

Consumer Packaged Goods and Retail Practices

The Chinese consumer: Resilient and confident

In this podcast, two China-based McKinsey partners impart advice on how companies can succeed in China's fast-recovering consumer market.



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Even as many parts of the world continue to battle the COVID-19 crisis and its knock-on effects, much of China has reopened: people are going out, streets are bustling, and businesses have resumed almost-normal operations. In this episode of the *McKinsey on Consumer and Retail* podcast, McKinsey's Felix Poh and Daniel Zipser discuss the present and future of the Chinese consumer sector. An edited transcript of their conversation with executive editor Monica Toriello follows.

Podcast transcript

Monica Toriello: Hello, everybody. Thanks for joining us today. On this episode, we'll be zooming in on a huge and growing part of the consumer sector: the Chinese consumer market. China is the world's second-largest economy, and Chinese consumers have grown in buying power for the past decade. And today, of course, much of the business world is looking to China for lessons on recovery, China being the first to experience the COVID-19 outbreak and the first to come out of lockdowns and reopen businesses, stores, restaurants, and so on.

To talk to us today about China are two McKinsey partners who are based there and who have not only done a lot of research and analysis on the Chinese consumer but also work with many consumer companies in China. First, we have Felix Poh, a partner based in the Shanghai office. Felix leads McKinsey's work on consumer marketing and sales across Asia. Hi, Felix.

Felix Poh: Hi, Monica. Glad to be here.

Monica Toriello: Also joining us is Daniel Zipser, a senior partner based in Shenzhen. Daniel leads McKinsey's work in the consumer sector in Greater China. Thanks for being here, Daniel.

Daniel Zipser: Good to be here, Monica.

Monica Toriello: To start off this conversation, it would be great if you could situate us. Give us an overview of the state of the economy and, specifically, the consumer sector in China in mid-2020.

Felix Poh: The word that comes to mind is resilience. When I survey the Chinese economy, when I talk to many of my consumer clients, they have made a near-full recovery in top line versus 2019. Obviously, it varies by sector, but in many cases, particularly for my multinational clients, they are leading growth for their companies worldwide. And other markets are looking to China as that glimmer of hope, in terms of what the recovery could look like after the large-scale outbreak. So I would say, overall, it's a hopeful place to be in China in mid-2020.

Daniel Zipser: If I were to pick one word to describe the state of the Chinese consumer, I would say, "confident." I did find the last six months remarkable—to see how, back when the crisis hit in late January, the whole country stood together. I was very touched. The consumer now is coming out of the crisis and feeling a sense of pride and confidence that they have mastered it as a country; many Chinese would say that China has mastered the crisis better than other places in the world. You do see a confidence, which is also translating into spending.

Recent changes in consumer behavior

Monica Toriello: Resilience and confidence—those are very hopeful and inspiring words, especially hearing them as I sit here in the US, where the current situation is quite different. Many companies around the world are looking at the Chinese market as a reference point—as a sign of things to come in their own geographic region. So let's talk a little bit about consumer behavior in China. What behavioral shifts have you seen happening in recent weeks and months? And which of those do you think are China-specific, versus which ones do you think will play out in other parts of the world in similar ways?

Felix Poh: I think the first thing to note when it comes to talking about shifts that we see in China and applicability to the rest of the world is the fact that the Chinese consumer is typically among the most optimistic in the world. They have largely not lived through a recession or a downturn, because even in 2008–2009, that was quite muted within

“The Chinese consumer is typically among the most optimistic in the world.”

–Felix Poh

China. So I think that the rapid recovery and bounce-back that we see in China can be replicated in other markets, but we need to caveat that we are dealing with a very resilient, optimistic consumer—and that may or may not be the case in other markets.

What I see in terms of trends would be, absolutely, an accelerated shift to omnichannel and online. We saw that in online grocery retail, in apparel, in cosmetics. We saw the rise of what people term social commerce: an explosion in livestreaming or selling through WeChat private-domain groups.

We saw the rise of the at-home occasion, as people were restricted in their movement. They actually found, probably to their surprise, that they like spending time at home, cooking for themselves. We saw an increased health-and-wellness consciousness, which was already underway pre-pandemic and outbreak but really became more pronounced during the outbreak.

