



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





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A new era of
innovative retail
begins as channel
dominance diminishes



03



As the 'pure e-commerce' era comes to an end, integration and interaction between online and offline will become the norm

price points and high value-for-money positioning. The online market for mid- and low-end product categories developed rapidly, and successfully took over market shares from the offline channel. The average online price of white goods started to decline. At the height of the pandemic in the first half year of 2020, consumer purchases were largely driven by necessities, while non-essential items and upgrading were kept to a minimal. Demand for household appliances has recovered since the second half of the year. Consumers have built up their confidence to shop online for mid- to high-end products, thereby fueling a surge in demand for these products in the online market. At the same time, the offline market have also started to recover, hence offsetting the growth value achieved in online retail.

With the gradual slowdown of online retail growth as it hits the saturation level, the future of the online market depends on how it integrates and complement the offline market.

GfK China's retail data shows the online revenue of white goods (air-conditioner refrigerator, washing machine) growing from less than 3% of the total market share back in 2012 to over 46% in 2020. This rapid growth illustrates the development of internet shopping over the last eight years, demonstrating the change from trial to trust in the online channel by consumers. The latest GfK Consumer Life study reported price and convenience as the major reasons driving consumers to shop online. Today, online shopping has become a way of life.

Online and offline channels will complement one another and develop in tandem

Here is a brief history of how online sales of white goods evolved in China. In 2012-2013, majority of consumers were only shopping online for general items. Online shopping as a channel for white goods was considered very rare, which explains its low online market share. In 2014-2015, online shopping showed greater acceptance by those in medium to large cities but purchased items were of relatively low price, hence presenting low risk to consumers. The retail volume grew faster than the value for white goods during this period. Adoption of online shopping continued to deepen in 2016-2017, with brands starting to push higher-priced items online. By 2017,

online sales volume for white goods increased by 52% while its sales value surged by over 71%. Following its initial exponential expansion, growth of the online household appliances market subsequently slowed down in 2018-2019, where the retail value growth reported was weaker than that of the volume growth. By this time, online shopping for household appliances have gone mainstream. By then, most low and mid-end product categories were already available online, and the scale for low-end products have expanded tremendously. Internet brands have also joined the online market, attracting consumers with low

Consumer demand changes as new segments take to online shopping

Changes in online retail volume/value for white goods 2015-2020



Source: GfK China online retail data for air con, refrigerator and washing machine



To accommodate consumer demands in searching for better deals and easier shopping, we see the rise of social fission marketing, community group buying and livestreaming

According to GfK China's consumer research, over 40% of people shopped online more frequently during the pandemic in 2020. Retail sales value across all platforms increased by 470% compared to 2019. Offline sales radically decreased in the first half of the year due to COVID. Most consumers chose to shop online from home, driving strong demand in the online market.

Community group buying fast gaining popularity

Findings from a consumer study conducted by GfK in February revealed that 14% of respondents have just started on group buying within the past month. A mere 6% said they have reduced frequency of group buying in the past month-the lowest among all types of shopping experiences. Results of the study confirmed the growing widespread usage of community group buying during the pandemic.

41%

Consumers increased their frequency of online shopping in the past month

49%

Consumers said no change in frequency of online shopping

10%

Consumers decreased their frequency of online shopping in the past month



Retail sales value across all platforms increased by

470%

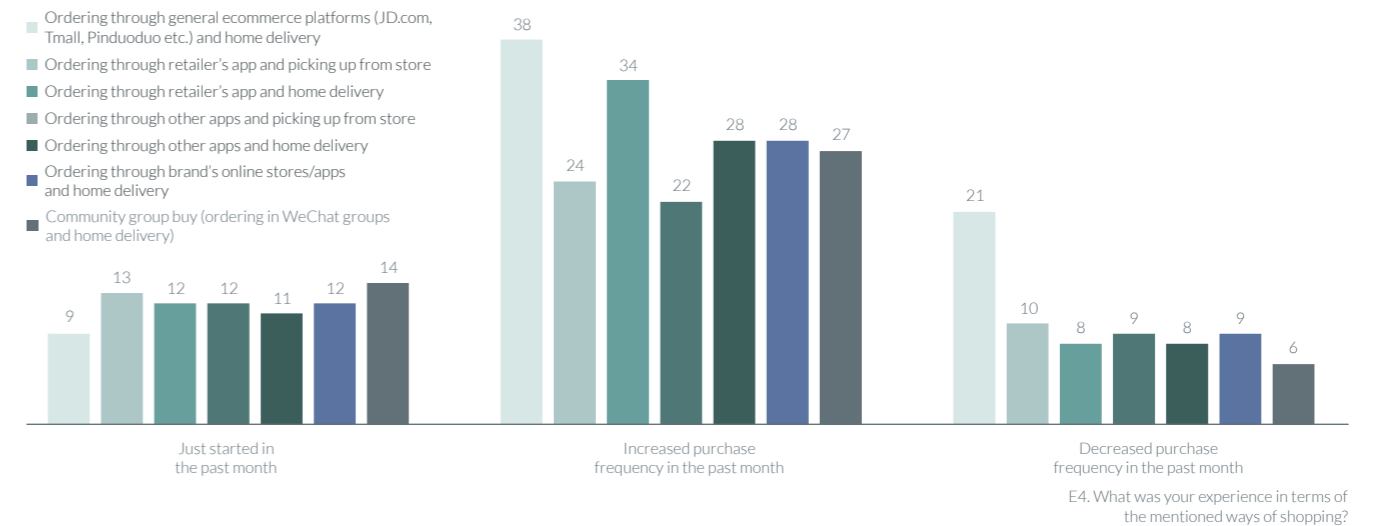


Vegetable supplies increased by

6 times

Over 40% of people said they shopped online more frequently during the pandemic in 2020. Home delivery was the main method of receiving the purchased items; community group buys and shopping through apps have grown substantially

