European Consumer Staples

Postcard from Shanghai

China is not a market for the faint-hearted. With no clear light at the end of the tunnel for the consumer backdrop, increasingly competitive local players and a structural shift in spending patterns, the path ahead remains challenging. Yet, premium stands out with compelling pockets of growth.

Last week in China, we met with multinational and local Consumer companies, specialist consultants and media representatives across food, beauty and personal care. Our key takeaway was despite the challenging consumer backdrop, premium and masstige remain clear bright spots. Winning, however, increasingly depends on compelling science and the right channel exposure. Within our coverage, **L'Oréal (OW)** is well positioned to gain share through its premium skincare brands, while **Unilever's (OW)** clear strategy to premiumise its Power Brands underpins our confidence in a sustainable turnaround. At **Danone (OW)**, premiumisation should drive growth in infant milk formula (IMF) and more than offset the impact of persistently declining birth rate.

The key themes across the field trip:

1. The consumer backdrop is tough and likely to remain tough

The consumer outlook remains difficult. Weak sentiment, subdued equity markets and the unresolved property downturn point to a challenging second half; retail spending declined year on year in July after being broadly flat in June. We think Unilever and L'Oreal in our coverage are best placed to buck the trend.

China is increasingly a K-shaped economy, with growth becoming more polarised. Lower- and middle-income consumers, particularly outside tier-one cities, appear to be under the greatest pressure, while consumers in tier-1 cities like Shanghai and Shenzhen seem more resilient.

Young consumers are particularly challenging. Their spending power is under pressure, they are accustomed to e-commerce promotions and, influenced by social media, they expect brands to deliver constant newness. Meanwhile, the level of brand loyalty remains higher for older consumers.

European Consumer Staples
NEUTRAL

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2. Government subsidies are unlikely to turn birth rates around

Neither government nor local IMF-company subsidies have improved China's birth rate, which is expected to continue declining. Against the difficult economic backdrop outlined above and uncertainty over AI's impact on jobs, consumers remain cautious about the future and are delaying parenthood. Women are also increasingly prioritising careers and lifestyle, further postponing childbirth.

The IMF companies we spoke to also expect China's birth rate to keep declining beyond this year. Consequently, the number of specialist baby and maternity stores is falling sharply, and Feihe expects further closures over the remainder of the year. By segment, we expect the mainstream segment (<200RMB per KG) to be particularly affected by a further decline in volume.

3. Premiumisation is one of a few growth opportunities in the sector

It may seem counter-intuitive, **but we view premium as the most attractive opportunity in China's food and personal care sectors**, despite muted economic growth. In fact, the trend has been clear since Q2. Premium and prestige beauty have driven the category's recovery, while super-premium products have gained share in IMF. Both local and international consumer companies we met also confirm their ambition to increase their penetration in the premium segment.

Wellness and longevity have risen higher in Chinese consumers' priorities and consistently gained share of wallet. Spending among higher-income consumers has also proved more resilient.

Premium brands, particularly international ones, have also proactively driven category growth through product launches, e-commerce and social-commerce participation, and consumer education on Douyin and Xiaohongshu, discussed later in this note.

Conversely, while mainstream volumes should benefit as consumers – particularly middle-income households – trade down, **value growth is likely to be constrained by intense price competition from local brands and heavy promotions**, especially as Douyin and Pinduoduo gain popularity.

4. Competing in the Premium sector increasingly requires compelling science

Competing in premium is not without challenges. The definition of luxury has shifted, and premium pricing and heritage are no longer decisive advantages. Consumers no longer assume that Western brands merit a premium over local alternatives. **Brands must earn premium positioning through innovation and proven product efficacy.** For example, Proya highlighted its ambition to increasingly compete in the premium skin care segment. However, the company believes its current science and innovation are not yet compelling enough. Meanwhile, its premium hair care line has been gaining credibility from its hair-loss treatment innovation.