I think here-to-stay trends are typically where behavior meets satisfaction. So in that vein, I expect online shopping and the acceleration and the increase that we saw in China to be here to stay, to persist, because service levels in China are high, the delivery speeds are quick, fulfillment is in a matter of hours, and consumers genuinely liked and appreciated the experience. And once you've signed up to a platform, once you've created a password, once you've set up a payment method, you don't have to do it again. So that's an example of a trend that I think is here to stay. I contrast that, for instance, with

certain parts of Europe where the infrastructure or the service levels are not as high and where delivery fulfillment is in a matter of weeks, not days or even hours. And in those parts of Europe, for instance, I think there will be no increase in online shopping, because behavior does not meet satisfaction.

Daniel Zipser: Let me highlight one more important difference between China and many other parts of the world. In China, even at the peak of the pandemic in February, the unemployment numbers were only lightly raised—by one percentage point. This is very different than in Europe or North America, where you actually do have a substantial increase in unemployment. Why does it matter? Because in the China context, back in February, people may not have been spending—not based on a reduced income but because they were staying home and not going out to the shopping malls and the department stores. So in that respect, once the market opened up, this consumer was still employed, still had a good salary, may have even saved some money in February and March, and is now out again and spending this money. I think this is something that is structurally different between China and other parts of the world.

One other thing that is important to note is that none of the trends we're seeing right now in China are actually new. If we would have spoken a year ago, we would have spoken about the same trends. The difference is that the Chinese consumer trends we've been seeing in the past year have been massively accelerated and amplified in importance.

Monica Toriello: A lot of what you've been talking about has been reflected in the consumer-sentiment surveys that McKinsey has been doing across 40-plus countries around the world, including China. Based on those surveys, you've divided the behavioral shifts into three categories depending on how sticky you expect them to be, and the three categories are, one, works for now; two, accelerated shifts; and three, potentially here to stay. And when I look at the behaviors in each of those categories, some of them aren't surprising. For example, remote learning at home for children is in the works-for-now category, because I think most parents want to see their kids back in school as soon as it's safe; they don't want their kids at home, looking at the computer screen all day. But to me, some of the other categorizations were a little bit more surprising—like, online fitness falls under “potentially here to stay.” What's your take on some of these behavioral shifts? Are any of them surprising to you?

Felix Poh: As the father of three children, I can heartily echo the sentiment of wanting them to go back to school as soon as is humanly possible. It's actually really fascinating to look at what we think might stay and persist and what might not. What I think is going to persist is the rise of the at-home occasion. I think you typically had a Chinese consumer who enjoyed going out, who enjoyed going to malls—you know, we talk about “retail-tainment.” I do think that through this outbreak, what people found, even as they were “trapped” at home, is that they genuinely liked some of the activities at home.

Obviously, there will be some reversion to the mean. People will go out again. They will go to malls. But I do think that the affinity for the at-home occasion has risen and that companies will need to really be very thoughtful about how they tackle the different at-home occasions in order to continue to be successful going forward. Linked to that, for instance, would be online fitness. I do think it's a

trend. Of course, people will go back to gyms, but there is still a bit of a fear of large crowds. But I do think it goes back as well to what I said: if people tried a new action and the satisfaction levels were high enough, then that behavior likely sticks.

Daniel Zipser: I think many of the things we've been talking about, people tried for the first time. Back in February, you did see, for example, the older generation trying to buy online for the first time. They experienced it as convenient, so we think it is here to stay. I don't think online fitness is a trend that is new, but it was accelerated, and because of the convenience of it, it stays.

Discretionary spending in China

Monica Toriello: Another product category that has seen more of its sales migrate to the online channel during the pandemic was luxury goods. Daniel, you've done a lot of work in the luxury sector, which in recent years has relied quite heavily on Chinese consumers, shopping both in China and abroad. How has COVID-19 changed the luxury sector, and what are its prospects for the next 12 to 18 months?

Daniel Zipser: Global luxury sales in the first half of 2020 are down around 30 percent, largely driven by a soft US market. As for China, there are two ways to look at it. One is, you look at China in terms of people buying things domestically here in Mainland China. And that's strongly growing right now—probably growing stronger than ever before. Chinese people aren't traveling, and that prevents them from buying luxury goods overseas, which is very much impacting the luxury companies that are heavily dependent on tourist spending. But if you talk about domestic spending, that's actually accelerating, because, first of all, people aren't buying outside of China, so they are buying in China. Second, people save a lot of money by not traveling. If you don't do a summer holiday trip, you have more money to spend [on other things]—and the luxury handbag is often seen as a good thing to spend that money on.

