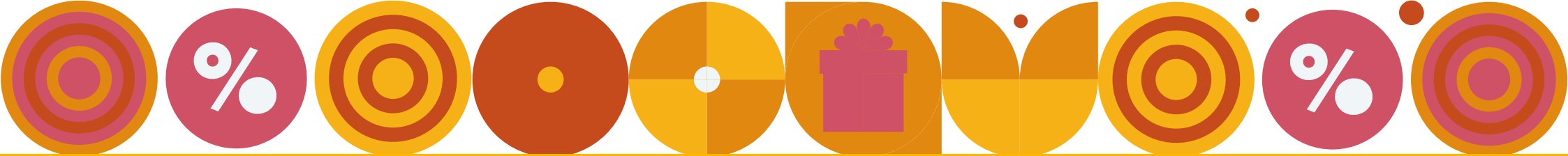




# Decoding new consumer behaviour in the age of bricks and clicks

2021 Global Consumer Insights Survey  
China report





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# Foreword

As the COVID-19 pandemic is still running its course in many economies, consumers worldwide had no choice but to pivot and adopt new lifestyles and habits. Businesses are grappling with rapidly changing consumer behavior and how these changes are going to impact their strategy and bottom-line over the longer horizon.

China, being the world's biggest consumer market by population, is not immune to external shocks. The domestic market is evolving at breakneck speed. Over the past 18 months nationwide retail sales has rebounded from the trough of pandemic-induced recession in January 2020 to a near full-scale recovery – all the way till April 2021 when outbreak of the delta variant in certain cities and regions caused another setback. Throughout these times retail businesses at large have shown adaptability and resilience against market disruptions.

## Exhibit 1

China's monthly retail sales from 2020 to 2021



Source: National Bureau of Statistics of China





We have seen better-than-expected economic data in the first two quarters of 2021 and a stronger pickup in consumer spending across the board, setting a positive tone for this year's retail sales growth. Mainland China has been keen to turbocharge private consumption with its domestic circulation strategy and more recently the introduction of the third child policy directed at unleashing future spending through structural changes in demographics. There are also encouraging signs of recovery in Hong Kong, where local COVID cases have been kept at low single digits on the back of rising vaccination rate, while the government's Consumption Voucher Scheme and the launch of 'Come2HK' and 'Return2HK' quarantine-free schemes, coupled with the relaxation of social distancing measures, are expected to boost local spending in the coming months.

The digital transformation of consumer behavior will continue even after the pandemic recedes and life in China resumes normal. According to data research agency Syntun, the country's major e-commerce platforms including Alibaba and JD.com achieved a combined GMV (gross merchandise volume) of RMB 578.5 billion, up 26.5% year-on-year, during the 618 sales bonanza<sup>1</sup>, one of the most anticipated shopping events of the year. In particular, sales generated through merchant-led livestreams grew 100% year over year, while the number of stores that achieved more than RMB10 million in livestream sales has doubled.<sup>i</sup>

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<sup>1</sup> 618 is the largest mid-year shopping festival in China after Singles Day. Originally started by JD.com, a China eCommerce platform, as a shopping event on June 18th, 2010, the online shopping gala has grown in popularity attracting other eComm platforms since then.

Last year we explored the emerging trends of the Chinese consumers market against the backdrop of pandemic-induced uncertainties and analysed from the commercial perspective what these new trends mean to retailers for their long-term success. This year we further built on that storyline to answer the question - as the market unfolds what trends are going to stay with us and how they will manifest to affect consumers and businesses in the post-pandemic New Retail setting?

PwC's 2021 Global Consumer Insights Survey revealed that many pandemic-induced consumer changes are still sticking - signifying a fundamental and long-term shift in consumer behaviour. In just a six-month period, from the time our first pulse survey was conducted in October 2020 to when our second pulse survey was conducted in March 2021, consumers in China have evolved to be more "digital and physical" in their choice of channels, more so than their global counterparts. They also reported being more mobile in terms of work and leisure, more accepting of domestic brands, as well as more conscious of the social and environmental impact of their consumption.



Preparing for this brave new world of bricks-and-clicks consumption would call for a major shift in retailers' operating strategies - towards e-commerce and O2O integration as well as delivering frictionless, tech-enabled in-store experiences.

Brands will have to articulate meaningful value propositions and demonstrate their ESG relevance to win customers, given increasing cultural sensitivity accentuated by social media. To cope with supply chain uncertainty, retailers should realign their geographic portfolio with end-to-end visibility and enhance digital capabilities to improve efficiency.

I welcome you to read this comprehensive report for a deep dive into the China-specific findings of our survey and see how these insights can translate into actionable strategies for brands and retailers.

### Michael Cheng

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



# China Market Overview

China was the only major economy to register a positive growth in 2020, although the pace of economic recovery slowed down in the second quarter of 2021. Its GDP grew by 7.9% in the second quarter of 2021 compared to a year ago, while in the first half of the year, it grew by 12.7% year on year.

China's manufacturing PMI has gradually declined since March 2021 but maintained above the 50 mark throughout the pandemic pointing to a moderate expansion of the country's manufacturing sector and positive sentiment of suppliers.

In June 2021, total retail sales of consumer goods reached RMB 3,759 billion, up 12.1 % year on year; 10% higher than that in June 2019, with an average growth rate of 4.9% in two years. From January to June 2021, total retail sales of consumer goods reached RMB 21,190 billion, up 23% year on year, with an average growth rate of 4.4% in two years.

In the same period, online retail sales of physical goods amounted to RMB 5,026 billion, an increase of 18.7%, accounting for 23.7% of total retail sales of consumer goods. The economic recovery has fueled the increase in aggregate spending in both online and offline channels over a relatively low base of last year.



China, arguably the world's most technologically advanced consumer market, has an unrivalled first-mover advantage in the eCommerce space.

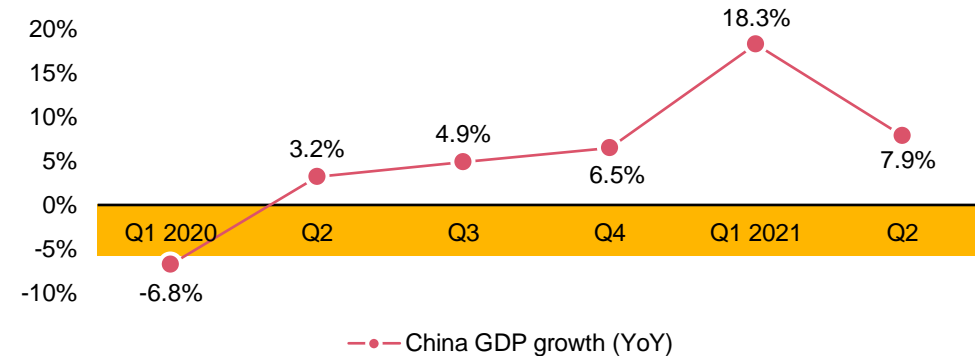
In 2021, sales via online channels is expected to grow further to account for a higher proportion of the country's total retail sales. <sup>ii</sup> The e-commerce ecosystem continues to strengthen during and after the pandemic on the back of further penetration of internet users, advanced digital payments systems, smartphone-driven mobile commerce culture, and supply of low-cost logistics.

Among the 16 categories of retail items with double-digit sales growth in H1 2021, seven items recorded more than 30% increase in sales H1, including:

- Gold, silver and jewelry (59.9%);
- Catering consumption (48.6%);
- Clothing and footwear (or garments, hats, knitwear, etc.) (33.7%);
- Building and decoration materials (32.9%);
- Furniture (30.0%);
- Tobacco and liquor (32.0%);
- Automobile (30.4%).

## Exhibit 2

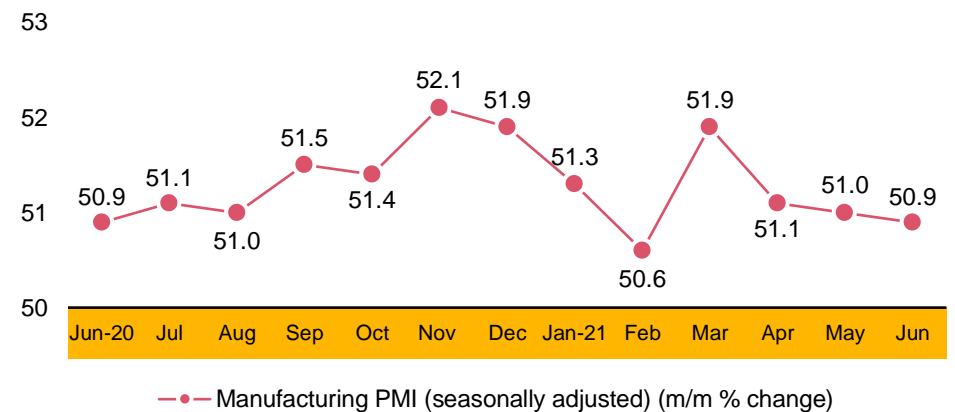
### China's GDP growth (YoY %)



Source: National Bureau of Statistics of China

## Exhibit 3

### China's Manufacturing PMI (seasonally adjusted) (m/m % change)



Note: 50%=no changes

Source: National Bureau of Statistics of China





#### Exhibit 4

##### China's retail market growth (YoY %)

|   | 2019   | 2020   | Jan – Jun<br>2021 |
|---|--------|--------|-------------------|
| <b>Total retail sales of consumer goods<br/>(RMB billion)</b>   | 40,802 | 39,198 | 21,190            |
| <b>Total retail sales of consumer goods<br/>(YoY % growth)</b>  | 8.0%   | -3.9%  | 23%               |
| <b>Online retail sales of physical goods<br/>(RMB billion)</b>  | 8,524  | 9,759  | 5,026             |
| <b>Online retail sales of physical goods<br/>(YoY % growth)</b> | 19.5%  | 14.8%  | 18.7%             |