Many companies and consultants cited the COVID-19 pandemic as the catal
consumer scrutiny of ingredients and product composition. Additionally, as
become less relevant, premium service and experience play a smaller role in
Meanwhile, **consumers – especially younger ones – want immediate resu**
particularly evident in beauty, where medical procedures and devices have
for rapid efficacy.



5. Douyin is dominating but we can't rule out other platforms yet

A quick reminder of China's e-commerce and social-commerce ecosystem: **Douyin** (China's TikTok equivalent) and **Xiaohongshu** are key platforms for discovery and consumer education, while **Tmall** and **JD.com** are better positioned to convert repeat demand. Major brands typically operate flagship stores on Tmall, supporting perceptions of authenticity, while JD.com's strength lies in fast, reliable delivery. **Pinduoduo** (Temu equivalent) and **Kuaishou** have also gained momentum in repeat purchasing, although they skew towards lower price points and consumers outside tier-one cities. (Douyin, Xiaohongshu, Tmall, JD.com, Pinduoduo and Kuaishou are covered by Barclays Research's China Technology analyst, Jiong Shao.)

Douyin is the fastest-growing platform, offering strong discovery and product visibility. However, selling profitably is difficult after traffic, platform, KOL, fulfilment and returns costs. Brands nevertheless need a presence because of Douyin's reach, particularly among younger female consumers.

Although Tmall and JD.com have lost share to Douyin, we expect both to remain highly relevant. They are also strengthening their competitiveness: Tmall is narrowing its price gap with Douyin, while JD.com is expanding partnerships with premium brands through its 'White Glove' service. Both platforms also offer brands superior unit economics.

Xiaohongshu is another key platform for inspiration and product education, but weak logistics and transaction capabilities limit sales conversion. Better execution could make it more commercially significant.

6. Local brands understand the game and are becoming more competitive

Chinese brands' advantages lie in manufacturing cost and speed, supported by their experience as OEMs for international brands. Their understanding of the e-commerce and social-commerce ecosystem, together with in-house capabilities, helps them target the fastest-growing channels and respond to consumer feedback more quickly than international rivals.

Chinese brands are also repositioning their image, shifting from an emphasis on Chinese aesthetics and heritage towards meeting consumer demand. Across consumer categories, **the local brands most frequently mentioned during our field trip were Songmont (leather goods), Pane (shoes), To Summer (fragrance), Kans (skincare) and Winona (personal care).**

Several consultants flagged the risk that international companies are misreading the market after becoming accustomed to China's strong growth cycle. Some underestimate weakness in lower-tier cities and remain insufficiently prepared for volatility. Many international brands also struggle to match the pace of innovation in China. **Local brands, by contrast, optimise for survival, speed and rapid monetisation** rather than steady long-term growth.

IMF is an exception. Chinese-label products face tighter regulation, requiring SAMR registration and technical review. This allows international brands to lead innovation by selling English-label products.

7. Muted economic growth, rapid channel shift, demanding consumers and strong competition mean brands have to be selective where to compete

For our European Consumer Staples coverage, we believe companies must pick their battles in China. **Premium and masstige are where they should focus investment.** Competing in the

mainstream market could generate more limited returns and could be costly, given such strong price competition and intense promotional activities.

Within our coverage, **L'Oréal, Unilever and Danone share this strategy.** In L'Oréal's portfolio, Helena Rubinstein, SkinCeuticals, La Roche-Posay and YSL have been among the best-performing brands in China. Unilever's efforts to premiumise Dove, Vaseline and Lux have borne fruit and helped drive the turnaround in its Chinese business. Through its Essensis brand, Danone sees premiumisation as the core growth driver for IMF. The company remains under-indexed in super-premium sales mix, suggesting a sizeable growth opportunity.

