What the **experts say**

Ten Highlights of China's Commercial Sector 2025

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HKUST LI & FUNG
SUPPLY CHAIN INSTITUTE

Secretariat, Expert Committee of
China General Chamber of Commerce

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Preface

The HKUST Li & Fung Supply Chain Institute and the Expert Committee of the China General Chamber of Commerce are pleased to present the 22nd edition of our annual *Ten Highlights of China's Commercial Sector* report.

In 2024, China's commercial sector continued to evolve, driven by a combination of policy support and shifting consumer behaviours. This year has seen significant developments in digital transformation, service consumption, and environmental sustainability in the commercial sector, reflecting the dynamic nature of the market and the resilience of businesses operating within it.

Service consumption has remained a key growth area, with consumers increasingly seeking diverse and high-quality experiences. Innovations in service models, such as the integration of commerce, culture, tourism, sports, and health, have played a crucial role in this growth. The government's emphasis on building a high-quality service industry has further supported these trends, creating new opportunities for businesses to thrive.

The competitive landscape has intensified, with businesses facing shrinking profit margins and high turnover rates. However, companies that focus on cost control, efficiency improvements, and innovative business models have managed to navigate these challenges successfully. The importance of agile and resilient supply chains has also become evident, particularly for enterprises expanding into overseas markets. For companies that go global, effective localization strategies and strategic partnerships are key to success in regions like Southeast Asia, the Middle East, and Latin America.

With input from more than 160 top-tier mainland experts, *Ten Highlights* once again identifies top trends of the past year and anticipates the developments that will shape China's commercial landscape in 2025.

In 2025, China's commercial sector is expected to continue growing, driven by increased domestic consumption and technological advancements. The government's focus on creating a unified national market will further streamline the trade system and enhance market competitiveness. The service sector, particularly e-commerce and digital services, will continue to expand, fuelled by rising consumer expectations for convenience and experience. Additionally, sustainability will play a crucial role, as consumers increasingly demand eco-friendly products. The emerging rural markets will present new opportunities for businesses, while fierce competition will necessitate innovative strategies and effective localization to meet diverse consumer needs.

Ten Highlights is a valuable resource for global brands and retailers, and firms and individuals seeking to better understand the latest commercial trends, issues, and opportunities in China. We wish to thank all panel members on the Expert Committee for sharing their important insights, and our colleagues at HKUST Li & Fung Supply Chain Institute for their many contributions.

Helen Chin
HKUST Li & Fung Supply Chain Institute

About the Organizations

The Expert Committee of the China General Chamber of Commerce

The Expert Committee of the China General Chamber of Commerce (ECCGCC), a sub-division of the CGCC, comprises over 160 prominent experts from various government departments, research institutes and universities, leading corporations, professional associations, consultancy firms and newspaper offices, which include the Ministry of Commerce, the Chinese Academy of Social Sciences, China Chain Store and Franchise Association and the Renmin University of China, etc. The ECCGCC serves as a platform for the experts to exchange ideas on the development of commercial enterprises and the distribution sector.

The China General Chamber of Commerce

Founded in 1994, the China General Chamber of Commerce (CGCC) has around 80,000 members, encompassing enterprises from retail, distribution, services and tourism sectors, local commercial chambers, national professional associations, intermediary organizations and individuals. Commissioned by the Chinese Government, the CGCC consists of 14 business committees. It also supervises 40 national associations and 33 newspapers and magazines published both inside and outside China.

HKUST Li & Fung Supply Chain Institute

The HKUST Li & Fung Supply Chain Institute (Institute) accelerates the creation, global dissemination, and practical application of new knowledge for managing tomorrow's supply chains.

The Institute seeks to develop local and international talent in supply chain management through teaching, professional development, and exchanges at specialist conferences. It brings together leaders in industry, academia, and the public sector in a new collaboration for research, executive education and practice focused on innovation in business models, sustainable supply chain design, process re-engineering, and the rapid adoption of new technologies. These outcomes are vital in addressing the need for visionary, innovative supply chain management in the face of rapid technological advancements, disruption from geopolitical tensions, and concerns related to sustainability and climate.

Jointly established by HKUST and supply chain industry leader Li & Fung, the Institute brings together research excellence and industry expertise in supply chain management to drive real-world impact across the Greater Bay Area, Greater China, Asia, and globally, while contributing to Hong Kong's development as a multinational supply chain management center.

Expert Panel Members

Cao Lisheng
Vice Chairman; Secretary, Deputy Director, Senior Economist
China General Chamber of Commerce;
China National Commercial Information Centre

Chan So Ching
Head
HKUST Li & Fung Supply Chain Institute

Chang Ka Mun
Executive Director;
Member
HKUST Li & Fung Supply Chain Institute;
Chinese People's Political Consultative Conference (1998 – 2018)

Chen Liping
Professor
Capital University of Economics and Business

Ding Junfa
Former Executive Vice Chairman, Research Fellow
China Federation of Logistics & Purchasing

Fu Longcheng
Vice Chairman;
Director, Senior Economist
China General Chamber of Commerce;
Expert Committee of the China General Chamber of Commerce

Fu Yuehong
President
Beijing Chamber of Commerce

Gan Wei
President
China General Chamber of Commerce;
Commercial Logistics and Supply Chain Branch

Guo Xinmei
Professor
Faculty of Economics, Beijing Technology and Business University

Hong Tao
Professor
Beijing Technology and Business University

Hu Bin
President, Chief Editor
China Business Herald

Huang Hai
Former Minister Assistant, Researcher
Ministry of Commerce

Lai Yang
Researcher; President
Beijing College of Finance and Commerce;
Beijing Jingshang Circulation Strategy Research Institute

Li Gang
Director
Department of Circulation Industry Development, Ministry of Commerce

Li Tao
Deputy Director;
Group Chief Representative – Northern China
Expert Committee of the China General Chamber of Commerce;
Li & Fung (Development) China Ltd.

Luan Bo
Deputy Secretary General, Office Director
China General Chamber of Commerce

Ma Zengjun
President
China Agriculture Wholesale Market Association

Peng Jianzhen
President
China Chain-Store & Franchise Association

Ren Xingzhou
Former Director, Research Fellow
Institute for Market Economy, Development Research Center of the State Council

Song Yuanyuan
Deputy Director of the General Office
China General Chamber of Commerce

Song Ze
Research Fellow
National Academy of Economic Strategy, Chinese Academy of Social Sciences

Tang Shaojuan
President, Chief Lecturer
IBMG Commercial Think Tank

Wang Dongtang
Director
Department of Trade in Services and Business Services, Ministry of Commerce

Wang Wei
Former Director, Research Fellow
Institute for Market Economy, Development Research Center of the State Council

Wang Xiaodong
Professor
Business School, Renmin University of China

Wu Ying
Vice Chairman
China Cuisine Association

Xie Lijuan
Professor
Business School, Renmin University of China

Xu Xingfeng
Director
Department of Market Operation and Consumption Promotion, Ministry of Commerce

Yang Jinlong
Deputy Secretary General, Director of the Secretariat
Expert Committee of the China General Chamber of Commerce

Yang Qingsong
Secretary General
China Commerce Association for General Merchandise

Yao Liming
Former Director, Research Fellow
China Commercial Group Commercial Economic Research Center

Yi Shaohua
Director, Research Fellow
Institute of Distribution and Consumption, National Academy of Economic Strategy, Chinese Academy of Social Sciences

Yu Di
Deputy Director, Secretary General
Expert Committee of the China General Chamber of Commerce

Zhang Hao
Researcher; Deputy Director
National Academy of Economic Strategy, Chinese Academy of Social Sciences;
Editorial Department, *Finance and Trade Economics*

Zhou Qiang
Director
Department of Market System Development, Ministry of Commerce

Implications for Businesses and Tips for Enterprises

In 2024, China's commercial sector demonstrated remarkable resilience and adaptability, driven by a combination of supportive government policies and evolving consumer behaviours. The year saw significant progress in digital transformation, service consumption, and environmental sustainability in the commercial sector, reflecting the dynamic nature of the market. Government initiatives aimed at boosting domestic consumption and stabilizing the real estate market played a crucial role in fostering a thriving business environment, despite challenges such as low consumer confidence and economic uncertainties.

Several key sectors contributed to the growth of China's commercial sector in 2024. Service consumption continued to expand, with innovations in service models integrating commerce, culture, tourism, sports, and health. E-commerce platforms led the way in transforming shopping experiences through livestream shopping, mobile payments, and blockchain technology, while enhancing supply chain efficiency and transparency. Additionally, the rise of county-level markets and the increasing demand for green and healthy products highlighted new opportunities for businesses to tap into emerging consumer trends.

Looking ahead to 2025, China's commercial sector is poised for continued growth. Key trends such as increasing discretionary spending, rising rural consumption, the rapid expansion of the silver economy, and growing demand for environmentally friendly products are expected to drive the consumer market. Government policies aimed at bolstering people's incomes and consumption will further support this growth, benefiting both urban and rural residents. Businesses will also intensify their efforts in areas like online-offline integration and cross-border e-commerce to capitalize on the evolving economic and trade landscape, contributing to a vibrant market in the year ahead.

Policy support for domestic consumption

China's government is committed to creating a unified national market, aimed at streamlining and integrating the domestic and foreign trade systems and reducing regional barriers. This initiative is not just a policy directive but a strategic move to enhance market efficiency and foster a competitive business environment. (Highlight 1)

The government has emphasized expanding domestic demand as a primary driver of economic growth. This focus is evident in various initiatives aimed at empowering consumers, such as stabilizing the real estate market, boosting capital markets, and investments in both physical and digital infrastructure to facilitate easier access to goods and services. A key component of this policy is the consumer goods trade-in programme, which provides subsidies for consumers to replace their old appliances for new ones. This initiative has stimulated demand in the relevant retail sectors and boosted sales for manufacturers. (Highlight 2)

Our take: Foreign enterprises should align their strategies with these national policies. This can be achieved by focusing on local market needs and leveraging government incentives. For example, participating in trade-in programmes can provide a competitive edge, allowing foreign brands to tap into the growing consumer base eager for new products. Additionally, understanding regional market dynamics is crucial. Different provinces may have varying consumer behaviours and preferences; thus, localized marketing strategies will enhance brand resonance.

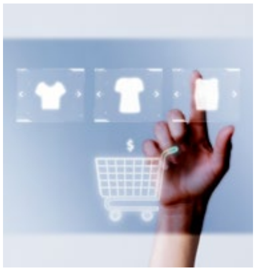
Growth in service consumption

The service sector in China has become a rapidly growing and high-potential area. Innovations in service consumption models – such as integrating commerce, culture, tourism, sports and health – are driving this growth. (Highlights 2 & 8)

The 20th Party Congress report and the State Council's *Opinions on Promoting the High-Quality Development of Service Consumption* underscore the necessity of building a high-quality, efficient service industry. This includes promoting new service consumption models like the 'night economy', which encourages businesses to cater to consumers during evening hours, and cultural consumption, which centres around regional culture and cultural celebrations. (Highlights 2, 3, 5 & 8)

For example, cities like Shanghai and Beijing have experienced a surge in night markets and cultural activities, offering a variety of food, entertainment and cultural products that attracts both locals and tourists. This shift in consumption patterns presents opportunities for foreign businesses to innovate their service offerings.

