



# Domestic Fast Lanes and Business Globalization

## Foreword

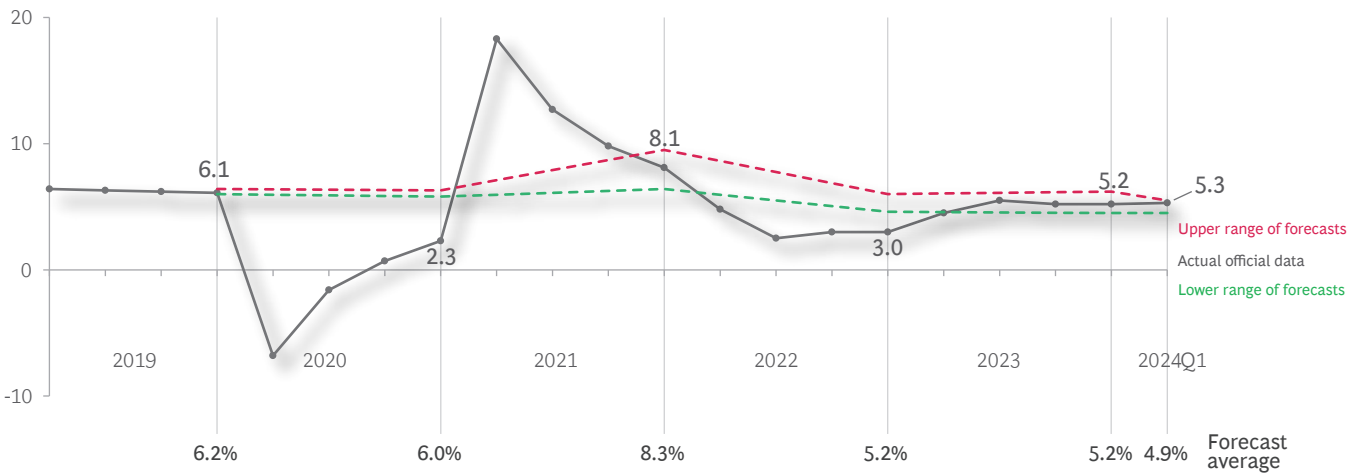
*China Consumer Market Quarterly Watch* is a BCG content series in which we provide forward-looking consumer and industry insights for businesses. In the first issue, we analyzed the annual growth themes of China’s consumer industry and the changes that have taken place in four consumer sectors in 2023. In this issue, we examine emerging trends for the first quarter of 2024 and zero in on strong growth opportunities in brand globalization and the restaurant sector.

## The Macroeconomic Context

On April 16, 2024, the National Bureau of Statistics of China released a report showing macroeconomic data for the first quarter of 2024, which reveals that GDP increased by 5.3% year-on-year, a rate that is 0.4 percentage points higher than the average forecast of eight well-known research institutions. (See Exhibit 1.)

## Exhibit 1 - GDP Grew by 5.3% Year-On-Year in Q1 2024, Higher Than the Average Projected by Eight Research Institutions

Constant GDP price accumulated by quarters, year-on-year %



Sources: National Bureau of Statistics of China; Choice; Literature research.

Note: Market forecasts come from eight domestic and foreign financial institutions, including Goldman Sachs, Morgan Stanley, UBS, CICC, Huatai Securities, Bank of China Research Institute, China Macroeconomic Forum, and OECD; data covers the first quarter of 2019 to the first quarter of 2024.

Total retail sales of consumer goods in the first quarter were up 4.7% year-on-year. Based on 2019 (pre-COVID) absolute value, the first-quarter retail consumption trended positively compared with figures of past years, in tandem with the growth of per capita disposable income and per capita consumption expenditure. It should be noted that the consumption economy grew more each month in January and February than it did in March. In the case of merchandise retail sales growth, it averaged 4.6% year-on-year in January and February combined, while in March, it fell to 2.7%. (See Exhibit 2.)