Local brands, except in IMF, typically have shorter innovation cycles and can outpace international brands in delivering newness. However, limited investment in fundamental research may constrain their ability to compete in premium. **Well-funded multinationals that combine long-term science with faster innovation cycles should be best placed**

8. Need for speed

Speed remains the key weakness of international brands in China. Many companies, including Unilever, L'Oréal, Nestlé and Henkel, have established local manufacturing facilities, narrowing the gap with local players. However, more work is needed. To provide some context, local brands' skin care innovation cycle is between 3-24 months. This is compared to 24-60 months for international companies, according to industry experts.

International brands can also seek to better leverage social media for consumer feedback and gauge consumer demand to better tailor product offerings to consumers. However, as mentioned in the section above, **they also should not lose sight of developing long-term scientific breakthroughs** – which will be key in giving them the right to compete in the premium segment and strengthen their brand perception.

Unilever: Key takeaways from our meeting - Grace Chen (*Head of Country and GM of B&W*) and Annie Peng (*Global Social Commerce Lead*)

Similar to feedback from other consumer companies, China remains a challenging market due to weak category growth, intense competition and a unique e-commerce landscape. However, Unilever's turnaround is gaining traction, with growth returning to mid-single digits. Management remains confident in its strategy of focusing on premium and masstige categories, prioritising key channels (Douyin, Pinduoduo and membership stores), and improving operational agility to compete more effectively with local players.

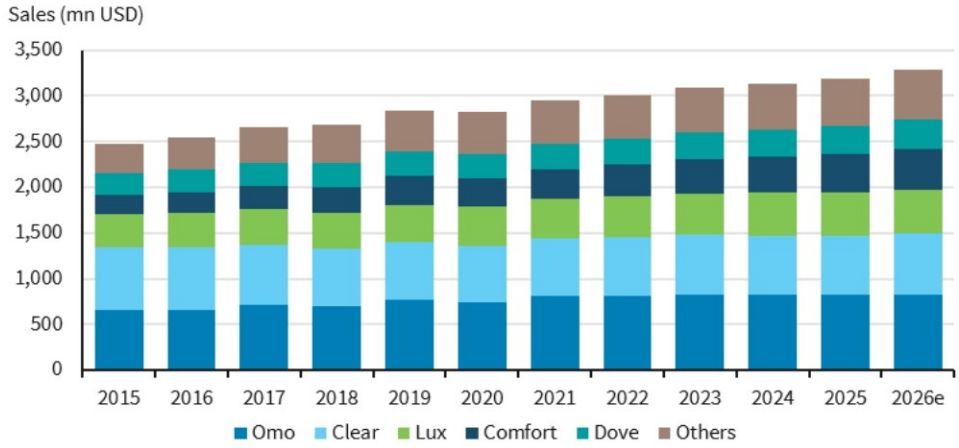
- Market growth has slowed from c.2.5% in FY23 to below 1% in FY24/25. Management does not expect a near-term recovery given the volatile macro backdrop and flat CPI, although China remains attractive due to its scale and volume-driven characteristics.

- YTD growth remains in the mid-single-digit range, supported by market share gains. Vaseline continues to outperform with double-digit growth. Future growth is expected to come from share gains rather than market expansion.

- Attractive categories include leave-on treatments, fragrances, masstige shampoo and fragrance shower gel. While strategy is aligned with the Group's "fewer, bigger bets" approach, the China team is focused on increasing execution speed and agility.

- Excluding Food, China sales (€1.7bn) comprise 36% Beauty & Wellness, 24% Personal Care and 40% Home Care. The business is centred on eight Power Brands: Clear, OMO, Comfort, Dove, Vaseline, Lux, Nexxus and CIF. The SASSY framework (Science, Aesthetics, Sensorial, Said by Others, Young Spirits) guides brand development.

