GfK Growth from Knowledge

China Home Appliances Industry White Paper 2021

If you know how the digital and intelligence transformation is revolutionizing business, you can win the future

Growth from Knowledge

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The pandemic accelerates the digital transformation of China’s home appliances industry

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China led the way out of the global post pandemic recession

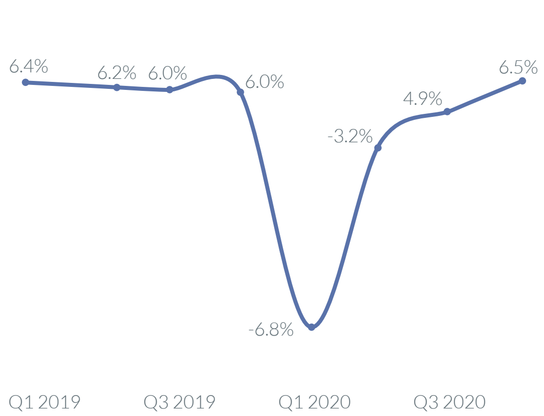
The pandemic has plunged the global economy into recession, and China's domestic economy is leading with a V-shape rebound

In 2020, an unexpected pandemic spread across the globe affected global economies to varying extent. Developed economies in the west have been more heavily impacted by the crisis. According to forecast by the 'World Economic Outlook Report' issued by IMF in October 2020, the global economy declined by 4.4% in 2020, which was the most severe economic recession since the 'Great Depression' in the 1930s. Developed economies declined on average by 5.8%-Italy, Spain and France all reported declines by more than 10%, and the entire Euro zone dropped 8.3%, while United states and Japan's economies fell 4.3% and 5.3% respectively. The global emerging markets and developing economies declined by 3.3%, and India, Mexico and South Africa by 10.3%, 9.0% and 8.0% respectively.

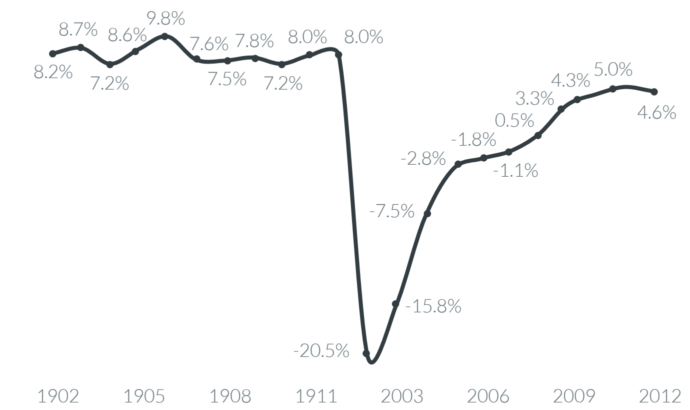
The economic recession worldwide has led to a sharp drop in international trade and investment. The World Trade Organization estimated the global trade volume of goods to have shrunk by 9.2% this year. China took the lead in controlling the pandemic, and its domestic economy gradually recovered. In the first quarter, the initial impact of the virus caused domestic GDP to drop sharply by 6.8%. With enterprises returning to work in the second quarter, GDP rebounded strongly to a growth of 3.2%, and managed to return to the pre-pandemic level in the closing quarter of the year. National Bureau of Statistics' data shows domestic GDP broke the 100 trillion RMB mark for the first time in 2020, with a year-on-year growth of 2.3%, possibly the only growth economy in the world.

China's economy continues to recover, and has reached to pre-pandemic level in the fourth quarter

Year on year growth of China's GDP



Year on year changes in total retail sales of consumer goods



Data source: National Bureau of Statistics

Consumer confidence was rapidly restored by the government's prompt and successfully management of the crisis

Consumers experienced different stages of the pandemic throughout 2020-from the outbreak, to managing to control the situation, and then subsequent new waves of outbreak. Their emotional response has changed accordingly from panic, to adapt, to accepting that prevention is the new norm.

As a result of China's prevention and control effort, consumers' view about the pandemic has evolved significantly over time.

A consumer survey conducted by GfK at the end of November 2020 indicated 45% consumers had great confidence in the nation's prevention and control efforts while at the same time, concerned about the pandemic situation abroad, and 38% consumers expressed a cautious view.

45% of consumers have great confidence in the nation's prevention and control effort, while 38% remain cautious

45%

'Great confidence in the nation's ability to prevent and control the COVID-19 pandemic.'

38%

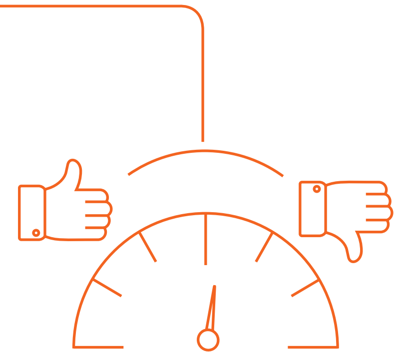
'I will remain cautious because of possible imported cases.'

22%

'Somewhat anxious, concerned about potential large scale outbreak in China in the future.'

15%

'I feel as though the COVID-19 pandemic doesn't have much impact on my life at the moment.'



Chinese consumers' current viewpoint about the pandemic

N=2031. Which of the following statements describe your situation and your view, considering the pandemic situation domestically and internationally?