There is no fatigue of luxury spending in the China market. Earlier, I described the confidence [of Chinese consumers], and people like to show their confidence by buying luxury goods. So overall, we speak about China domestically as going through the roof in terms of luxury. Globally, it will still depend. We will see when the travel restrictions will be released. It may still be a longer time to go there.

Monica Toriello: Felix, in June you published some research about how consumers in three Asian countries, including China, plan to spend their money post-COVID-19. What were your big takeaways from that research?

Felix Poh: When we did the research, consumers told us that generally they were not canceling their purchases. This is good news, because these purchases fall under what we typically call discretionary spending. There is, however, likely to be a certain amount of pragmatism and trading down. For brands, more good news is that consumers want to stay within their brand of choice. But in order to trade down, they would either buy a cheaper product within the same brand or a product on promotion.

An interesting finding is that a certain number of people had what we termed “residual social guilt.” There is a proportion of the population that does not want to appear ostentatious or overtly enjoying themselves while the country is still recovering from a pandemic.

Daniel Zipser: Felix brought up promotions, which I think is an important topic. The promotion intensity has substantially increased in China over the past months. And why is that? The companies were trying to get consumption back, get people back to the stores, drive online sales. So right now, it's a very attractive time to buy products in China, given that you find very compelling offers in prices.

What executives are thinking about

Monica Toriello: As you've been working with consumer companies, what are executives thinking about at this moment in China? What topics matter to them most right now? On the flip side, what are topics that they should be thinking about more that they're not paying enough attention to?

Daniel Zipser: Let me start with what's on the mind of every executive in China right now. Everybody in China is aware that China right now is propping up global consumption—that is, the share of consumption coming from China has increased substantially over the past months for every multinational company. So what's on people's minds right now is growth and how to get the growth. I think there are three priorities: digital, digital, and digital. It is just incredibly important for every Chinese company to tap into the new ways of digital engagement, as well as digital commerce. There are elements like social commerce, which emerged back in February, that we believe are here to stay.

You also asked about what they're not looking at. I think there is enthusiasm right now about the China growth story, but I do think that companies could pay more attention to making their businesses more sustainable, to thinking a bit more for the long term and not be carried away by seeing the skyrocketing internet sales. [Companies should be] thinking, “What does it take in terms of organizational setup? What does it mean for our organizational structure in China? What will it take, in terms of our innovation pipeline, to remain successful in China for the medium to long term, not just the short term?”

Felix Poh: When I talk to my consumer clients, what's top of mind is the impact of a prolonged, global downturn. And if that happens, obviously, that affects consumer confidence and consumer spending and ultimately has an impact on companies that are based in China. So that's the

number-one concern. And based on what's going on in the US and Europe, I will admit, the picture is probably mixed at best right now.

In terms of what potentially they can use this time to think more about, this outbreak has really put into stark perspective how important it is to have a resilient and agile supply chain. Companies should take this moment to derisk their supply chain. If it's single source, for instance, in a fairly volatile area, now is the time to find multiple sources of supply. And it's also about increased localization and regionalization of their supply chains.

I do think we are at an inflection point when it comes to this consciousness on health and wellness. Companies can play a role in defining and shaping what exactly that means with consumers—be it fitness, be it zero-calorie or zero-sugar options, be it food-replacement products, which are actually becoming quite popular today. I do think that the infusion of health and wellness options across consumer sectors is something that companies can be very thoughtful about.

Monica Toriello: You've both mentioned new challenges and new opportunities that the pandemic has brought about. I'm curious if you've seen companies start doing things differently on a day-to-day basis. In other words, do you think the pandemic has changed how companies operate or how they plan for the future?

Felix Poh: Something that maybe is not new but is certainly more pronounced and certainly part of the advice we give companies is that companies today should not plan for a specific future, which is so incredibly uncertain and made even more ambiguous given the outbreak. But what we advise companies to do is to plan for a series of different plausible scenarios. There is a lot of uncertainty, but if you can identify a number of likely scenarios and the trigger points for when different scenarios might play out, that's how we believe you ultimately become more prepared.

There could be actions that make sense across scenarios. Those are no-regret moves. For instance, if you believe health and wellness is a trend in any scenario, or you believe an accelerated online shift is going to happen in China regardless of scenario, then those are the actions you prioritize. There are others that will become important depending on the trigger point and depending on which scenario you think might be coming true. But that's what we're asking clients to do: embrace more uncertainty, be a bit less specific in their long-term planning, take into account multiple scenarios, and develop a muscle in scenario planning for the future.