FIGURE 1. Retail sales (ex-Food) in China



Source: GlobalData, Barclays Research

- In addition to these focus Power Brands, Olly has grown well and is already a sizeable business in the market, representing the largest component of Wellbeing in the market. The broader Wellbeing business is still developing, with some of the portfolio at an earlier, more education-led stage. Overall, Wellbeing sales are approaching €100m in China.
- Online channels account for 45% of China sales. Douyin (+25%) and Pinduoduo (+35%) are the fastest-growing platforms. While Douyin is lower margin, management views it as an important customer acquisition and brand-building channel. Tmall and JD.com remain important but are expected to grow more slowly.
- Offline growth is strongest in membership stores (e.g. Sam's Club), emerging discounters and experiential retailers such as Pang Dong Lai.
- Local competitors benefit from faster innovation cycles, real-time consumer insights and efficient small-batch testing, supported by OEM partners such as NBC and Cosmax. Kans and Little Dream Garden are key competitors being closely monitored.
- More than 90% of orders can be dispatched within 10 hours. Automation is increasing through three lighthouse warehouses: Hefei FTC 1 (live since Q3 2024), Guangzhou FTC 2 (Q3 2026) and Hefei FTC 2 (Q4 2026).
- AI is being used extensively in packaging design and supplier sourcing, helping reduce agency dependence and improving access to more than 50,000 packaging suppliers.

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Materially Mentioned Stocks (Ticker, Date, Price)
Danone (DANO.PA, 04-Sep-2026, EUR 63.72), Overweight/Neutral, A/CD/D/E/J/K/L/M

L'Oréal SA (OREP.PA, 04-Sep-2026, EUR 383.90), Overweight/Neutral, A/CD/D/E/J/K/L/M/N

Unilever PLC (ULVR.AS, 04-Sep-2026, EUR 55.48), Overweight/Neutral, CD/E/J/K/L/M

Unilever PLC (ULVR.L, 04-Sep-2026, GBp 4763), Overweight/Neutral, CD/E/J/K/L/M

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Beiersdorf AG (BEIG.DE)	British American Tobacco Plc (BATS.L)	C&C Group (CCR.L)
Carlsberg AS-B (CARLb.CO)	Coca-Cola Hellenic BC AG (CCH.L)	Danone (DANO.PA)
Davide Campari N.V. (CPRI.MI)	Diageo PLC (DGE.L)	Essity (ESSITYb.ST)

Fever-Tree Drinks PLC (FEVR.L)	Glanbia (GL9.I)	Haleon (HLN.L)
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Imperial Brands Plc (IMB.L)	Japan Tobacco Inc. (JAPAY)	Kerry Group (KYGa.L)
L'Oréal SA (OREP.PA)	Leroy Seafood Group ASA (LSG.OL)	Lindt & Spruengli (LISN.S)
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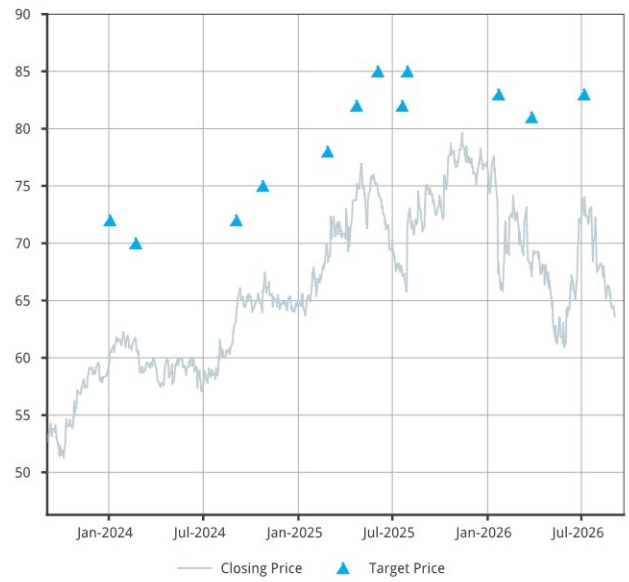
Danone (BN FP / DANO.PA)

