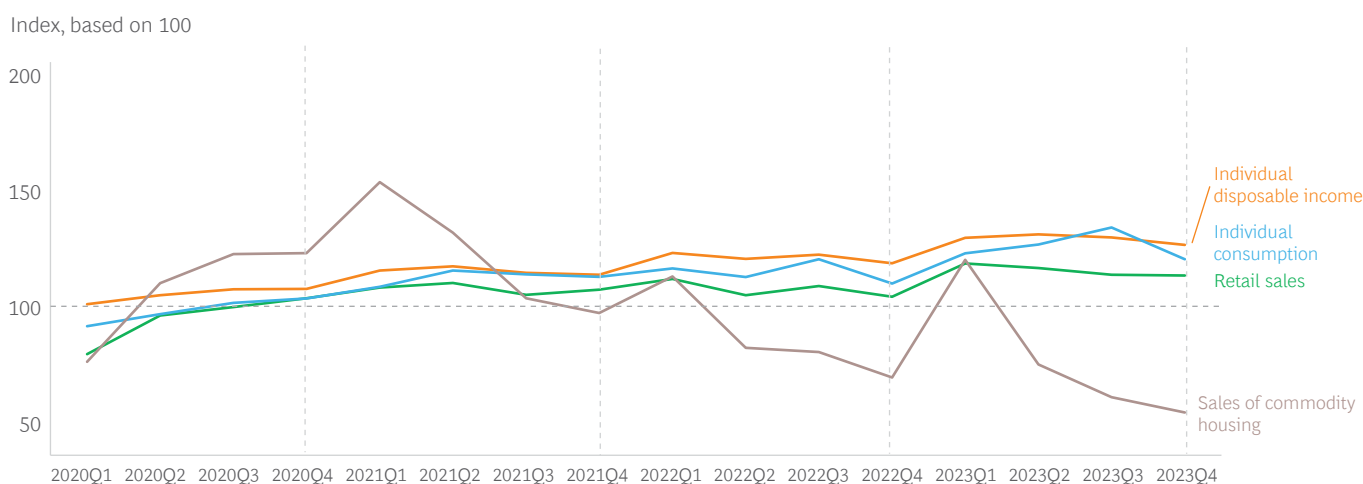
China’s reform and opening up has been going on for more than 40 years, with periodic turbulence a part of corporate managers’ experience steering their companies. But despite these challenges, Chinese entrepreneurs are taking the initiative to find new growth and increase firm profits. In fact, we have found that many sectors are already showing signs of action and change in 2023.

GROWTH OF FAST-MOVING PRODUCTS IS HAMPERED

If we compare like for like the growth in pre-COVID 2019 versus in 2023, we find that 2023 was a year of very uneven growth. It showed a slowdown for fast-moving consumer goods (including beauty), a slight increase for home goods, and steady development for fashion and luxury (excluding beauty). It was a fast-growing year for restaurant services, and a year of strong recovery for travel, especially domestic travel. Overall, the willingness to spend on consumption has shifted from physical goods and home consumption to services and out-of-home experiences. (See Exhibit 3.)

Exhibit 2 - Based on 2019, China’s Consumption and Personal Disposable Income Climbed Back in 2023, Housing Sales Tanked