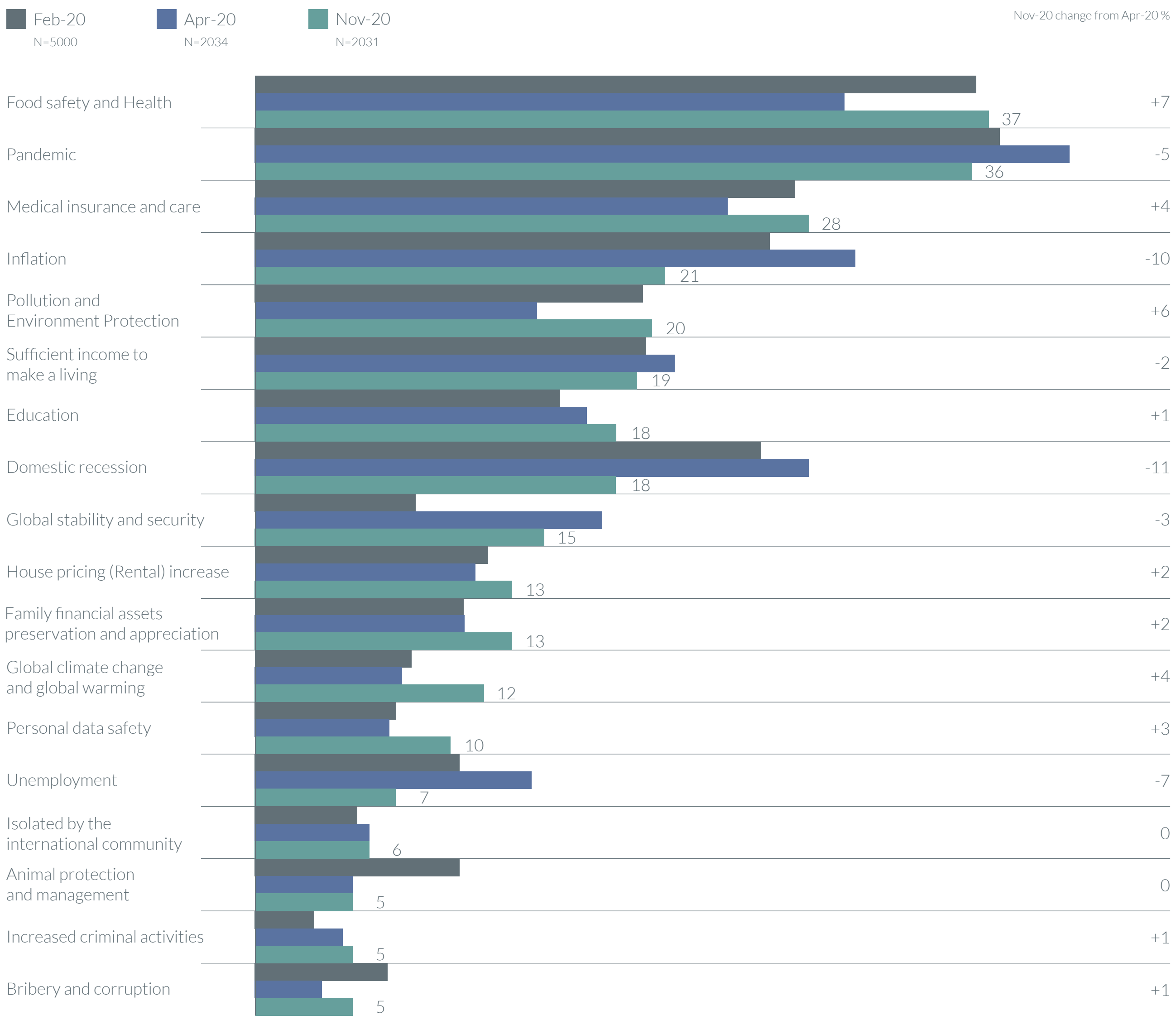
At the peak of the pandemic, concerns are not only about the prevention of the disease, but also about various social problems including economic development, medical services, inflation, personal income, unemployment etc.

As the pandemic was gradually brought under control and the macro economy started to recover, consumer concerns about recession and unemployment decreased noticeably compared to the survey conducted in February 2020 when the pandemic was at its peak.

Meanwhile consumers continue to be concerned about food safety and health, and their concerns in these areas have risen to the top rank in the most recent survey.

As the economy continues to improve, consumer concerns on inflation, domestic recession and unemployment rate have declined considerably. The pandemic is still one of the biggest concerns, although less than previously

Social problems concerned by consumers %



What are your major concerns in terms of social problems for the next half year?
Please choose no more than three answers.