Stock Rating: **OVERWEIGHT**

Industry View: **NEUTRAL**

Closing Price: **EUR 63.72** (04-Sep-2026)

Rating and Price Target Chart (as of 04-Sep-2026)



Source: LSEG Data & Analytics, Bloomberg, Barclays Research

Link to Barclays Live for interactive charting

Publication Date	Closing Price*	Rating	Adjusted Price Target	Currency
06-Jul-2026	73.40		83.00	EUR
27-Mar-2026	67.80		81.00	EUR
22-Jan-2026	67.40		83.00	EUR
30-Jul-2025	71.24		85.00	EUR
20-Jul-2025	67.68		82.00	EUR
03-Jun-2025	74.68		85.00	EUR
23-Apr-2025	74.32		82.00	EUR
26-Feb-2025	69.16		78.00	EUR
24-Oct-2024	65.76		75.00	EUR
03-Sep-2024	63.20		72.00	EUR
22-Feb-2024	61.64		70.00	EUR
03-Jan-2024	59.57		72.00	EUR

On 04-Sep-2023, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 70.00 EUR.

Source: Bloomberg, Barclays Research

*This is the closing price referenced in the publication, which may not be the last available closing price at the time of publication.

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Valuation Methodology: Our EUR 83 PT is driven by relative P/E methodology, with a 5% premium to EU Food & HPC weighted average multiple of 20.7x and 20% premium to MSCI EU Staples Index (18.2x) on 2026 PE

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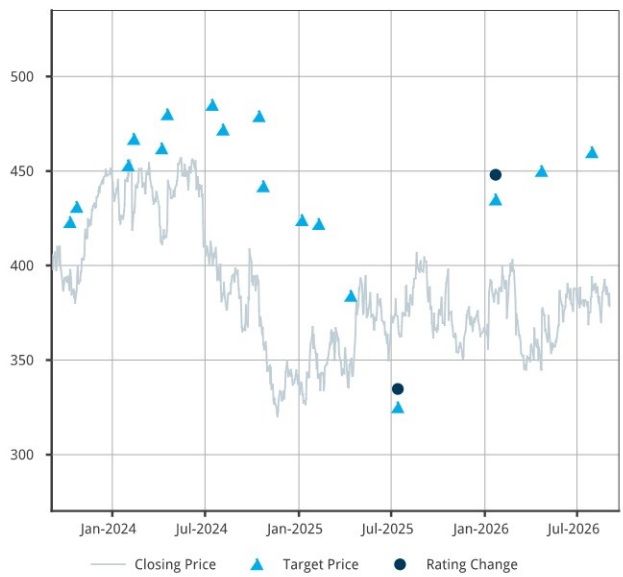
L'Oréal SA (OR FP / OREP.PA)

Stock Rating: **OVERWEIGHT**

Industry View: **NEUTRAL**

Closing Price: **EUR 383.90** (04-Sep-2026)

Rating and Price Target Chart (as of 04-Sep-2026)



Source: LSEG Data & Analytics, Bloomberg, Barclays Research

Link to Barclays Live for interactive charting

Publication Date	Closing Price*	Rating	Adjusted Price Target	Currency
30-Jul-2026	394.00		460.00	EUR
22-Apr-2026	344.90		450.00	EUR
22-Jan-2026	385.40	Overweight	435.00	EUR
14-Jul-2025	373.85	Underweight	325.00	EUR
13-Apr-2025	347.60		384.00	EUR
09-Feb-2025	340.60		422.00	EUR
07-Jan-2025	338.00		424.00	EUR
23-Oct-2024	367.25		442.00	EUR
15-Oct-2024	376.40		479.00	EUR
05-Aug-2024	384.95		472.00	EUR
15-Jul-2024	406.30		485.00	EUR
18-Apr-2024	423.60		480.00	EUR
07-Apr-2024	412.70		462.00	EUR
12-Feb-2024	418.80		467.00	EUR
01-Feb-2024	444.70		453.00	EUR
23-Oct-2023	380.25		431.00	EUR
10-Oct-2023	387.05		423.00	EUR

On 04-Sep-2023, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 443.00 EUR.

