BUSINESS SWEDEN

UNDERSTANDING POST-PANDEMIC CONSUMERS IN CHINA

How Swedish companies can succeed in capturing the potential in the Chinese consumer market

FOREWORD

The Covid-19 pandemic had a profound impact on people's lives globally. In China, with its zero-Covid restrictions, the pandemic reshaped the way people lived including their purchasing behaviours. Many of the consumption patterns sparked by the pandemic have continued in 2023 and 2024.

As China emerged from its prolonged pandemic restrictions, the anticipated release of pent-up demand was slow and the expected boost in consumption faltered despite efforts to revitalise it. The year ended with total retail sales growing by 7.4% year-on-year in December 2023 – the weakest growth recorded since December 2022.

The development ahead remains uncertain, with both positive and conservative forecasts available regarding the future of the Chinese retail market. Growth is still expected albeit not at preferred levels, with forecasts ranging between 5.3 to 8.3 per cent yearly until 2026 depending on the source. Regardless, the size of the Chinese consumer market is vast, and China remains Sweden's most important trading partner in Asia.

With new consumer patterns, an ever-evolving digital landscape, and efforts to boost consumption, it is essential for Swedish consumer goods companies to understand what consumers in China are looking for, how they should act, and how Swedish companies can best capitalise on this to grow their sales in China.

This report, based on data from 1,600 consumers in eight Tier-1 and New Tier-1 cities in Mainland China, provides insights into the purchasing journey of Chinese consumers, and highlights five key actions for Swedish consumer brands who wish to succeed in the Chinese market.

We hope you will enjoy this read, and that it will be helpful in your growth journey.

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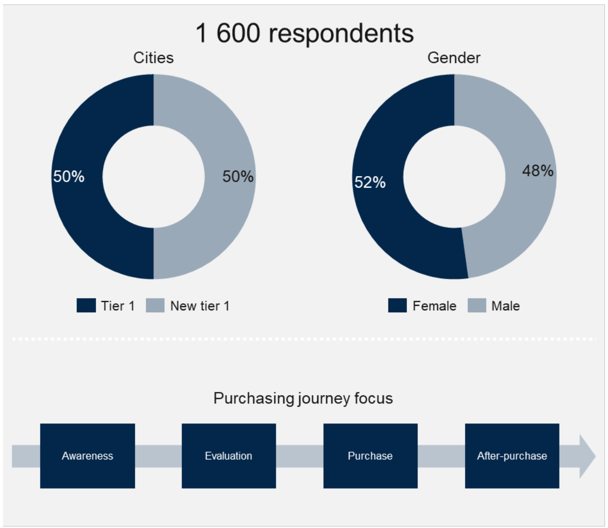
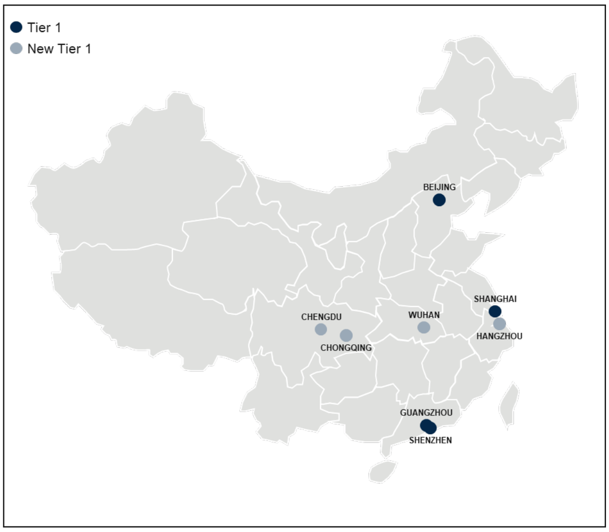
ABOUT THE SURVEY

In Q4 2023, Business Sweden conducted an online survey with responses from 1,600 Chinese consumers with a monthly household income of over 15,000 RMB in four Tier-1 and four New Tier-1 cities in Mainland China (200 respondents in each city).

The questions focused on consumers' purchasing journeys and were linked to a specific purchase that the consumer had conducted in the past week. The data was analysed by Business Sweden, providing insights into the purchasing behaviours of consumers in various cities as well as across various product categories.