Growth rates were still uneven across sectors. Service sectors such as restaurants and travel grew much faster than did physical goods sectors such as fast-moving consumer goods (FMCG), fashion and luxury, and household appliances and electronics. However, the growth gaps narrowed in the first quarter of 2024. (See Exhibit 3.)

The national Consumer Price Index (CPI) was flat in the first quarter and remained inside the deflationary risk zone, while key real estate indicators stayed at their post-2019 lows.

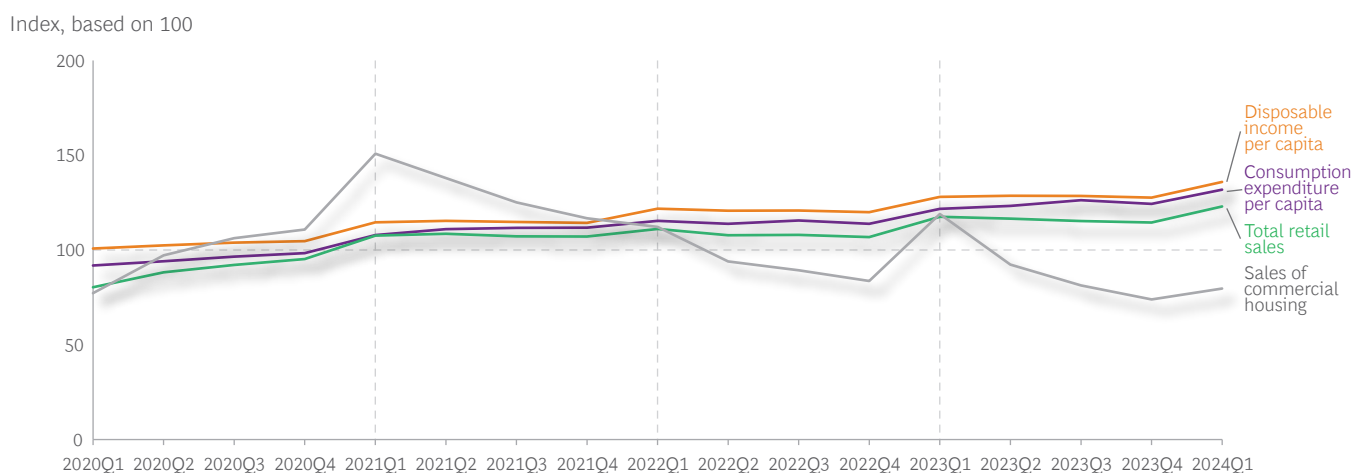
Second-quarter data is expected to show the ongoing trend of growth and recovery for key underlying economic factors.

China’s most important policy-shaping event in the first quarter of 2024 was the holding of the “Two Sessions” (the annual meetings of China’s National People’s Congress and the National Committee of the Chinese People’s Political Consultative Conference). In this year’s Two Sessions, the Chinese government announced the economic growth target for 2024: achieving an annual GDP growth rate of “around 5%” (accompanied by a 3% increase in consumer prices). It is worth noting that this figure is slightly higher than the average 4.9% forecasted by the eight well-known research institutions, and the official expectation of an increase in consumer prices is also above both the historical low of 0.2% for 2023 and the deflationary risk zone.

China’s 2024 government work report makes 21 references to “consumption” and nine references to “export” and “foreign trade,” which in total is more than twice that of “real estate” and other categories. In our view, while this speaks to the government’s determination to maintain economic stability and boost the national economy, it also reveals both the government’s strategic intent in terms of important growth engines and possible policy directions—namely, the development of “new quality productive forces” and the creation of new business models and new markets.

## Exhibit 2 - 2024 Q1 Total Retail Sales, Per Capita Consumption Expenditure, and Per Capita Disposable Income All Trended Up

Year-on-year changes in key economic indicators with 2019 numbers as the base; quarterly numbers are cumulative within the same year



Sources: National Bureau of Statistics of China; BCG analysis.