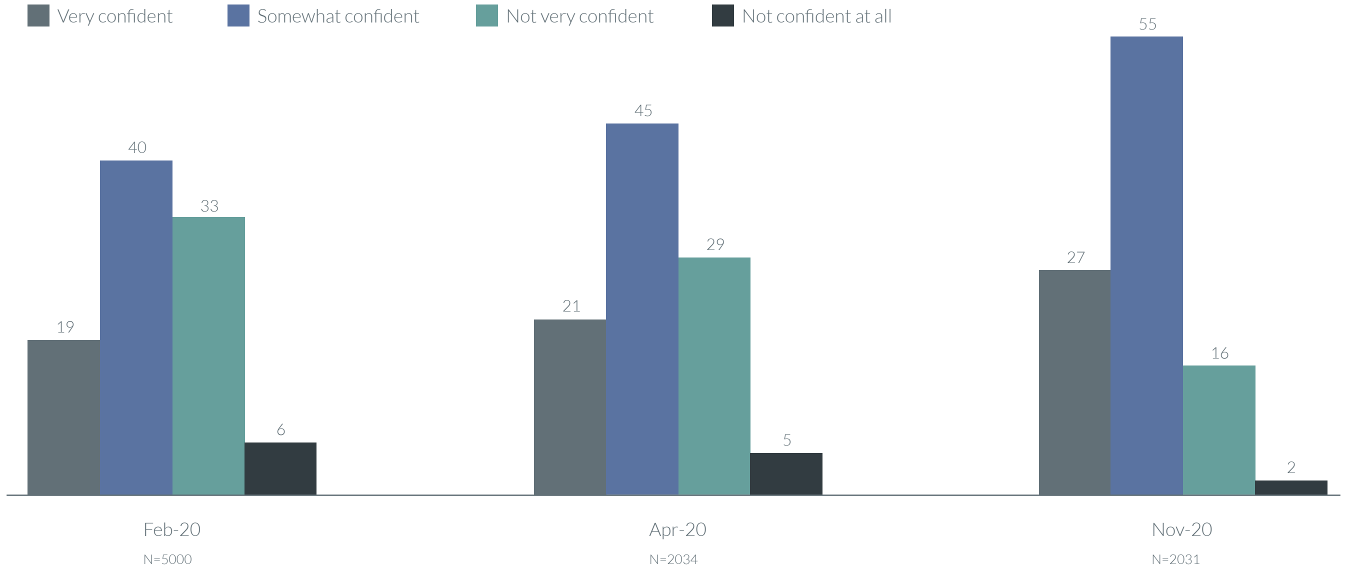
2020 would be an unforgettable year where consumer confidence saw extreme fluctuations. With the nation's effective control of the pandemic and the recovery of the economy, consumer confidence has effectively been restored to the pre-pandemic level.

A consumer survey conducted in November 2020 showed overall confidence increasing significantly compared to the earlier February and April surveys. There was a big improvement in the number of people who were 'very confident' and 'somewhat confident'.

Comparing findings from the different tiered cities, tier one and new tier one cities showed faster recovery, having bounced back from the lowest during the peak of the pandemic, to be ones with the highest confidence.

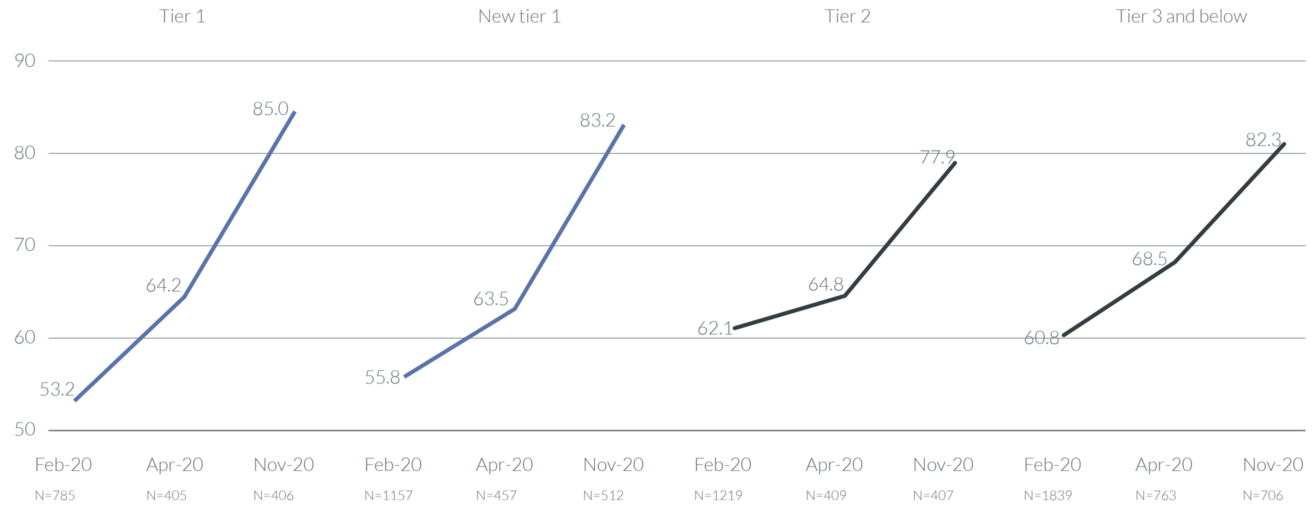
Overall consumer confidence increased significantly compared to April's result, tier one cities, have bounced back from being the city with lowest confidence level at the height of the pandemic, to now the city with the highest confidence level

Consumer Confidence %



Change in economy conditions and consumer confidence index

Consumer confidence by city tier %



Change in economy conditions and consumer confidence index

Consumer electronics market: opportunities and challenges

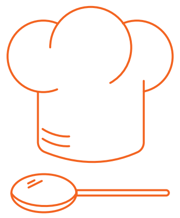
Opportunities in the 'new normal' and evolving consumer preferences

The pandemic situation has resulted in consumers spending more time at home, creating fundamental changes in their lifestyle. The increasing focus on health and wellbeing has also resulted in consumers paying more attention to cleanliness of their home, eating out less often and cooking more regularly at home. Meanwhile, they are also adapting to working, seeking entertainment and taking care of their fitness from home. Demand in stay-at-home economy is strong.

GfK findings from its November 2020 study reported that 92% of consumers would cook more at home. Trends like this will help drive developments and enhancements in certain product categories.