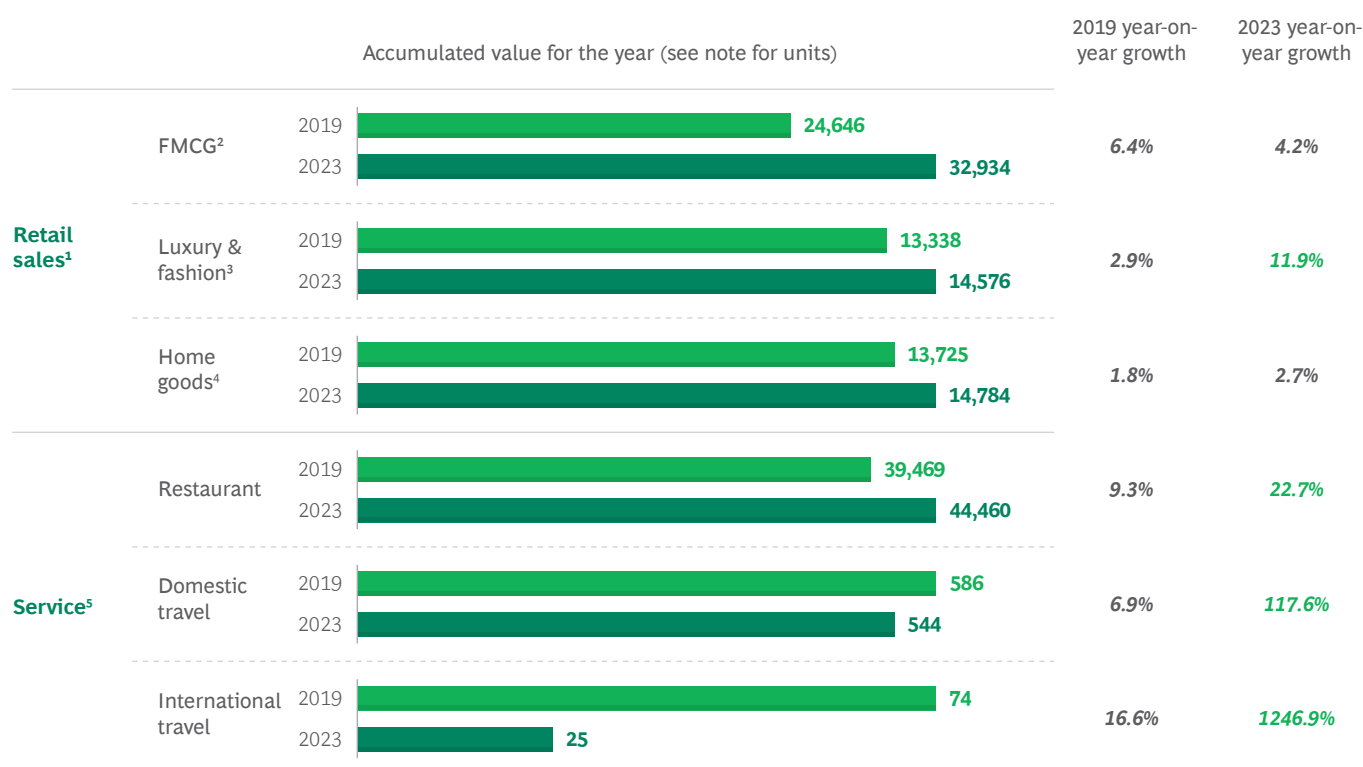
Changes in key economic indicators for each year, quarterly, with 2019 as the base year



Sources: National Bureau of Statistics of China; BCG analysis.

Note: Data covers Q1 2019 to Q4 2023; calculation method: Normalize the four key economic indicators for 2020-2023 based on the absolute quarterly values for 2019. For example, 2019 Q1 zero is RMB 9.8 trillion in absolute value, 2020 Q1 zero is RMB 7.9 trillion in absolute value, based on 2019 with the index of 100, then the 2020 Q1 zero index is $7.9/9.8 \times 100 = 80.6$. Three other categories of economic indicators by analogy.

Exhibit 3 - The Rate of Recovery in 2023 Was Significantly Uneven Across Sectors Compared to That of 2019



Sources: National Bureau of Statistics of China; BCG analysis.

Note: Data calculation covers Q1 2018 to Q4 2023, with international and domestic travel data as of November 2023 (latest data from the National Bureau of Statistics of China).

¹The unit value of retail sales is RMB 100 million.

²FMCG covers grain, food, beverages, tobacco and alcohol, cosmetic products, and household goods items.