Respondent base and geographical coverage:





Product category split and respondent characteristics:

FASHION & BEAUTY — **43%**
Adult Apparel & Accessories | Cosmetics & Personal care | Kids fashion

FOOD & HEALTH — **32%**
Food & Beverage | Supplements | Medicine & Other Healthcare Products

HOUSEHOLD PRODUCTS — **15%**
Furniture and interior design | Household necessities | Baby products | Electronic devices and appliances

SPORTS AND LEISURE — **9%**
Sports and outdoors | Games and toys | Pets & pet products

20 – 39 **Age of respondents** (69% of respondents)	**3** **people in the household** (49% of respondents)	**15 000 – 35 000 RMB** **monthly household income** (82% of respondents)	**Family** **is second most common receiver** (27% of purchases; ~55% for supplements and medicine)

HOW THE PANDEMIC CHANGED CHINESE CONSUMERS

Purchasing power in China is expanding from Tier-1 to New Tier-1 cities and beyond. Meanwhile, pandemic control measures, technological advancement, and the economic slowdown has led to changing consumer behaviours.

China is undergoing rapid and wide-ranging urbanisation, with populations in urban areas expected to grow from 65.2% in 2022 to 72.2% by 2040.

New Tier-1 cities, such as Chengdu and Hangzhou, are benefiting from economic development and talent spill-over, and expected to be increasingly important as high-end consumer markets over the next decade.

The purchasing patterns in Tier-1 and New Tier-1 cities are converging, with little difference in how information is consumed. Reaching Chinese consumers has become less about understanding where they live, but rather on what and how they buy.

In recent years, Chinese consumers have become increasingly digital. 67% of respondents state that when seeking information about products, they use digital channels more today than they did in 2019. The same trend can be seen when it comes to conducting purchases, where 64% state that they do more purchasing online today than in 2019.

Despite this, offline channels remain crucial and should not be forgotten. 64% of respondents had one or several touchpoints with offline channels in their purchasing journey – from becoming aware to the product, to seeking information about it and finally to purchasing it. And 7% only had touchpoints with offline channels.

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Consumers think Nordic brands are both modern and clean as Scandinavian design is very welcomed among consumers for being simple and stylish. At the same time, concepts such as sustainability is currently too advanced for Chinese consumers.

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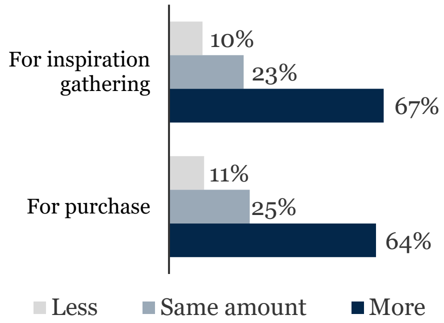
– 北欧三宝妈 (Jessie J)

KOL focusing on Nordic products, CO-Founder of BBK

Use of digital tools as part of purchasing journey now compared to pre-covid



Source: Business Sweden consumer survey

Chinese consumers are also becoming more cost conscious. With uncertainties about the recovery of the Chinese economy, consumer confidence has deteriorated resulting in a tendency to save more and consume less[1]. A tendency to 'think twice' before purchasing and comparing prices across channels is therefore increasing, and more focus is put on value.