There is robust demand in kitchen appliances, driven by preferences to cook and dine at home

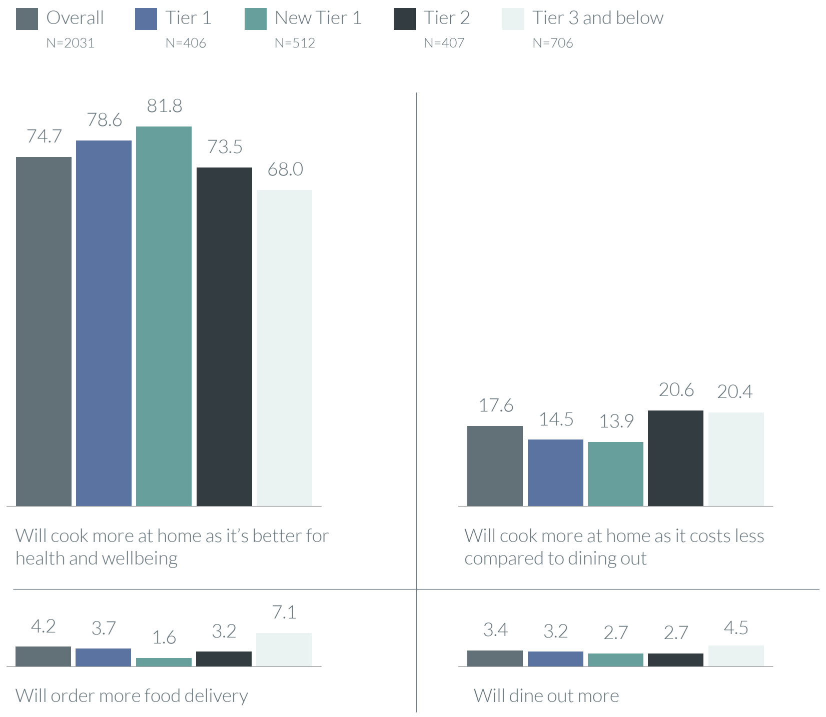
Future cooking habits (%)



92%
Will cook more at home

VS.

8%
Won't



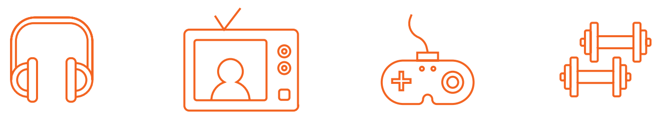
Do you see yourself cooking and dining more at home in the future?

The robust demand generated by the stay-at-home economy is not only contributed by our daily lives, but also the way consumers study, work, entertain etc. The pandemic has created new demand in online classes, working from home, and entertainment, in turn stimulating demand for IT equipment and other personal electronic goods.

Changes in consumer behavior

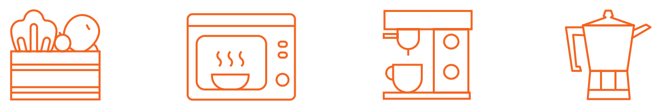
Cleaning@home

Entertain@home



Office@home

Eat/Cook@home



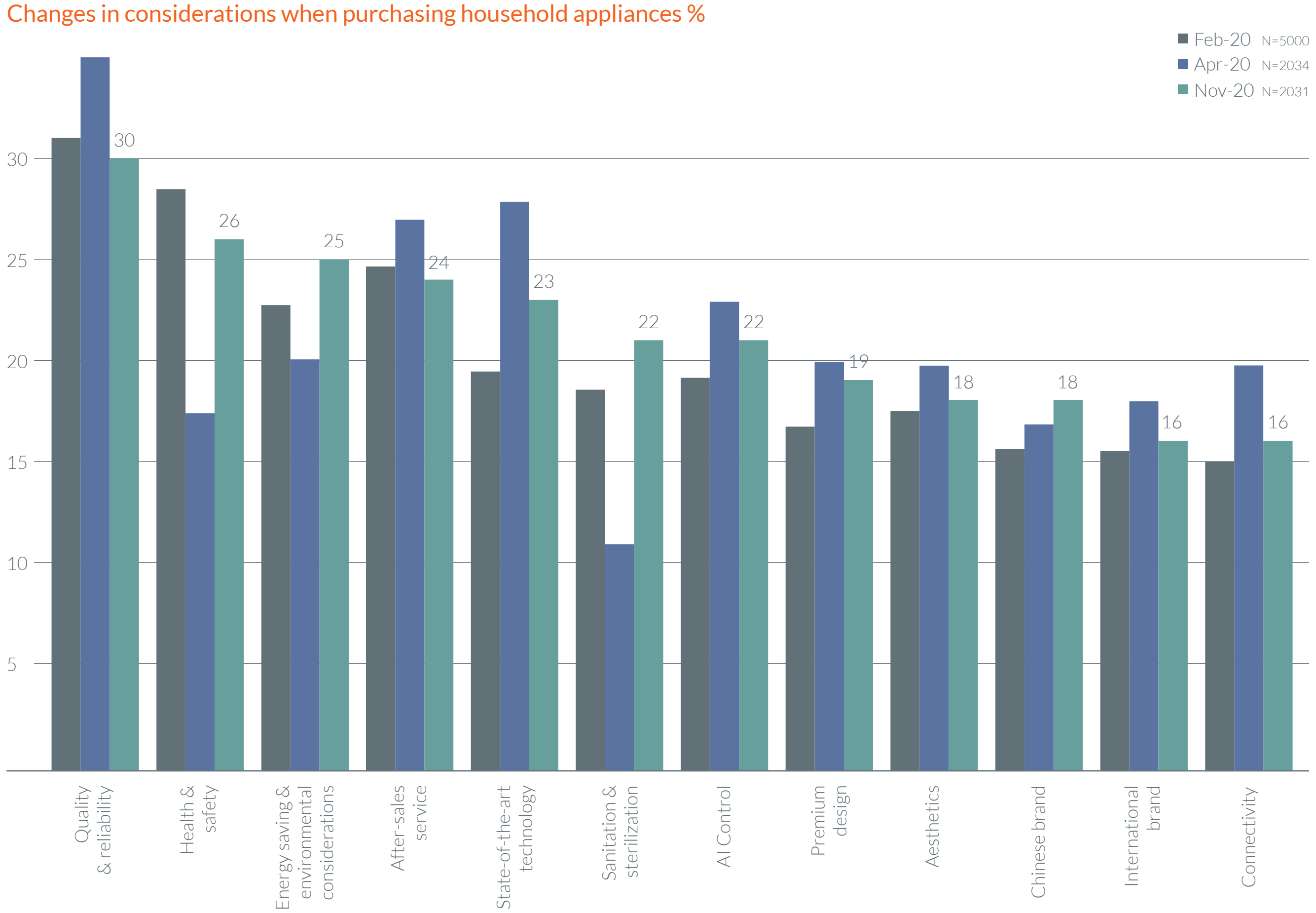
Source: GfK China Home Appliances Online and Offline Retail Data