Our take: Foreign enterprises should innovate their service offerings to cater to the evolving preferences of Chinese consumers. Integrating digital and experiential elements into services – such as virtual reality (VR) experiences – can significantly enhance customer engagement. Brands that successfully create unique, memorable experiences are likely to foster stronger brand loyalty and repeat business.



Accelerated digital transformation

Digital technology is crucial for promoting service consumption in China, particularly in rural areas that have traditionally lagged behind urban centres. The integration of digital services into rural consumption channels is expanding consumer experiences and reshaping how products and services are delivered. (Highlights 3 & 4)

E-commerce platforms, like PDD, Xiaohongshu, Taobao, and Douyin, are at the forefront of this transformation, innovating shopping scenarios by incorporating social, entertainment, health, and smart elements into the shopping process. For instance, livestream shopping has become immensely popular, allowing brands to engage directly with consumers real-time, providing an interactive shopping experience. (Highlights 6 & 8)

Additionally, the utilization of digital technology in logistics and transactions has also enhanced the efficiency and transparency of the supply chain. (Highlights 8, 9 & 10)

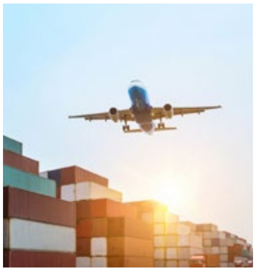
Our take: Foreign enterprises should prioritize investment in digital transformation to enhance operational efficiency and customer engagement. Utilizing advanced technologies such as artificial intelligence (AI) for personalized recommendations, blockchain for transparent supply chains, and Internet of Things (IoT) for smart inventory management can significantly improve service delivery and customer satisfaction. Companies that embrace these technologies will be better positioned to respond to consumer needs and market changes.

Adaptation amidst intensified competition

The competitive landscape in China has become increasingly fierce, with high turnover rates in both catering and retailing. Declining profits have prompted many supermarkets and hypermarkets to close underperforming stores to cut losses. (Highlights 5, 6 & 9)

The closure of stores is not merely a reaction to market pressures but a strategic decision to minimize losses and refocus resources. For instance, well-known supermarket chains like Walmart and Yonghui are increasingly prioritizing online sales and delivery services to adapt to changing consumer preferences. However, this shift intensifies competition in the digital marketplace.

Our take: To stay competitive, foreign enterprises must focus on cost control and efficiency improvements. Implementing innovative business models – such as subscription services or loyalty programmes – can enhance customer value propositions and foster brand loyalty. Moreover, continuous market analysis to identify consumer trends and preferences will help businesses remain agile and responsive to market demands.



Global expansion as a growing trend

As Chinese enterprises seek growth beyond their borders, emerging markets in Southeast Asia, the Middle East, and Latin America have become key targets for global expansion. These regions present significant growth opportunities due to their expanding consumer bases, increasing urbanization, and rising disposable incomes, which collectively drive demand for a diverse range of products and services.

However, the path to success in these markets is not straightforward. The success of retail enterprises abroad hinges on effective localization strategies. Companies that have failed to adapt to local regulations, cultural preferences, and consumer behaviours have often encountered numerous challenges. Firms that overlooked compliance with local laws, such as import tariffs and labour regulations, found themselves facing operational hurdles that could have been mitigated with proper research and planning. (Highlight 10)

Our take: Enterprises should conduct thorough market research to understand the unique preferences and cultural nuances of local consumers in overseas markets. Adapting products and services to meet these preferences is essential for success. Additionally, building resilient supply chains and forming strategic partnerships with local businesses can enhance global expansion efforts. Collaborating with local influencers and leveraging their understanding of the market can also facilitate smoother entry into new regions.

Advancement of county-level commerce

The rapid economic development of county-level areas in China is noteworthy, with a significant increase in the number of counties achieving an annual GDP exceeding 100 billion yuan. This growth reflects a burgeoning consumer base in these regions.

As urban areas become more saturated, county-level markets present fresh opportunities for businesses. Rural consumers are increasingly looking for quality products and services, indicating a shift in consumption patterns. This trend is further enhanced by government support and improved infrastructure, making these markets even more attractive for businesses looking to expand. (Highlight 4)

Our take: Foreign enterprises should explore opportunities in county-level markets by tailoring their offerings to meet local demands. Establishing effective logistics and distribution networks will be crucial for penetrating these markets. For instance, companies can consider partnerships with local government and distributors to ensure efficient delivery and stock management, addressing the unique challenges posed by rural logistics.

Heightened focus on the environment

The growing awareness of environmental issues among Chinese consumers has led to a significant shift towards green and healthy consumption. Consumers are increasingly demanding high-quality, traceable, and pollution-free products, particularly in the agricultural sector. (Highlights 5 & 7)

This trend is evident in the rising consumer preference for organic and sustainably sourced products. Brands that provide transparency in their supply chains, such as detailed sourcing information and eco-friendly packaging, are not only gaining traction but also enhancing consumer trust and loyalty. (Highlight 9)

Our take: To align with this trend, foreign enterprises should prioritize environmental sustainability in their operations. Adopting eco-friendly practices – such as reducing plastic use, optimizing energy consumption, and implementing waste management strategies – can enhance brand reputation and attract consumers who value sustainability. Furthermore, marketing these efforts effectively can differentiate brands in a competitive market.

Ten Highlights of China's Commercial Sector 2025

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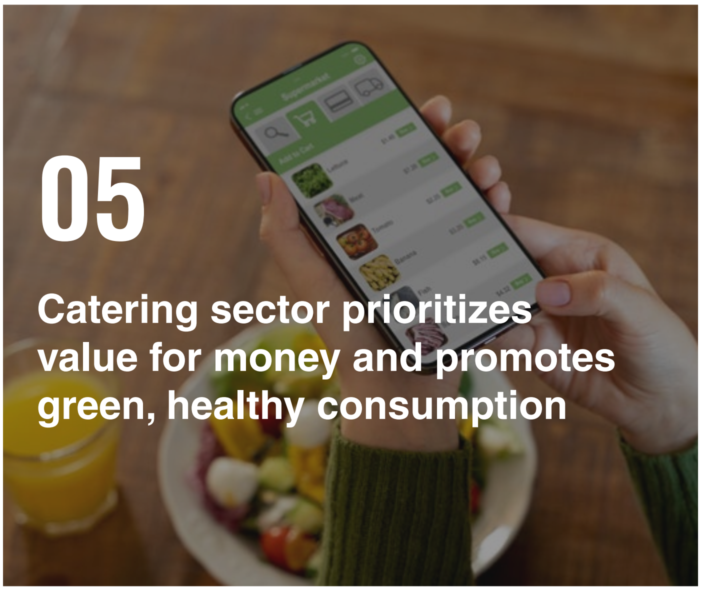
The continuous expansion and upgrading of county-level commerce highlights consumption vitality



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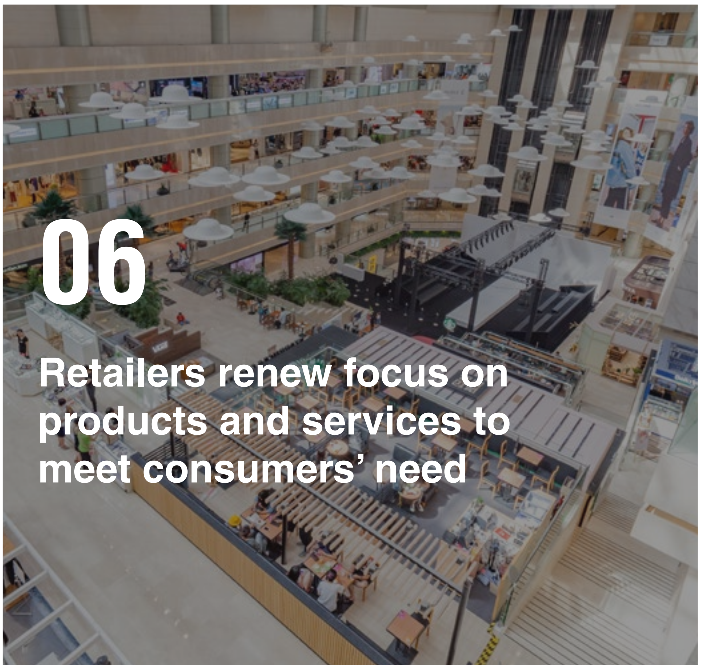
Catering sector prioritizes value for money and promotes green, healthy consumption



06
Retailers renew focus on products and services to meet consumers' need

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08
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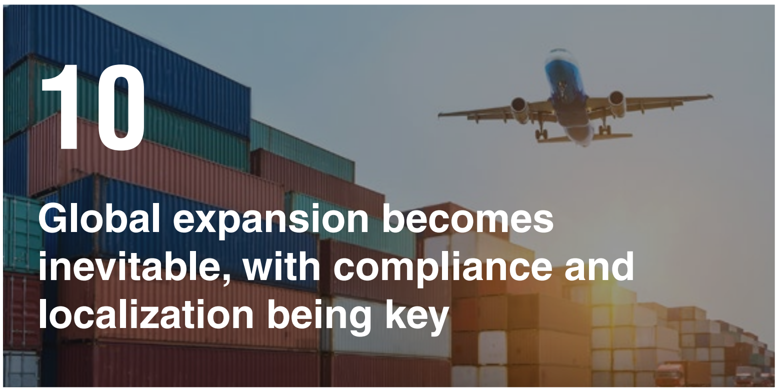
Pioneering cost optimization and efficiency enhancement to drive excellence and high-quality development in commercial logistics



10
Global expansion becomes inevitable, with compliance and localization being key

01 Building of a unified national market and development of new quality productive forces enhance efficiency in the circulation system

What the experts say

The Third Plenum sets the direction for building a unified national market

During the Third Plenary Session of the 20th Central Committee of the Communist Party of China held in July 2024, China reiterated the need for 'building a unified national market' as part of its efforts to foster a fair and well-ordered business environment for market players.

The imperative to adopt a holistic strategy – pushing for the unification of market institutions and rules, impartial and consistent market supervision, and high-standard interconnectivity of market infrastructure – was stressed. The Chinese government also proposed improving the circulation system, accelerating the development of the Internet of Things, and further refining the integrated framework of circulation rules and standards to reduce logistics costs across society.

These proposals have further clarified the direction and tasks necessary for improving the circulation system and relevant rules and standards, and for accelerating the construction of a unified national market.

Unification of institutions and rules in the circulation field supports a unified national market

Over the past year, significant strides have been made towards the unification of institutions and rules in the circulation field, which is a prerequisite for efficient and orderly connection of markets. This progress will further promote the formation and development of a unified national market.