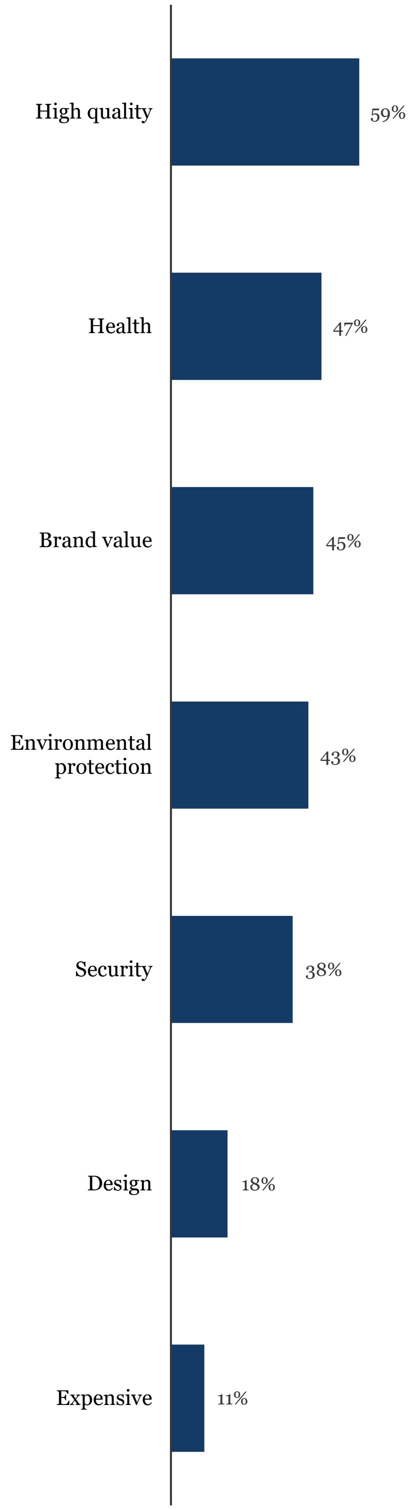
Product quality is crucial for Chinese consumers when evaluating products, with data putting it as the highest ranked factor for both product and brand aspects in purchasing decisions. In addition, quality concerns are seen as the main reason for product returns.

Quality as well as value for money should therefore not be underestimated or overlooked when looking to expand in the Chinese market, as it influences both the likelihood of a purchase as well as the rate of return.

Finally, the identity of the end-consumer also needs to be considered. Naturally the majority of purchases are for the purchaser themselves, but for certain categories this is not the case. Aside from products obviously bought for other users – such as kid's fashion, baby products and pet products – 57% of respondents state they bought supplements and 51% bought medicine and other healthcare products – for other family members, primarily parents.

Swedish companies who want to succeed in expanding in the Chinese consumer market therefore need to understand their end customers (as well as the buyers if they are not the same), whilst highlighting product aspects that can help consumers in their decision – quality and value being two of them.

Qualities most associated with Swedish brands



Source: Business Sweden consumer survey

[1] A consumer confidence index below the 100-line indicates a pessimistic attitude towards future developments in the economy, and a tendency to save more. The Chinese Consumer Confidence Index in March 2023 was 94.9 before it stopped being reported.

UNLOCKING THE PURCHASING JOURNEY

Understanding the consumer, as well as their behaviour along the purchasing journey, is key when looking to build a customer centric strategy.

When it comes to how Chinese consumers typically traverse purchasing journeys – from encountering a product to a successful purchase and delivery – they tend to stick to the channel where the product is first encountered whether that be on- or offline.

This however does not mean that all consumers stick to only one channel. While data shows that 34% of respondents used a single-channel strategy when it comes to online vs. offline, a larger portion use some type of multi-channel strategy. Either as a mixed journey (maintaining the same channel for encountering and purchasing a product while looking for information in other channels) or as a swapped journey (encountering and purchasing the product on different channels).

As such, how product information is gathered is more fluid. 45% of respondents leveraged some other channel for gathering information than the one used for purchasing the product[2] – essentially using online channels for evaluating products before an offline purchase. Only about a fifth swapped channels completely from where they first encountered the product and where they purchased it (either online to offline, or offline to online).

Therefore, an omnichannel strategy using online and offline channels to complement one another can be key for Swedish companies. This means they are not too dependent on one channel, whilst also increasing the possible touchpoints for customers.

But to understand how to best reach and influence target customers, it's essential to consider each step in the journey one by one: Awareness, Exploration and Evaluation, Purchase, and Post-purchase.

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In the Chinese business landscape, success is often based on the agility of your response - how fast you can plug in the right resources to execute your strategy and adapt to local market changes.

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– Judy Liu,
President Greater China & Asia Pacific, Farfetch

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When a new brand enters China it must communicate its identity to consumers. Established Nordic brands may overlook this, having already built their brand at home.