Note: The data covers the first quarter of 2020 to the first quarter of 2024; calculation method: normalize the four key economic indicators for the first quarter of 2020–2024 on the basis of the cumulative absolute value of the current quarter of 2019. For example, in the first quarter of 2019, the cumulative absolute value of retail sales was RMB 9.8 trillion; in the first quarter of 2020, the cumulative absolute value of total retail sales was RMB 7.9 trillion, with 2019 as the quarterly base. If the index is 100, then the total retail sales index for the first quarter of 2020 was  $7.9/9.8 \times 100 = 80.6$ . Three other categories of economic indicators are calculated in the same way.

## Exhibit 3 - Growth Uneven Across Sectors, Favoring Services over Products

		Accumulated value for the year (see note for units)		2024Q1 year-on-year growth	2023 year-on-year growth <sup>6</sup>
Products <sup>1</sup>	FMCG <sup>2</sup>	2024Q1	10,934	5.5%	2.4%
		2023	39,103		
	Fashion and luxury <sup>3</sup>	2024Q1	4,690	0.4%	8.7%
		2023	17,405		
	Household appliances and electronics <sup>4</sup>	2024Q1	4,162	6.9%	1.4%
		2023	17,049		
Services <sup>5</sup>	Restaurants	2024Q1	13,445	10.8%	20.4%
		2023	52,890		
	Domestic travel	2024Q1	16,311	29%	136%
		2023	59,052		
	International travel	2024Q1	1,412	530%	1461%
		2023	2,906		

**Sources:** National Bureau of Statistics of China; Civil Aviation Administration of China; BCG analysis.

<sup>1</sup> The absolute value of the retail product is RMB 100 million, above the limit.

<sup>2</sup> FMCG covers grain, oil, food, beverage, tobacco and alcohol, cosmetics, and household items.

<sup>3</sup> Fashion and luxury cover clothing, footwear and headgear, knitting and weaving, and gold and silver jewelry.

<sup>4</sup> Household appliances and electronics cover household electrical appliances, audio-visual equipment, furniture, and communication equipment.

<sup>5</sup> Under the category of services, the unit of food and beverage revenue is RMB 100 million, the domestic and international travel unit is 10,000 people.

<sup>6</sup> The absolute value and year-on-year growth rate in 2023 is slightly different from the previous issue. The data in this issue is based on the annual data analysis of 2023 January to December, while the data in the first issue is the statistical analysis of data up to November 2023.

While there has been much discussion regarding the “uncertainty” of the market in the first quarter, we believe that the next step for businesses is to consider building their own sense of certainty and direction for renewal and growth. Over the past year, we have distilled a wealth of insights from globalization projects with our Chinese consumer company clients. In the first issue, we also covered the fast-growing restaurant sector in China’s consumption recovery. We will closely examine these two topics in the following chapters.

### Consumer Market Observations

#### CHINESE CONSUMER BRANDS GO GLOBAL

In recent years, brand globalization has again become a hot topic for enterprises seeking growth and development. The annual foreign direct investment (FDI) of enterprises across all industries has reached historical highs since 2021. As of 2022, China’s net direct outbound investment flows have accounted for 10% of the world’s total FDI. (See Exhibit 4.)