For instance, the General Office of the State Council issued *Several Measures for Accelerating the Integrated Development of Domestic and Foreign Trade* in December

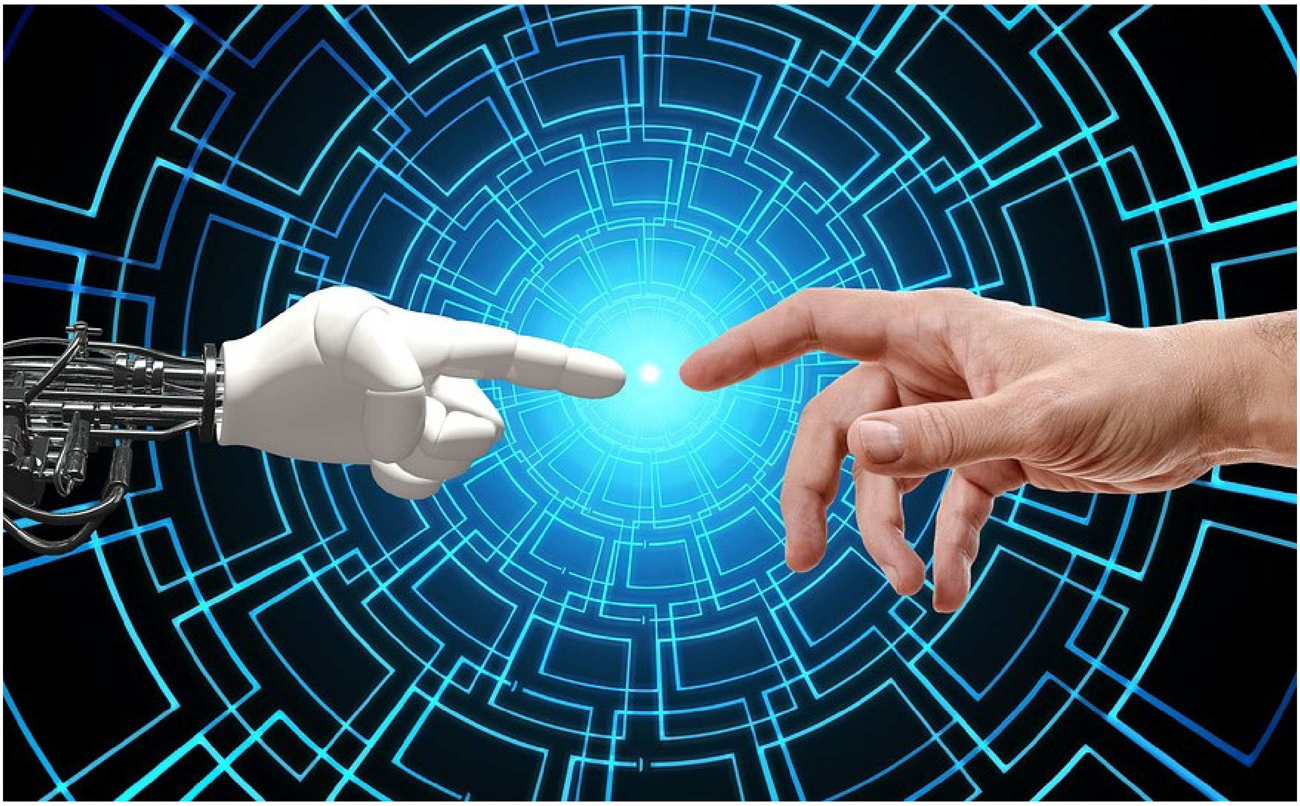
2023, which aims to align rules and systems governing domestic and foreign trade, covering aspects such as standards, examination, accreditation and supervision, as well as the connection of market channels for domestic and foreign trade. Besides, the Ministry of Commerce approved five domestic trade industry standards in November 2023, including the *Specification for the Monitoring Indicators of Online Retail*, and three more industry standards in September 2024, including the *Specification for Department Store Marketing*.

Through the formulation of industry specifications, industry organizations have also made contributions in this regard. For example, the China General Chamber of Commerce amended the *Specification for Customer Satisfaction Evaluation for the Commercial Service Industry* and the *Technical Specification for the Construction and Management of Shopping Centres in 2024*.

New quality productive forces drive further transformation and efficiency improvement in the circulation system

New quality productive forces, primarily driven by technological innovation, will lead to an optimized allocation of factors of production. On one hand, technological innovation raises labour productivity, thereby improving circulation efficiency. For instance, Dingdong Maicai has tested unmanned vehicles for grocery delivery, shortening 'last-mile delivery' to 'last-hundred-metre delivery' while reducing the delivery burden on couriers. On the other hand, when combined with the production factors of capital and information, technological innovation facilitates the digital transformation of traditional commerce. Commercial districts in Sanlitun in Beijing and Yu Garden in Shanghai, which widely adopt smart technologies and host various smart stores, are prime examples.

Technological innovation also fosters new business formats and models within the circulation field. For example, the technology-powered hypermarket chain Freshippo has moved away from the traditional concessionary model. Instead, it leverages a vertically integrated supply chain centred on consumer needs and strong digital operation capabilities to provide value-for-money quality goods for consumers. This shift has significantly transformed the hypermarket industry. Meanwhile, Meituan Delivery has leveraged its digital platform to integrate non-food businesses into its ecosystem, broadening its delivery services from food to daily necessities. This has not only created a new business model in the on-demand delivery space but also further promoted online-offline integration and efficiency improvement in the circulation industry.



Q&As

Q: What does the building of a unified national market mean for the circulation sector?

Establishing unified market institutions and rules across the country will break down regional barriers and reduce transaction costs, thereby facilitating the movement of factors of production (such as labour and capital), as well as goods and services. This shift is expected to encourage competition and enhance overall efficiency in the circulation sector.

For the consumer market, a unified national market will enable a smoother flow of consumer goods on a broader scale. Products that were once only available to a limited audience will be able to circulate nationwide, providing consumers with a greater array of choices and improved options at lower prices. Furthermore, with a robust and unified quality system in place, the domestic quality standards of consumer goods can be better aligned with international benchmarks. All in all, consumers can anticipate a more efficient, consumer-friendly and trustworthy marketplace with a unified national market.

Q: What is the concept of new quality productive forces and what does it mean for the consumer market?

First put forward by Chinese President Xi Jinping in September 2023, the idea of 'new quality productive forces' has since become a central theme in China's economic strategy.

With innovation playing a leading role, new quality productive forces represent a new type of advanced productivity that moves away from traditional economic growth models and productivity development pathways, featuring high levels of technology, efficiency, and quality.

China will work to drive revolutionary technological breakthroughs, the innovative allocation of production factors, in-depth industrial transformation and upgrading, and the transformation and optimal combination of labourers, means of labour, and subjects of labour. All these efforts will give rise to new industries, new business models, and new growth drivers.

The development of new quality productive forces will have major implications for the country's consumer market. For example,

- As the Chinese government works to advance the innovative development of the digital economy, the digitalization of the consumer market will accelerate. This will likely lead to further growth in e-commerce and smart stores. Moreover, big data analytics and artificial intelligence will be more widely adopted to improve supply chain efficiency and reduce inventory levels, and to provide personalized and enhanced shopping experiences for customers.
- With traditional industries upgrading and new industries emerging, consumers can expect a wider array of better products and services at more affordable prices, thanks to advancements in materials and production processes, and innovative product features.

02 Consumer market experiences steady growth driven by policy support

What the experts say

Retail sales grow steadily in the first ten months of 2024

In the first three quarters of 2024, the Chinese economy grew by 4.8% yoy. During this period, final consumption expenditure accounted for 49.9% of this growth, making it the biggest driver of China's economic growth.

The Ministry of Commerce has declared 2024 the 'Year of Consumption Promotion'. In response to weak domestic demand, both the central government and local authorities have rolled out various policies and activities to encourage spending and revitalize the consumer market. These efforts have been quite effective: China's total retail sales of consumer goods increased by 3.5% yoy, reaching 39.9 trillion yuan, in the first ten months of 2024. In October, the growth in total retail sales of consumer goods further accelerated to 4.8% yoy, up by 2.7 percentage points from September.

With ongoing policies to boost consumption, China's consumer market will continue to forge ahead. Our experts predict that China's retail sales will grow by about 5% yoy in 2025.

Consumer goods trade-in initiative boosts consumption

A key initiative for consumption promotion in 2024 is the consumer goods trade-in initiative. In March 2024, the State Council launched an action plan to initiate large-scale equipment upgrades and trade-ins of consumer goods. In the following months, government departments and local authorities have turned the action plan into specific measures, injecting fresh impetus into the consumer market. In July 2024, the central authorities announced further support for the trade-in programme, including the issuance of 300 billion yuan in ultra-long special treasury bonds aimed at encouraging equipment renewals and trade-ins of consumer goods.

Thanks to the policy stimulus, retail sales in relevant categories saw significant growth, especially in September and October. In the first ten months of 2024, retail sales of 'home appliances and audio/visual equipment' in retail units above designated size rose by 11.8% yoy. In September and October, these growth rates soared to 20.5% yoy and 39.2% yoy, respectively. Retail sales of 'cultural and office appliances' also increased by 10.0% yoy and 18.0%, respectively, in September and October.

Service consumption thrives as a bright spot

Service consumption has continued to grow rapidly in 2024, becoming another highlight for the consumer market, according to our experts.

Supported by rising household income and favourable government policies, consumption of entertainment, accommodation, catering, tourism, health, sports and other services has shown steady growth. In the first three quarters of 2024, retail sales of services rose by 6.7% yoy, outpacing the growth of retail sales of physical goods by 3.7 percentage points. During the period, per capita service consumption expenditure jumped by 7.6% yoy, 2.0 percentage points faster than that of per capita consumption expenditure.

Q&As

Q: What measures has the Chinese government proposed to promote service consumption?

On 3 August 2024, the State Council released the *Opinions on Promoting the High-Quality Development of Service Consumption*, outlining a series of policies and measures aimed at expanding service supply to better cater to the diverse needs of consumers in service consumption.

The guideline calls for improving the quality of services in the catering and accommodation sectors, and encouraging well-renowned catering brands to open their first or flagship store in China. Additionally, various initiatives will be launched to promote life-enhancing consumption, including campaigns focused on culture and tourism consumption, as well as efforts to integrate the development of commerce, tourism, culture, sports, and health. The government also aims to stimulate spending in areas like sports, education and training, and residential services.

Furthermore, the guideline highlights the need to promote new types of consumption such as e-sports, social commerce, livestream commerce, green consumption, and health-related spending.

Q: What will be the policy focus of the Chinese government in consumption promotion in 2025?

We anticipate that government policies aimed at boosting consumption will become more targeted. The Chinese government is expected to continue and possibly expand the consumer goods trade-in programme, formulating new measures to ensure that both consumers and commercial enterprises benefit. Additionally, the government is likely to introduce additional easing measures related to mortgage rates, down payments, and purchase restrictions to stabilize the property market, which will, in turn, encourage housing-related spending on furniture, home decoration, and home appliances.

Moreover, efforts will be made to enhance the system and mechanism for expanding consumption. In its drive to boost domestic demand, the Chinese government will prioritize promoting consumption while improving people's livelihood. This includes striving for high-quality full employment to increase income and encourage spending. The central government is also focused on alleviating the debt burden on local governments, enabling them to allocate more resources to public services like education, healthcare, and elderly care, ultimately increasing disposable income for consumer spending.

Q: How will China's consumption trends evolve in 2025 and the coming years?

There are five key trends to watch in China's consumer market:

- The consumer goods trade-in initiative will further promote the adoption of high-quality durable goods and encourage greener, smarter lifestyles.
- With the government's recognition of the platform economy's role in expanding domestic demand, digital retail and online shopping are expected to continue thriving in a more regulated market environment.
- As service offerings expand to meet the diverse and quality-oriented needs of Chinese consumers, spending will rise in areas such as digital services, entertainment, sports, healthcare, culture, and tourism.
- The accelerated building of a unified national market will drive growth in county-level commerce and rural consumption, providing new momentum for overall consumption growth.
- The government's push for the integrated development of commerce, tourism, culture, sports, and health, along with relevant policies and measures from cities like Beijing, Shanghai, and Guangzhou, will likely lead to the emergence of new business formats, models, and consumption scenarios.