The pandemic has raised consumer awareness and concerns towards health, hygiene and sanitation. This has heightened the importance of sanitization, which has become a common feature today in appliances such as dishwashers, clothes dryers, etc. The market registered a significant spike in 2020. Brands also started to adapt their marketing communications to emphasize on specific features, such as refrigerators being able to retain the freshness of food for a longer time, or the sterilizing feature of washing machines.

Findings from GfK China's consumer surveys in February, April and November 2020 clearly demonstrated the increased consumer concerns towards health, hygiene and sanitation over time.

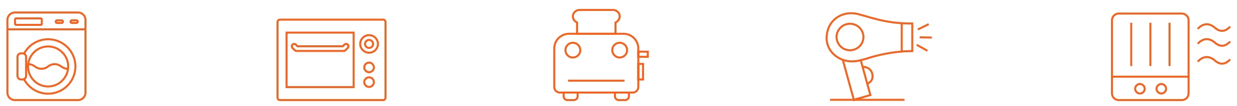
The pandemic has impacted consumers' purchase decision of appliances, especially when it comes to their consideration of functionalities that can improve health, hygiene and sanitation. There is an increased preference towards Chinese brands for large appliances and greater considerations towards AI control and connectivity for small appliances

Changes in considerations when purchasing household appliances %



B8 What features/factors would you consider when purchasing for the following product categories?

Top 3 considerations for each product category



Large home appliances	Large kitchen appliances	Small kitchen appliances	Personal care	Health and wellbeing appliances
Energy saving Healthy and safety Chinese brand	Sanitation and sterilization Health and safety Chinese brand	AI control Aesthetics Sanitation and sterilization	Premium design International brand Connectivity	AI control Energy saving State-of-the-art technology

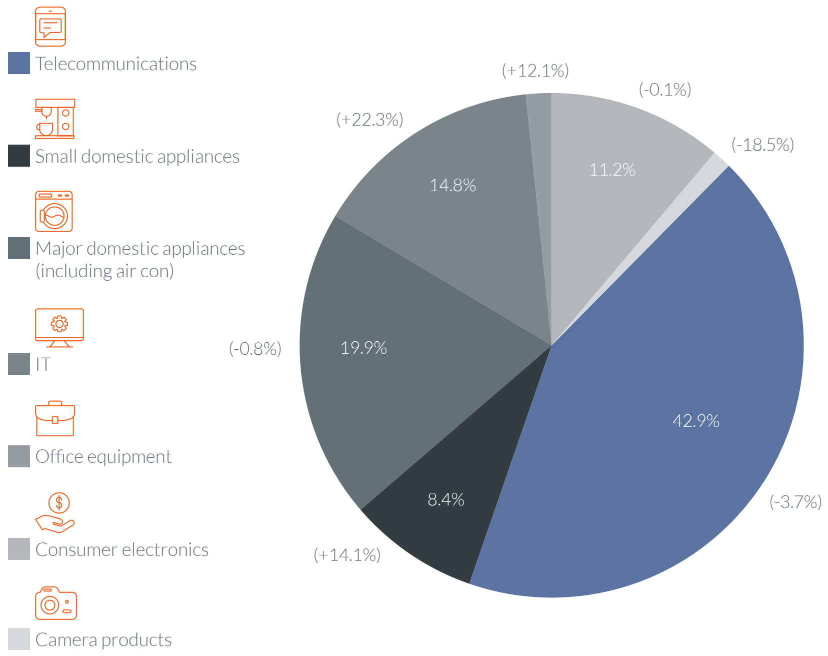
B8 What features/factors would you consider when purchasing for the following product categories?

Tech categories supporting the 'stay-at-home' economy leading growth in the TCG market

The latest GfK retail data reported that global consumption of technology products in 2020 grew by 1.9% to reach a total market value of USD 799 billion.

