

# China's "new consumption" boom - dawn of the next decade investment opportunity

---

Tianyang Li

## How China's economy has evolved

The Chinese have had five main opportunities to amass wealth from 1980 to 2019. The first was in 1984, when market reform afforded significant opportunity for the first generation of private entrepreneurs. The second started in 1992, with property entrepreneurs achieving great success during the real estate boom. A few years later, China joined the WTO, and export corporations started to make large profits on global trade. After 2010, the internet revolution and economic financialisation have supported a series of unicorn start-ups in the IT and financial industries.

## The challenges it faces

Each of these opportunities has, in general, followed an economic restructuring or industrial upgrading in China. However, since the start of the trade war in 2018, the economy faces the substantial risk of a slowdown.

Future growth likely to come from "new consumption"

Exports, investment, and consumption are considered to be the "troika" of China's economic growth. Consumption accounted for 60.1% of the 6.3% GDP growth in the first half of 2019. We expect consumption, key to economic growth, to play a far more important role in economic restructuring.

"New consumption" refers to the traditional consumer products being integrated with new consumption patterns, new payment patterns and new consumption scenarios. The companies involved include not only food and beverage, and clothing companies, but also mobile-payment start-ups, e-commerce platforms and fintech unicorns.

## The three levels of growth

The government will likely promote such new consumer industries to maintain steady economic growth. Industry participants possess advanced technologies and methods by which to improve the consumer experience. Besides, the new generation of consumers has a high level of motivation to consume. We categorise the "new consumption" boom into three levels - macro, meso and micro - as follows:

---

(i) On the macro level, the Chinese government has developed a set of policies to promote consumer industries. In August 2019, the State Council released a new policy that proposes 20 measures to stabilise consumer expectations and to make consumers more confident. In brief, the government will expand the list of cross-border e-commerce products, improve the rural logistics system, build a marketing platform for popular domestic brands, accelerate development of convenience stores, and encourage companies to innovate new technologies.

(ii) On the meso level, new technologies to enhance the consumer experience and make companies more competitive include the cloud, AI, and big data. For example, Taobao Xinxuan is a new brand launched by Alibaba Group. Consumers can buy products, both online and offline, through a smart store. Big data technology integrates supplier resources with consumer demands. In addition, the Taobao app uses precision marketing features, with the system combining big data and deep learning technologies to analyse 8,000 posters a second.

(iii) On the micro level, the consumption boom includes new consumers who have strong purchasing power. Business media dubs the most representative group the “market outside the fifth ring road”. These consumers include suburbanites in first- and second-tier cities, residents in third- and fourth-tier cities, and rural dwellers. This group is more price-sensitive; emerging e-commerce platform Pinduoduo has, therefore, seized this opportunity. It uses a low-price strategy and a group-buying method. This means consumers can buy products for less if they invite friends to buy the same product.

Due to the multiple benefits that these three levels offer investors, new consumer industries with investment opportunities include e-commerce platforms, logistics, distribution, food and beverages, and household appliances. CICC, one of China’s earliest investment banks, has picked 20 consumer stocks to constitute the “new consumption portfolio”.

## **Representative companies in the “new consumption portfolio”**

### **1. Meituan**

**Business activity:** China’s leading e-commerce platform for services Meituan offers over 200 service categories, including catering, on-demand delivery, car-hailing, bike-sharing, hotel and travel booking, movie ticketing, and other entertainment and lifestyle services, and covers 2,800 Chinese cities and counties

**Growth drivers:** Restaurant Industry Chain The restaurant delivery business accounts for 50% of the total revenue of the restaurant industry. Meituan also operates Dianping, China’s most popular food review website. Meituan’s online platform can, therefore, attract more good restaurants, based on the support from the review website. Although some may not fully recognise the value of Meituan, as it is a restaurant delivery company, Chinese economist Wang Fuchong states that it delivers thousands of orders a day, and very few companies are able to achieve this.

**‘New consumption feature’:** Meituan is a company representative of “a lazy economy”, where food can be ordered on a platform instead of physically visiting a restaurant

### **2. Alibaba**

**Business activity:** Alibaba is one of the world’s largest online trading markets. The

---

company's core business includes not only an e-commerce platform, but also cloud computing, digital media, social networks, fintech, and logistics

**Growth drivers:** Technology The Chinese giant's management team is focused on technology and innovation. Alibaba is the leader in cloud computing and mobile payments, driving innovation in China. Former IMF Vice President Zhu Min says that payment processing by Alipay (a third-party mobile and online payment platform established by Alibaba) is three or four times faster than that of American mobile payment companies. This is significant technological leadership.

