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5 key China consumption trends for 2023: McKinsey

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As China remains challenged, how can brands best prepare for 2023? Image credit: Bosideng x Maserati

By [Julienna Law](#)

As 2023 fast approaches and businesses continue to grapple with uncertainties in China, how can they best prepare for the year ahead?

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McKinsey & Co. has some answers: Pulling from a nationwide survey and online transaction data across major Chinese ecommerce platforms, the global management consultancy firm has identified five key trends reshaping the consumer market.

First, not only is China adding more middle-class households each year than any other country but it is expected to add another 71 million upper-middle and high-income households (annual incomes above \$23,000 or RMB 160,000) in the next three years.

Second, these domestic consumers are preferring premium brands over mass-market counterparts.

Third, they are getting creative at finding the cheapest way to buy what they want, whether it is through WeChat group buying, Taobao or livestreaming deals.

Fourth, they are educating themselves more on the technical specifications of their favorite products.

Lastly, they are still choosing domestic brands over foreign peers and not just because of national pride.

The Jing Take: These findings come as Chinese consumers buckle down on their spending; 58 percent of Chinese survey respondents indicated their desire to "put money away for a rainy day," the highest level since 2014.

At the same time, nominal disposable income per capita rose by 5.3 percent in the first nine months of 2022.

As McKinsey put it, this means that "if, and when, consumers bounce back, they will certainly have a lot of money to spend."

To win over these cash-flush customers, it is important to apply these key insights.

In particular, the preference for premiumization presents an opportunity for brands to focus on their high-end

offerings; McKinsey notes that Tmall sales of premium skincare brands enjoyed compound annual growth of 52 percent between 2019 and 2021, compared with just 16 percent growth for mass-market brands.

L'Oral is one global name to benefit, with its **L'Oral Luxe** division achieving record market share in China in the third quarter despite repeated lockdowns and an impacted travel retail business.

As shoppers become wealthier and savvier, functionality has become the most important factor influencing the purchases of fast-moving consumer goods.

When it comes to non-food items, the three key buying factors are efficacy, safe or natural ingredients, and whether a brand is well-known. As such, combining high-quality design with functionality will be key to catering to Chinese consumers evidenced by the rise of specialized clothing or niche outdoor lines.

Take Chinese down apparel specialist Bosideng, which **ranked first** globally in terms of down jacket sales in 2021: Its Dongfeng jacket series is marketed as high-tech and field-tested, equipped with four-layer temperature control and 5G communication technology.

On this note, Chinese consumers are also prioritizing local brands for their quality and innovation, not just their **"Made in China" label**. McKinsey's study shows that almost half of Chinese consumers think domestic names are "better quality" than foreign brands.

Additionally, the former have the home advantage by being closer to consumers and are thus able to react faster to trends.

To compete with these nimble local players and capture skeptical shoppers, McKinsey advises that companies give consumers a behind-the-scenes look at how their products are made, as well as broaden online and offline touch points to get word out about their latest launches and stay on top of what is hot in China.

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