³Luxury & fashion covers clothing, footwear and headgear, knitted textiles, and gold, silver and jewelry items.

⁴Home goods covers household appliances, audio-visual equipment, furniture, and communication equipment.

⁵Under the service category, the food and beverage income unit is RMB 100 million; the domestic and international travel unit is 1 million people.

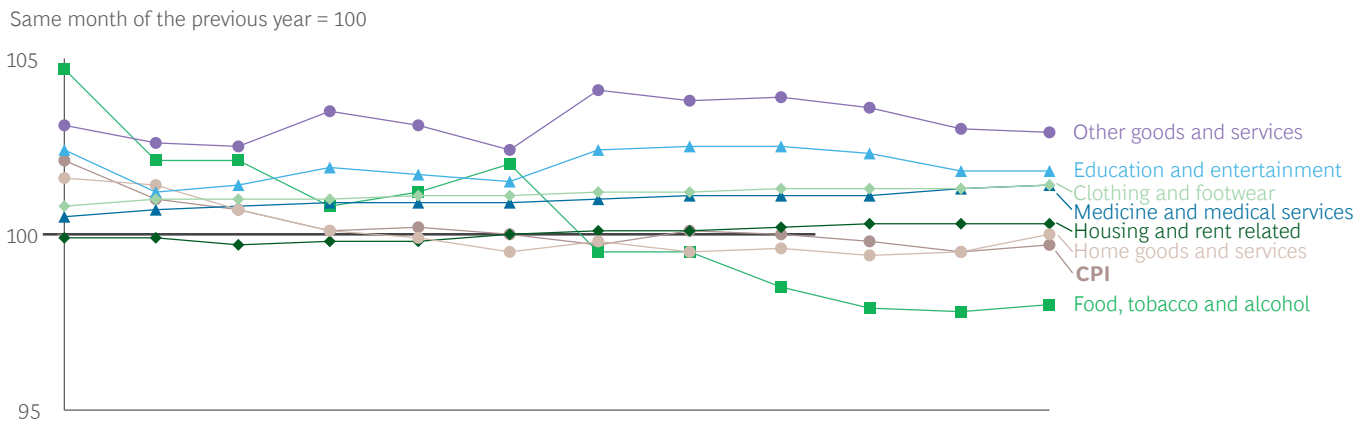
ONLINE AND OFFLINE—CONVERGING IN PRICE MOVEMENTS

Uneven growth in consumer spending is also shaped by retail developments. In 2023, fast-moving products accounted for about 32.6% of online sales. Advances in e-commerce have shown signs of plateauing and the game is more of a share transfer between different online formats. Approximately 3% went from conventional platforms to live broadcasts and other content-based e-commerce. Price competition for online channels is becoming more heated, while discount stores and warehouse membership stores in offline channels are also on the offensive when it comes to prices.

Together, they shape consumer price expectations for fast-moving consumer products, home goods, electronics, and more. This is also borne out by NBS price data. Prices for food, tobacco and alcohol, household goods and services, and transport and communications products are flat in the 2023 CPI. The supply of standard goods is abundant and the downward movement of the price index increases the “sense of gain” for consumers. At the same time, in fashion, service, and experience sectors, which are relatively non-standard with rebounding demand, consumers are enjoying a feeling of “post-COVID emotional relief” as they continue to spend. (See Exhibit 4.)

Exhibit 4 - Consumers Are Looking for Value in CPG Products and Emotional Relief from Paying for Services and Experiences

Monthly Consumer Price Index for the whole year 2023¹
(compared to the same month of the previous year)



Sources: National Bureau of Statistics of China; WIND; BCG analysis.

¹China’s CPI is rotated every five years in the base period. After each base period rotation, the survey catalog, representative specifications and survey points are adjusted; the CPI for the 2020 base period was compiled and published in the current round since January 2021.