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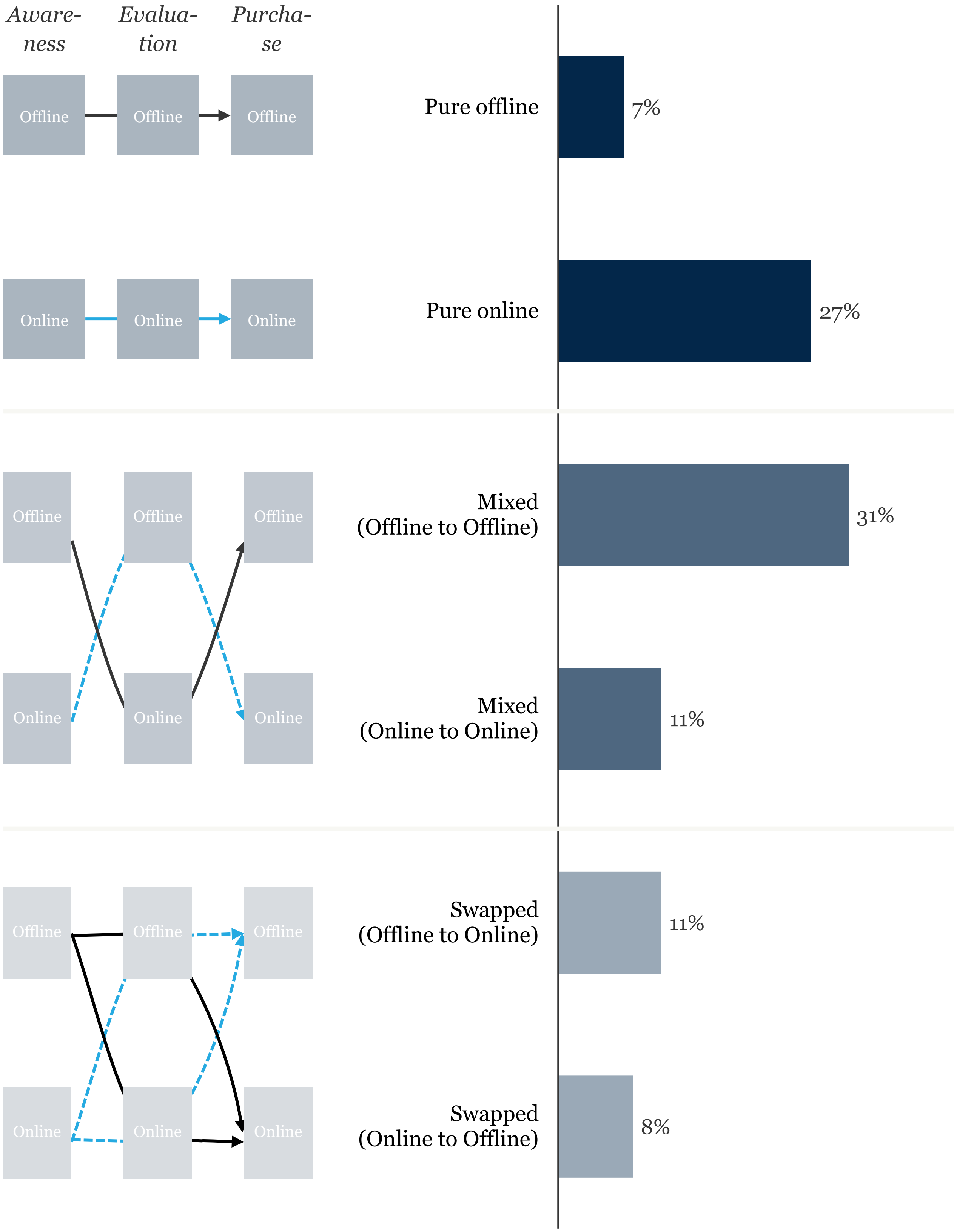
– Johnson Mu,
Founder of FikaFika

[2] Either using any online channel to evaluate products before an offline purchase, or using any offline channel before an online purchase (not necessarily exclusively).

Channel movements along the purchasing journey
Share of respondents



Source: Business Sweden consumer survey.
Note: Numbers don't add to 100% due to exclusion of "Other" category (6%).