03 Upgrades in service consumption with further growth on the horizon

What the experts say

Domestic service consumption is rapidly expanding, with significant potential for further growth as the sector continues to develop. According to the National Bureau of Statistics, from January to October 2024, retail sales of services grew by 6.5% yoy, outpacing the 3.2% yoy growth in retail sales of goods during the same period. Notably, retail sales of transportation and travel services and communication and information services both achieved double-digit growth.

Changes in demand for services highlight overall consumption upgrades

The rapid growth of service consumption reflects an increasing desire for a better quality of life, which is gradually reshaping consumer values. As the market evolves, service consumption is trending towards supply digitalization, higher-quality demand, and a younger consumer base.

In recent years, there has been a significant increase in travel enthusiasm, with domestic trips and holiday travel becoming more frequent, driving greater demand for transportation services. Additionally, the need for information and communications services is also increasing – as smart technologies and digitalization become more widespread, consumers have come to expect seamless connectivity.

Urbanization and demographic shifts drive sector growth

Service consumption accounts for around 70% of spending in developed countries, far exceeding the level in the Chinese mainland, highlighting vast growth potential for the sector. Demographic shifts are creating new opportunities, as rapid urbanization increases demand for services like elderly care, childcare, and residential support among migrant populations transitioning to urban areas.

According to a 2024 McKinsey report on China's consumption trends, there is notable variation in consumer confidence across various demographic groups in China. Urban Gen Zs and older consumers ('baby boomers') are the most optimistic and have a higher proportion of service consumption. Gen Z consumers spend more on dining out and cultural entertainment, while older consumers with higher disposable incomes prioritize spending on healthcare, dining and elderly care services.

Service categories and offerings expand amid technological innovations

Service consumption includes traditional categories such as catering and accommodation, housekeeping services, and elderly care, alongside rapidly growing categories such as education, entertainment, tourism, and sports, and emerging areas such as digital, green, and health consumption.

Technological innovation is creating new opportunities in all these various types of service consumption. For example, service robots for education and healthcare continue to iterate and upgrade, while 'Internet Plus' is becoming more widely applied in medical services and digital education. New formats such as e-sports, social e-commerce, and livestreaming e-commerce are also thriving, offering diversified and convenient options for consumers.

The growth of service consumption further drives physical goods consumption, boosting domestic demand and economic growth. For example, the development of the healthcare industry stimulates demand for goods such as nutritional supplements, which in turn supports the healthcare industry.

Future growth of the service sector will lead to service consumption expansion and upgrades

The service sector is expected to see continued growth in 2025 and the coming years, driven by structural policy changes, rising average incomes, and an expanding middle-class population, leading to accelerating expansion and upgrades in service consumption.

Our experts suggest that China should continue to unlock the potential of basic consumption, especially in catering and accommodation, housekeeping services, elderly care, and childcare, to meet the needs of an aging population and the expanding demand in lower-tier cities and rural areas. Furthermore, the Chinese government should implement policies to stimulate life-enhancing consumption sectors – such as entertainment, tourism, sports, education and training, and residential service – in order to boost overall consumption demand.

Q&As

Q: What policy support has the government provided for service consumption?

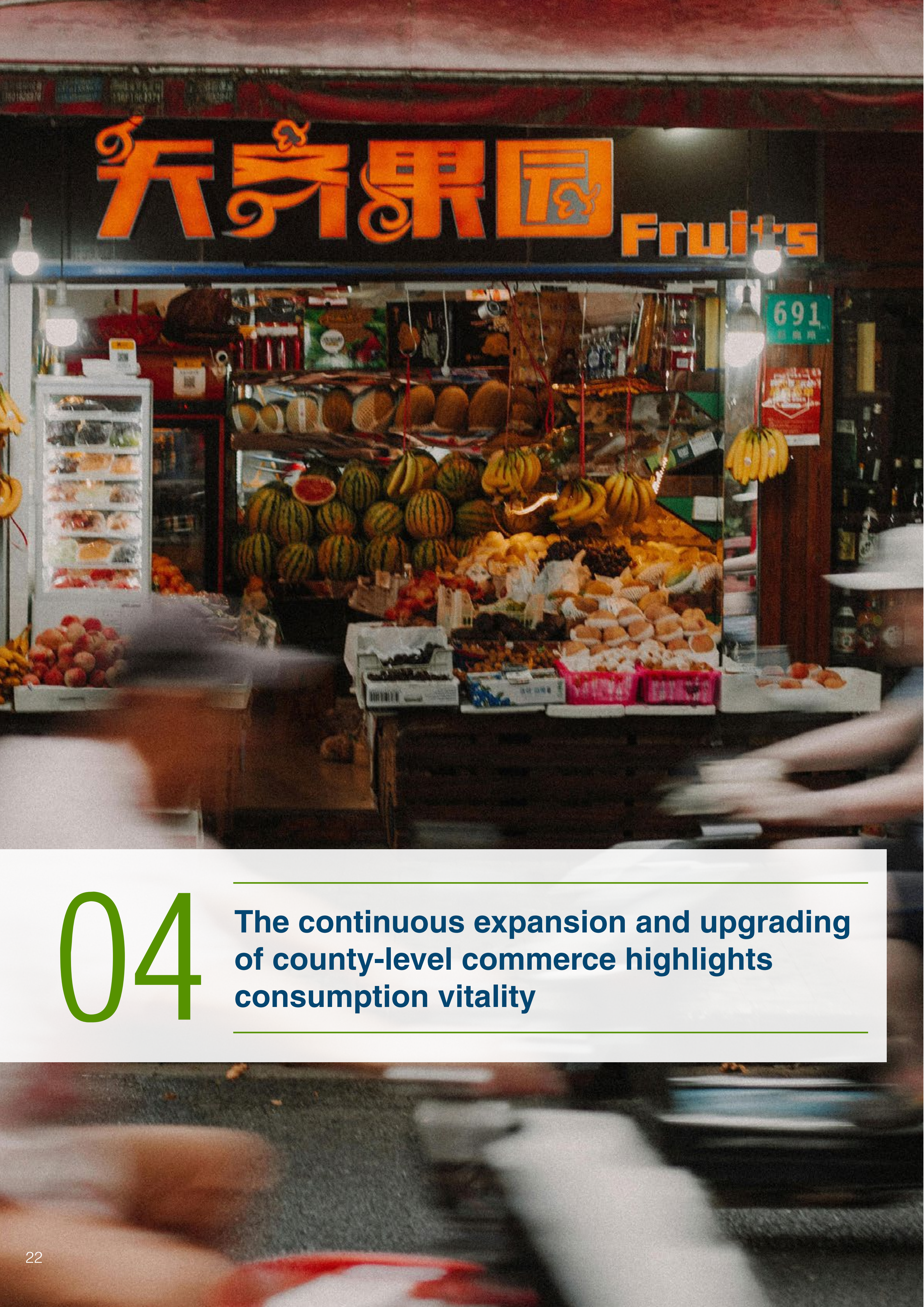
Service consumption plays a vital role in meeting consumer demand, generating employment, and enhancing spending power, making it a key focus for central government policy. In October 2022, the report to the 20th National Congress of the Communist Party of China proposed building a new system of efficient and high-quality services, which highlights the importance of the service sector in the economy. In August 2024, the State Council issued its first national policy on service consumption, entitled *Opinions on Promoting High-Quality Development of Service Consumption*, which outlined six priorities: expanding basic consumption, stimulating life-enhancing consumption, fostering new consumption formats, invigorating service consumption, improving the consumption environment, and ensuring policy support. This framework provides strong momentum for the sector's development.

Q: What are some future growth areas within the sector that businesses should take note of?

By 2030, service consumption is expected to exceed 50% of spending, contributing at least 2 percentage points to economic growth and supporting high-quality development. The flourishing service sector presents huge growth opportunities for commercial enterprises.

Digital technology will continue to drive growth within the service consumption sector. Therefore, businesses should embrace digital transformation, leveraging big data analytics and artificial intelligence (AI) to improve service quality and enable personalized marketing and services, and integrate online and offline models for a seamless consumer experience. Businesses should also focus efforts on areas like digital, green, and health consumption, aligning with future industries like AI, environmental technology, and biomedicine.

Furthermore, shortages in innovative and diverse services remain. Enhancing digital and smart consumption scenarios, strengthening service innovation, and expanding platforms for lifestyle services will be crucial to building a 'smart plus' consumption ecosystem.



04 The continuous expansion and upgrading of county-level commerce highlights consumption vitality

What the experts say

The rise of county-level commerce in China is a testament to the country's economic dynamism and the increasing importance of counties in the national economy. With rapid expansion and diversification of consumption patterns, enhanced government support, and infrastructure development, county-level commerce is poised to become a major driver of consumption growth. Enterprises that can effectively navigate the challenges and tap into the potential of these markets will find significant opportunities for growth and success. As county-level commerce continues to evolve, it will play a crucial role in shaping the future of China's retail landscape and contributing to the country's high-quality economic development.

Rapid expansion and upgrading of county-level commerce

County-level commerce in China is experiencing rapid expansion and upgrading, driven by significant economic growth in counties. According to the study of *High-Quality Development of China's County-Level Economy 2024* by CCID Consulting, the number of counties with an annual GDP exceeding 100 billion yuan increased from 9 in 2013 to 59 in 2023. Meanwhile, the retail sales growth rate in rural markets is higher than in urban markets. According to the National Bureau of Statistics, from January to October 2024, total retail sales of consumer goods in China's rural areas reached 5.38 trillion yuan, an increase of 4.4% yoy, compared with 3.4% yoy in urban areas. These growths highlight the increasing economic importance of county-level regions, which are becoming vital nodes in China's economic circulation.

The expansion is not just in terms of quantity but also about quality. Counties are seeing a shift towards higher-quality consumption, with a growing demand for branded and premium products. This trend is supported by rising incomes and the implementation of policies aimed at improving the consumption environment. As a result, county-level commerce is becoming a significant driver of overall consumption growth in China.

Diversification and innovation in consumption patterns

The consumption patterns in county-level markets are diversifying and becoming more innovative. There is a noticeable shift from survival-based consumption to development-oriented and enjoyment-oriented consumption. Residents are increasingly valuing brand, quality, and personalized experiences, leading to the emergence of new consumption models and formats.

For example, entertainment venues, smart appliances, new tea drinks, and fast fashion are becoming popular in county markets. Additionally, new retail models such as live-streaming e-commerce, social e-commerce, and instant retail are rapidly penetrating into these markets. Furthermore, with the continuous application of digital technologies such as 'Internet+' and artificial intelligence, county-level consumption scenarios are constantly innovating. Consumption spaces like commercial districts, shopping complexes, and malls are emerging in county areas. Immersive, interactive, and experiential consumption scenarios are flourishing, enriching the consumption scenes and methods for county residents with trendy brands, local specialty products, cultural experiences, and tourism.

This diversification is enhancing the overall consumption experience and driving the growth of county-level commerce.

Enhanced support and infrastructure development

The development of county-level commerce is being bolstered by enhanced support and infrastructure development. The Chinese government has introduced various policies to strengthen the commercial systems in counties, such as the *County-Level Commerce Three-Year Action Plan (2023-2025)* launched in 2023 and the measures to create new consumption scenarios and growth points introduced in 2024.

These policies focus on improving logistics and distribution systems, promoting digitalization, and encouraging the establishment of modern commercial facilities. The goal is to create a robust commercial infrastructure that supports the efficient flow of goods and services. This infrastructure development is crucial for sustaining the growth of county-level commerce and ensuring that it can meet the evolving needs of consumers.