BREAKING OUT WITH NEW PRODUCTS

Against this backdrop, the number of new fast-moving products released in 2023 increased significantly compared with previous years. Although the uptake of private (new) brands accelerated considerably, increasing by nearly 50% over the previous year, more than 90% of the uptake was still from CPG brands. This was particularly prominent in personal care and household products. We believe that this goes beyond the efforts of brand companies to broaden their price bands or to conform to segmented consumer needs. It also reveals the use of product updates to create brand momentum and refresh prices and the attempt to resist price pressures on dated products. (See Exhibit 5.)

RIDING FAVORABLE TRENDS

The faster-growing sectors in 2023 generally rode trends in functional or emotional benefits and prices, as demanded by consumers. They include long-running consumer mega trends and the emerging ones post-COVID.

In terms of fashion and luxury, BCG made a multi-segment growth forecast in early 2023. While we believe the relative momentum *when comparing across* segments still holds, the growth rates for mid end was showing signs of tapering in the second half of 2023. (See Exhibit 6.)

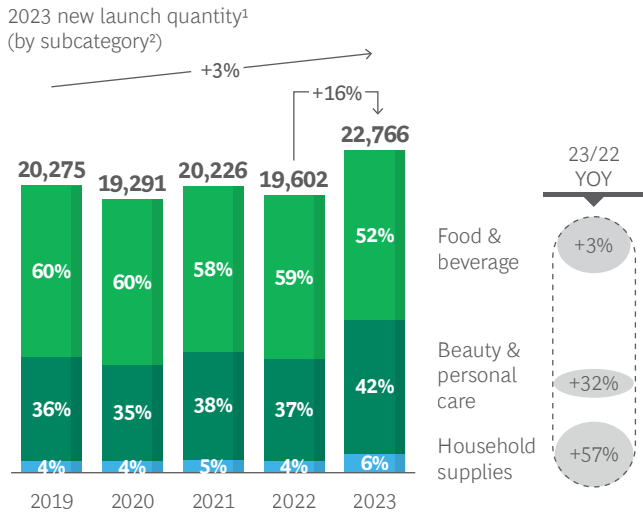
Winners in 2023 were the ones who took advantage of persistent trends over recent years. For example, after the rapid adoption of urban light outdoor activities (playing frisbee, camping, biking, etc.), popular during COVID, consumers have also developed interest in, and affinity for, more hard-core categories (skiing, hiking, etc.). Camping, biking, hiking, and water sports saw a surge of 150%–400% in mentions on Xiaohongshu in 2023. The continued development of the sports community has made outdoors an integral part of consumer lifestyle and social expression.

The maturing sector has also grown, with a price band that now includes affordable luxury—despite the availability of cheaper versions. In outdoor apparel, for example, as “new Chinese aesthetics” continue to win over consumers, high-end clothing lines are going mainstream by lending design elements to everyday wear, which consumers are embracing.

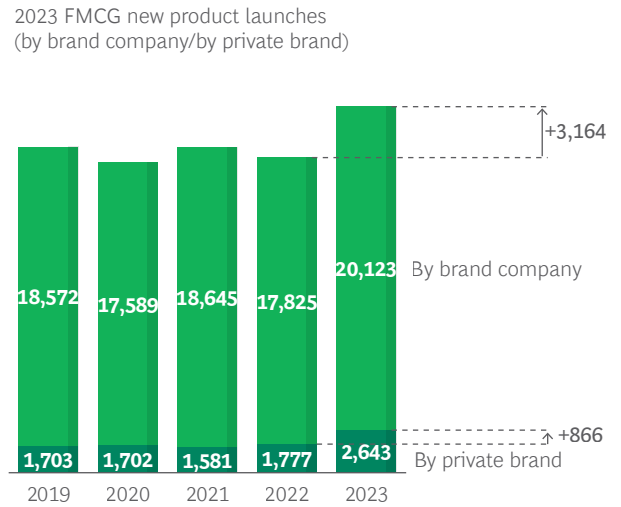
On the channel side, in the first half of 2023, sales at outlets nationwide exceeded RMB 130 billion, reaching 62% of the previous year’s full-year level. As of Q3 2023, sales at outlets grew on average 26.3% year-on-year and consumer traffic increased on average by nearly 35% year-on-year, a significant increase over the same period in 2022. All three top outlet brands achieved a threefold increase in consumer traffic and sales performance over the average apparel luxury market growth rates. Some brands are considering offering specific product lines via outlets, rather than just using them as a channel for clearing inventories.