The growth was mainly driven by small domestic appliances (+14.1%), IT (+22.3%), office products (+12.1%). Sales for consumer electronics (-0.1%) and large domestic appliances (-0.8%) remained stable. Telecommunications (-3.7%) and Imaging (-18.5%) were the more badly hit TCG sectors.

Demand in 'stay-at-home' economy growing strong globally



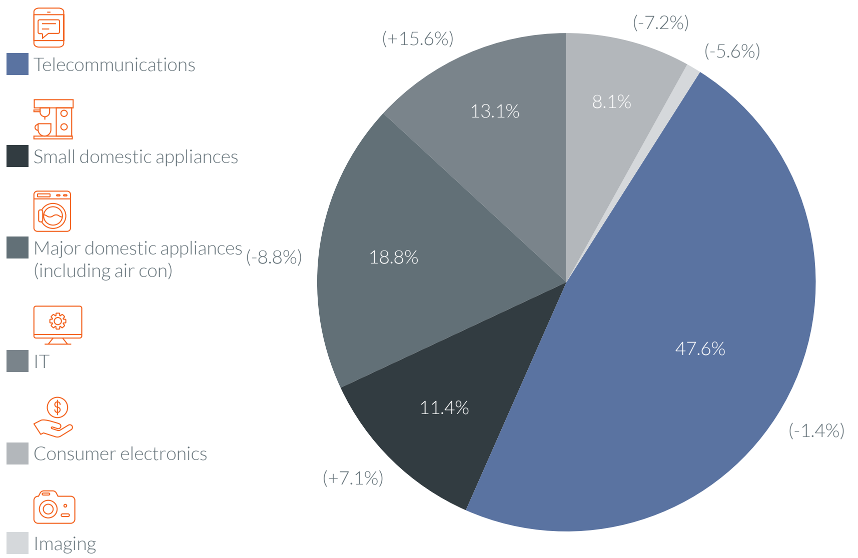
2020

USD 799 billion (+1.9%)

Source: GfK Retail Data

According to GfK China's latest retail data, sales value of the TCG market in China declined 10% in the first half of 2020. The demand rebounded in the second half with the gradual recovery from the pandemic. Retail sales saw a growth of 8% in the second half. Overall annual sales value of the TCG sector was better than expected, with just a slight decline of 0.7% compared to 2019. In terms of revenue by product category, IT and office equipment as well as small domestic appliances were the top two performing categories. Sales growth of IT and office equipment reached 16% in 2020, closely followed by small domestic appliances, which registered a growth of 7%, while other sectors saw declines of varying extent.

Mixed retail performances seen across different product categories in technology consumer goods



2020

CNY

2.0873

trillion

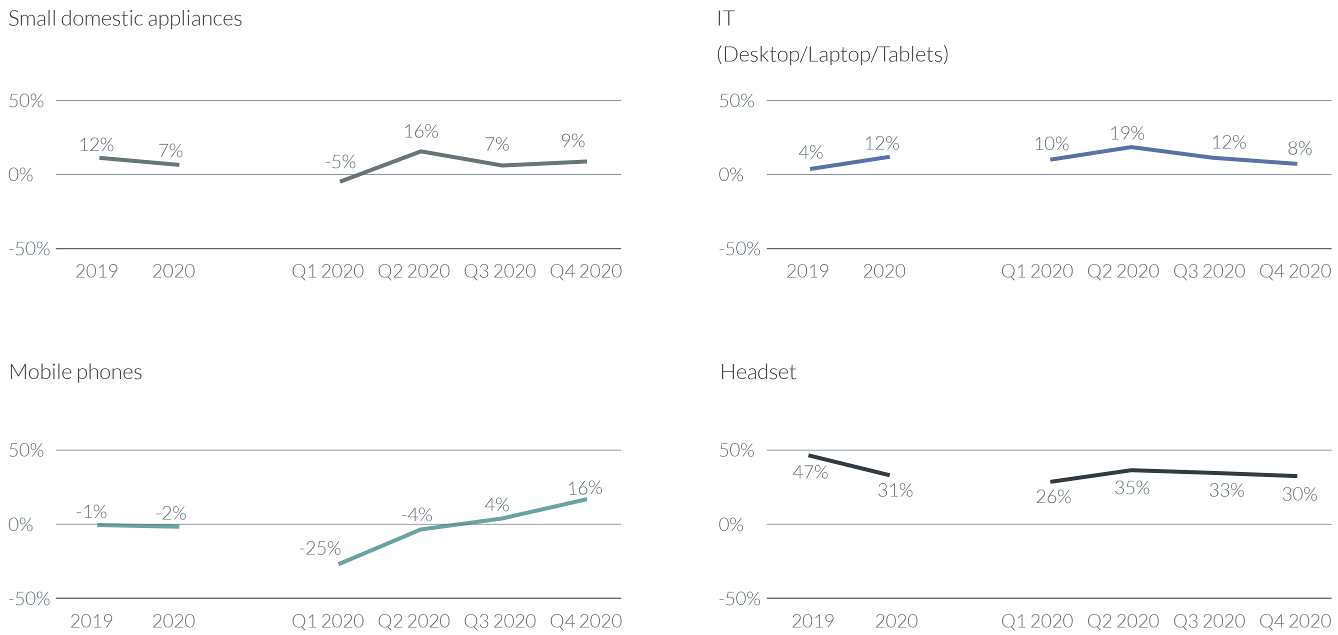
(-0.7%)