Source: National Bureau of Statistics of China

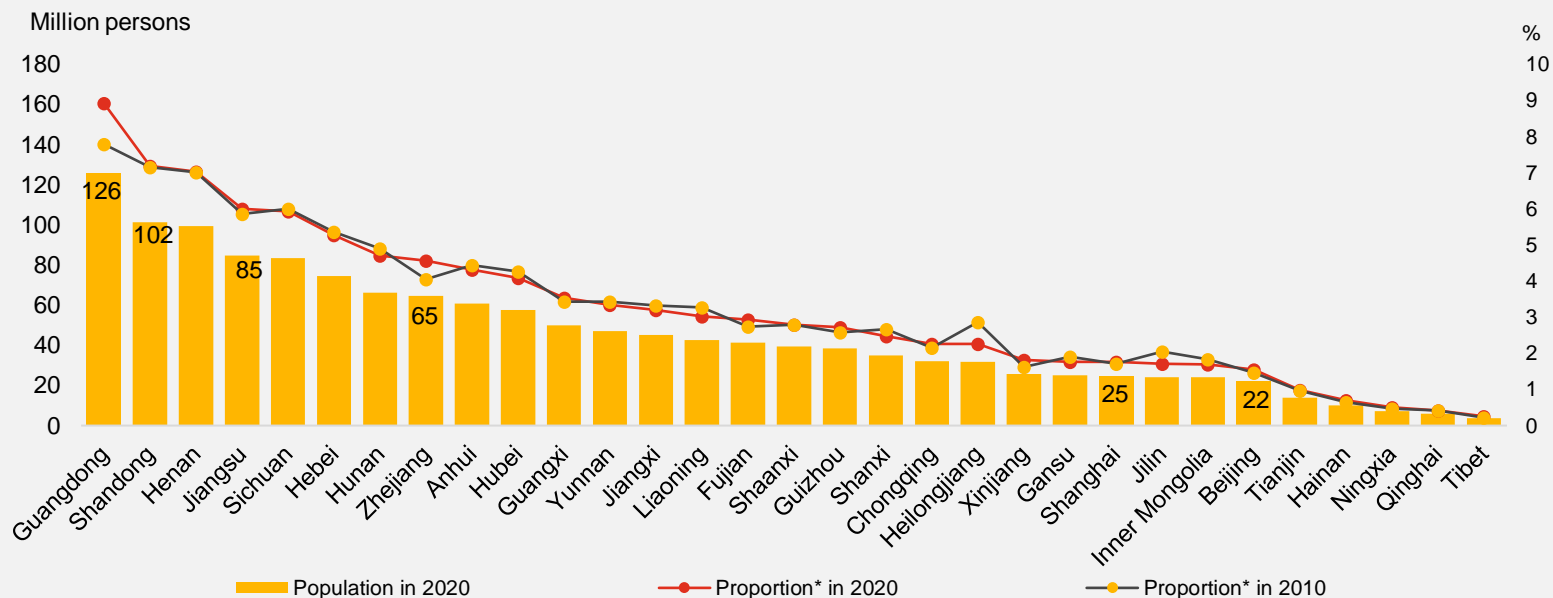
On the macro policy front, Ministry of Commerce announced in July 2021 that Shanghai, Beijing, Guangzhou, Tianjin and Chongqing have been shortlisted as model cities to take the lead in developing consumption markets of international standards focused on promoting high-quality imported goods, nurturing domestic brands, and further enhancing regional consumption upgrading.<sup>iii</sup>

This echoes with the country's free trade port (FTP) development plan, where Hainan aims to build an international tourism and consumption centre featuring independent fiscal and taxation systems. The duty-free economy has become a new driving force markets of international standards behind the city's consumption growth. In 2020, total sales of Hainan duty-free shops were RMB 32.7 billion, up 127% year-on-year.

To tackle the issue of population ageing, the Chinese government announced the "third child" policy in May 2021 allowing couples in China to have up to three children, while introducing measures to address education, childcare and housing costs. The demographic policy will, to certain degree, impact the long-term spending plan of Chinese households, especially those with plans for a bigger family.

## Exhibit 5

### Population by region (provinces)



Zooming in from the regional perspective, the pattern of retail sales growth differs across geographic regions. In particular, the Greater Bay Area (GBA) has represented one of the most vibrant and dynamic growth engines to power the country's consumer market. Although the Guangdong province did not come up to the top five in terms of per-capita disposable income in the country, its purchasing power as a whole, enabled by its sheer population of over 126 million, topped the list by a large margin dwarfing the rest of the provinces and cities.

\* It refers to the proportion of permanent residents of 31 provinces, autonomous regions and municipalities directly under the central government to the national population.

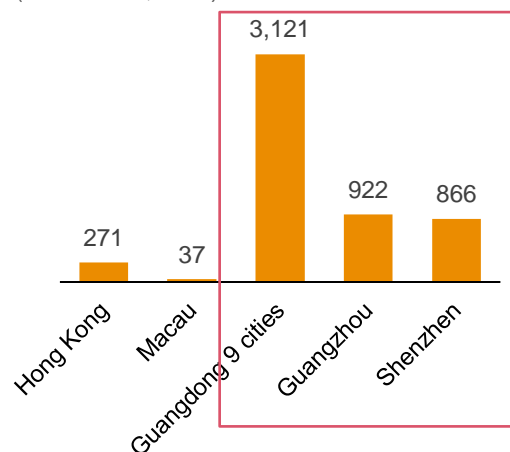
Source: The seventh national population census, National Bureau of Statistics of China, PwC's China Economic Quarterly Q2 2021 report

Note: The national total in this table does not include population of Hong Kong Special Administrative Region or Macao Special Administrative Region.

## Exhibit 6

### Retail sales of Consumer Goods

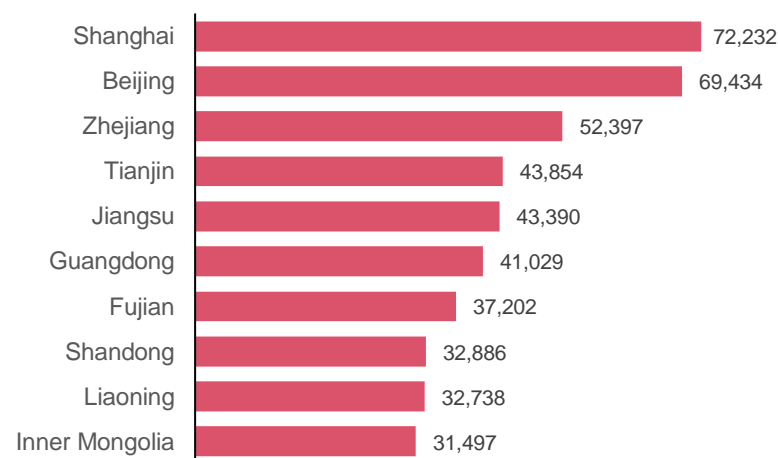
(RMB billion, 2020)



Source: Bureau of Statistics of various cities, exchange rate as of 3/9/2021

## Exhibit 7

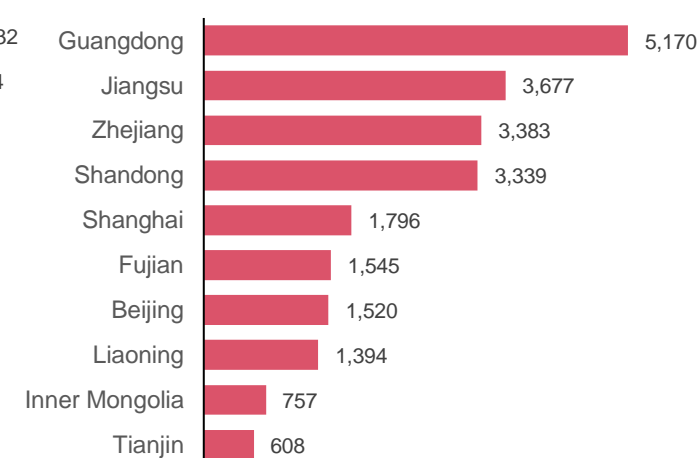
### Top 10 disposable income per capita by province (RMB, 2020)



Source: National Bureau of Statistics; Wind

## Exhibit 8

### Purchasing power by province (RMB billion, 2020)



Source: National Bureau of Statistics; Wind





Despite the widely-reported recovery story, Chinese corporations are still exercising caution when monitoring and managing their business risks. According to PwC's 24th CEO Survey<sup>2</sup>, Chinese companies - including those operating in the consumer market – are facing several macro-environmental threats to their growth prospects in 2021. Pandemic threat overshadows concerns over trade tensions and policy uncertainty, intensified by the spread of Delta variant that weighed on market sentiment. Climate change and environmental damage also concerned 65% of China based CEOs.

<sup>2</sup> PwC's Global CEO Survey is conducted every year with CEOs to collect their economic and business outlook for the coming year.

## Exhibit 9

### Top business, economic, policy, social and environmental threats or organisations' growth prospects

|  | 2020 |   | 2021 |  |
|--|------|---|------|--|
| Trade tensions                               | 60%  | <br>China<br>"somewhat"<br>or<br>"extremely concerned" | 83%  | Pandemics and other health crises                          |
| Geopolitical uncertainty                     | 56%  |   | 78%  | Trade tensions   |
| Terrorism, Misinformation (e.g. fake news)   | 55%  |   | 74%  | Policy uncertainty   |
| Policy uncertainty, Exchange rate volatility | 54%  |   | 69%  | Uncertain economic growth, Protectionism                   |
| Protectionism, Cyber threats                 | 53%  |   | 68%  | Supply chain disruption, Changing consumer behaviour       |
| Changing consumer behaviour                  | 52%  |   | 67%  | Geopolitical uncertainty, Readiness to respond to a crisis |
| Availability of key skills                   | 51%  |   | 66%  | Cyber threats, Availability of key skills                  |
| Supply chain disruption                      | 49%  |   | 65%  | Climate change and environmental damage                    |

|   | 2020 |   | 2021 |   |
|---|------|---|------|---|
| Uncertain economic growth                               | 81%  | <br>Global<br>"somewhat"<br>or<br>"extremely concerned" | 91%  | Pandemics and other health crises                 |
| Policy uncertainty                                      | 77%  |   | 85%  | Cyber threats                                     |
| Over-regulation, Availability of key skills             | 74%  |   | 83%  | Over-regulation                                   |
| Geopolitical uncertainty, Trade tensions, Cyber threats | 73%  |   | 81%  | Policy uncertainty                                |
| Speed of technological change                           | 69%  |   | 80%  | Uncertain economic growth                         |
| Protectionism   | 65%  |   | 76%  | Populism  |
| Changing consumer behaviour                             | 61%  |   | 73%  | Tax policy uncertainty, Increasing tax obligation |
| Readiness to respond to a crisis                        | 58%  |   | 72%  | Climate change and environmental damage           |

Source: PwC's 24<sup>th</sup> CEO Survey China report





How does this macro-complexity affect perception of Chinese consumers? When asked to indicate how they evolved as a consumer over a range of attributes in the past 6 months, 58% of surveyed Chinese consumers said they are optimistic about the current state of the economy, compared to only 36% of global consumers who said the same.