Exhibit 5 - In 2023, the Number of New FMCG Product Launches Significantly Increased, Mainly from Brand Companies

The number of FMCG products launched in 2023 increased by 16% compared to 2022



Private brand accounted for 21.4% of the overall new product launch increment



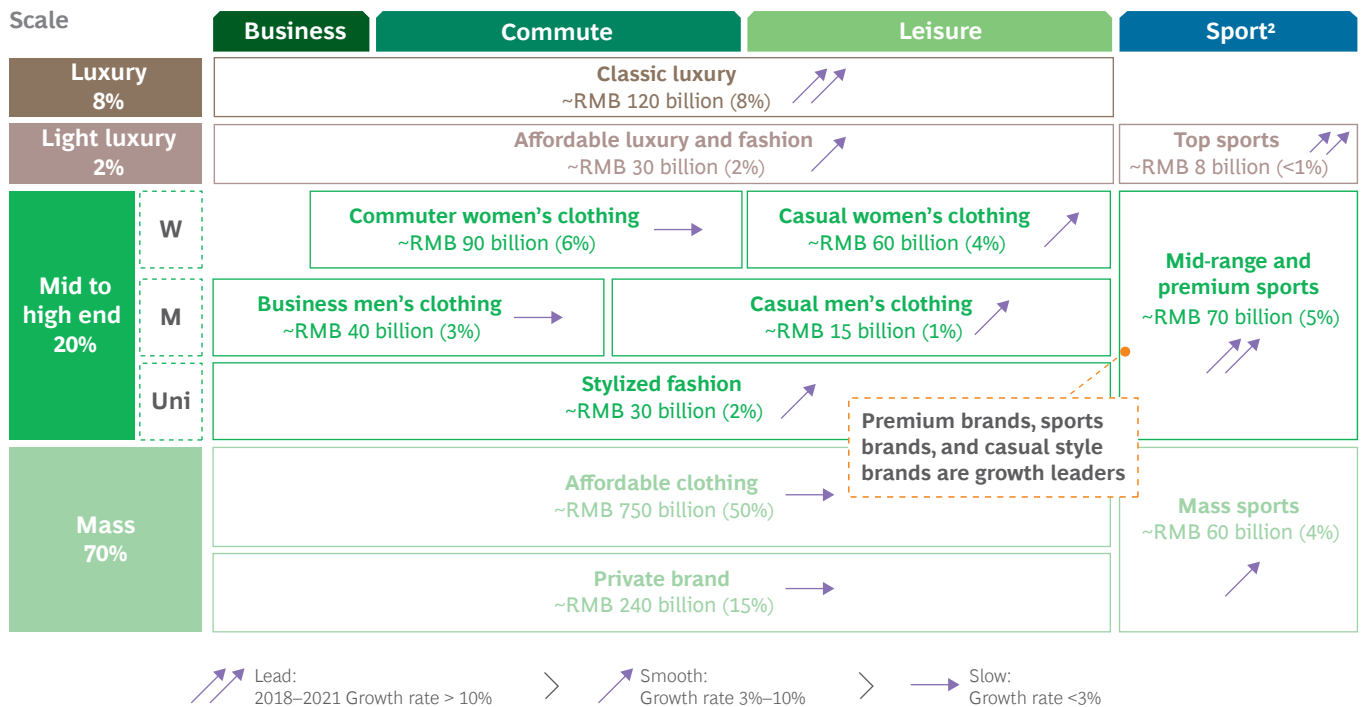
Sources: GNPD; Globaldata; BCG analysis.