As these policies are implemented, efforts are being made nationwide to establish a modern rural commercial circulation system focused on the integration of urban and rural areas. Such a system emphasizes supply chains and the two-way flow of goods and services into rural areas and agricultural products into urban areas. Efforts will be put on digitalization, chain operations, and standardization, which will further drive resource allocation towards rural markets, address the shortcomings in rural commercial facilities, improve county and village logistics and distribution systems, and guide local commerce and circulation enterprises to expand, transform, and upgrade.

Q&As

Q: What are the implications of the growth of county-level commerce for enterprises?

The growth of county-level commerce presents significant opportunities for enterprises. It opens up new markets and revenue streams, allowing companies to diversify their customer base. The increasing demand for branded and premium products in county markets can drive sales and profitability for brands. The growth of county-level commerce also underscores the importance of innovation and flexibility in meeting the evolving needs of consumers. Enterprises that can effectively navigate these markets will be well-positioned to capitalize on the growing consumption potential in China's county-level regions.

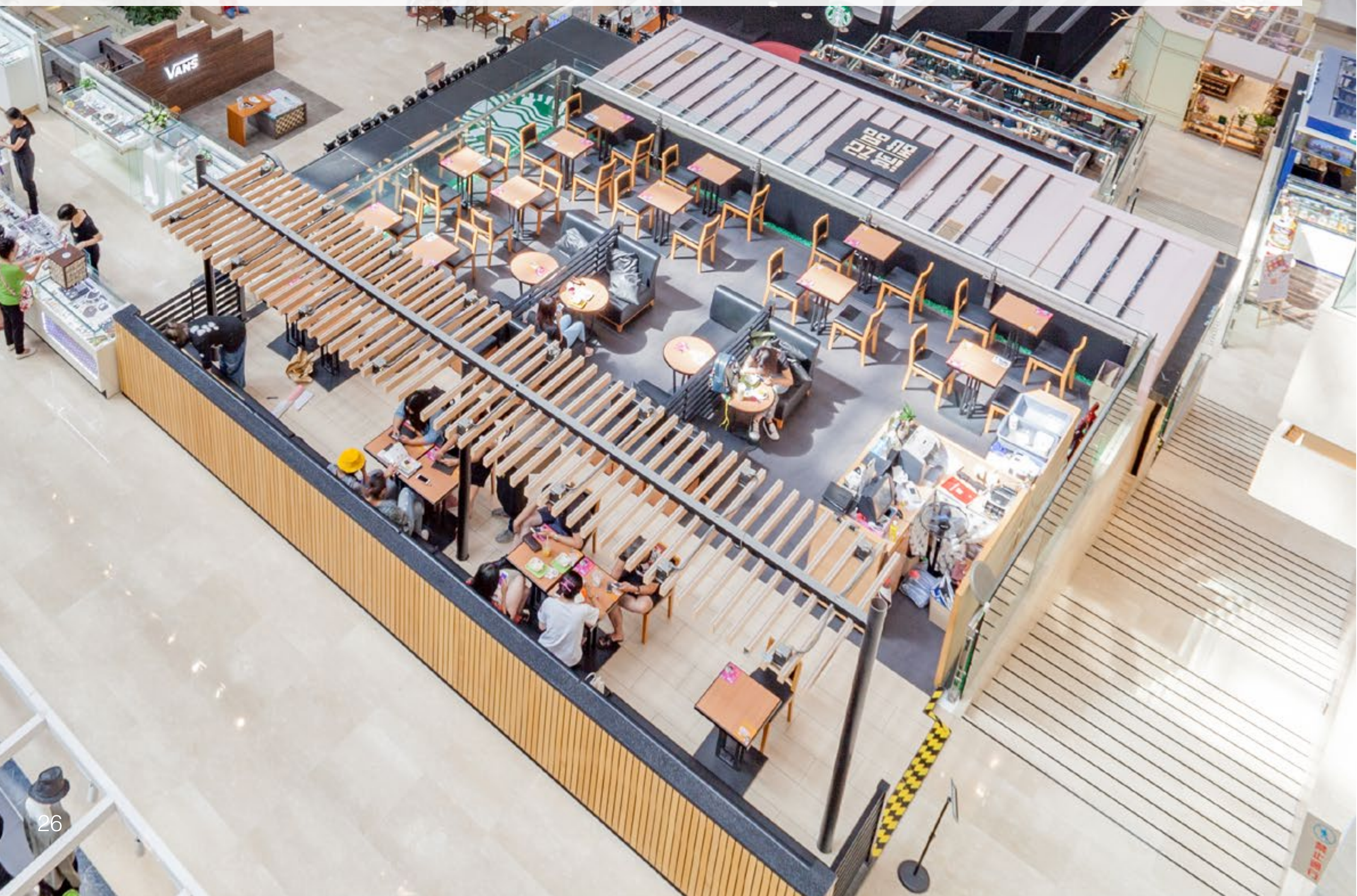
Q: What are the main challenges faced by enterprises entering county-level markets in China?

Enterprises entering county-level markets in China face several challenges, including understanding local consumer preferences, navigating regulatory environments, and establishing efficient logistics and distribution networks. Local consumer preferences can vary significantly from urban markets, requiring tailored marketing and product strategies. Regulatory compliance can be complex and may differ from one county to another. Additionally, establishing a reliable logistics network is essential for ensuring timely delivery of goods, which can be challenging in less developed areas.

Q: How can enterprises effectively tap into the potential of county-level markets?

To effectively tap into the potential of county-level markets, enterprises should invest in market research to understand local consumer behaviour and preferences. By offering products and services that cater to the specific needs and preferences of county-level consumers, enterprises can build brand loyalty and boost sales. Building strong local partnerships can help navigate regulatory challenges and enhance market penetration. Enterprises should also focus on digitalization and leverage e-commerce platforms to reach a broader audience. Additionally, developing a robust logistics and distribution network is crucial for efficient delivery of goods.

05 Catering sector prioritizes value for money and promotes green, healthy consumption



What the experts say

In 2024, the catering industry was challenged by a sluggish domestic economy, weak consumer demand, and intense competition. In the first ten months of the year, national catering revenue reached 4.44 trillion yuan, up 5.9% yoy, with large catering businesses reporting a 3.2% yoy increase in revenue. Catering revenue accounted for 11.1% of total retail sales of consumer goods during the period, and its growth outpaced that of total retail sales. However, while revenue grew, many larger businesses experienced stagnant or declining profits. Regionally, major markets like Beijing, Shanghai, and Guangdong saw a decline in catering income, whereas Central and Western China and lower-tier markets experienced steady growth. Notable examples include Shanxi, Gansu, and Sichuan.

Catering sector is faced with price-conscious consumers and rising operating costs

In 2024, the catering industry has been marked by two key trends: more rational consumer spending and high operational costs. Consumers have become increasingly price-conscious, leading to a noticeable decline in average order value. They prioritize value for money, opting for high-quality yet affordable dining options. A survey by the China Cuisine Association found that 56.1% of restaurant companies experienced a decrease in average order value, 39% reported no change, and only 4.9% saw an increase.

Furthermore, catering businesses are dealing with rising costs for ingredients and labour (which includes wages, social security contributions and accommodation benefits), which has further impacted profits, highlighting the ongoing challenges and pressures in the industry.

Standardization, digitalization, green and healthy dining and other industry innovations expected in 2025

Looking to 2025, catering businesses that align with green, smart, healthy, and current market trends will become increasingly prominent. The industry will expand its offerings to enhance people's quality of life and meet the public's increasingly diversified needs.

Leading chain restaurants are driving improvements in industry standards, with accelerated efforts in standardizing food preparation, staff training, food production, and nutritional labeling. Chain restaurants are also increasing the availability of affordable options, while high-end dining becomes more segmented.

Furthermore, catering industry is rapidly adopting digital and smart solutions, driving supply chain transformation and modernization. Innovative operational models and online-offline integration are further aligning supply and demand. Key trends include the widespread adoption of modern management approaches, and an emphasis on chain operation, scalability, standardization, and industrialization. The adoption of digital and smart technologies will unlock new growth opportunities for the sector, including the emergence of new online and offline brands, and brands' expansion into global markets.

Beyond digital solutions, the industry is embracing innovative business formats and models to boost consumption. Trends such as the 'night economy', holiday dining and integration with tourism are booming, while emerging opportunities such as rural dining markets, nutrition-focused meals, and senior meal services are bringing new momentum to the industry.

Green dining and healthy lifestyles are becoming more prominent, with consumers increasingly prioritizing low-carbon, nutritious choices. This shift will drive the industry towards sustainable and health-focused development, shaping its ecosystem accordingly.

Q&As

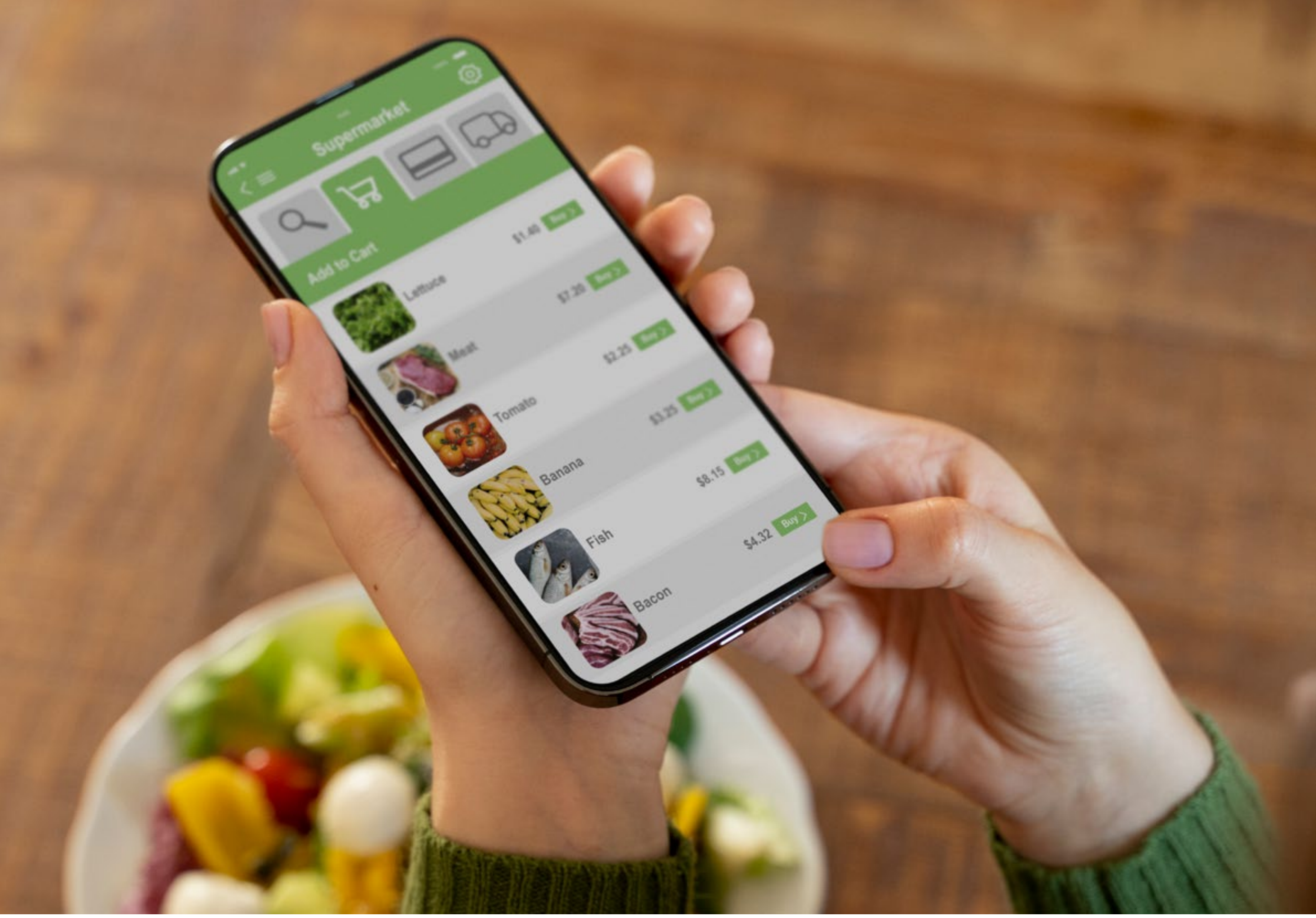
Q: What policy support has the government provided for the catering industry?