Source: Bloomberg, Barclays Research

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Valuation Methodology: Our EUR 460 PT is driven by relative P/E methodology, with a 70% premium to EU Food & HPC weighted average multiple of 19.0x and 100% premium to MSCI EU Staples Index (15.3x) on 2026 PE

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The main downside risks to our thesis are the following: -- Softer rebound in beauty market growth. -- Execution shortfalls from management in tapping into the right white-space opportunities. -- Lower-than-expected A&P savings.

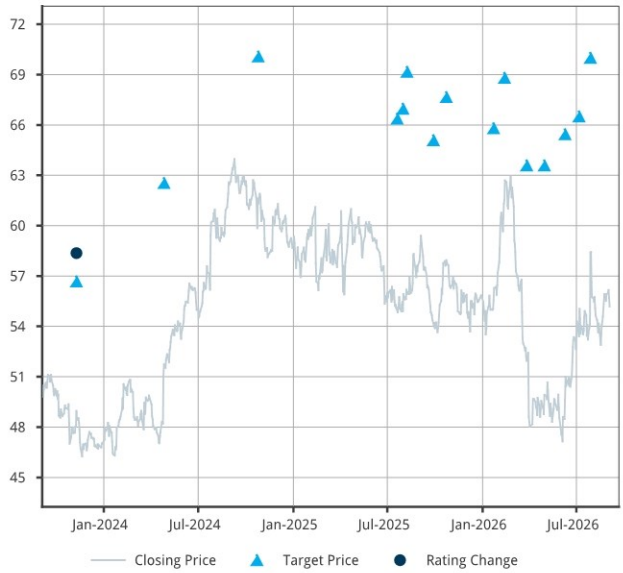
Unilever PLC (UNA NA / ULVR.AS)

Stock Rating: **OVERWEIGHT**

Industry View: **NEUTRAL**

Closing Price: **EUR 55.48** (04-Sep-2026)

Rating and Price Target Chart (as of 04-Sep-2026)



Source: LSEG Data & Analytics, Bloomberg, Barclays Research

Link to Barclays Live for interactive charting

Publication Date	Closing Price*	Rating	Adjusted Price Target	Currency
28-Jul-2026	58.39		70.00	EUR
06-Jul-2026	54.08		66.51	EUR
09-Jun-2026	49.65		65.44	EUR
30-Apr-2026	49.93		63.59	EUR
27-Mar-2026	52.18		63.59	EUR
12-Feb-2026	61.53		68.80	EUR
22-Jan-2026	55.05		65.80	EUR
23-Oct-2025	57.77		67.66	EUR
28-Sep-2025	54.00		65.09	EUR
08-Aug-2025	55.93		69.16	EUR
31-Jul-2025	55.93		66.96	EUR
20-Jul-2025	54.84		66.37	EUR
25-Oct-2024	61.61		70.07	EUR
26-Apr-2024	51.74		62.54	EUR
09-Nov-2023	48.94	Overweight	56.67	EUR

On 04-Sep-2023, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 55.76 EUR.

Source: Bloomberg, Barclays Research

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Valuation Methodology: Our EUR 70 PT is driven by relative P/E methodology, at 20x FY27E PE, which is at a 7.5% premium to EU Food & HPC weighted average multiple of 18.6x and a 16% premium to MSCI EU Staples Index of 17.2x.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: 1) Losses in out-of-home Foods & Refreshments exceed in-home consumption benefits in Foods and stronger Home/Hygiene growth post Covid-19, leading to significantly lower top-line growth than we expect; 2) the company's key market of India (11% of sales) doesn't perform as expected; 3) A sharp slowdown in the company's key LatAm markets (Brazil, Mexico, Argentina, Chile) hurts its growth prospects; and 4) competitor market share gains accelerate, further pressuring Unilever's already weak top-line growth. 5) European trends are under pressure with Food (Knorr) a weak spot. 6) FX risks given highest EM weight in Staples. 7) If it fails to maintain strong growth for Powerbrands.