¹ New products exclude re-listing items, but include new packaging, new formulation, etc.

² The FMCG categories are divided into three subcategories, namely food and beverage, personal care and beauty, and household products. Household products include hygienic cleaning, household cleaning, air freshness and other subcategories. Personal care and beauty products include feminine care, skincare, beauty and cavity cleaning.

Exhibit 6 - Market Opportunities Across China's Apparel Segments

Size of China's clothing market in 2022: RMB 1.5 trillion¹



Sources: Euromonitor; Expert interviews; BCG analysis.

¹ Only counting men's and women's clothing, no children's clothing (RMB 0.24 trillion) and underwear (RMB 0.24 trillion). In 2022, the overall size of China's clothing market was about RMB 2 trillion.

² Only sportswear, not shoes and equipment.

We believe that the driving force behind outlets' rise is not just prices, but also the appeal of the offline service experience when consumers are looking for fun and emotional relief. In this regard, travel retail, Hainan duty-free retail, and innovative shopping centers may also lead the pack with new growth opportunities. Restaurant and food services will receive dividends too.

Outlook and Call to Action

Across industries, the theme for this year and beyond will be “achieving excellence in complexity.” But the focus will be different for each sector.

CPG and grocery retail are facing headwinds. Product power and merchandising are becoming increasingly important. Between innovation and cost, companies must own at least one advantage in order to be competitive. Revenue management is also critical, meaning better models and tools are needed to optimize brands, new products, portfolios, prices, promotions, and trade levers. Companies can no longer count on high-certainty traditional business cycles and sheet-based planning. Practices such as the annual JBP and broadstroke resource allocations between headquarters and regions may require examination and transformation.

For fashion and luxury and restaurant services, brand and product innovation and originality will continue to be prominent, putting higher demands on insights into mega trends and micro trends, the optimization of the brand portfolio, and the collaborative development of products and content.

For the apparel industry, companies were in de-stocking mode in 2023. Companies need to pick a high-speed track—be it an exploding product category or a molded and amplified scenario—and think about the right end-to-end brand image, store image, and merchandise accordingly. In 2024, companies need to continue working on agile supply chains, better merchandising, and improved inventory management.

For the restaurant industry, there is great opportunity in footprint expansion and associated product and service models (O2O, RTC, etc.). High-quality expansion poses a challenge to companies' operating models and capabilities. There are also considerable opportunities for continuous cost reductions in operations, not only in terms of raw material sourcing and people efficiency but also in technology and capability solutions, such as efficient content customization and distribution on the store side with the help of generative AI.

The year 2024 promises to be one of fast tracks and few service stops. Capability upgrades will have to happen as companies strive to transform and improve. We are eager to be a thought and solution partner to companies on this journey.

About the Authors

China Consumer Market Quarterly Watch is authored by BCG's Consumer practice in Greater China. The team is grateful for the valuable insights and advice provided by the following experts.

Veronique Yang is a managing director and senior partner in BCG's Shanghai office. She is the leader of BCG's Consumer practice in Greater China, and also the leader of the fashion and luxury sector in Asia Pacific.

Allen Zhang is a managing director and partner in BCG's Shanghai office. He is the leader of BCG's retail sector in Greater China, and the leader of BCG's AI topic in Greater China.

Cynthia Chen is a managing director and partner in BCG's Hong Kong office. She is the leader of BCG's Center for Customer Insight in Greater China.

Thomas Zou is a managing director and partner in BCG's Shanghai office. He is a core leader of BCG's Consumer practice in Greater China.

For Further Contact

If you would like to discuss this report, please contact the authors.

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