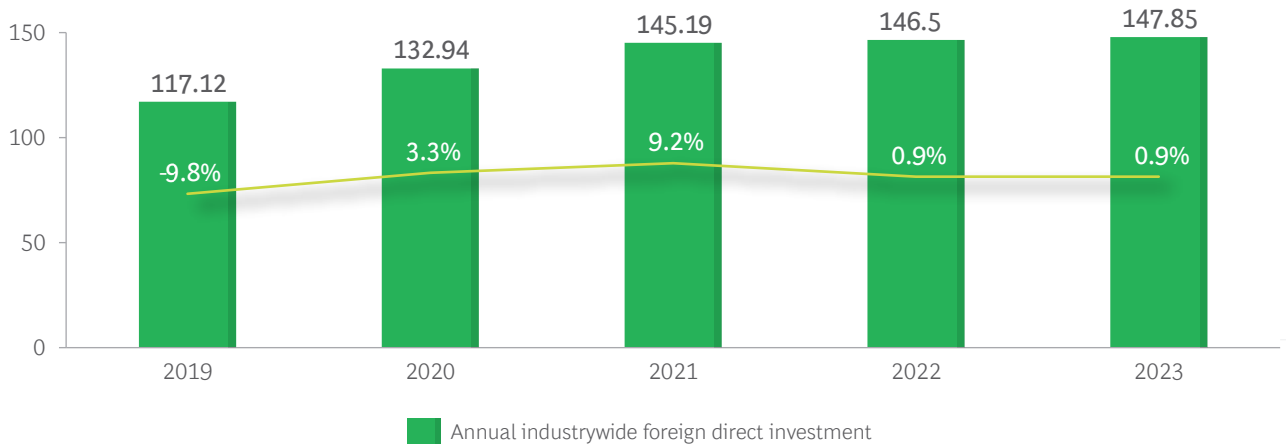
Take, for example, the more than 800 listed A-share Chinese companies that continuously disclosed overseas revenues from 2019 to 2023. Except for during the pandemic in 2020, the growth in overseas revenues was the same as or significantly higher than the overall revenue growth.

During the most recent Two Sessions, many references were made to the idea of going global with digital economy propositions and regional trade, with the Chinese government stressing the trade cooperation among the Belt and Road Initiative and the Regional Comprehensive Economic Partnership (RCEP) countries. It was also pointed out that, in addition to the traditional developed markets, companies should look to the Middle East and Latin America. Additionally, emerging markets such as Africa and the South Pacific have yet to be tapped.

To this end, BCG’s Consumer teams have assisted clients in a variety of consumer sectors (fast-moving, durable, alcohol) and ambition destinations (Europe, North America, Africa, Latin America, South America, etc.) over the last two years, looking in-depth into both the needs and wants and the dos and don’ts for the next round of globalization.

## Exhibit 4 - China's Industrywide Enterprises' Annual Foreign Investment Went on Historical Highs Starting in 2021

China's industrywide foreign direct investment (US\$ billions), 2019–2023



Sources: China's Ministry of Commerce; BCG analysis.

### Strategy—For Companies at Different Stages of Globalization

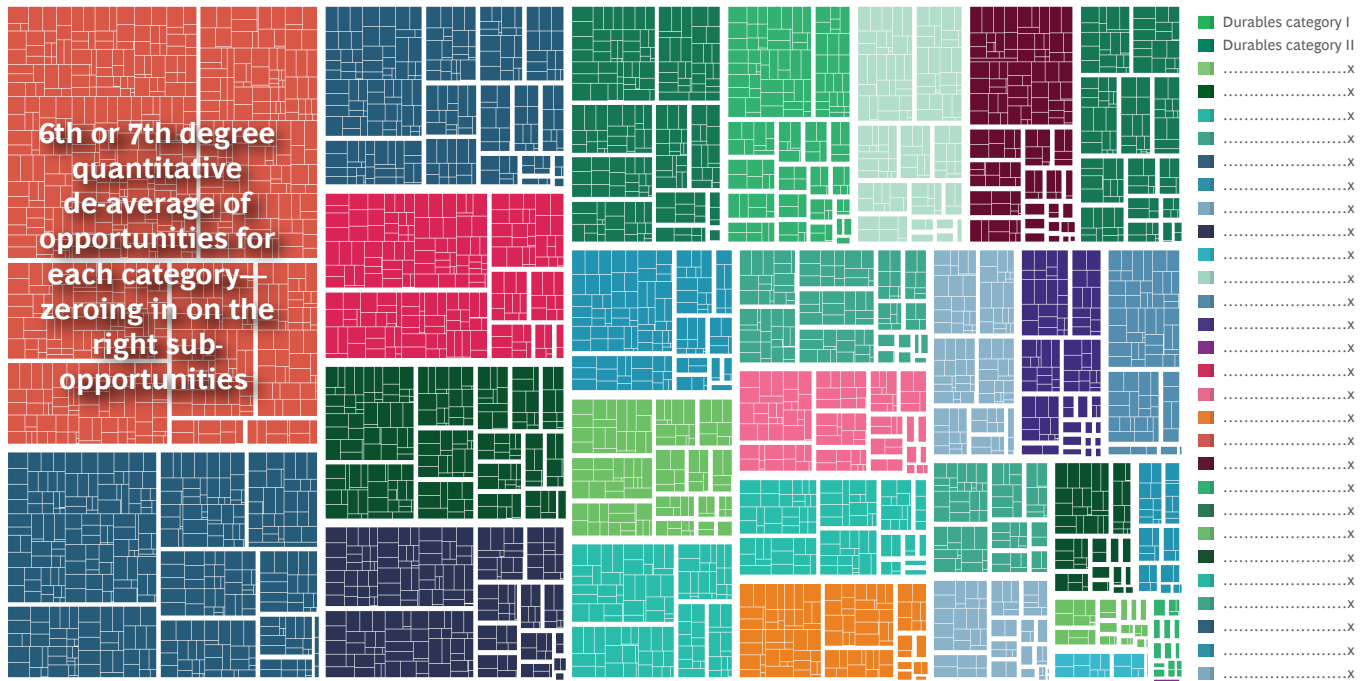
Companies have cast their nets more widely when looking at overseas markets this time, with consideration given to medium-developed and developing markets, including those supported by national initiatives such as the Belt and Road Initiative. While some are looking to build new businesses from scratch, others are looking to expand their footprints or move to higher per capita GDP markets.