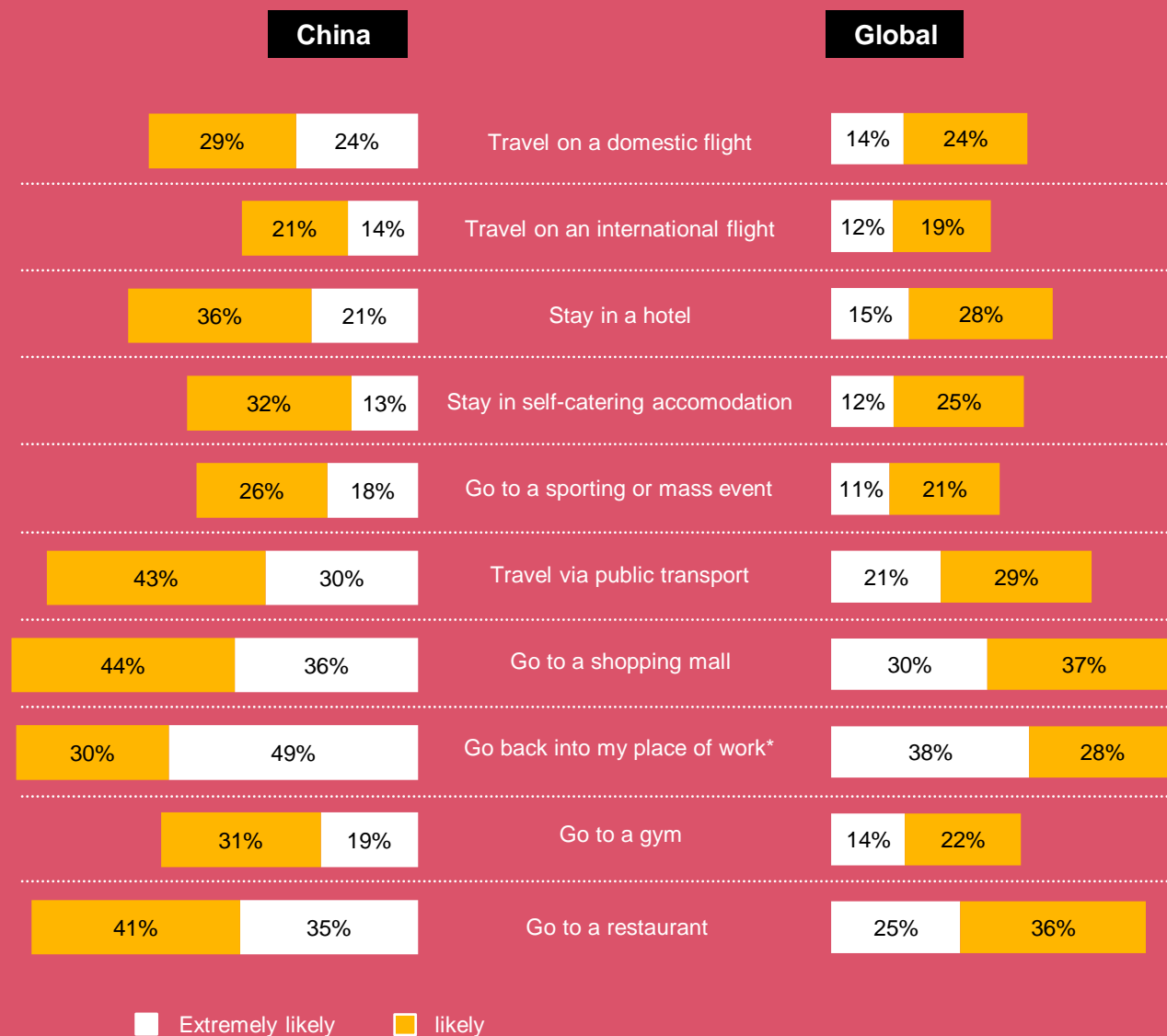
The high confidence of Chinese consumers rooted in the preservation of their purchasing power amid improvement of labour market and relatively stable prices despite global inflationary pressure. In the first half of 2021, the national per capita disposable income of residents was RMB 17,642, a nominal increase of 12.6% over the same period last year.

The stabilising pandemic situation in China has enabled greater consumer mobility within the country. Our survey has shown that Chinese consumers are also more mobile than their global counterparts. They are much more likely to go to a shopping mall (80%: Global: 67%), travel on a domestic flight (53%: Global: 38%), and attend a sporting or mass event in the next six months (44%: Global: 32%).

It is within the context of this dynamic macro-environment that we identified the following prominent trends marking the evolution of Chinese consumers, and what they mean for retail businesses.

## Exhibit 10

Q: In the next 6 months you are extremely likely or likely to...



\*Only respondents who stated they are employed were asked to answer for this option.



# Consumer trends and business implications



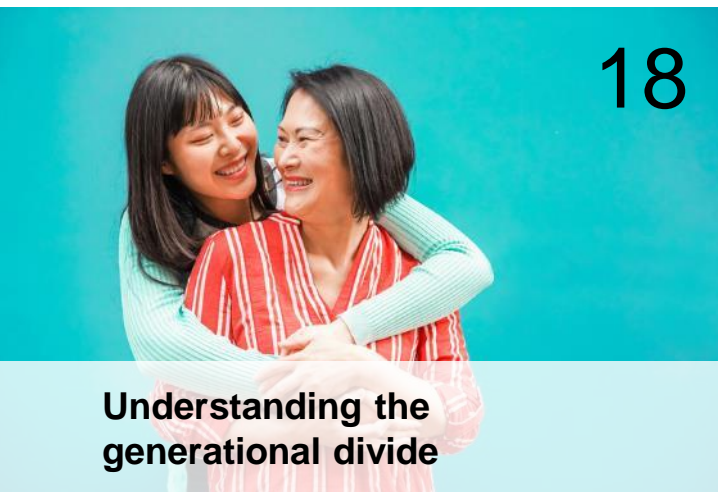
10

Transformation of stores to offer “phygital” experience



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Brand relevance and the culturally aware consumer



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Understanding the generational divide



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Sustainability-driven consumption and ESG ascendance



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The digitally-enabled supply chain

# Transformation of stores to offer “phygital” experience

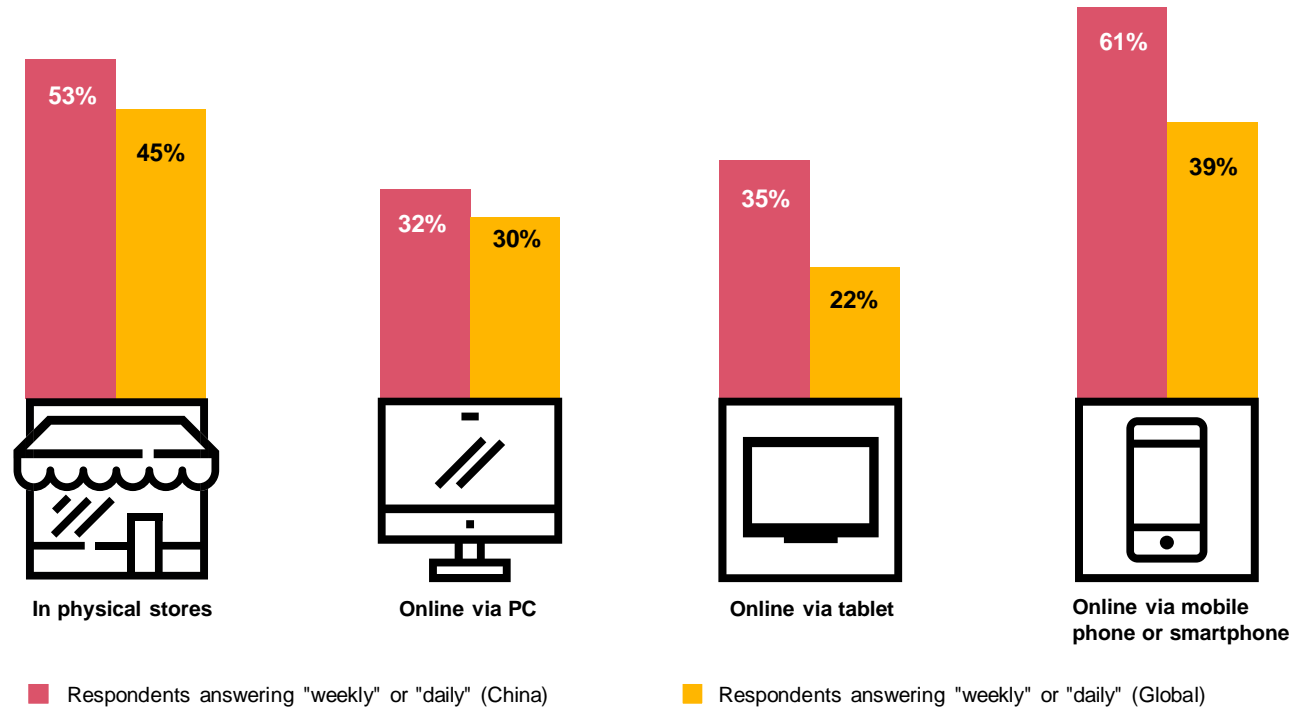
The at-home economy has spurred rapid growth in online shopping and digital enablement in many parts of the world. While China has been a clear beneficiary of such trend given it is already ahead in the digital curve, it is also seeing the strong comeback of physical shopping across different categories, which altogether have given rise to “phygital” consumption pattern featuring both “bricks and clicks” elements. Phygital, by definition, is the concept of using technology to bridge the physical and digital world in order to offer a unique interactive experience for the user.

According to our survey, 61% of Chinese consumers (Global: 39%) indicated they have bought products on a weekly or daily basis in the last 12 months via their mobile phones, while 53% (Global: 45%) said they have done the same in physical stores. Interestingly, both figures increased by three percentage points from 58% (via mobile phones) and 50% (via physical stores) respectively compared to just three months ago (when we conducted the first pulse survey).

Exhibit 11

Q: In the last 12 months, how often have you bought products (e.g. clothes, books, electronics) using the following shopping channels?

## Choice of shopping channels



Source: PwC's 2021 Global Consumer Insights Survey





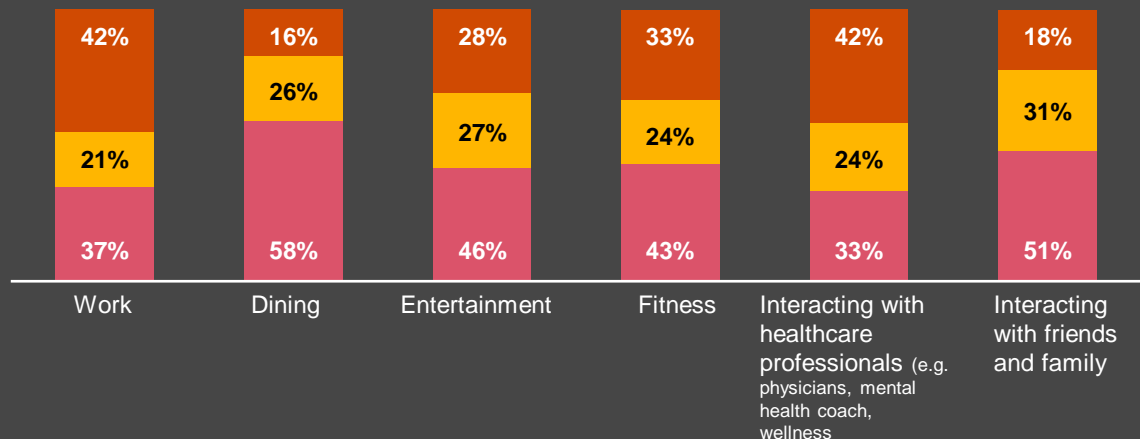
This is a clear indication that the frequency and magnitude of overall consumer spending have improved over time across both online and offline channels. While sales of bricks-and-mortar shops might have lagged behind their online counterparts during the height of the pandemic, they are well-positioned to rebound albeit slowly and steadily on easing of domestic travel bans and other restriction measures.

In fact, our survey indicated that, thanks to largely restored mobility in many parts of China, consumers are spending less time at home in the past six months for a range of activities including work (37%; Global: 46%), dining (58%; Global: 68%), entertainment (46%; Global: 65%) and fitness (43%; Global: 56%).