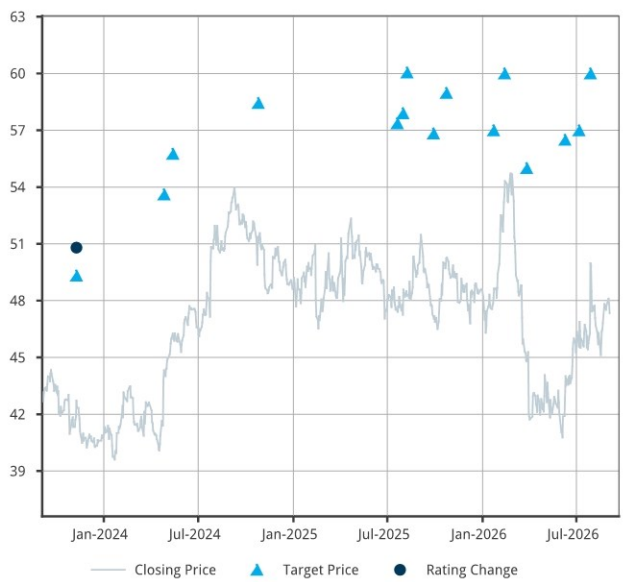
Unilever PLC (ULVR LN / ULVR.L)

Stock Rating: **OVERWEIGHT**

Industry View: **NEUTRAL**

Closing Price: **GBp 4763** (04-Sep-2026)

Rating and Price Target Chart (as of 04-Sep-2026)



Source: LSEG Data & Analytics, Bloomberg, Barclays Research

Link to Barclays Live for interactive charting

Publication Date	Closing Price*	Rating	Adjusted Price Target	Currency
28-Jul-2026	49.98		60.00	GBP
06-Jul-2026	46.20		57.00	GBP
09-Jun-2026	42.85		56.50	GBP
27-Mar-2026	44.85		55.00	GBP
12-Feb-2026	53.55		60.00	GBP
22-Jan-2026	47.85		57.00	GBP
23-Oct-2025	50.28		58.98	GBP
28-Sep-2025	47.04		56.83	GBP
08-Aug-2025	48.26		60.05	GBP
31-Jul-2025	48.59		57.90	GBP
20-Jul-2025	47.42		57.37	GBP
25-Oct-2024	51.36		58.44	GBP
13-May-2024	46.26		55.76	GBP
26-Apr-2024	44.32		53.61	GBP
09-Nov-2023	42.73	Overweight	49.33	GBP

On 04-Sep-2023, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 46.11 GBP.

Source: Bloomberg, Barclays Research

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Valuation Methodology: Our GBp 6000 PT is driven by relative P/E methodology, at 20x FY27E PE, which is at a 7.5% premium to EU Food & HPC weighted average multiple of 18.6x and a 16% premium to MSCI EU Staples Index of 17.2x.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: 1) Losses in out-of-home Foods & Refreshments exceed in-home consumption benefits in Foods and stronger Home/Hygiene growth post Covid-19, leading to significantly lower top-line growth than we expect; 2) the company's key market of India (11% of sales) doesn't perform as expected; 3) A sharp slowdown in the company's key LatAm markets (Brazil, Mexico, Argentina, Chile) hurts its growth prospects; and 4) competitor market share gains accelerate, further pressuring Unilever's already weak top-line growth. 5) European trends are under pressure with Food (Knorr) a weak spot. 6) FX risks given highest EM weight in Staples. 7) If it fails to maintain strong growth for Powerbrands.

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