AWARENESS

Why a scattered channel landscape requires a multi-channel approach, propelled by branding and organic search optimisation efforts.

Respondents first became aware of their products either offline (49%) and online (45%) respectively, with the rest encountering their products through other channels e.g. friends. A multi- and omni-channel strategy can therefore be beneficial when building awareness amongst Chinese consumers, as only being seen in one channel can lock out a large portion of the consumer population.

The digital ecosystems in China are wide and its cities vast, so consumers are constantly bombarded with information. Even though there are platforms that stand out as the most popular across categories, within product categories there is somewhat of a difference as to which channels are the most suitable.

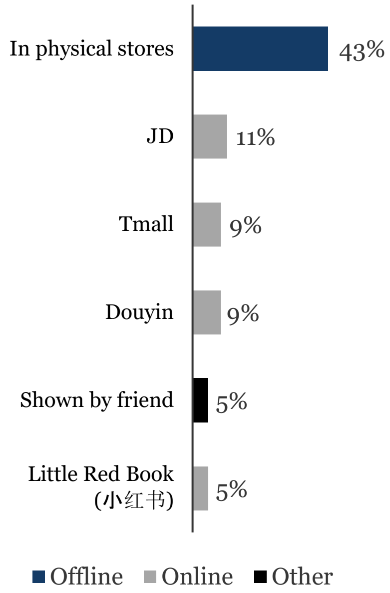
The question therefore becomes: where and how can companies stand out and catch the attention of the right customers, taking into account segment specifics from a channel strategy perspective? It is key to be present not only on one of the leading platforms, but also to look into other complementary platforms that are popular for one's product categories and to build a multi-channel strategy.

The two e-commerce platforms Taobao/Tmall and JD stand out as the most common online channels for encountering products. But other digital channels – such as social media channels Douyin and Little Red Book – have popped up as growing contenders. Especially Douyin, which trails Tmall by only a small margin.

How customers encounter products on these platforms is also key. Latest data shows that 43% of respondents first became aware of their product through in-app suggestions based on search history alone, whilst only 6% became so through KOL

> *"Marketing focus should prioritise more on product over brand. It is cost-heavy for a brand to conduct marketing activities when entering a new market."*
>
> *– Michelle Ren,*
> *BlueFocus*

Where products were first encountered (top 6)



Source: Business Sweden consumer survey

livestreams and postings. But the competition on these channels is fierce.

To stand out, the priority should be to invest in brand building and search engine optimisation, while also focusing on adapting content and how it is presented to the local market without losing brand identity.

At the same time, offline channels remain important and there is no one-size-fits-all solution regarding where and how to be seen. Offline stores are scattered by nature, and the ability to attract the right attention is dependent on the shopping experience.

With increased online focus, strategies for retail networks with a large number of self-branded stores, are changing. For example, many companies are now right-sizing their store networks, and instead looking to maintain strategically placed offline stores as showrooms. Deciding where to place, design, and operate such stores is therefore of high importance.

For brands looking to enter the Chinese retail market, an own setup also requires a heavy upfront investment. Brands can therefore use other options such as franchising, general agents and wholesale as a first step. For each of these options, it is crucial to evaluate the capability, resources and channels of the intended partner before going into a partnership.

> "*Consumers prefer authentic feedback and personalised information. Brands need to provide space for the influencers to interpret and co-create marketing content with brands.*"
>
> *– Johnson Mu,*
> *Founder of FikaFika*

Fashion & Beauty

- Majority of products first encountered online (48% vs. 46% offline)
- Little Red Book (小红书) is more common than in other categories with 8% of respondents – almost equal to Douyin (抖音)

Food & Health

- More than half first encountered products offline (57% vs. 38% online)
- From the online encounters, the majority were done on Douyin (抖音) with 24% , outranking JD and Tmall (23% and 19%)

Household Products

- More than half first encountered products online (52% vs. 42% offline)
- JD.com is the most common channel for encountering products (26% vs. 17% Tmall/Taobao and 16% Douyin)

Sports & Leisure

- Online and offline encounters almost equal – 47% offline vs. 46% online
- Unlike other categories, 40% first became aware of the product through proactive search for the product and/or brand (vs. 27% in-app suggestions)

EXPLORATION AND EVALUATION

Information availability and brand presence are of strategic importance, in order to be able to help consumers in their product evaluation.