Source: GfK Retail Data

New trends which emerged in the IT category, resulting from online learning and working-from-home, accounted for the better than forecasted results at the beginning of 2020. Desktop and laptop computers and tablets saw significant growth in Q1 at 10%, reporting stronger performance than other categories. The growth rate rocketed to 19% in Q2 and 12% in Q3 and Q4. In addition, personal headsets also saw significant growth. Not only has the wireless market grown rapidly in recent years, demands driven by online learning, working from home and online games have propelled the headsets market to a new level. Retail revenue for Q1 2020 increased by 26%, much higher than other product categories. In the second half of 2020, the market continued to grow at around 30%, resulting in an overall growth of 31% for the full year. Although this growth rate is lower than the 47% growth seen in 2019, headsets are still seen as the market with one of the greatest potential during the pandemic.
On the other hand, the mobile phone market has been hit by the pandemic, reporting significant negative growth in the first half of 2020. The decline was 25% for Q1 and 4% for Q2, and while the market recovered slightly in the second half of the year, overall annual sales value still registered a decline of 2%.

Quarterly growth rates of top performing TCG categories during the pandemic

Year-on-year change in retail revenue (%)



Source: GfK Retail Data

Although the pandemic had a huge impact on the overall technical consumer goods market, opportunities emerged for small appliances and IT and office sectors, resulting in solid growth in 2020.
Technology competency is key to thriving with sustainable competitiveness in technology consumer goods. In addition, identifying key target audience and understanding consumer demands are also important.
One of the most important factor to succeed in this highly competitive market is being able to achieve operational efficiency. With all these in place, the chances of rising above your competition in the marketplace would be far greater.

The rising GenZ will be the driving force of the future consumption market; challenging the traditional concept of consumerism and powering retail innovation

Who is Gen Z?

GfK defines Gen Z as the group of consumers born on, or after, 1998. In 2021 the oldest of Gen Z is 23 years old. The majority of Gen Z are students but will gradually become the largest consumer segment once they enter the workforce. Their growing up years are different to other generations, especially those in China, which was then experiencing a period of phenomenal economic growth. Majority of Gen Z consumers here grew up financially comfortable and are mostly well educated. They have developed their own attitudes and views. This is a generation that grew along with the advancement of the internet. Accessing the internet has always been the norm, hence they wouldn't be able to imagine a life without a mobile phone or connectivity. They are the 'net generation', which means the ways they learn, form perspectives and behave are completely different to those of the generations before them. We explore and strive to understand them because of the difference in their way of life. Their uniqueness will pose a significant impact to the market once they become the mainstream, leading consumer segment. Therefore, it is important for businesses to understand and prepare for the rise of Gen Z, to compete in the potentially challenging market conditions posed by the future.

GfK's definition of generations, 2021

Generation	Gen Z	Millennial	Gen X	Baby Boom+
Birth years	1998-	1980-97	1965-79	Pre-1965
Age in 2021	~24	24-41	42-56	57~
Characteristics	The 'net generation' Interesting, thrifty Always keep in contact with others Global mindset Friends = Family	Smart and sharp Enjoy life, work diligently Confident Have different kinds of stress Spoil their children	City life and hesitant Complete tasks and tick off boxes Principled and respectful Well-balanced Plan for their children	1st generation with education Challenge themselves Persistent Always trying Self = children

Data source: GfK

Gen Z's consumption values: value for money, social media, brand experience, product aesthetics and innovation

When compared with other generations, Gen Z holds some unique values in certain aspects. They value friendships more than other generations do. They believe friends = family. They enjoy their lives, have an open, global mindset, welcome new things and ideas and are curious about the unknown. Gen Z pursues freedom but also values recognition by others. They are ambitious and creative. They are energetic and always aiming for higher goals. It's obvious that their values and characteristics will have an impact on their attitudes toward life and consumption.

Values of Gen Z that makes them unique to other generations

Being in tune with nature
Social Recognition
Friendship
Curiosity
Enjoying life
Open-mindedness
Creativity
Patriotism
Being enterprising
Freedom

Data source: GfK Consumer Life

They pursue value-for-money

Compared to Millennials and Gen X, Gen Z has a higher proportion who see price as the most important factor when making purchasing decisions. Although they grew up in a more well-to-do era, Gen Z still considers price as the most important factor during the buying process. This shows their focus on the value they get from what they pay for. They expect the product of choice is a 'good deal' or 'better deal'. This goes to show that value-for-money is the key consideration no matter the generation.

They are dependent on social media

Gen Z is the 'net generation', as they were born and bred in the era of internet. They have been exposed to a scale of information larger than any other generations had. They always find themselves filtering relevant details from the sea of information. As a result, they tend to experience more information overload than other generations when they shop. They screen through information with the hope that websites, media or others would assist them with more effective filtering. This is why 'worth-buying' sites, short video sites, and Key Opinion Leaders (KOLs) livestreaming exist. Their natural dependence on the internet makes them rely on these sites, videos and KOLs to provide recommendations. For example, website 'What's Worth Buying' gives users the best prices and user comments, video sites showcase product features and KOLs such as Li Jiaqi and Wei Ya have professional teams to help consumers screen products and negotiate prices. Short videos and KOL livestreaming saw rapid developments post Covid. These are new ways to help ease consumers' decision making in the purchase process; also, a form of retail innovation. GfK findings also demonstrate Gen Z's higher susceptibility to recommendations by social media influencers when it comes to purchasing technology products/brands.