**'New consumption feature':** Alipay was the first to popularise the mobile payment method in China. The company continues to roll out new features on the app

### 3. ZTO Express

**Business activity:** ZTO Express (ZTO) is a leading express delivery company in China. It provides express, cross-border, airline, finance, media, and cloud warehouse services to millions of online merchants and consumers

**Growth drivers:**Scale ZTO is one of China's largest logistics companies, with more than one billion express orders. It has a strong carrier team and is, therefore, able to reduce transportation costs significantly

**'New consumption feature':** Receiving orders from Pinduoduo, ZTO provides cost-effective services for consumers outside the fifth ring road

### 4. ANTA Sports

**Business activity:** ANTA Sports (ANTA) is China's leading domestic brand of sports products. The company produces sporting goods, including shoes, apparel, bags, and basketballs and footballs

**Growth drivers:**Positioning ANTA positions itself as a mass-market sports brand, meaning that it will not compete with Nike or Adidas in the high-end market. At the same time, ANTA's sub-brand FILA is positioned as a premium brand

**'New consumption feature':** ANTA provides cheap sports shoes and apparel for consumers outside the fifth ring road. FILA provides premium products for middle-class consumers

### 5. Shanghai Airport Authority

**Business activity:** The Shanghai Airport Authority runs the Hongqiao and Pudong Airports. Its two main businesses are airline services and non-airline services

**Growth drivers:**Geography Location In terms of the macro economy, the Yangtze River Delta is China's strongest economic engine. Passenger flow volume is likely to increase steadily to this core economic zone

**'New consumption feature':** Cross-border e-commerce has gained popularity, and more are

---

able to afford imported goods. The duty-free stores at the Shanghai Airports offer cheaper imported products for outbound passengers

## 6. Kweichow Moutai

**Business activity:** Kweichow Moutai is the leader in China's liquor industry. With its high-end liquor brand, the company provides more than 10 series of popular liquor products

**Growth drivers:** Pricing Power Luxury wine Moutai has strong demand from wine lovers. The company uses hunger marketing strategy and low supply to enjoy strong pricing power. Moutai's high price results in substantial gross profit. Ebay-invest president Danbin, who is known as 'China's Warren Buffett', says liquor is an integral part of Chinese daily life, and Moutai is liquid gold in China, because other companies find it difficult to imitate the taste

**'New consumption feature':** Consumption upgrading is one of the major trends in the new consumption boom, especially in first-tier cities. As disposable income increases, more will be able to afford Moutai

## 7. Pinduoduo

**Business activity:** Pinduoduo is a social e-commerce platform. Consumers can invite family or friends to join a purchase group, with the price of the product lower the more users join the group

**Growth drivers:** Mode Group purchasing is not new to Chinese consumers, but Pinduoduo is the first company to have integrated group purchasing and the WeChat platform

**'New consumption feature':** Pinduoduo has many cheap online stores attractive to consumers outside the fifth ring road

## 8. M&G Stationery

**Business activity:** M&G Group is the #1 comprehensive stationery manufacturer and supplier in China, integrating creativity into its product and service advantages

**Growth drivers:** Dealer network M&G Group has 1,200 partners and 78,000 outlets near schools. Its dealer network is far more advanced than competitors'. 86% of its retail sales is from offline stores

**'New consumption feature':** M&G Group has sub-brands targeting different consumer groups. M&G life grocery sells household items for young consumers. M&G Colipu sells office consumables for government agents

## 9. Proya

**Business activity:** Proya focuses on cosmetic products and is engaged in R&D, production and sales. The company has seven sub-brands at present

---

**Growth drivers:**Competitive differentiation Unlike well-known international brands such as Estée Lauder and Lancôme, domestic brands choose to explore the low-end market. Proya is the leading company in the domestic cosmetic industry

**‘New consumption feature’:** Proya uses new methods to promote its products. It has a new media team, with a few network anchors who will demonstrate the use of Proya cosmetic products on TikTok or other video platforms

Total sales of consumer goods in China increased 8.1% y/y to CNY33,477.8bn by end- October 2019. Sales have been growing rapidly for three consecutive years, faster than GDP. With this era of new consumption upon us, we believe investing in the new consumer industries is a reasonable decision.

### **How Acuity Knowledge Partners can help with “new consumption” investment**

With analysts across the globe, we provide valuable insights into and unique analyses of new consumption investment. We use our local resources to conduct press-search research and study research reports, company filings, and cold-call feedback, to analyse a target consumer company and evaluate its business model and intrinsic value. We believe clients can use our detailed analyses and wide range of services to drive their investment decisions.

### **Sources:**

- [http://www.sohu.com/a/307072626\\_804205](http://www.sohu.com/a/307072626_804205)
- [https://www.sohu.com/a/231517187\\_587311](https://www.sohu.com/a/231517187_587311)
- <http://finance.sina.com.cn/china/2019-07-15/doc-ihytcitm2089738.shtml>
- [http://www.stats.gov.cn/tjsj/zxfb/201911/t20191114\\_1709106.html](http://www.stats.gov.cn/tjsj/zxfb/201911/t20191114_1709106.html)
- <https://about.meituan.com/en/about>
- <https://en.zto.com/about.html>
- <https://www.useit.com.cn/thread-25215-1-1.html>
- <http://www.chyxx.com/industry/201811/692047.html>

### **About Acuity Knowledge Partners**

Acuity Knowledge Partners is a leading provider of high-value research, analytics and business intelligence to the financial services sector. The company supports over 350+ financial institutions and consulting companies through a team of over 3,000+ subject matter experts who work as an extension of the clients’ teams based out of various global delivery centres.

We empower our clients to drive revenues higher. We innovate using our proprietary technology and automation solutions. We enable our clients to transform their operating model and cost base.