This means domestic corporations need to embody a truly multinational mindset, grounding local market insights in a coherent multi-market strategy. Take liquor as an example: BCG teams based in China and destination markets have carried out comprehensive research, looking into the economic and legal viability, as well as cultural and lifestyle aspects of drinking before making market selections. Further, the markets are prioritized based on their strategic importance in the global drinking-culture context. In the household cleaning category, we have mobilized our senior industry teams around the globe to analyze purchasing criteria and product features that are important to customers of each country. Then decisions are made about what to centralize versus decentralize in terms of strategy and product development between markets.

### Information—From General Knowledge to Fine-Grained Insights

Compared with a decade ago, Chinese companies now have access to more developed markets, regardless of their size. In developed markets, categories, channels, price bands, and propositions are more finely segmented. Companies are now seeking knowledge beyond simple market size and entry rules; they desire fine-grained information, and on this basis, make decisions on product development, supply chains, channels, and sales and marketing. Take consumer durables and home improvement retail industry as an example: BCG has helped companies scan online and offline market segments for opportunities with big data, with the category trees extending down to the sixth or seventh layer, branching out to almost 10,000 subcategories. This effort has helped companies navigate a vast number of opportunities with precision guidance and make practical business choices with confidence. (See Exhibit 5.)

## Exhibit 5 - Fine-Grained Insights to Navigate Category Opportunities



Source: BCG case vignette.

### Resources—From Lone Voyager to Global Partnerships

Chinese companies are enjoying greater brand recognition in this wave of globalization efforts than did the first explorers ten years ago. More of these companies also speak the same business language as that of counterparts overseas. As a result, developing partnerships and alliances is on the mind of leading Chinese firms that want to expedite market entries. We encourage companies to be more open-minded in setting up conversations. Sometimes this means approaching competitors and constructing two-way market partners in which there is synergy; other times, it means negotiating and implementing operational partnerships, agreeing on distribution and marketing cooperation deals. These companies should also not overlook co-construction and value-creation opportunities when it comes to globalization.