With a mobile phone at everyone's fingertips, online channels are the most common way for Chinese consumers to evaluate products before purchasing – even when purchasing offline. Only 36% of respondents ranked any offline channel option as one of the top three most influential when seeking information about products, compared with 83% for online channels. A fifth of respondents preferred using both online and offline.

Not surprisingly, engaging with the brand or reading product information online are seen as the most influential ways to collect information – both on social media (44%) and on e-commerce platforms (43%). Reading product reviews from other users, an integral part of e-commerce platforms in China, is also seen as one of the most influential factors (23%), with KOL reviews falling behind (9%).

Consumers also increasingly comparing prices across several channels, e.g., Daigou, KOL/KOC livestreams, flagship stores, etc., before placing their product orders. From this perspective, being present across channels is highly beneficial, while ensuring detailed product information on each product page is adapted according to local needs, encouraging users to share experiences, and ensuring a responsive customer service.

Which product aspects are most important in the selection decision naturally varies by category. However, data shows that product quality and safety are largely seen as two of the most important factors (4.4 on a 5-grade scale for both) no matter the category.

The same focus on quality can be seen when it comes to brand aspects. Brands' perceived quality, environmental and sustainability work were rated as

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Brands with sustainability efforts such as recycling packaging are a plus among consumers but not a deciding factor for purchase.

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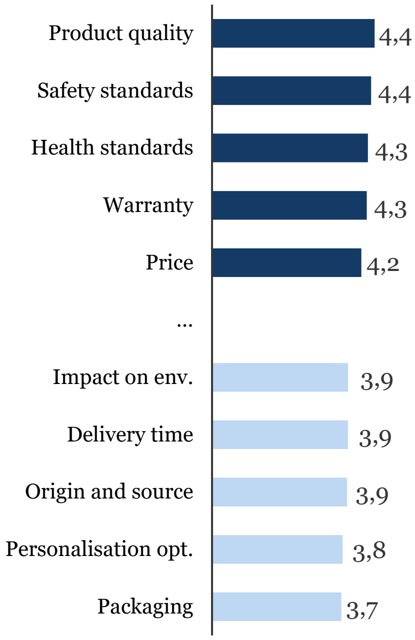
– Michelle Ren,
BlueFocus

5 most and least important product factors in decision



Source: Business Sweden consumer survey

the three most important brand aspects in selection decisions. However, environmental protection was not rated high in the product evaluation, indicating that consumers may not be ready to pay an extra premium for this today.

When it comes to the purchase itself, the question of which product aspects customers are ready to pay for can therefore be different.

Still, knowing which brand aspects customers value can be used as an important tool in building a product and brand position that stands out amongst the crowd. With Swedish brands being associated with high quality and health, they can look to take these messages into account.

Fashion & Beauty

- Product quality, health standards and safety standards are of almost equal rating for kids' apparel, with less difference in quality than other subcategories

Food & Health

- Fewer people searched for product information on SoMe and e-com than for other categories (40% and 41% vs. 44% and 43% overall)
- 32% of those who bought supplements first read reviews on e-com platforms

Household Products

- Safety standards highest rated product aspect among baby products (avg. 4.5 vs. 4.1 quality)
- 32% of those who bought electronic devices checked the brand's website first (vs. 17% overall)

Sports & Leisure

- 31% of those who bought sports and outdoor products first looked at and tested the products in stores

PURCHASE

Increased multi-channel offline and online purchasing, with new and upcoming online channels, are emerging as complements to JD and Taobao/Tmall.

When it comes to purchasing, traditionally strong e-commerce platforms Taobao/Tmall and JD.com together take up the majority of online purchases (57% combined).

But sales on social media, many of which increasingly have integrated purchasing options, is becoming a strong contender. 12% of respondents stated that their online purchases were done through social media, of which Douyin represented the majority.

Based on national statistical data, livestream sales have risen in recent years, generating over 18% of e-commerce sales up until October 2023[3]. They can therefore be considered for promotional push as complements to other brand building and product marketing campaigns in order to boost sales.