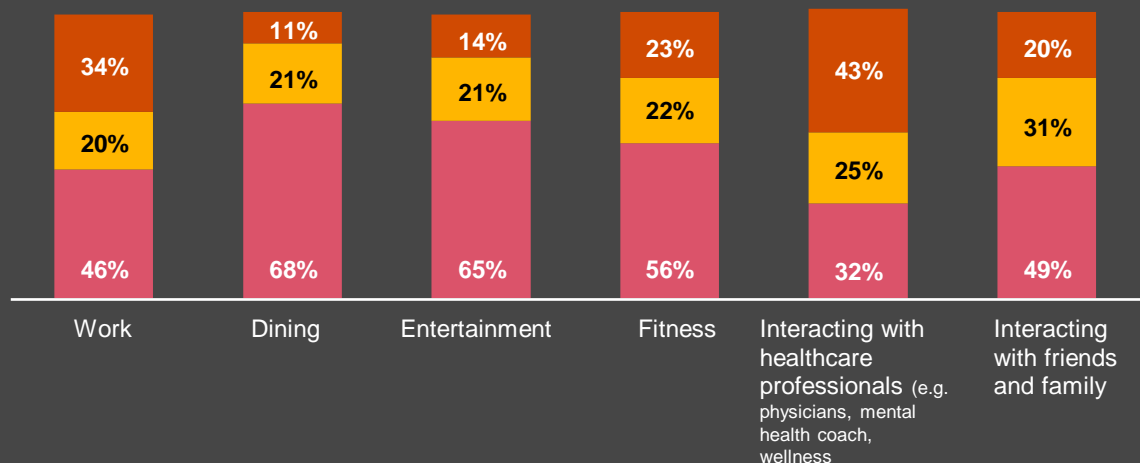
## Exhibit 12

Q: In the last 6 months, on average, to what extent have you done the following activities at home as opposed to outside of your home?\*

### China



### Global



■ Mostly at home or more
 ■ Equally at home and outside of my home
 ■ Mostly outside my home or more

\* Not applicable – I do not engage in this activity is excluded from these results.

Source: PwC's 2021 Global Consumer Insights Survey



The future of consumption in the post-pandemic era will likely take on a new form marrying the characteristics of both online and offline setting to offer an integrated, seamless omnichannel experience for shoppers.

Physical stores are here to stay and thrive in tandem with e-commerce and mobile commerce. In fact, the store of the future will evolve to feature attributes that are most valued and demanded by consumers.

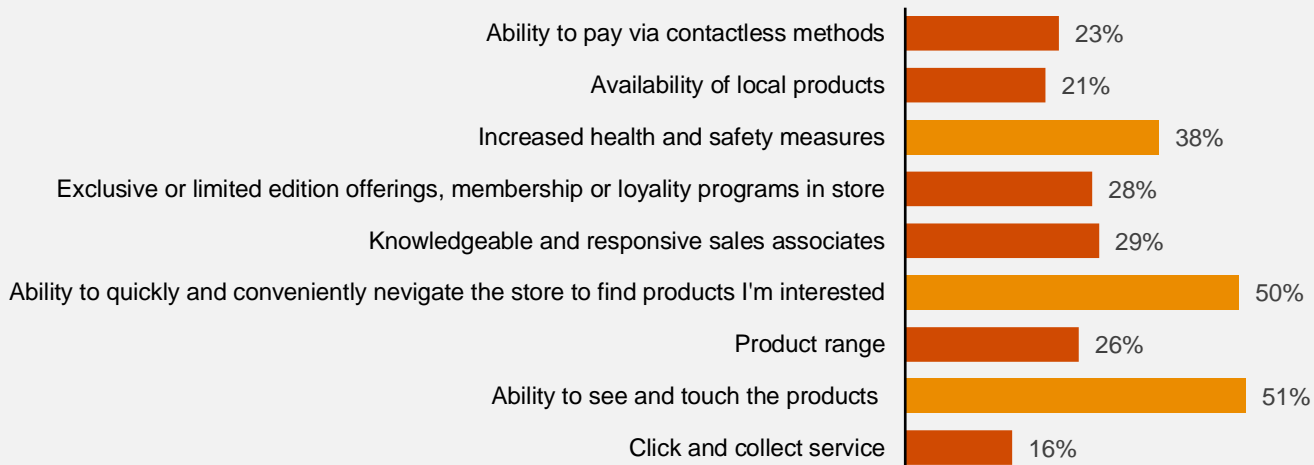
When asked about what attributes are important to them when shopping in physical stores under the current climate, 51% of surveyed consumers in China prioritise “the ability to see and touch the products” (Global: 45%), “the ability to quickly and conveniently navigate the store to find products of interest” (50%; Global: 39%), and “increased health and safety measures” (38%; Global: 37%), over other attributes. This contrasts sharply to what consumers are seeking when shopping online, such as “extended range of product choice”, “availability of refund policy”, and “fast and reliable delivery”.

### Exhibit 13

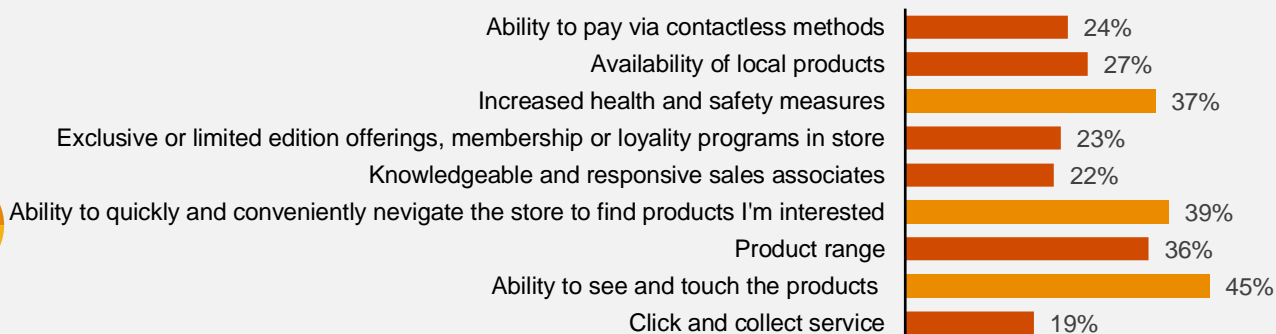
Q: In the current climate, which of the following attributes are important to you when shopping in physical stores?

Answer shown based on % response ranked 1-3. Please note the orange colour denotes that top 3 answer selected by the respondents.

#### China



#### Global



Beyond higher frequency in both online and offline shopping, the pandemic has also altered patterns for the types of purchases consumers are making online versus offline, leaving retailers to wonder how this would affect their offerings and strategies. In general, there is a greater tendency for consumers in China to purchase a majority of products online, although physical store visits are also growing.

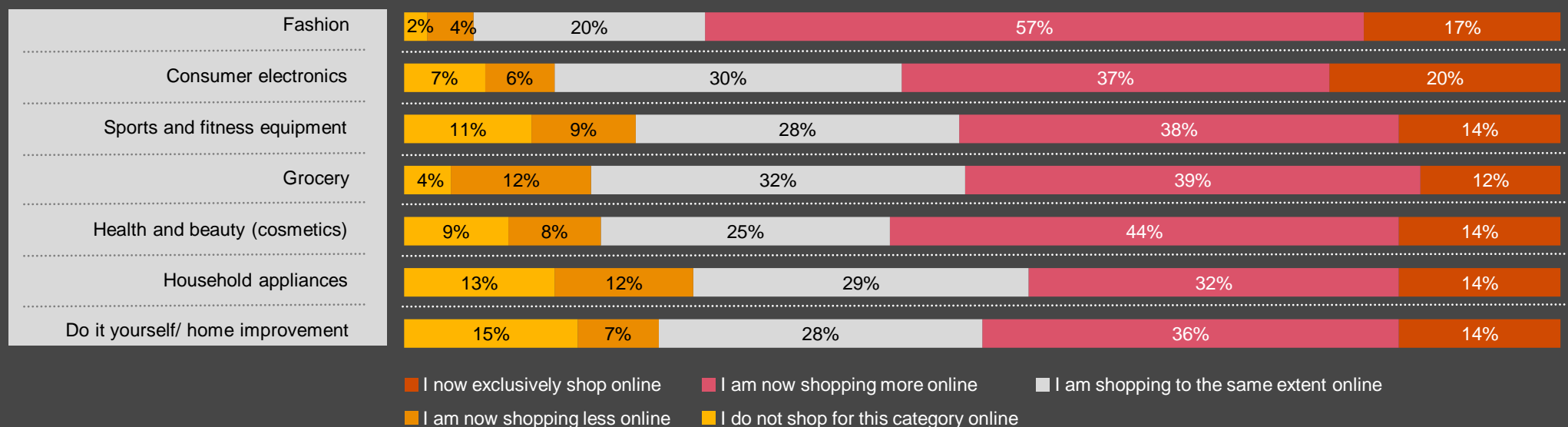
74% of Chinese consumers said they have exclusively shopped or “are now shopping more online” for fashion products. Other popular online categories include health and beauty goods (58%), consumer electronics (57%), sports and fitness equipment (52%), as well as grocery (51%).

In particular, 2020 was seen as the inflection point that led to grocery e-commerce becoming mainstream in China, given that the at-home economy has significantly altered food purchasing and consumption habits, forcing many consumers to do more cooking and eating at home, and to experiment with ordering groceries online. China’s leading e-commerce companies are investing in the retail grocery sector to benefit from the low e-commerce penetration for grocery products, inelastic demand for groceries, and high conversion rate of more frequent purchases.

#### Exhibit 14

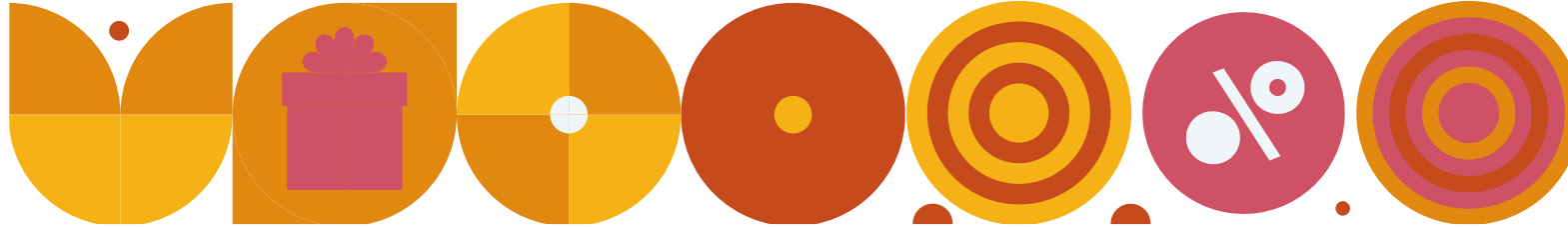
Q: Considering the following product categories, how has the way you shop online changed, if at all, in the last 6 months?

#### China



Source: PwC's 2021 Global Consumer Insights Survey





## Implications and recommendations

Successful bricks-and-mortar retailers of the future will need to leverage experiential retail and give consumers a purpose-driven reason to walk through the doors and will have to find ways to enrich the customer experience using technology.

Omnichannel marketing will prevail requiring the combination of both online and offline channels (new social media formats in particular) to ensure a consistent experience. Meanwhile, Chinese brand owners will need to increasingly synthesise the features of "public domain" and "private domain" in their online journey to form a real "mixed domain" operation model for greater customer reach and cost-efficiency.



**Increasingly, consumers are looking for unique, social, and holistic experience while in store.**

As indicated by our survey data, when shopping in-person consumers are putting higher emphasis on a physical layout where they can directly touch and experience the product, and a safe, hygienic, and user-friendly setting that they can conveniently navigate to find products of interest. As the online and offline worlds converge, consumers expect, more than ever, to obtain products and services at any time and any place.