In 2024, the government prioritized revitalizing the catering industry, with various departments introducing policies to improve the business environment and foster high-quality growth in the sector. Initiatives such as integrating culture and tourism, promoting the 'night economy', and hosting food festivals have not only provided a much-needed boost to the catering industry, but also stimulated local economies by increasing consumption demand and fostering synergies between dining, culture and tourism.

Additionally, policies aimed at expanding domestic demand and promoting consumption have stabilized the catering sector, reinforcing its critical role in job creation, driving consumer spending, and supporting public welfare. Stronger food safety regulations are also creating a safer and more reliable dining environment.

Q: What is the role of the platform economy in the catering industry?

In general, food-delivery platforms can help restaurants boost their revenue by offering on-demand delivery services. Particularly in the face of declining profits and rapid turnover, catering industry associations have called on food delivery platforms to support the catering industry by reducing commission rates and advertising costs, as well as offering support for marketing strategies; these platforms can also establish fair platform rules to encourage healthy competition within the industry.


Supermarket
Add to Cart
Lettuce
$1.40
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Meat
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06

Retailers renew focus on products and services to meet consumers' need

What the experts say

In 2024, the retail industry, both online and offline, confronted notable challenges but also demonstrated resilience and innovation in response to evolving consumer needs. Adaptation to changes remained a key focus for retail enterprises throughout the year, with a renewed emphasis on product and service offerings.

The latest changes in online retail

E-commerce continued to bolster domestic demand, bridge the digital and real economies, and stimulate consumption and economic growth. According to the National Bureau of Statistics, in the first three quarters of 2024, total retail sales of consumer goods reached 35.4 trillion yuan, up by 3.3% yoy. Online retail sales amounted to 10.9 trillion yuan, up by 8.6% yoy. Online retail sales of physical goods totalled 9.1 trillion yuan, up by 7.9% yoy, accounting for 25.7% of total retail sales of consumer goods. Online retail has been a crucial driver for the expansion of the consumption market.

The e-commerce industry underwent a significant transformation over the past year, encompassing new shopping experiences, consumption patterns, consumer demographics, and market reach.

E-commerce platforms have integrated social, entertainment, health, and intelligent elements to enhance the shopping experience and cater to consumer demands, fuelling market expansion and industry innovation. By leveraging short videos, live streaming, and instant delivery, e-commerce platforms have created new retail formats and models, invigorating consumption growth. In the increasingly competitive instant retail market, companies are intensifying efforts, especially in front-end warehouses. JD.com's 7Fresh launched front-end warehouses in Beijing for 30-minute deliveries, and the integration with front-end warehouses has notably enhanced the order fulfilment efficiency and service quality for online shoppers of 7Fresh. Instant retail platform Meituan Instashopping also plans to expand its network of flash-express warehouses to over 100,000 by 2027, catering to the diverse user needs and driving industry progress.

Moreover, new consumer segments and new forms of employment emerged amid rapid e-commerce development. Post-2000s, the elderly, and rural consumers are embracing online shopping like never before, highlighting the growth and diversity of e-commerce consumers. The e-commerce sector's evolution also provided opportunities of flexible employment, helping to reduce the unemployment rate.

Besides, China's e-commerce sector accelerated its global expansion efforts. The 'cross-border e-commerce + industrial belts' model deepened, empowering industrial belts through digitalization to 'go global'. Many cross-border e-commerce platforms like Amazon, Wish, AliExpress, SHEIN, and Lazada have set up regional headquarters in Guangdong, aiding industrial belts in global expansion. For example, SHEIN announced plans to help industrial belts in 500 cities in China, including all 21 prefecture-level cities in Guangdong, to expand their presence in overseas markets. SHEIN aims to empower sellers with efficient supply chains to meet consumer demands, cut costs, boost efficiency, and enhance product competitiveness.

A consumer-centric transformation in offline retail

Amid the further rise of online retail, offline retail underwent a transformation that prioritized consumer needs and revitalized traditional formats. In the first half of 2024, more than 130 traditional supermarkets and hypermarkets closed. At the same time, many retailers adopted customer-centric strategies inspired by Pangdonglai's model, enhancing store environment, product quality, and services to increase sales. Besides, cost reduction, efficiency improvement, digitalization, and AI technologies were also primary focuses for the transformation of many retailers.

Furthermore, urban renewal provided an opportunity to rejuvenate offline formats, breathing new life into traditional commercial establishments. For example, Beijing Shuang'an Shopping Mall evolved into a social hub, while a women's store in Shanghai focused on the community brand 'LADY Huaihai'.

The offline market also witnessed the rise of the anime, comics and games (ACG) economy, actively targeting the ACG consumer segment and encompassing ACG content creation, dissemination, and merchandise. Tianjin SCPG Incity introduced an ACG district called 'ACG Authority', and Wumart supermarket launched an ACG marketplace. In addition, intellectual property (IP) products emerged as a significant driver of offline traffic, injecting fresh vitality into brick-and-mortar businesses. IP pop-up stores were frequently appearing in shopping malls, and many offline trendy brands were expanding their range of co-branded IP products. In 2024, MINISO unveiled its ambition to become the premier IP design retail group globally, and to support 100 Chinese IPs in their global expansion efforts. The number of registered MINISO members in major markets worldwide has surpassed 100 million.

Q&As

Q: How did e-commerce giants shape the landscape of e-commerce ecosystems in 2024?

Taobao and Tmall Group (TTG) and JD.com led the way in reducing market barriers and nurturing a collaborative e-commerce environment. They championed interconnectivity between platforms, upheld merchant rights, and improved the business environment, establishing a fair e-commerce ecosystem. In addition, the integration of Cainiao into JD.com and JD Logistics into TTG enriched these platforms with expanded express delivery and supply chain services, while also enhancing user experience with diverse delivery options and services, including installation and trade-in services for large product items.

Q: Why are many supermarkets 'learning from Pangdonglai'?

In recent years, the financial performance of Pangdonglai, a rapidly expanding presence in China's supermarket sector, exceeded expectations. Initially aiming for a net income of 20 million yuan, the company achieved 140 million yuan in 2023, marking a 600% overachievement. With a revenue of 10.7 billion yuan in 2023, Pangdonglai anticipates a 40% year-on-year increase, surpassing 15 billion yuan in 2024.

The trend of 'learning from Pangdonglai' gained traction in 2024 among supermarket brands like Hyper-Mart under Better Life Group, Yonghui Superstores, Wuhan Zhongbai Warehousing Supermarket, and Chengdu Lini Supermarket. By adopting Pangdonglai's customer-centric approach, these brands significantly improved their store environments, product quality, services, and employee benefits, leading to improved customer satisfaction and notable sales growth.

Yonghui Superstores, influenced by Pangdonglai, restructured its Beijing store to align more closely with Pangdonglai's successful model. This revamp involved removing 11,430 items from shelves, introducing 12,765 new items, with 76.2% of offerings being fresh additions. The new product structure closely mirrored that of Pangdonglai.

Q: How will the retail industry be in 2025?

Looking ahead to 2025, the retail industry is poised to face both challenges and opportunities. On one hand, collaboration between e-commerce giants is expected to deepen further in 2025, fostering a more equitable and healthier e-commerce business environment. On the other hand, transformations of offline retail inspired by the 'learning from Pangdonglai' movement are expected to unfold, leading to potential changes in the retail landscape, and reshaping product and service offerings and supply chains.

Ongoing innovation is essential to meet diverse consumer needs and competitive market dynamics. The application of new technologies and models will remain a focal point, especially the adoption of artificial intelligence (AI) applications. Moreover, the revitalization of traditional commercial spaces through urban renewal is set to continue. Last but not least, the ACG economy and IP-content brands are expected to maintain popularity.

07 Continued strong demand for fresh, high-quality produce drives consumption growth

What the experts say

Consumer demand for high-quality produce is strong and increasing

Fresh produce is a daily necessity, with a high consumption frequency and stable market demand. In recent years, consumers' demand for quality life and a healthy diet has continued to increase, resulting in unprecedented market potential for fresh food. Its market scale has continuously expanded, with an annual compound growth rate of around 7% since 2016.

Consumers are increasingly opting for high-quality, traceable, and pollution-free fresh produce to meet their health needs. The demand for healthy, safe, original and branded fresh produce continues to rise. Some niche geographical indication produce and health-focused functional agricultural products are becoming new favourites of consumers.

The demand for high-quality foreign produce has also increased. Their popularity in the market continues to rise. For example, Chilean cherries, Thai and Malaysian durians have quickly become 'hot items' in the Chinese fresh food market with their unique taste, excellent quality and rich nutritional values.

Fresh produce distribution model is evolving

Changes in agricultural product distribution channels and industrial chains are the key aspect of the transformation in the fresh produce market. Currently, offline channels such as traditional wet markets, supermarkets, convenience stores and other physical retail outlets dominate the fresh produce retail market. These channels meet consumers' daily needs for fresh produce by providing on-site selection and purchase services.

However, with the development of e-commerce and the Internet technology, online channels such as fresh food e-commerce platforms, community group purchasing, and other new retail models are rapidly emerging. These channels attract consumers, especially

young consumers, by offering a convenient shopping experience and efficient logistics and distribution services. They have become an important supplement to the mainstream offline sales channels for fresh produce.

In 2024, the General Office of the State Council issued the *Opinions on Practicing the Broader Food Concept and Building a Diversified Food Supply System*. It is expected that, with the implementation of these 'Opinions', the development of the whole agricultural industrial chain, centred on the construction of cold chain logistics and preservation facilities, will be further advanced in 2025. Business models such as staple food processing, 'fresh food e-commerce + cold chain home delivery', 'central kitchen + cold chain food distribution' will also gradually take shape.

Furthermore, in 2025, the green concept is likely to extend across the entire agricultural circulation process, from controlling pollution at the source and cold chain preservation during transportation, to green packaging at the final sales stage, all working together to build a sustainable and green circulation ecosystem for fresh produce.

Functions of agricultural markets are being completely reshaped

The increasing diversification of distribution channels has significantly transformed the forms of commodities, transaction methods, facilities, and management models in agricultural trade. The rising demand for fresh produce has further highlighted the role of agricultural markets in ensuring food safety, minimizing waste and enhancing the quality of fresh produce throughout the distribution process. Additionally, agricultural markets must better serve the needs of urban and rural residents and provide emergency supplies in both daily and crisis situations.