At the same time, there are also natural variations for where certain product categories are purchased that companies who wish to succeed in China should be aware of.

It is notable that JD.com, who traditionally has been known as the channel for purchasing electronics, retains this position accounting for more than half of the respondents who purchased electronics online (51%). But JD.com also acts as one of the key players in other segments.

Pinduoduo – traditionally seen as a platform for cheaper products but nowadays is commonly leveraged by international brands in China – stands out as the second or first most common purchasing channel within kids' fashion and medicine and other healthcare products respectively.

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Sometimes when designing the product packaging, brands tend to give up appearance and focus more on recyclable materials due to sustainability, but this can make the product less attractive to Chinese consumers and fail to stand out on the shelf.

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– 北欧三宝妈 (Jessie J)
KOL focusing on Nordic products, CEO-Founder of BBK

[3] No updated data has since been released.

When it comes to payment methods, WeChat Pay and Alipay are the dominant methods in the market with a combined 87% of all purchases paid for through either service (52% WeChat Pay and 35% Alipay respectively). These payment methods are integrated into the major e-commerce channels and are the natural choices to use when paying. They allow for linking to bank accounts, which enables seamless omnichannel payments no matter if its online or offline, without the need for credit cards or cash. Only 7% of all purchases were done with bank/credit cards and only 6% of all offline purchases were done with cash.

For delivery, although Chinese consumers put little value on delivery time in product selection, data shows 80% received online purchases within 3 days.

As such, Swedish companies should see this as the expected lead-time and coordinate with logistics and warehouse partners to ensure that products are delivered within this period to ensure a good purchasing experience.

Fashion & Beauty	• Adult apparel and accessories had the highest share of purchases done through the brand's own offline store (35% vs. 26% overall). Kids fashion on the other hand was mainly bought in general multi-brand stores	*Food & Health*	• 29% of online purchases of medicine and other healthcare products were on Pinduoduo, vs. 12% overall • Online supplement purchases mainly done on JD.com (41% vs. 19% Taobao/Tmall)
Household Products	• 59% of purchases were done online, primarily electronics (66%) with half of online purchases done on JD.com • Highest share of bank/credit card payments (12%), particularly furniture and interior design (17%)	*Sports & Leisure*	• Category with the highest share of long delivery times, with 22% receiving online purchases within 4-6 days

POST-PURCHASE

A lack of brand-dedicated e-commerce channels increases the importance of product quality and promotion tactics for improving consumer retention.

Like Sweden, returns should be accounted for when selling in China, since sellers are obligated to offer returns up to 7 days after purchase.

Data shows that the prevalence of product returns is similar for purchases made offline and online – 23% and 24% respectively, where respondents returned products either in part or in full. Adult apparel and accessories especially have a high return rate where up towards 45% of respondents stated that they returned products in part or in full for online purchases.

But the reasons and prevalence across categories vary. The most common reason for returns overall was product quality problems, especially for offline purchases. For online the situation is slightly different with the main reason being wrong purchase, while quality issues and products not matching their description are second and third biggest reasons.

83% of respondents put product quality as one of the top 3 factors influencing their decision to buy from the same brand again, reinforcing its importance. It is once again evident that product quality is a factor that Swedish consumer brands should focus on when selling to Chinese consumers.

Promotions, on the other hand, are seen as less important for Chinese consumers when looking to buy from the same brand again with less than a third mentioning it as one of the top 3 influencing factors. Nevertheless, regarding the different types of promotions that could be used, member prices and discount coupons are valued highest amongst Chinese consumers.

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More brands are leveraging private channels such as WeChat and Little Red Book (小红书) to attract and maintain customers, where they can send promotional messages frequently and freely, and also customise messages based on the characteristics of each group.

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– 北欧三宝妈 (Jessie J)
KOL focusing on Nordic products, CEO-Founder of BBK

Factors influencing decision to buy from same brand

Source: Business Sweden consumer survey

To improve consumer retention, companies should aim to maintain connections with customers post purchase.