Looking forward, physical stores in China will need to provide consumers with experiences and interactions to stay relevant, as opposed to selling products alone. Brands who will survive the post-pandemic environment will be those with a robust online presence and relevant physical setups that revolve around experience. Retailers should extend the notion of "store" to include the 'outside-the-store' fulfilment experience, which has become the new battleground. They should prioritise innovation to reduce the pain points along the consumer journey that begins online and ends at the front door or car trunk.

For example, Burberry teamed up with Tencent to open its first social retail store in Shenzhen, catering for customers who prefer to interact with products in person or on social media. The luxury brand created content for shoppers to unlock via WeChat, including store tours and product information.

Food delivery app Deliveroo collaborated with supermarket chain ParknShop in Hong Kong to allow customers using the app to order more than 1,000 different grocery items from 50 locations under the ParknShop brand. This is a good example of how marrying the benefits of physical and digital aspects can create a win-win scenario for both online and offline-based retailers. <sup>iv</sup>

# Brand relevance and the culturally aware consumer

Globally speaking, despite the spike in vaccination rates and signs of recovery appearing in some economies, consumers' money anxieties have not yet eased. More than half of respondents in our second pulse survey say they've become more focused on saving and more price-oriented than they were when our first pulse survey was conducted. In fact, for global consumers, price is still the dominant reason they have shopped online more or maintained their level of online shopping. Price outpaces quality and convenience by wide margins in every category except grocery, in which it still prevails but by smaller margins.

In contrast to their global counterparts, Chinese consumers are found to be less price sensitive when purchasing a variety of products online, with a relatively lower proportion consider themselves as "price-oriented" (China:39%; Global: 56%) and "focused on saving" (China:39%; Global: 54%) when describing how they evolved as a consumer in the past year. Instead, they place higher emphasis on non-price attributes - including quality, convenience, experience, and brand preference and loyalty - benefiting from the country's economic resilience and a highly advanced e-commerce ecosystem where competition has become multi-faceted and moved beyond the price tags.

## Exhibit 15

### Brand attributes

Q: Considering this list of brand attributes, which of the following influence your likelihood to remain loyal to a brand?

#### Exclusivity



14% 18%

#### Seamless digital experience



12% 12%

#### Personalisation



23% 17%

#### Products that are widely available



18% 31%

#### Ethical practices (e.g. Fairtrade, cruelty-free testing, workforce equity, best in practice production etc.)



25% 24%

#### Commitment to giving back to society



15% 15%

■ Respondents ranking each answer in their top three (China)

■ Respondents ranking each answer in their top three (Global)

Source: PwC's 2021 Global Consumer Insights Survey

Under the new setting of non-price competition, brands are becoming more visible to the public than ever thanks to the advent of social media and digital technology. The importance of brand relevance and cultural sensitivity in a highly transparent world cannot be overstated. There has been a rising trend within the retail and consumer industry with respect to increased levels of engagement through cultural marketing.

When asked to consider what brand attributes would influence their likelihood to remain loyal to a brand, Chinese consumers opt for reliability in terms of delivering what they expect (46%; Global:46%), enjoyable or fun experience (e.g. entertaining interaction with the brand) (31%; Global:20%), exceptional customer service (28%; Global:26%), as well as the presence of loyalty programmes (24%; Global:26%).



## Exhibit 15 (continue)

### Brand attributes

Q: Considering this list of brand attributes, which of the following influence your likelihood to remain loyal to a brand?

#### Reliability (the brand always delivers what I expect)



46% 46%

#### Enjoyable/fun experience (e.g. entertaining interaction with the brand)



31% 20%

#### Exceptional customer service



28% 26%

#### Loyalty programs



24% 26%

■ Respondents ranking each answer in their top three (China)

■ Respondents ranking each answer in their top three (Global)

Source: PwC's 2021 Global Consumer Insights Survey



According to our survey, 37% of Chinese respondents indicated that they are now much more or more inclined to buy from domestic brands (24%: foreign brands) relative to 6 months ago, considering all else as equal. Meanwhile, 40% said they are indifferent as to whether the brand they make purchase from is domestic or foreign.

The nationwide trend to embrace domestic brands, dubbed as Guo Chao (国潮), has become a strong emotional catalyst for boosting popularity of local consumer names including Hey Tea (喜茶) (beverage), Bosideng (波司登) (clothing), BYD (比亚迪) (new energy vehicles), Li Ning (李宁) and Anta (安踏) (sportswear), among others.

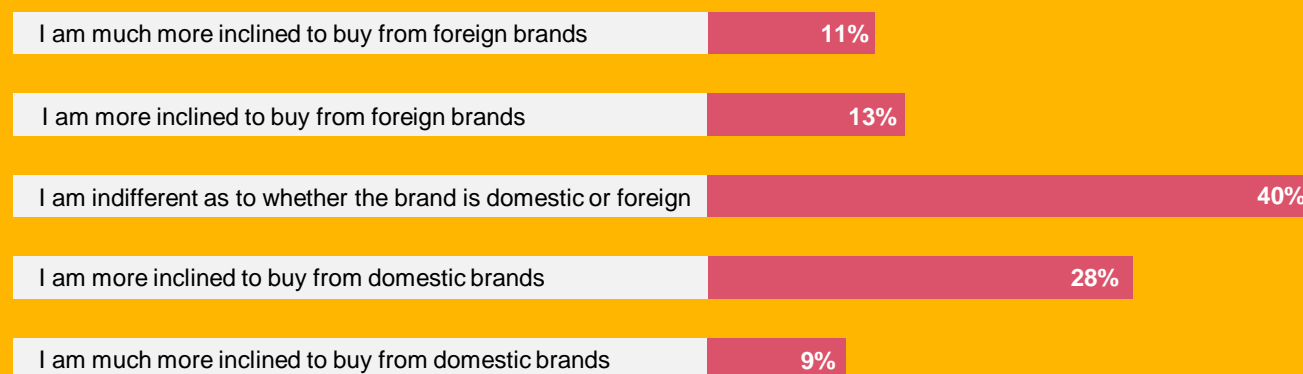
Domestic beauty brands Perfect Diary (完美日记) and Florasis (花西子) are winning the hearts of Chinese consumers, particularly the younger generation, with their frequent releases of affordable offerings marketed through DTC channels and WeChat groups. Chinese cultural elements are often incorporated into marketing campaigns and product packaging by leading C-beauty brands to appeal to culturally sensitive consumers.

Successful Chinese brands survive and thrive, even in overseas markets. The top Chinese brands continued to rise year-over-year in consumer awareness in the developed markets, according to the research by Google and Kantar<sup>vi</sup>. 17 Chinese brands made it to the Global Top 100 Brands List in 2021, including Tencent, Alibaba, Moutai, ByteDance (parent company of Tiktok), Haier, Xiaomi and Pinduoduo, among others. Such ranking also demonstrated the incredible growth stories of Chinese young brands such as Pinduoduo, who has only been around since 2015 and yet made a quantum leap to become one of the world's top e-commerce brands riding on the trend of gamified shopping and social-commerce.

## Exhibit 16

### China

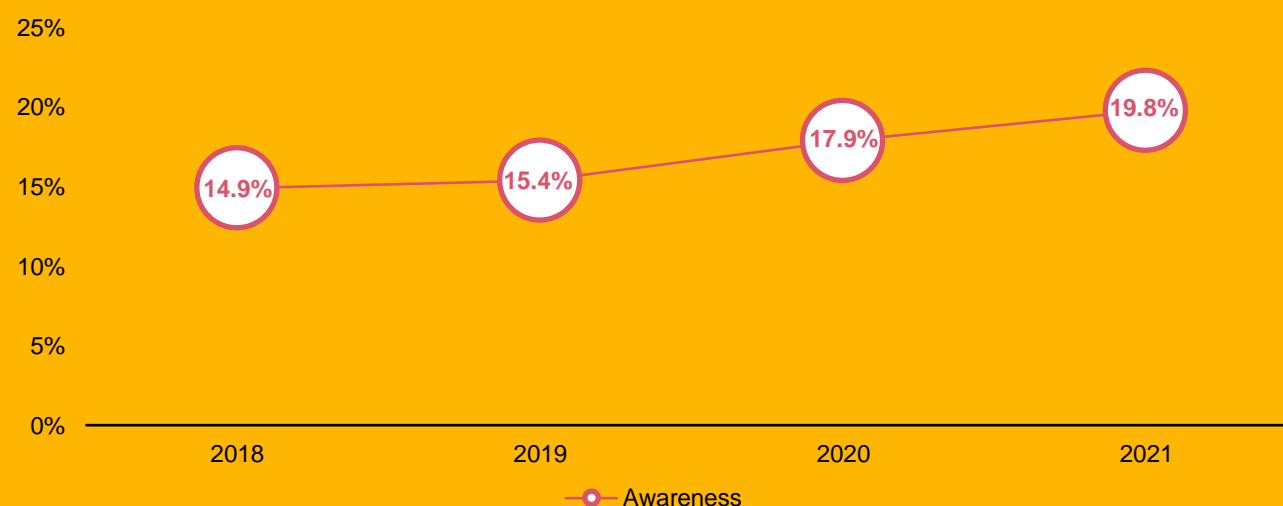
Q: Relative to 6 months ago and considering all else as equal, are you now more inclined to buy from foreign or domestic brands?



Source: PwC's 2021 Global Consumer Insights Survey

## Exhibit 17

### Top 50 Chinese Global Brand Builders – Awareness in Developed Markets



Source: Google and BrandZ™ Chinese Global Brand Builders/ Kantar



## Implications and recommendations

Modern consumers are more educated and better equipped to make informed decisions based on their values and beliefs. They demand more information about the products they buy in store and the brands they interact with. Socially conscious consumerism will continue to grow in China as people seek brands that they trust and that align with their values.

As the world of social media increasingly influences brand perception and reputation, brands will have to articulate meaningful value propositions to win customers who are now more conscientious and discerning. They should invest in data to drive a deeper understanding of Chinese consumers and develop unique products and service offerings that connect with them at the personal level.



**The key lesson learnt from the trend of “Guo Chao” is that, to be culturally relevant, brands need to understand and respond to their audience in a way that they can relate to.**

This can be done by having greater sensitivity on current events and cultural happenings that matter to Chinese consumers, promoting and supporting social and environmental causes, while remaining true to their brand image and relevant to their demographic.

Winning consumer trust is a prerequisite for winning their wallets. Companies will have to make building trust with consumers even more of a priority, knowing that the elusive trust factor can provide a ‘halo effect’ of goodwill, yet can also have devastating business effects if breached. Brands should identify key cultural elements that resonate with consumers and use storytelling to achieve a two-way conversation with their audience. They should also take into consideration regional and geographical differences in spending behaviour when engaging in cross-border e-commerce to serve overseas markets and customers.

Merely checking the boxes on the to-do list of brand relevance is simply not sufficient. Successful retailers would differentiate themselves by being the first to anticipate the emotional needs of their consumers and connect with them at a deeper level, especially during the ongoing pandemic. Those who are proactive and decisive about communicating their brand stories in the most relevant manner are likely to generate a return that outweigh the cost of inaction.

