

RESEARCH

5 trends from McKinsey & Co.'s 2021 China consumer report

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McKinsey & Company released its 2021 China consumer report, explaining how COVID-19 has changed Chinese consumption and the trends now shaping the Chinese economy. Image credit: Louis Vuitton, Haitong Zheng

By [Adina-Laura Achim](#)

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McKinsey & Company released its "[China consumer report 2021: Understanding Chinese Consumers: Growth Engine of the World](#)," which explains how the COVID-19 pandemic has changed Chinese consumption. The report also touches upon key trends that are currently shaping the Chinese economy.

According to McKinsey's analysis, **COVID-19** has radically accelerated five trends that were already going strong. For example, the pandemic positioned digital tools at the center of most operating models. As such, digitization in business-to-consumer (B2C) applications and channels is of great importance to brands. And global players wanting to stay ahead of the curve understand the importance of fully embracing disruptive digital technologies.

Take, for example, **Nike**, whose first-quarter digital sales in China increased 30 percent year-on-year after it inaugurated its Nike Training Club app.

But McKinsey also emphasizes the consequences of China's shift toward a domestic consumer market and its economic "decoupling" from the United States.

These changes have drastically impacted global supply chains. Thus, several governments have promoted financial agreements to support companies in crucial industries that are domestically reinstating their manufacturing operations from overseas.

Rising competition, consumers' coming of age, the strengthening of the private sector and structural reforms to land, labor and capital markets are also shaping China's post-COVID-19 economy.

"In the wake of the 2003 **SARS outbreak**, SOEs were the major driver of China's economy, accounting for about 55 percent of China's assets and 45 percent of profits," says the report. "Today, the private sector contributes close to two-thirds of China's economic growth, and 90 percent of new jobs, illustrating a significant shift in the balance of economic power."

Yet, some of the consequences that correlate with these developments are far from negative.

In particular, consumer confidence has been running high. McKinsey consumer sentiment surveys highlight that net optimism in [China's economic recovery](#) has reached 50 percent as compared to 22 percent in the U.S. an apparent contradiction to the gloomy perspective that prevails in Europe, [Australia](#) and Japan.

In line with this new global reality, shopping habits in China are changing. The COVID-19 pandemic has pulled new consumer segments away from traditional retail, forcing them to embrace ecommerce and an omnichannel ecosystem. Likewise, the change has impacted the luxury goods sector.

"There was clearly an accelerated shift to online purchases not a new trend, but one that was turbo-charged by COVID," said Felix Poh, partner at McKinsey, to *Jing Daily*.

"You see luxury brands doing a lot more on Tmall and DTC platforms, such as the WeChat Mini Program, as well as experimenting with livestreaming," he said. "But still, it is with an inherent cautiousness to avoid losing their exclusive appeal or be too closely associated with platforms mostly known for price discounting."

Despite a recovery trend of offline consumption, McKinsey highlights that discretionary spending, night-time shopping, and epicenter spending are all still slacking.

For example, discretionary categories, such as department stores and fashion stores, saw reduced basket sizes.

"Department store basket sizes were 54 percent smaller during the crisis, and have recovered only slightly in March and April, to a level that is around 21 percent smaller than before the crisis," says the report.

The report also points out that this change could reflect the desire to spend more time at home instead of in crowded environments. For [luxury consumption](#), overseas travel restrictions have helped the domestic market speed up the repatriation of Chinese luxury spending.

"The luxury market was surprisingly robust, as what is normally travel retail consumption or purchases overseas got redirected to domestic consumption, given the lack of international travel," Mr. Poh said.

The McKinsey report concludes by saying [luxury brands](#) that understand the strategic importance of consumers from lower-tier cities are getting digital transformation right and are differentiating themselves through "tailored local experiences." Those are the brands that are winning the customers' hearts in China.

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