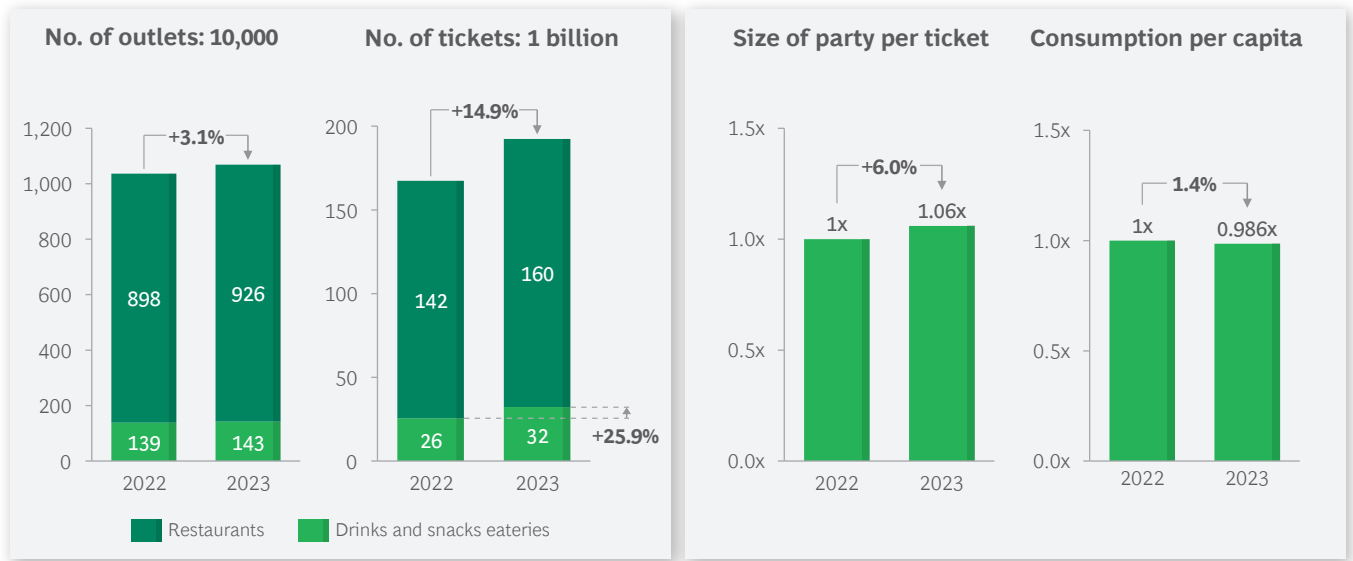
### THE RESTAURANT SECTOR UPS ITS GAME

Since the start of the post-COVID consumption recovery, the growth rate of the restaurant sector has been significantly faster than that of physical goods. In the first quarter of 2024, national restaurant services revenue was RMB 1.35 trillion, up 10.8% year-on-year, and total retail sales of consumer goods increased by 6.1% over the same period. Although the year-on-year growth rate of the restaurant sector in March fell from 12.5% (combined January and February average) to 6.9%, compared with retail sales, it still has an advantage of more than 4 percentage points.

Throughout the past year, we have found that the growth of the restaurant sector has not been due to price increases, nor is it the result of a simple increase in the number of outlets. Analysis shows that growth in 2023 mainly came from an increase in the number of restaurant tickets (nearly 15% year-on-year) and the party size per ticket (6%) as gatherings came back, while the number of outlets grew by only 3%. These trends are also evidenced by the decline in per capita spend and the increase in the table turnover rate mentioned in the 2023 results of leading listed companies. (See Exhibit 6.)