# Understanding the generational divide

The pandemic hasn't dampened younger consumers' spending outlook. They expect to spend more than older generations in the next six months, across product categories — including in nonessential areas such as travel, fashion and eating out. They are optimistic about their economic status and circumstances now, and are less price-conscious. They are also more inclined to describe themselves as “digital”, “data conscious” and “eco-friendly” than the older age groups.

On the other hand, compared to their global counterparts, senior Chinese consumers or the so-called “empty nesters”, tend to exhibit higher digital literacy, many of whom have skipped traditional computers and gone straight to mobile platforms, where they browse the internet, watch their favourite soap operas, and do online shopping.

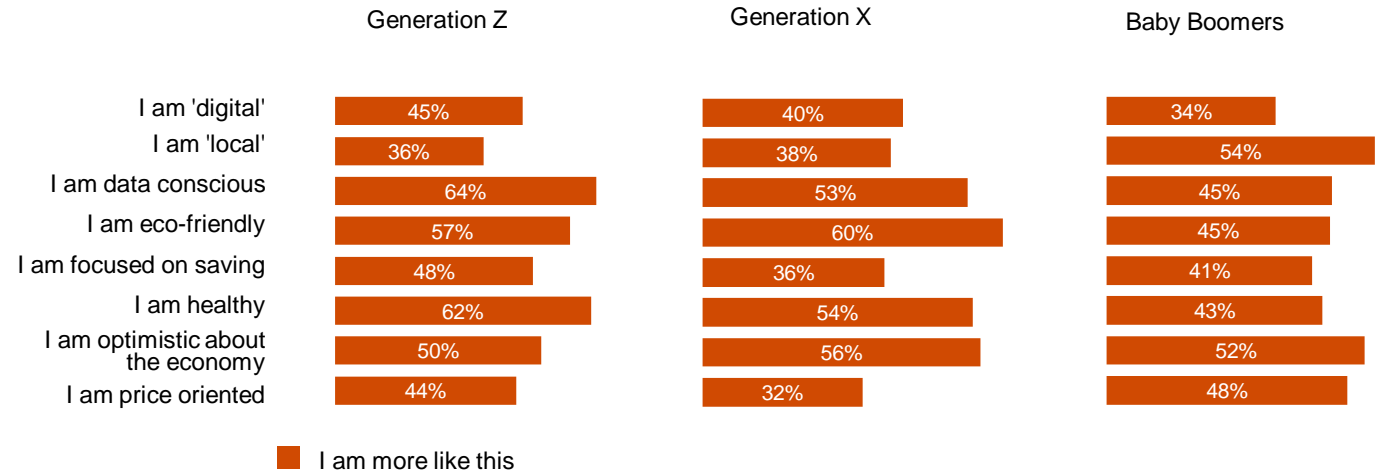
At the end of 2020, 11.2% of China's roughly one billion internet users were over 60, while the total of 50-and-over users came to 26.3%, up from around 17% in March 2020. According to iMedia Research, the size of China's “silver economy” is projected to reach RMB 5.7 trillion (US\$880 billion) by the end of 2021, compared to just RMB 3.7 trillion in 2018. This represents enormous opportunities for certain segments dominated by senior spenders such as homes furnishing, cruise travel, anti-ageing products, and robo-caregiving.

## Exhibit 18

### Understanding the generational divide

#### China

Q: Thinking of the last 6 months, please indicate from the list of attributes below how, if at all, you have evolved as a consumer.



Q: Thinking about the last 6 months, considering your general shopping behaviour both online and in physical stores, please indicate to what extent you agree or disagree with the following statements.



Source: PwC's 2021 Global Consumer Insights Survey



From the demographic standpoint, China's seventh population census pointed to the continued trend of population ageing in the country and a shrinking workforce. The 2020 population stood at 1.41 billion in which there are 264 million people aged 60 and over, comprising 18.7 percent of the total population. The demographic shift has accentuated the unique consumption pattern of silver-hair consumers.

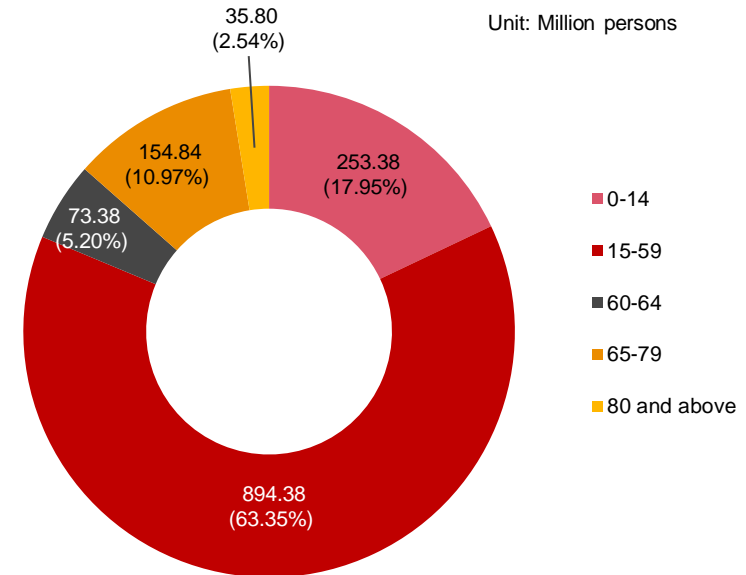


In response to the shift in demographic structure, the Chinese government has introduced a series of counteractive measures that can be summarised in four major areas.

They are expected to bring forth a wave of economic, social, and business implications, unearthing new opportunities for retailers with high responsiveness and adaptability to policy changes.

## Exhibit 19

### Age composition of the national population in China



Source: The seventh national population census, National Bureau of Statistics of China

#### Quantity of population

Increase fertility rate with strong policy support (ie 3<sup>rd</sup> child policy; promulgated regulations on out-of-school education)

#### Structure of population

Tackling the challenges imposed by an ageing population; deferred retirement age and the continuous reduction of labour-intensive industries and jobs will gradually become the new normal.

#### Quality of population

Increasing investment to improve the quality of education and training can offset the disadvantages of declining population.

#### Distribution of population

Accelerating urbanisation with coordinated regional city cluster development.



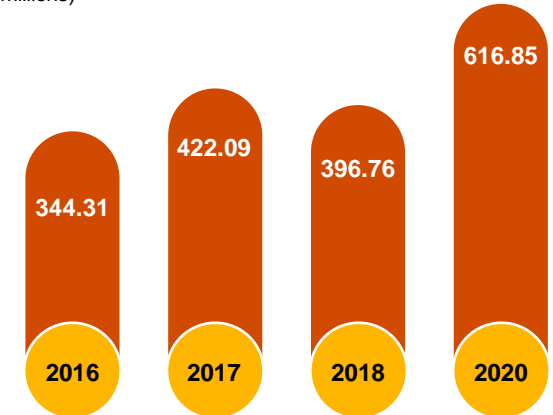
For Millennials, live streaming and social commerce have become a part of life and have taken the Chinese market by storm. In 2020, there were approximately 617 million live streaming users in China, representing a penetration rate of 62.4 percent among internet users. <sup>v</sup>



## Exhibit 20

### Number of online streaming users in China from 2016 to 2020

(in millions)



Source: Statista

As the live streaming industry proliferates, brands can no longer solely rely on KOLs or Wang Hong to market their projects due to high costs and quality control issues, instead they also employ Key Opinion Consumers (KOCs), who specialise in product review for a smaller patch of followers operating on lifestyle platforms such as Little Red Book (小红书). KOCs make sense to retailers due to their higher perceived reliability and trustworthiness.

In the meantime, many brands have also explored virtual idol live streaming to appeal to Gen Z consumers. For example, some partnered with video streaming platform Bilibili (哔哩哔哩) (which caters to the ACG (Animation, comics, and games) community) to develop virtual idols using VR technology, and to create content that merge the online and offline worlds.



## Implications and recommendations

For many retailers across product categories, the surging popularity of e-commerce and social e-commerce revolving around live-streaming, coupled with anti-trust regulations, has been an important push factor for them to diversify their platform exposure and increasingly operate on multi-platforms.

While the multi-platform operation model will bring new opportunities for merchants, it will also translate into higher operating costs and call for digital upgrading of operating capabilities for many traditional retailers. Considerations on the choice of e-commerce platforms vary across different types of merchants. Some pay more attention to the platforms' ability to boost brand awareness and repurchase rate, while others are more concerned on factors such as platform standardisation and sustainability of the whole ecosystem.

The unique characteristics of different platforms, such as Taobao (淘宝), Tmall (天猫), JD (京东), Pinduoduo (拼多多), Douyin (抖音), and Kuaishou (快手), mean that brands have to spend their resources wisely and selectively to get the most bang for the buck. Given that Tmall is the only one of several major platforms with directly-operated stores as the core of its operations, it is still the e-commerce avenue of choice for brand operators. JD.com is also very appealing to brands, especially in categories such as digital and 3C products (computers, communications and consumer electronics). On the other hand, Douyin has seen rapid growth in total traffic despite a relatively low base. However, from the ROI perspective, brand owners are still weighing the costs and benefits of doing e-commerce on Douyin versus direct-advertising in terms of reach and conversion rate.

It is important for brands to recognise the uniqueness in spending patterns between the younger and older generation and channel resources towards areas where both groups converge such as data consciousness, support for domestic brands, and eco-friendliness.

To appeal to younger consumers in China, it is critical for brands to find opinion leaders or KOCs that embody the right brand values, and who can reliably connect with target audiences through user-generated content. Dedicated agencies can help accelerate this task. For example, Chanel partnered with a local media company to establish a discrete network of micro-influencers, while also partnering with mega stars like the model Liu Wen.

Our study also suggests data protection means a lot to China's Gen Z than their older peers as 64% of them described themselves as data conscious. In order to gain their trust, retailers must show transparency in how they handle customer data and the measures taken to safeguard it.

On the other end of the age spectrum, as the older generation of Chinese consumers evolve to be more digital and novelty-seeking, new opportunities are rising from the silver-hair economy for brands who are quick to tap into the deep pockets of the "new young". In particular, the shift towards the mobile experience is most evident among the baby boomers, as many of them have migrated to digital channel for the very first time.



The silver hair market has popped up on the radar of many brands in China as one of the most profitable and fastest-growing segments.

Many retailers have devised a specific "silver-hair strategy" to map out the new needs of the older generation to take advantage of their higher spending power and brand loyalty.

Volkswagen is among the more successful Western brands that managed to efficiently target the senior age group with a commercial for its Beetle, featuring elderlies imitating teenagers. Meanwhile, iQiyi (爱奇艺) capitalised on China's short video boom to appeal to senior consumers through the launch of its short video app Jinshi (锦视) – which focuses on topics of interest for the older generation such as politics, health, gardening, and culture, etc.



# Sustainability-driven consumption and ESG ascendance

The notion of sustainable consumption and concern over climate change have never been more popular in China and such trend is expected to further proliferate as the country steers towards achieving carbon emission peak by 2030 and carbon neutrality by 2060.

Compared to global consumers, 74% of Chinese respondents (Global: 55%) in our survey said they intentionally buy items with eco-friendly packaging or less packaging. The same proportion (Global: 56%) would choose products with a traceable and transparent origin. More importantly, 72% (Global: 54%) said they buy from companies that are conscious and supportive of protecting the environment.

Exhibit 21

Q: Please indicate to what extent you agree or disagree with the following statements around shopping sustainably.