Agricultural wholesale markets are the primary channels for the distribution of agricultural products. They have long played a crucial role in ensuring supply, stabilizing prices, and linking production with sales. Nowadays, agricultural wholesale markets are no longer confined to traditional roles like goods distribution and price formation. They are actively exploring the online direct-to-consumer (DTC) business, integrating their main business with online market promotion through virtual market tours, livestreaming from production areas and warehouses, or local life shows to attract consumers. They also organize distinctive offline marketing activities such as snack festivals, salted and cured meat festivals, fruit festivals, and New Year's goods festivals to boost market popularity, which drive fresh food consumption growth.

Traditional agricultural wholesale markets have also been exploring green and sustainable models. Many of them are developing photovoltaic power generation projects, energy-saving and environmentally friendly cold storage facilities, and new energy charging pile projects to promote clean production and sustainable development.

Agricultural retail markets are also providing more diversified and personalized products and services to meet the growing consumer demand. From traditional wet markets to modern fresh food supermarkets, and from solely selling agricultural products to offering comprehensive consumer experiences that integrate shopping, dining, and leisure, all of these provide consumers with a more convenient, comfortable, and enjoyable shopping experience. For example, the newly emerging 'cooking on-site' service in wet markets allows consumers to buy and enjoy more affordable fresh and delicious dishes directly in the market.

In 2025, our experts expect that innovative service models and diversified functions will further emerge in agricultural markets, providing consumers with more high-quality and safe fresh food choices, and enhancing overall customer satisfaction.

Q&As

Q: What challenges does the rising consumer demand for fresh food pose to the fresh produce industry, and how can the industry cope with these challenges?

Consumers' pursuit of freshness, taste, and nutritional values in food reflects their growing emphasis on healthy living, food safety, and personalized needs. This trend in fresh food consumption means that consumers will focus more on the production methods, farm environment, and green or organic farming techniques behind the food. As consumption concepts evolve, consumers have also raised their expectations for the packaging, delivery services, and after-sales services of fresh produce, seeking a more convenient, efficient, and personalized shopping experience.

This series of changes will bring new challenges to the production, processing, and sales of fresh produce in 2025. However, it will also create significant opportunities, driving the entire fresh produce industry towards greater standardization and intelligentization. This requires the industry to enhance service quality and operational efficiency, optimize supply chain management, upgrade cold chain logistics, ensure the quality and freshness of agricultural products, and strengthen branding to attract consumer attention and purchases.

Q: Given the importance of agricultural wholesale markets, how should they transform their functions to ensure the freshness and quality of agricultural products?

Agricultural wholesale markets can expand new functions in at least the following three aspects:

- Change their agency sales model to guide upstream production and connect with downstream retail. Specifically, this involves fully leveraging their role as a circulation platform to actively introduce high-demand, high-quality products into the market and communicate consumer demands upstream to the producers to guide their production.
- Streamline and optimize the agricultural supply chain. By introducing advanced cold chain logistics technology and information technology, the agricultural industry can achieve full traceability and monitoring of fresh products, while also reducing losses and wastage.
- Strengthen cooperation with international suppliers. Agricultural wholesale markets should introduce more high-quality agricultural products from overseas regions such as Southeast Asia, Africa, and Latin America to provide consumers with a more diverse and higher-quality selection of imported agricultural products, meeting their varied needs.

08 Digital consumption unlocks new growth for domestic demand while digital cultural consumption drives lifestyle changes

What the experts say

The adoption of various technologies such as 5G, IoT, AI and virtual reality in recent years has rapidly shaped digital consumption development as well as people's spending habits in general. In turn, as consumer lifestyles change accordingly, digital consumption scenarios continue to expand to cater for the shift in consumers' shopping needs from physical goods to digital goods and services. According to the National Bureau of Statistics, in the first three quarters of 2024, national online retail sales reached 10.893 trillion yuan, a year-on-year increase of 8.6%; among them, online retail sales of physical goods reached 9.072 trillion yuan, an increase of 7.9%, accounting for 25.7% of total retail sales of consumer goods.

Digital technologies across sectors boost consumer interest and interactivity

Online and offline consumption scenarios are becoming more integrated over time, as consumers are spending on digital products in addition to physical goods, and the digital yuan becomes more widespread. Emerging new-retail formats such as short videos, social e-commerce, instant retail, metaverse, distance education, online medical care, and cloud games are booming. According to the Ministry of Commerce, in the first three quarters of 2024, sales of AI learning devices and smartphones grew by 127.9% yoy and 15.4% yoy, respectively. Furthermore, JD Vision, a native Apple Vision Pro app, enables consumers to drag home appliances, furniture, or trendy gadgets into their home spaces at a 1:1 scale for realistic previews. Xiaomi SU7 electric car introduced a 'virtual test drive' booking feature on Taobao's Vision Pro platform, promising a new 'at-home test drive' experience.

New retail formats like smart supermarkets, smart stores, and smart restaurants are on the rise, alongside innovative digital transportation services such as smart parking, autonomous taxis, and shared mobility. Meanwhile, digital experience centres like 'Lingjing Vision' and 'XR Fantasy Space' use virtual reality (VR), augmented reality (AR), and mixed reality (MR) technologies to provide consumers with unprecedented immersive experiences. Furthermore, digital livestream hosts and virtual spaces are also gaining significant attention. During the '618' shopping festival in 2024, JD Cloud's digital humans, powered by its ChatRhino (Yanxi) large language model, appeared in over 5,000 brand livestreams, totaling over 400,000 hours of broadcasts, attracting more than 100 million views and five million interactions.

Digital cultural consumption drives new lifestyle changes

Digital humans are becoming more common in education, finance, tourism and media, enriching platforms for digital cultural consumption such as local lifestyle services and knowledge payment platforms.

Additionally, domestic brands and distinct domestic products are also benefiting from e-commerce platforms, with 'guochao' (national trend) clothing such as traditional Chinese silk skirts ('mamianqun') and Xiangyunsha silk shirts gaining popularity — nearly 60% of online shoppers have purchased some type of these domestic clothing items. Furthermore, digital innovations are reshaping cultural consumption and regional tourism development. Tourist attractions and cultural heritage sites are using digital platforms to transform the cultural tourism industry by creating virtual scenic tours, immersive museum experiences, touring livestreams, and ultra-HD panoramic videos. Collaborations such as regional culture-themed character skins in video games boost online-offline synergy, while local cultural integrations with dining, automotive, and sports sectors strengthen local consumption and economies. Meanwhile, content on short video platforms promotes more niche forms of tourism, such as small-town tours and county-level travel, alongside new trends such as city walks, camping, and the 'night economy'.

Strategies to further develop digital consumption

Data-centred new quality productive forces supported by digital technologies present new opportunities for the growth of digital consumption. Our experts suggest leveraging these new advantages to develop digital consumption comprehensively through four key strategies:

- Enhancing the supply-side ecosystem by promoting technological innovation and integration, and digital transformation across industry chains, fostering cross-sector and international collaborations, and strengthening green development principles.
- Boosting demand by offering innovative consumer experiences, leveraging social media and key opinion leaders (KOLs), improving digital literacy, establishing consumer feedback mechanisms, and diversifying payment methods.
- Optimizing support systems by enhancing communication infrastructure, advancing cloud and edge computing, improving cybersecurity and regulatory frameworks, and integrating digital technology and financial services.
- Enriching digital consumption scenarios by building and optimizing digital platforms, implementing online-to-offline (O2O) models, promoting personalized consumption, driving smart hardware and software innovation and service model upgrades, exploring the sharing economy models, and establishing comprehensive regulations and standards.

Q&As

Q: How are the demographics of digital consumers changing?

According to a 2024 report released by the China Internet Network Information Center, over nine billion people in China shop online. National digital consumption is growing rapidly, driven by new forces like the ‘post-90s’ (millennials), ‘post-00s’ (Gen-Zs), seniors, women, and rural residents. Their participation in digital consumption is high and increasing – 95.1% of millennials , 88.5% of Gen-Z, 69.8% of seniors, 85.4% of women, and 76.7% of rural residents shop online, highlighting the growth and diversity of digital consumers.

Q: What government policies have been implemented to support digital consumption?

Expanding new digital consumption scenarios is a necessary response to the trends of digital transformation and consumption upgrades; it will also drive economic transformation and social progress. Policies such as the *Notice on Implementing the Digital Consumption Enhancement Initiative, Measures for Creating New Consumption Scenarios and Cultivating New Growth Points in Consumption*, and *Opinions on Promoting the High-Quality Development of Service Consumption*, all released in 2024, have laid a solid foundation for the future of digital consumption.

09 Pioneering cost optimization and efficiency enhancement to drive excellence and high-quality development in commercial logistics

What the experts say

The early 2024 meeting of the Central Financial and Economic Affairs Commission of China reiterated the importance of logistics in underpinning the real economy, which links production and consumption, and domestic and international trade. It also highlighted the necessity to reduce overall social logistics costs. In recent years, the commercial logistics industry has faced challenges such as pricing pressure from end-users and rising costs in rentals, labour expenses, and fuel costs. Intense competition has led to continual decreases in service charges, significantly squeezing profit margins for the industry.

Against this backdrop, the industry is actively pursuing cost reduction and efficiency enhancement through digital technology adoption, business model refinement, industry collaborations, and comprehensive improvements in business processes, organizational structures, and supply chains. This collective effort signifies a shift from segmented optimization strategies towards an integrated approach that considers the interconnectedness of stakeholders in the supply chain, aiming for overall system-wide efficiency and effectiveness.

Adoption of digital technology improves operational efficiency

First, by integrating digital technology into commercial logistics, businesses can elevate intelligence and automation levels across operational processes. For instance, Kupai Tongcheng Logistics Co., Ltd in Xuzhou, Jiangsu, and Hunan Zhicang Yishang Technology Co., Ltd have jointly developed an integrated logistics platform that unifies online and offline order management, streamline warehouse operations, plan real-time transportation routing, and automate billing processes. This integration facilitates smoother operations, improves warehousing and distribution efficiency, and enhances customer experiences. Additionally, Full Truck Alliance embraces advanced technologies such as big data and artificial intelligence to reshape the logistics sector, connecting trading enterprises with truck drivers through an intelligent platform for efficient vehicle-cargo matching, enhancing freight logistics.

Shared warehousing and last-mile delivery solutions reduce logistics costs

Second, leveraging shared warehousing and last-mile delivery services can enhance the utilization of logistic facilities and reduce overall logistics costs through the economies of scale. When individual distributors handle sales and logistics independently, challenges such as blurred managerial focus and underutilized warehouse and transportation capacities arise. In response, Junsheng Logistics Co., Ltd in Sichuan collaborated with a software systems company to develop a platform system for shared warehousing and distribution, facilitating resource sharing among manufacturers and distributors. This approach integrates logistics and commercial activities, improving shipment efficiency, reducing delivery lead times, optimizing warehouse space, and minimizing transport and labour expenses.

Streamlined company processes enhance operational efficiency

Third, by streamlining internal processes and enhancing departmental coordination, companies can cultivate a culture of continuous improvement for comprehensive operational optimization. Xi'an Commercial Logistics Group has implemented zoning management in its logistics park and integrated its warehouse logistics information system with real-time inventory monitoring function, aiming at enhancing warehouse management capabilities and inventory space utilization. Kuanguang Group in Chengde, Hebei has optimized its urban delivery service solutions based on business volume and delivery distances to enhance outsourced operations' responsiveness and service quality and improve the efficiency of in-house vehicle utilization.