They value brand experience

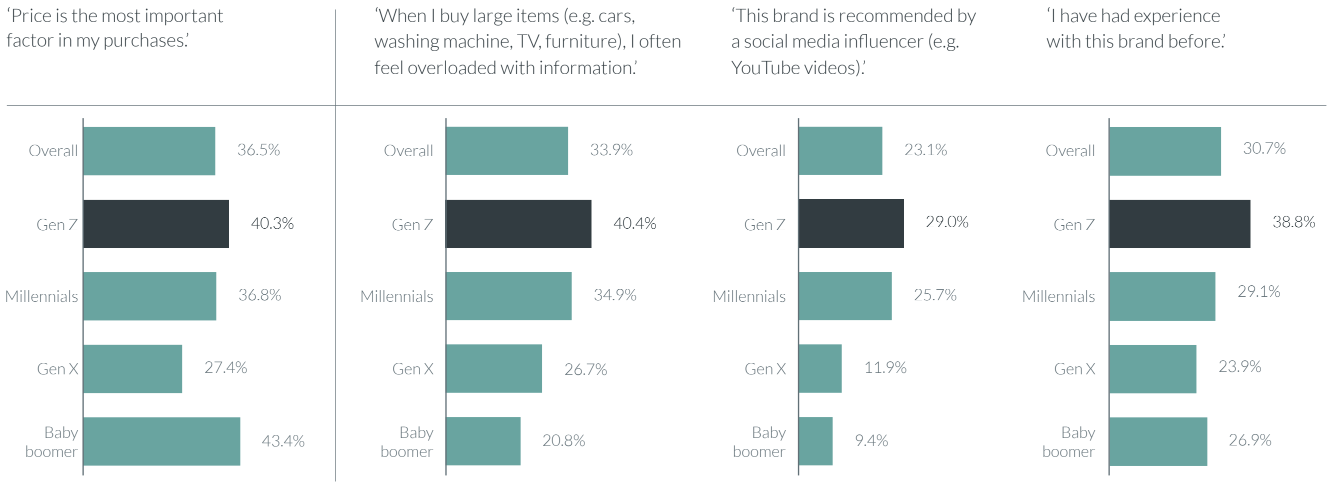
The young Gen Z have no stereotype perceptions about brands. They tend to choose brands which they have had prior experience with. This kind of brand recognition is much higher than the Millennials and Gen X. It demonstrates how much Gen Z values brand experience and does not easily form certain impressions about brands. This also implies a lower level of brand loyalty, as Gen Z tend to move fluidly among brands. However, this also means they are more open to exploring new brands compared to other generations-creating opportunities for new brands in the market. Recent success stories highlighted how new brands managed to succeed when they engaged influencers to help launch them, confirming the effectiveness of such outreach on these new generation of consumers.

Gen Z's consumption values

Key considerations in purchases

Information channels and attitude towards brands

What brand attributes are the most important when you purchase technology products?



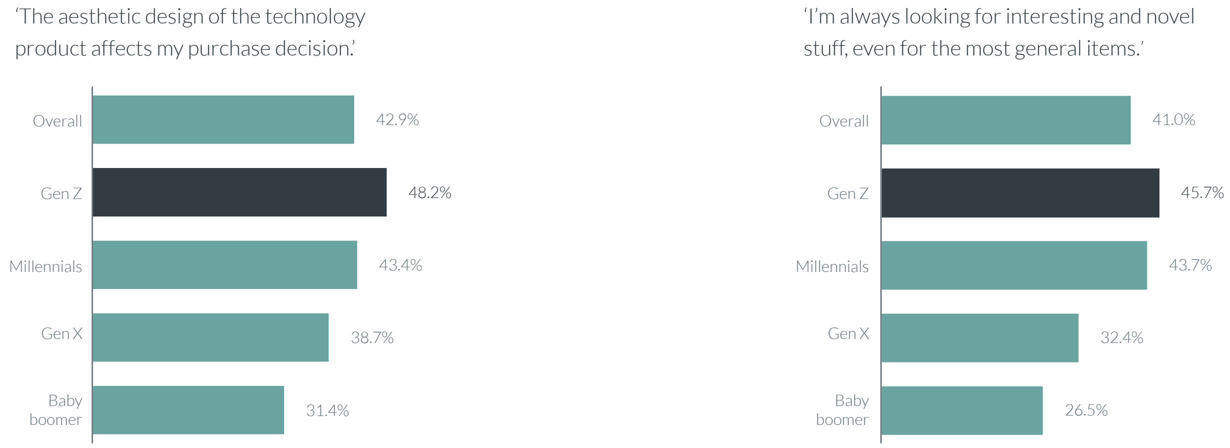
Source: GfK Consumer Life

They appreciate product aesthetics and innovation

Gen Z consumers tend to hold particular appreciation for product aesthetics and style during their purchase process. A higher proportion of Gen Zs compared to other generations, believe 'aesthetics and style' are important factors contributing to their decision-making process. This shows that mere functionality would not be enough to satisfy Gen Z consumers. Great aesthetic design coupled with product functionality would work better in attracting them. Also, in comparison with other generations, more Gen Z agreed that 'they are always looking for interesting and novel stuff, even for general stuff'. Therefore innovative products are more likely to attract and satisfy Gen Z's consumers. Brands should also put more efforts into aesthetic designs and innovations in order to win the hearts and wallets of this generation.

Gen Z's attitude towards technology products

Attitude



Source: GfK Consumer Life

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