However, promoting sustainable consumption is not without its barriers in China. In terms of reasons affecting their ability to shop more sustainably, 41% of surveyed Chinese consumers cited “the lack of sustainable options” (Global: 32%) as the major inhibitor, followed by “inconsistent quality of sustainable products”(38%; Global: 24%) and “over-priced sustainable products” (28%; Global: 44%).

Besides changing consumer behaviour, we have seen a trend of increasing pressures from investors. Institutional investors have formed coalitions and engaged with professional service firms to exert pressure on poor ESG performers. For example, Institutional investors, like BlackRock and SSGA, vote against ESG laggards due to non-financial risk. In 2020, BlackRock took voting action against 53 companies for lagging in action and disclosure on ESG issues. Also, More than 500 investors with over US\$47 trillion in assets under management are engaging companies to curb emissions, improve governance and strengthen climate-related financial disclosures.

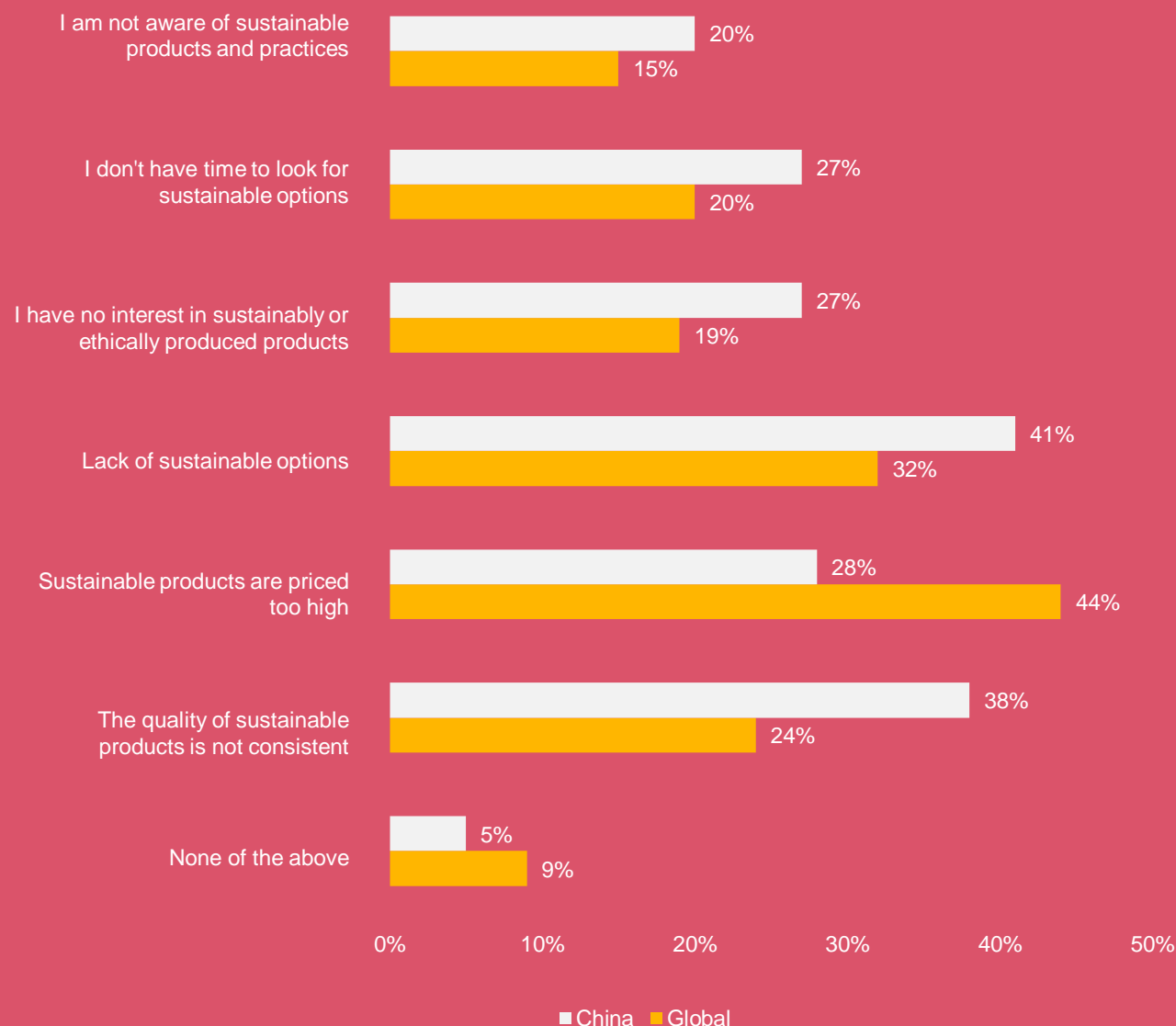
Investors have increasingly recognised that companies with strong response to climate change and other sustainability issues can better withstand adverse market conditions and outperform less resilient peers. Many investors are working to integrate environmental, social and governance-related insights into traditional investment approaches. For example, BlackRock has forecasted 20% of all ETFs will be tied to ESG ratings by 2028.

We have also seen examples from leading players that companies with high ESG ratings can benefit from better cost of capital. For instance, HSBC and Walmart have partnered up to roll-out a finance program that links the supplier's financing rate to its sustainability standards. As Walmart's suppliers demonstrate progress in their sustainability credentials, they will have access to improved financing from HSBC.

To better align with the country's new ESG goals and behavioral changes of their ESG-conscious customers, companies will need to undertake end-to-end business transformation. This includes understanding the implications of net zero for a company's growth strategy and operating model, and embedding net zero across all business functions from governance, to supply chains, to finance and innovation.

## Exhibit 22

Q: Which of the following, if any, affect your ability to shop more sustainably



Source: PwC's 2021 Global Consumer Insights Survey





## Implications and recommendations

The pandemic has reminded us that economic pursuit must be accompanied by management of resources for a sustainable future.



**Sustainability-based consumption, coupled with an embrace of ESG initiatives, is a huge opportunity for value creation.**

It is time for retail companies to take actions on ESG issues that simply resonate strongly with their stakeholders and complement the nature of their business, rather than just focusing on the product or service level.

While more regulations to spur stronger actions on ESG issues are possible, companies will have to embed ESG goals and ideas into their corporate culture and daily operating activities. Retailers should strategically invest in sustainability and ESG actions where every decision and action is viewed through a ESG lens.

Examples include proactively driving inclusivity and social impact of new net zero products and solutions, upskilling and reskilling to enable an inclusive workforce transition, providing broader support for SME partners and suppliers, integrating social metrics into reporting and disclosure around net zero, and incorporating inclusion and a “just transition” into policy advocacy efforts.



Cainiao (菜鸟) has moved to using recycled cardboard boxes and its proprietary plastic-free eco-friendly packaging for almost half of the packages shipped out from the platform's warehouses. It estimated a reduction of 13,000 tons of carbon emissions during 6.18, equivalent to planting 720,000 saxaul trees.<sup>ix</sup>

Shiseido has been ESG pioneer in incorporating ESG requirements into their future value chain partner selections and performance review. Shiseido has developed specific KPIs in this green logistics transformation journey to align on future business needs and targets (e.g. operational waste, carbon emissions, green package usage and labour overtime, etc.). Shiseido's top management has paid high attention to those green initiatives in China to be aligned with their global ESG strategy.

For Apple, ESG has been embedded in the company vision. The vision has become critical in guiding their actions and decision-making across their value chain. Consumer markets companies have usually faced a plethora of environmental and social challenges related to the sourcing, manufacturing, logistics and waste management of the products they sell. For Apple, ESG targets have been set clearly every year and its value chain stakeholders are under strict

scrutiny. ESG index and disclosures are well developed to track performance against its annual targets. We have seen significant ESG contributions Apple had made over the years throughout its global value chains.

Merely being reactive to meet consumer demand for more ESG-aligned products is not enough. Successful luxury brands have gone the extra mile to build narrative around their sustainability initiatives. Luxury brand Gucci now uses recycled packaging, while Hermès is experimenting with mushroom leathers.

Lamborghini recently pledged to transform all of its current car models into hybrids within the next three years and launch its first all-electric sports car by 2030.<sup>vii</sup>

To support companies on their net zero journeys, PwC has defined nine key building blocks for corporate net zero transformation. This 'blueprint' seeks to help companies move from ambition to implementation. It defines a checklist of critical actions companies need to undertake to transform to net zero; explains why these actions are important; and provides practical and actionable guidance for companies to follow.

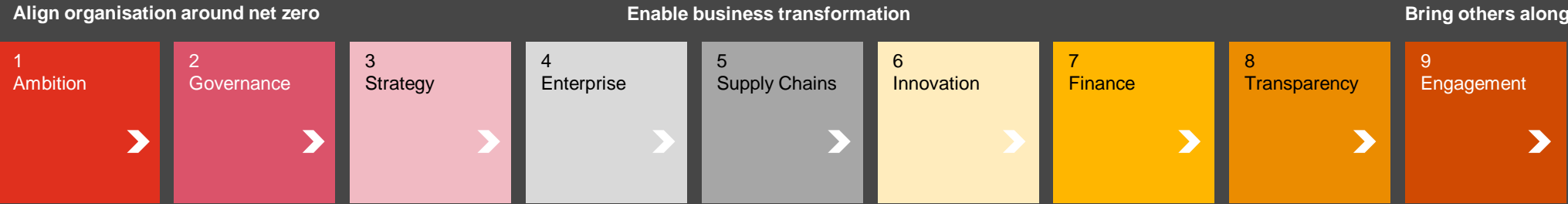
The building blocks, and checklists, include actions and suggestions that even today’s most leading companies on climate action may only just be embedding, or even considering. It is intended as a forward-looking framework to guide the net zero transformation journey rather than steps that are expected to be in place from Day 1.

In the consumer market context, brands should consider integrating net zero considerations into existing and new marketing campaigns to, for example, promote low carbon products and services, encourage sustainable buying practices, and promote net zero brand values. Other recommended options include building net zero into customer experience and journey, where applicable, to meet emerging customer demands and expectations, and leveraging insights from customer engagement channels to inform product development functions around new net zero aligned products and services that meet customer wants and needs.



Exhibit 23

Building Blocks for Corporate Net Zero Transformation (Source: PwC)





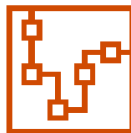
# The digitally-enabled supply chain

The COVID-19 pandemic has caused outsized disruptions to the global supply chain network, and in response to that, manufacturers and retailers are scrambling to reconfigure, if not reinvent their entire supply chain to stay relevant.

According to PwC's 24th CEO Survey, 57% of executives in the consumer market sector said they will increase long-term investments in the area of supply chain restructuring over the next three years as a result of the COVID-19 crisis. The figure is 15 percentage points higher than the global average.

For example, leading supply chain solution provider Li & Fung partnered with JD.com to provide end-to-end digital supply chain management services for the latter's private brand initiatives. The joint initiative will leverage the emerging C2M (consumer-to-manufacturer) business model – that is rapidly gaining momentum in Mainland China – to dramatically shortens the time to market. <sup>viii</sup>

Much of what we have recently seen in supply chain transformation was propelled by the direct-to-consumer (DTC) trend that enables retailers to scale quickly with new technological advancements. Over the past two years, many brands have evolved to adopt a DTC strategy to circumvent the supply chain disruptions brought by the pandemic. Examples of supply chain transformation included algorithms for inventory optimisation in real time, enhanced connection between points of sales and warehouses, adoption of blockchain and IoT sensors for higher transparency and control, and use of AI to offer instant discounts to fill shipping boxes for greater cost efficiency. Though traditionally supply chain is considered as cost to serve, the role of supply chain in DTC is much beyond fulfilment alone.