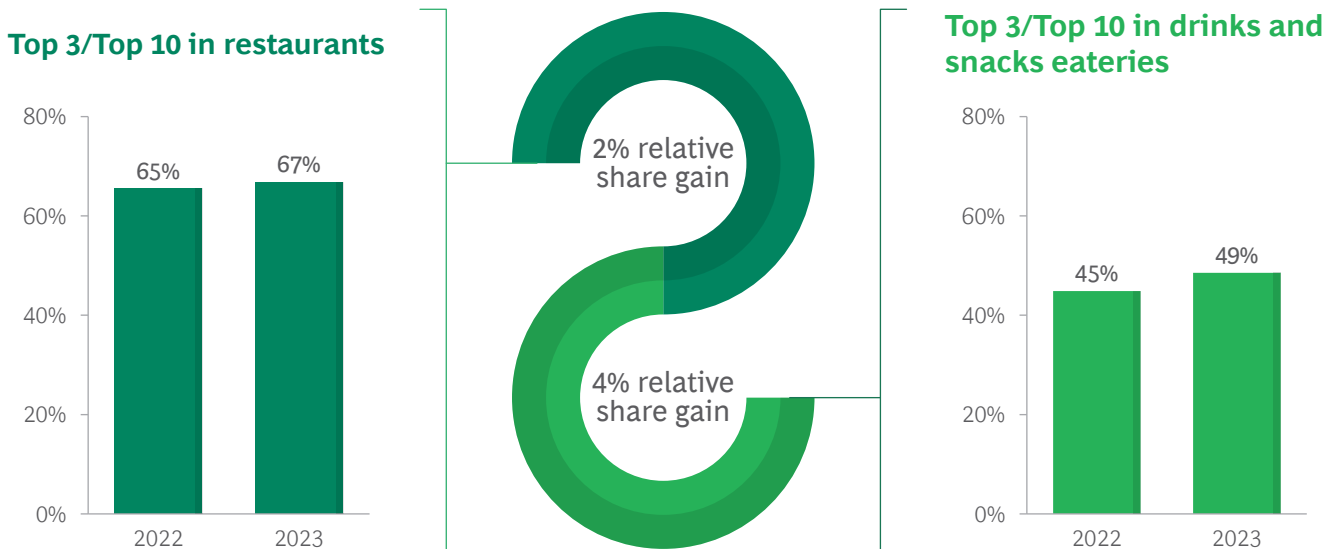
Thanks to strategy and operational excellence, the relative market shares of the top three in restaurant and beverage and snack subsectors increased by 2% and 4%, respectively, in the pool of top ten in 2023. (See Exhibit 7.)

## Exhibit 6 - Restaurant Sector Grew Mainly due to the Increase in the Number of Tickets and Party Size Since COVID Abated



Sources: Euromonitor; Red meal big data; BCG analysis.

## Exhibit 7 - Market Leaders Further Consolidated Shares in This Growth Sprint



Sources: Euromonitor; BCG analysis.

We believe that the best in the business have completed a comprehensive strategic and operational upgrade within the last three years. This is reflected in format rationalization, the addition of micro-dining occasions, the expansion of price bands, increased operational efficiency, and improved capital efficiency (through new franchise programs).

At the outlet level, productivity is again a central concern. Low-productivity outlets are being replaced by smaller or more location-specialized formats. With modular kitchen designs, high-efficiency outlets can be tailored to get into the nooks and crannies of metropolitan areas with high retail density, while in lower-tier markets, menus are simplified and customized to local tastes. At the same time, malls and commercial complexes remain an important channel for restaurant chains, as in recent years, more and more companies have directed their attention to community restaurants, which often have simpler and more functional décor and lower cost bases. (See Exhibit 8.)

Market forerunners continue to explore retail possibilities for growth. For example, a Chinese restaurant leader featuring regional delicacies opened an official flagship store in Tmall back in 2021. Its initial product offerings included dishes such as fatty beef stew and spicy chicken. Later, its restaurant flagship product, boiled spicy fish fillets, was

made available in a self-heating product form for online sales. Another product that is co-branded with an offline club store was also launched online. Both were instant hits with consumers.