Dual-use logistics facilities accommodate emergency needs

In addition to typical commercial logistics services, some regions are initiating projects to build social logistics facilities catering to both regular and emergency needs, especially in vital sectors that demand rapid emergency assistance. Projects like the integrated distribution centre in Hangzhou's Qiantang District and the 'Jingping Integrated Logistics Hub' in Beijing's Pinggu District aim to serve as hubs for essential supplies, emphasizing the industry's commitment to operational excellence and public welfare through reliable and responsive logistics infrastructure.

Q&As

Q: How do optimization strategies in the specialized logistics field manifest their effects?

The implementation of optimization and scalability strategies in specialized logistics services is particularly significant. Industries like pharmaceuticals face high operational costs from the 'small yet comprehensive' warehousing model and fragmented distribution needs. Following the policy changes in third-party pharmaceutical distribution, Guizhou Bokai Technology Development Co., Ltd has introduced an operational solution integrating a pharmaceutical logistics park with third-party distribution services. This model streamlines and consolidates processes from acceptance check to warehouse management, verification of outbound shipments, and last-mile delivery. By reducing the number of parties involved in the supply chain, this strategy assists small and medium-sized pharmaceutical distributors in reducing warehousing and logistics costs while ensuring compliance. It also alleviates quality and safety risks associated with the repeated handling of pharmaceuticals.

Q: How does the advancement of drone delivery impact commercial logistics?

Drone delivery, an important part of the low-altitude economy, represents a promising avenue for enhancing cost efficiency and operational effectiveness in commercial logistics. Companies such as Meituan, JD.com, SF Express, and DJI have leveraged drone technology to revolutionize delivery services. Meituan and Ele.me have established drone delivery routes in cities like Shenzhen, Shanghai, and Hefei, providing customers with speedy service. SF Express has optimized package collection and delivery by integrating drones with air cargo transport. Additionally, ZTO Express has launched drone cargo transport between the Linyi transshipment centre in Shandong and the Xinminghui logistics park, achieving quicker delivery and cost savings.

Q: Some commercial logistics enterprises are integrating cost reduction and efficiency enhancement with green transformation in their operations. In what way are the green practices taking shape?

Many commercial logistics companies are transitioning to eco-friendly operations to align with high-quality development standards, emphasizing cost and efficiency optimization. For example, by implementing strategies like optimized packing algorithms and direct shipment, Cainiao is reducing waste and promoting sustainability in its operations. Cainiao has also introduced a reusable plastic box programme, gradually replacing traditional cardboard boxes with plastic boxes that can be reused up to 50 times. In addition, the company reused a total of 47.6 million cardboard boxes in its warehouses during the fiscal year 2024. Cainiao's green packaging strategy resulted in a reduction of 101,000 tons of packaging materials in the year.

Similarly, JD Logistics has developed the X series cardboard boxes, reducing material consumption while ensuring safety and practicality. Furthermore, its Zhejiang branch has initiated a 'secondary cutting and recycling project' for cardboard boxes to encourage resource conservation and recycling efforts.

10 Global expansion becomes inevitable, with compliance and localization being key

What the experts say

Chinese retail companies target emerging markets for growth

Since 2023, Chinese retail companies have been more proactively expanding into international markets. With the domestic market becoming saturated and increasingly competitive, these companies are seeking new growth opportunities abroad. After success in developed markets like the US and the EU, emerging markets such as Southeast Asia, the Middle East, and Latin America have become key targets. E-commerce platforms like AliExpress, SHEIN, TEMU, and TikTok Shop are prime examples.

The strategic move towards emerging markets is driven by several factors. Firstly, these regions often have rapidly growing economies and a burgeoning middle class with increasing purchasing power. This makes them attractive destinations for retail companies looking to tap into new customer bases. Secondly, the competitive landscape in these markets is often less intense compared to more mature markets like North America and Europe, providing Chinese companies with a relatively easier entry point.

Moreover, the cultural affinity and geographical proximity of Southeast Asia to China make it a natural extension for Chinese businesses. Companies like Mixue Ice Cream & Tea ('Mixue' thereafter) have capitalized on this by opening thousands of stores across the region, with most of the ingredients shipped from China. Similarly, Meituan has chosen Hong Kong as its first international market, launching its food delivery platform KeeTa with significant subsidies and efficient delivery services, quickly capturing a leading market position.

Compliance and localization are crucial for success abroad

Compliance with local regulations is a critical factor for success in international markets. This includes adhering to accounting, tax, customs, labour laws, and anti-money laundering regulations. Failure to comply with local laws can result in hefty fines, legal battles, and even bans from operating in the market. Compliance issues can have significant impacts on a company's strategy. For example, the statutory minimum wage and high operational costs in Australia have posed substantial challenges to Mixue's low-price strategy.

Additionally, companies must navigate local protectionist policies, as seen with SHEIN's exit from Indonesia in 2021. Similarly, TikTok Shop faced a temporary shutdown in Indonesia due to new regulations targeting social media e-commerce. The platform was able to resume operations only after partnering with local e-commerce firms, highlighting the necessity of understanding and adhering to local regulatory landscapes.

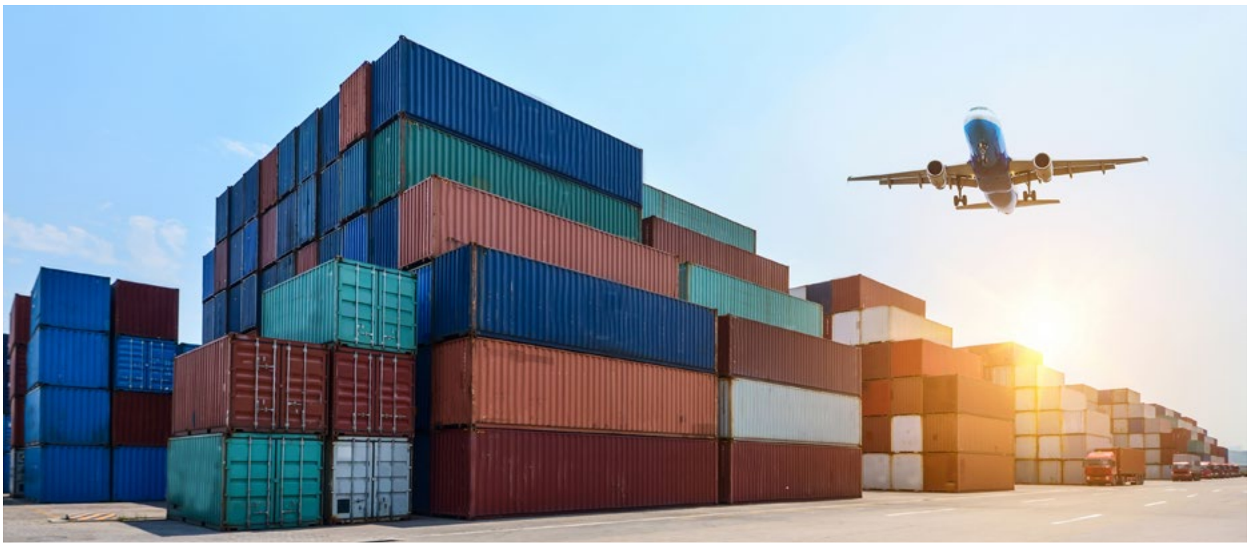
Localization strategies are equally important, which require companies to adapt their products, marketing strategies, and operations to local market conditions, cultural habits, and consumer needs. It involves a deep understanding of the local market dynamics and consumer behaviour. For example, Mixue has introduced tropical fruit-flavoured teas and ice creams in Southeast Asia, which resonate well with local tastes. Collaborating with local influencers and celebrities can also significantly boost brand visibility and acceptance.

Integrating domestic and international trade enhances competitiveness

Integrating domestic and international trade is a key strategy for Chinese retail enterprises to enhance their global competitiveness. This integration strategy allows companies to leverage China's competitive domestic supply chain to support their international operations, thereby improving efficiency and reducing costs. It also provides a buffer against global market volatility.

For instance, SHEIN, with most of its production carried out in China, utilizes an agile and digital supply chain to enable seamless integration of production and sales. Similarly, Mixue, with most of its ingredients sourced from China, has built its own supply chain to ensure efficiency and stability, facilitating rapid expansion.

Furthermore, the establishment of overseas warehouses has become a critical component of this strategy. By setting up warehouses in key international markets, companies can significantly reduce delivery times and improve customer satisfaction. AliExpress, for example, has built a network of overseas warehouses that enable faster delivery and localized after-sales services, enhancing its competitiveness in the global e-commerce arena.



Q&As

Q: What are the main challenges Chinese retail companies face when expanding abroad?

The main challenges include navigating complex regulatory environments, adapting to local market conditions, and managing supply chain logistics.

Compliance with local laws and regulations is essential for avoiding legal issues and penalties. Besides, expanding into international markets often involves dealing with a myriad of regulations that vary significantly from one country to another. This can be particularly challenging for companies that are used to operating in a relatively homogenous regulatory environment.

Moreover, companies must understand and cater to local consumer preferences and cultural nuances to succeed. Cultural differences can impact everything from marketing strategies to product design, requiring companies to invest in local market research and adapt their offerings accordingly.

Supply chain logistics pose another significant challenge. Efficient logistics are necessary for meeting customer expectations and maintaining competitiveness. However, ensuring timely delivery and maintaining product quality across long distances can be difficult, especially in regions with less developed infrastructure. Companies need to build robust logistics networks and possibly establish local manufacturing or assembly facilities to mitigate these challenges.

Q: How can Chinese retail companies effectively localize their operations in foreign markets?

Effective localization involves several key strategies. First, companies should conduct thorough market research to understand local consumer preferences and cultural differences. This information can guide product development and marketing strategies. Second, hiring local talent and partnering with local businesses can provide valuable insights and help navigate the local business environment. Third, adapting products and services to meet local needs, such as offering region-specific flavours or collaborating with local influencers, can enhance brand acceptance and loyalty.

Localization is not a one-size-fits-all approach; it requires a nuanced understanding of each market. For example, what works in Southeast Asia may not necessarily be successful in the Middle East. Companies need to be flexible and willing to experiment with different strategies to find what resonates best with local consumers.

Q: What role does technology play in the international expansion of Chinese retail companies?

Technology plays a crucial role in various aspects of international expansion. Digital technologies such as artificial intelligence (AI), blockchain, and Internet of Things (IoT) enable companies to optimize supply chain management, enhance customer experience, and implement targeted marketing strategies. For example, cross-border e-commerce platforms like AliExpress and TEMU leverage big data analytics and AI to accurately target customers and improve marketing effectiveness. Blockchain technology ensures transparency and efficiency in the supply chain, enhancing trust and reliability.

Authors:

Primary Authors

Helen Chin
helenchin@ust.hk

Wendy Weng
wendyweng@ust.hk

William Kong
williamkong@ust.hk

Other Authors

Winnie Lo
winnielo@ust.hk

Sophie Zhang
sophiezhang@ust.hk

Brigitte Ng
v-brigitteng@fung1937.com

HKUST Li & Fung Supply Chain Institute

LSK Business Bldg, The Hong Kong University of Science & Technology,
Clear Water Bay, Kowloon, Hong Kong
ustlfsci@ust.hk