Direct-to-consumers can be the direct road to success when combined with highly efficient supply chains.

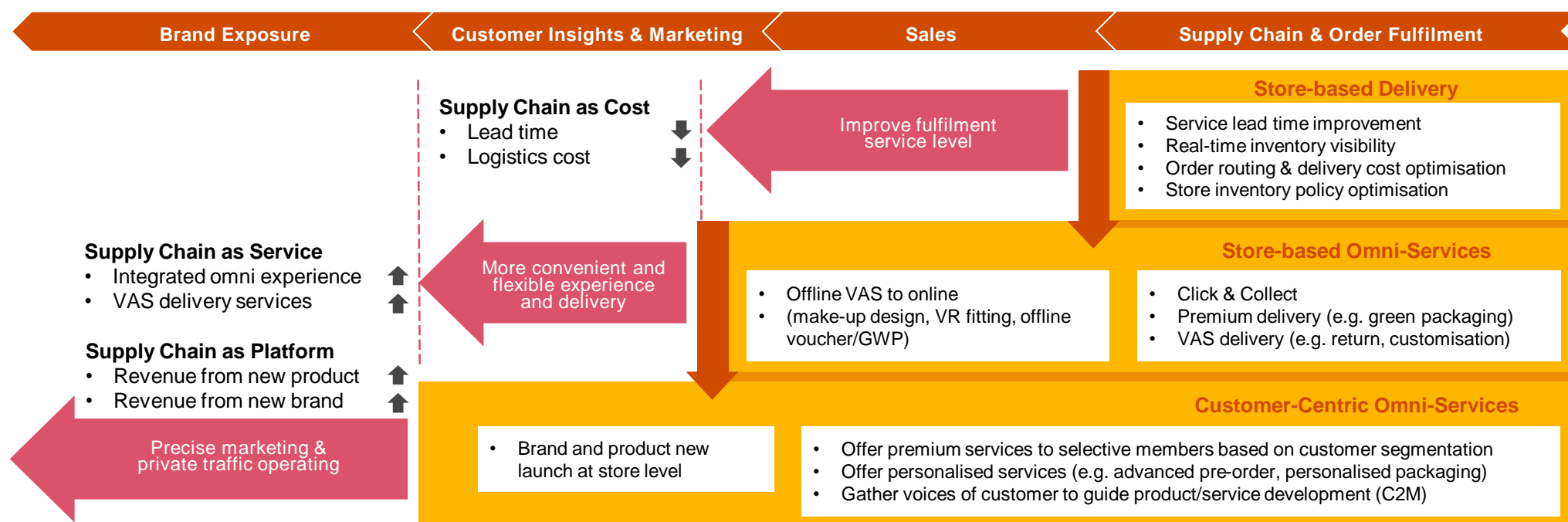
One example is DTC fast-fashion brand Shein which has leveraged its low-cost network manufacturing bases to release hundreds of new ultra-affordable clothing products daily all for distribution on a global scale, effectively shortening the product cycle and time to market. <sup>x</sup>

The following diagram illustrates a “3-stage” journey of supply chain empowerment for DTC Transformation:





## Supply Chain Empowerment for DTC Transformation: “A 3-Stage Journey”



During the first stage, brands and retailers focus on supply chain excellence. Supply chain network optimisation and smart logistics are widely adopted with improved lead time and reduced order fulfilment cost.

Moving towards the second stage, supply chain becomes one of the key success factors to differentiate shopping experience with rich value-added omni-channel services: “click & collect” and “return-to-store” provide more flexible options for “where I want”; “choose or change delivery date and time” can meet customers demand for “when I want”.

The third stage enables brands and retailers to attract and operate private traffic more effectively to

maximise Customer Life-Time Value through personalised offerings. At the same time, they could gather abundant customer data along all touchpoints to guide C2M product development and precise marketing. Thereby supply chain now plays as a platform to integrate downstream consumers and upstream suppliers, which can generate additional revenue from new brands and products.

Leading Japanese fashion brand, Uniqlo, is a pioneer in DTC transformation. They launched store-based omni-services (click and collect, store delivery, instant delivery) early from 2016, which greatly accelerated online sales growth and now contribute to 20% of its total online sales.

By integrating O2O inventory with more sizes in stock, it also successfully reduced loss of sales. In 2019, they started to encourage offline to online traffic conversion and membership registration. As a result, their membership size grew by 20% last year, upon which 60% of omni-channel sales are generated from repurchase.

The successful story is very encouraging for brands and retailers hoping to achieve significant financial returns from DTC transformation. However, success will be only limited to those with a fully digital-enabled supply chains, real-time stock integration, optimised O2O inventory policy, highly efficient distribution & logistics network and strong system capability at both company and store level.

#### 4 Pillars to Drive DTC Supply Chain Excellence



##### **“One Set of Stock”**

- Realise “one-set of stock” across online and offline DTC channels
- Design incentive schemes to motivate O2O services with shared inventory



##### **Optimised Inventory Policy**

- Design differentiated assortment plan and promotion strategy for DTC channels
- Set stocking policies and allocation rules for DC & stores based on different order fulfilment models



##### **DTC-Driven D&L Network**

- Optimise D&L network by leveraging store-based delivery
- Rethink service partnership strategy (eComm platform, 3PL, last mile delivery...) to gain more management control and further reduce cost & lead time



##### **Digital Enabler Readiness**

- Integrate system silos to enable real-time inventory updates
- Upgrade OMS capability with advanced order sourcing rules for multi-layer stocking points





## Implications and recommendations

Investment in smart logistics has become one of the most important methods for companies to improve their supply chain end-to-end agility. E-commerce platforms like JD and Tmall continuously improve lead time performance requirements for online orders; especially during the promotion period, brands are required to outbound online orders within 24-48 hours; logistics labour cost has increased, and online order handling in warehouse has become more difficult than before. All of the factors mentioned before urged brands and logistics providers in China to invest in a series of smart logistics facilities, to improve their efficiency, stability of distribution and logistics, and also to reduce the reliance on labour.

For example, a global leading sports-wear company has invested in the construction of a brand-new automated warehouses in Jiangsu, China, to assist its online and offline business development. The warehouse was implemented with a large scale of AGV, shuttle, and other automated equipment, which helped to improve overall operation efficiency, and at the same time it also tremendously reduced the number of incorrect orders generated by manual operation.

However, from the corporate standpoint, the application of smart supply chain equipment raises higher requirement on the standardization of product management, the maturity of IT system, and the competence of supply chain teams. Cooperating with third-party logistics service providers, experienced in deploying automated equipment in complex situations, has become an effective alternative for companies.

In sum, the ongoing disruption in global supply chain represents a perfect timing for brands to build, innovate, and enhance resilience of their supply chain. They can do so by re-examining every node in their supply chains to develop a deeper understanding of risk in terms of sourcing and potential disruptions, and introducing redundancies and alternative sourcing practices that promote resilience.

### Exhibit 26

#### Adopting AGV solution in Client's new DC for operations stability and capacity improvement

##### Common warehouse picking solutions

|                    | Manual picking   | Batch picking & PTL   |
|--------------------|--|---|
| Illustration       |  |   |
| Suitable Scenarios | <ul style="list-style-type: none"><li>Simple SKU mix</li></ul>   | <ul style="list-style-type: none"><li>High concentration of hot SKU</li></ul>         |
| Limitation         | <ul style="list-style-type: none"><li>Low picking accuracy rate</li><li>High reliance on temporary staff in peak</li></ul> | <ul style="list-style-type: none"><li>Not suitable to complex order pattern</li></ul> |

|                    | Shuttle   | AGV  |
|--------------------|---|--|
| Illustration       |   |  |
| Suitable Scenarios | <ul style="list-style-type: none"><li>Standard product shape</li><li>Strict shelf life management</li></ul> | <ul style="list-style-type: none"><li>Complex SKU mix</li><li>Strict shelf life management</li></ul> |
| Limitation         | <ul style="list-style-type: none"><li>High investment and mgt. complexity</li></ul>                         | <ul style="list-style-type: none"><li>High requirement on automation management knowledge</li></ul>  |

##### Adopt AGV + Manual Picking in new DC for B2C



Considering the complexity of products mix, adopt AGV + manual picking to increase operations stability and decrease reliance on manual work



# Conclusion

New opportunities have emerged in the post-pandemic New Retail ecosystem. Existing consumer behaviour are being forged into the new consumption pattern while some old ones are here to stay.

For one thing, retailers in China must recognise and adapt to the post-pandemic New Retail reality where the physical and digital world seamlessly merge – one that consumers can choose to live, work, travel, eat, play and shop wherever and however they want, both online and offline. The future of New Retail will be seamless combination of physical and virtual elements. Future stores will need to combine the best of online and in-store experiences to appeal to what consumers like best about shopping and minimise what they like least.

Brands and retailers should also prepare for a world with divergence of needs between generations, increasingly discerning consumers who prioritise sustainability and social impacts of their actions over price and other product attributes, and a more competitive landscape where consumer trust has to be earned through delivering meaningful value propositions.

As the Chinese government's supervision of the Internet segment has become more stringent, the aggressive, unregulated growth of e-commerce with brand owners only concerned with boosting traffic has become a thing of the past. Retailers are recommended to externally acquire compliance expertise to advise on their company's operation and governance.

Looking ahead, the strong confidence of Chinese consumers and their long-term behavioral shift will continue to power the transformation of post-pandemic New Retail, as we navigate away from the dark tunnel of COVID-19 towards a new era of “phygital” consumption. Nobody alive today will ever forget the year-plus that was dominated by the coronavirus. For many, behavioural changes, both forced and voluntary, will have become habits that redefine the consumer market. Savvy consumer companies will be alert to these permanent changes and make the much-needed adaptations to survive and thrive.



# Methodology

For the 2021 Global Consumer Insights Survey, PwC adopted a 'pulse' approach in order to remain attuned to changes in the worldwide landscape and connected to the behaviour of the global consumer. This semiannual study seeks to keep a closer watch on changing consumer trends. It was put into the field in late autumn 2020 and in spring 2021.

For the first and second Pulse survey, we polled over 16,000 consumers across 22 territories (Australia, Brazil, Canada, Mainland China, France, Germany, Hong Kong SAR, Indonesia, Japan, Malaysia, Mexico, the Middle East, Netherlands, the Philippines, Russia, Singapore, South Africa, South Korea, Spain, Thailand, the United States and Vietnam). Among the 16,000 participants, 1,000 consumers are from China (52 cities within 23 provinces, of which the top 5 are from Guangdong, Fujian, Jiangsu, Hainan and Beijing).

The survey was translated into 16 languages and fielded in March 2021. The respondents were at least 18 years old and were required to have shopped online at least once in the previous year. This survey and its analysis were undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services. For more, visit: [www.pwc.co.uk/pwcresearch](http://www.pwc.co.uk/pwcresearch)

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