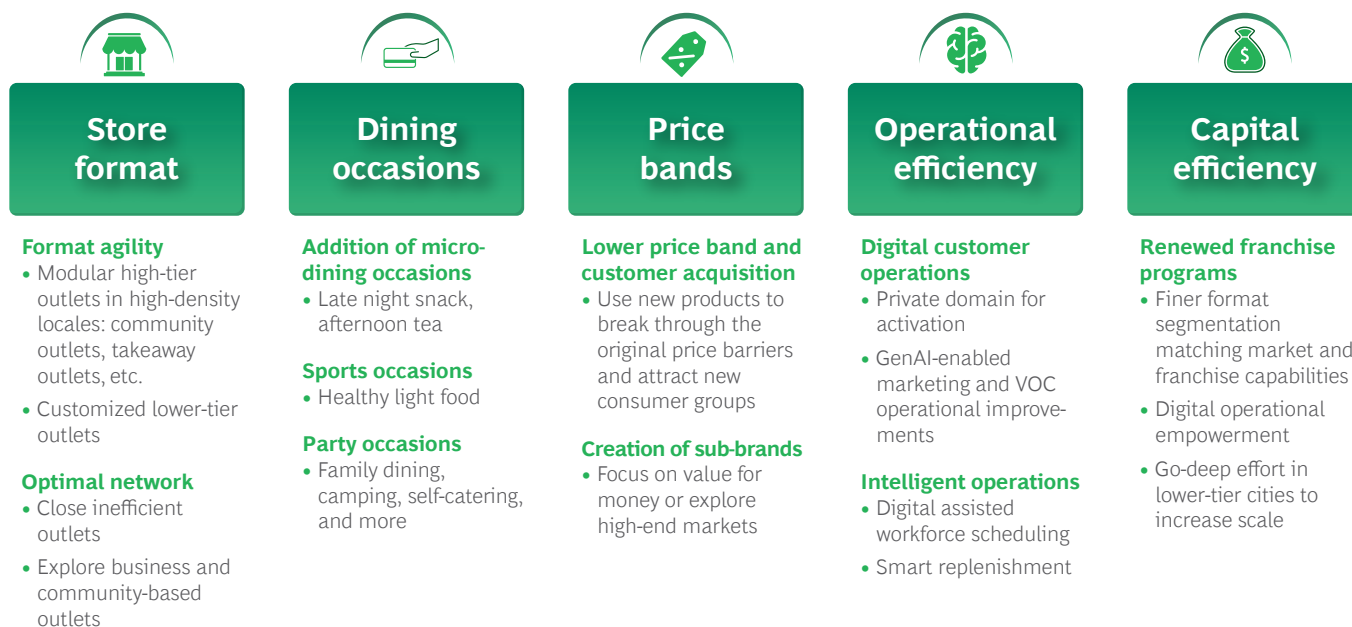
Others continue to find value through digitalization. For example, an international fast-food restaurant chain used AI-enabled solutions to help managers better their operations, saving them six hours of weekly workforce scheduling time while improving inventory data accuracy by 30%.

The added capabilities have gone far beyond the traditional capability requirements of the restaurant industry. To some degree, they are asking restaurant operators to learn from FMCG companies in marketing and retail operations. How many will pass that threshold and unlock more growth remain to be seen.

### Coming Up Next

We invite those in the industry who are interested in the topics explored in this issue to contact us for a more in-depth discussion. In the next issue, we will return to the theme of transforming core businesses and discuss strategies for net revenue management and cost optimization.

## Exhibit 8 - Five Levers for Competitive Restaurant Operations



# About the Authors

*China Consumer Market Quarterly Watch* is authored by BCG's Consumer practice in Greater China. The team is grateful for the valuable insights and advice provided by the following experts.

**Josh Ding** is a managing director and partner in BCG's Hong Kong office. He is the leader of both BCG's consumer products sector in Asia Pacific and the Technology and Digital Advantage practice in Greater China.

**Roger Hu** is a managing director and partner in BCG's Shanghai office. He is a core leader of BCG's Consumer practice in Greater China.

**Steven Shi** is a managing director and partner in BCG's Shanghai office. He is a core leader of BCG's Consumer practice in Greater China.

**Veronique Yang** is a managing director and senior partner in BCG's Shanghai office. She is the leader of BCG's Consumer practice in Great China, and also the leader of the fashion and luxury sector in Asia Pacific.

## For Further Contact

If you would like to discuss this report, please contact the authors.

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