However, unlike in Sweden, the Chinese digital ecosystem is not comprised of separate apps or website shops for each brand, which create inherent consumer retention or loyalty through log-ins. Swedish consumer brands therefore need to find other ways of maintaining a connection once a purchase is complete.

For this, almost two thirds of respondents state that receiving offers based on previous purchases can be valuable. The majority of which prefer to receive offers on e-commerce platforms that link their purchase with post-purchase. 65% of respondents who see this as valuable, list Taobao/Tmall and JD as the most relevant. Social media channels such as Douyin and WeChat also stand out (45% each), however emails, SMSs and phone calls are seen unfavourably. Frequency wise, the majority prefer offers on a monthly basis.

Fashion & Beauty

- 45% of online adult apparel and accessories purchases were returned, either in part (18%) or in full (27%), but only 9% of returns were made due to 'size testing'
- 39% of kids fashion returns were due to wrong size

Food & Health

- Most selective category for offers based on previous purchases with 42% being positive to it on the right channels vs. 19% on all channels. Most preferred channels are Taobao/Tmall or JD.com

Household Products

- 36% of online furniture and interior design purchases were returned, vs. 19% for the whole category
- Buyers of furniture and interior design products are the least interested in offers based on previous purchases (48%)

Sports & Leisure

- Returns due to product quality issues were more common than for other categories (42% vs. 32% avg.)
- Highest share of respondents who were positive about recommendations from all channels (31% vs. 23% overall)

5 KEY TAKE-AWAYS

Despite the economic challenges China is now facing, including slowed consumer spending, there are still opportunities for Swedish companies to tap into.

However, there are many things to consider when looking to enter and expand in the Chinese market. Not only does channel selection regarding online and offline matter, but so too does how each channel should be used, and the purpose of specific products.

For Swedish consumer brands to succeed in their expansion to China, there are five take-aways can help you if done thoroughly:

- **Define Chinese personas based on thorough customer and market understanding.**
  Chinese consumers are increasingly sophisticated and do their research. Invest in building a deep understanding of who your consumers – and buyers – really are and how best to reach them. Define your target early on, as personas differ depending on what customer group you are targeting.
- **Define your value proposition for the Chinese market and focus on initial entry.**
  Get to know your competition in the market and understand what sets you apart, what customer needs you and your products fill, and what your brand value brings to the market. Identify which few SKUs you should focus your investments on initially to build a market position and do not become too scattered. Expand the list over time.
- **Adapt market messaging and product information to China's context.**
  Understand what key points you need to push for when building your marketing material, and how marketing and product pages should best be built to be adapted to the needs of the local market and stand out among the crowd.
- **Define a China blueprint to expand on over time, but start small.**
  Understand how you can best use a multi-channel strategy that leverages the various Chinese digital ecosystems. Start small and scale up as the business grows. Begin your journey with a few select social media channels based on where your consumers are and expand over time. Consider using network marketing to limit investments early on whilst still creating traction in the market, scaling it up to more prominent channels later on.
- **Build and invest for the long term, not the short term.**
  Be prepared for a low initial ROI and don't expect positive returns immediately after making marketing investments. It takes time to build a position towards consumers in China. Focus on your identified key customer groups and their needs, and make big bets over time to build your position towards them specifically.

ABOUT BUSINESS SWEDEN

Business Sweden's purpose is to help Swedish companies grow global sales and international companies to invest and expand in Sweden. Business Sweden is owned by the Swedish Government and industry, a partnership that provides access to contacts and networks at all levels.

Swedish companies can trust us to shorten time to market, find new revenue streams, and minimise risks. We offer strategic advice and hands-on support in more than 35 markets, helping you to grow where the markets are growing.

Business Sweden has been present in APAC for decades with 17 local offices throughout the region. Business Sweden has helped Swedish brands succeed in Mainland China since 1994 where today 3 offices.

Over the years we have built strong expertise in the Chinese consumer market, forging relationships with influencers, platform owners and leading retailers. We have helped a vast number of Swedish companies in their Chinese expansion and would be happy to also help you in your expansion journey.

Reach out to us for an open discussion about how we can be of assistance in defining your China strategy.

We help Swedish companies grow global sales and international companies invest and expand in Sweden.

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