Daniel Zipser: The environment is changing so fast, and we won't know what the next crisis is, so to be more agile and more responsive to the situation is what really matters. Let me give you an example of how fast things are changing. We conducted a consumer survey in the beginning of April, and we asked, "Do you think that you will do any domestic travel again as a tourist?" Two to three percent said yes—so, pretty much nobody. Then, May holidays came, just two to three weeks after we conducted the survey. And suddenly, 100 million people traveled and went on trips for the May holidays. You can't predict those. We live in a world of uncertainty, and you need to be prepared, to be quick and agile, to react if new things pop up.

Advice for multinational CEOs

Monica Toriello: If you could gather all the multinational CEOs and give them one piece of advice about either entering China right now or doing business in the Chinese consumer market, what would you say?

Daniel Zipser: Well, I've always been asked, "Daniel, what's the next China?" And the only thing I can tell the multinational CEOs is, "China is the next China." China still has massive opportunities to drive productivity, and as a result of that, we will see a continued increase in salaries. Even in 2019–2020, China has seen an increase in salaries, and

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–Daniel Zipser

that’s lifting people into the middle class and the upper middle class. China remains a middle-class, consumption-driven economy, so the prospects for consumer companies to drive consumption and revenues are unparalleled. I don’t see any other economy in the world driving the same level of consumption growth over the next five years.

Felix Poh: The advice I would have, if I could gather multinational CEOs into one room, is to really hammer home the message that China is different. Empower your China organization to make decisions for China in China, and that means anything from innovation to go-to-market to responding to local competitors more quickly and nimbly. Typically, multinational corporations [MNCs] tend to lose out because it’s hard to wrap your mind around the notion that China is different and may require a different playbook from the rest of the world. There could be multiple layers of approval before an action can be carried out. And in China, you have a number of agile, nimble, local competitors for whom these constraints are not true. So my advice would be to really empower the China organization to be able to compete effectively and well against local competitors, because I truly believe that MNCs still have a role to play, still can be differentiated, and still can win in China.

And ultimately, China for the world: what you develop in China on products, on services, and go-to-market very often is cutting edge and should serve as an example for other parts of the world. That’s what I would like to tell the MNCs.

Monica Toriello: So let me just pick up on that. Clearly, one of the ways they can compete best is by attracting Chinese talent. So talk a little bit about how consumer companies can compete for talent in a world where talent is scarce, especially digital and technical talent. What do consumer companies need to do in order to attract and retain the kind of talent that they need to win?

Daniel Zipser: Many people say, “Well, money can solve it all.” I think that’s incorrect. That world which is often described in which Chinese executives would switch companies if you give them a few renminbi more, I don’t think that’s correct. I’m not sure it ever was, but definitely not anymore in 2020. I think it is much more about creating an environment where people can progress, where they see growth and opportunities. The local companies are often better suited to articulate that, whereas the multinationals, particularly small international companies, struggle to define a growth path for their Chinese talent.

Felix Poh: Practically, there are a number of things you can do. For instance, if this is not already done, it should literally be done tomorrow: the China organization should report directly to the global CEO. In other words, take it out from under the layers of Asia–Pacific or Asia as a whole, because, as Daniel said, there is no next China. China is so important; it needs the visibility of the global CEO. It goes back to my previous point about empowering the China organization. That’s a very visible sign that you can send, in terms of how important and vital China is to the future of the company.

I also think that you obviously cannot outdo local companies in terms of China pride, but what MNCs can do is provide a global career progression path for executives. I think that's still attractive, just in terms of being able to gain experience in different markets. That's certainly something that can be emphasized.

And here's a dark horse—a personal opinion: I think purpose will become more important as well, especially coming out of this outbreak. I think if MNCs can articulate a higher-order purpose in

terms of what they are doing, that will be attractive, particularly to younger Chinese talent.

Monica Toriello: Purpose is something I'd love to talk about some more, and I do agree that it's becoming more important, but unfortunately, we're out of time. Perhaps we'll explore it in greater depth in a future episode. It's been a great conversation, so thanks again, Daniel and Felix, for talking to us about the consumer sector in China. And to our listeners, thanks for sticking around. Join us again in a few weeks for the next episode of the *McKinsey on Consumer and Retail* podcast.

Felix Poh is a partner in McKinsey's Shanghai office, and **Daniel Zipser** is a senior partner in the Shenzhen office. **Monica Toriello** is an executive editor in the New York office.

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