Shopping experiences in the past month %



Internet companies observed this trend and seized the opportunity. Didi's community group buying brand 'Chengxin Select' was launched in June 2020, while Meituan announced the launch of the 'selection business unit' in July. Pinduoduo's community group buying project 'Duoduo Grocery' went online in August. In October, Suning Grocery's group buying platform launched in Beijing. In December, JD.com announced its USD 700 million investment in community group buying platform 'Xingsheng Select' while Alibaba put in USD 196 million in startup 'Shihuituan'.

From the corporate's perspective, community group buying isn't only a new, fast-growing market but also a good conduit to connect online and offline markets. It presents an opportunity to enter the low-end offline, new retail arena. In contrast to grocery and food delivery platforms such as Hema, JD, Meiriyouxian, group buying is a channel for a lower-end segment. This segment of the market appreciates human interactions and therefore aligns nicely with the community. Group buying is a typical example of retailing through social connections, with the 'group leader'

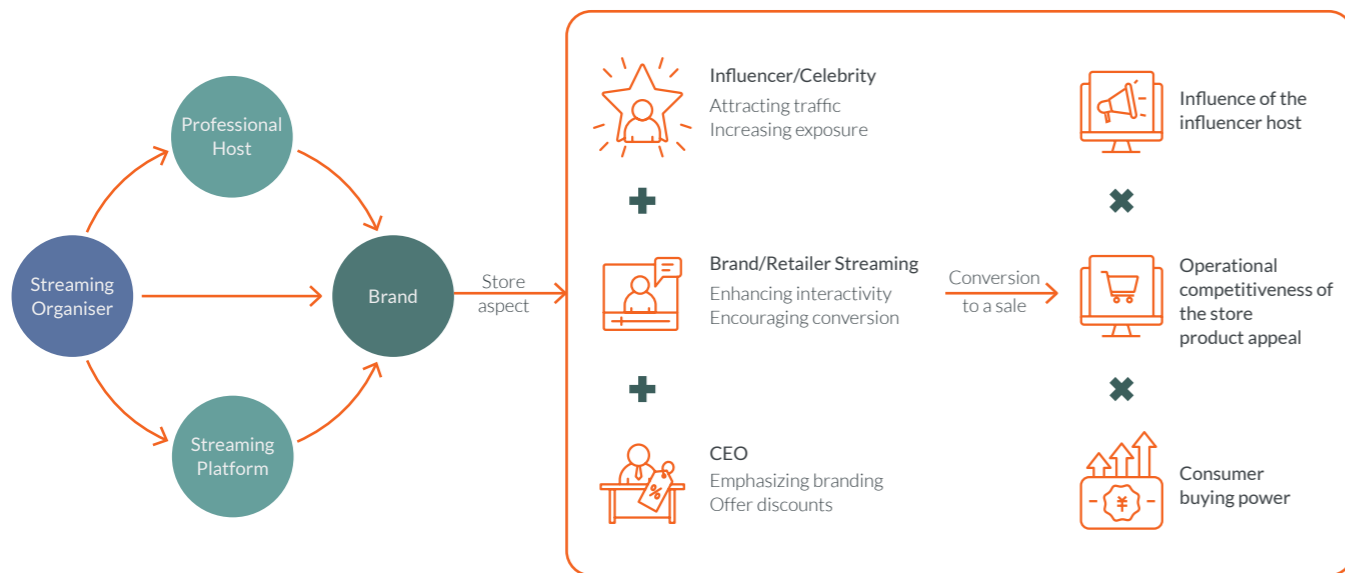
being the conduit between the platform and the consumer. In addition to the attractive deals and products, consumer trust towards the 'group leader' is another important factor in driving market growth. The role of the 'group leader' is like a 'store manager' in a low-end market store. The reputation of the store manager is also key to sustaining and growing the business. The only difference is that these 'group leaders' are connected to a specific platform. There are orders from users going to every group leader. The social connectivity in group buys have triggered a new way of retailing.



Livestream marketing takes off

Apart from the group buying retail phenomenon, 2020 also saw livestream retail taking off. With the impact of the pandemic, online shopping became a preferred option for consumers. All kinds of businesses started exploring livestreaming, further enhancing their ecommerce efforts and results.

The household appliance industry was no different. Brands focused heavily on the conversion process from streaming to sales. There are three operational models, namely sales by hosts with large number of followers, brand-owned streaming sales, and industry expert sales.



Three livestreaming retail models

01

Influencer/celebrity promoting products

The influencer, as the host of the livestream, has an important job to convert traffic to sales. For example, Taobao's top host streamed and promoted fridges and washing machines during the Double 11 shopping festival. Brands would invite hosts to promote certain products, examples include Siemens' ultra-thin side by side door refrigerator, LittleSwan streaming higher end front-loading washing machines, all of which were signature models for 2020. It has been observed that sales of those promoted models are usually quite good during the promotional week, but thereafter would not register much growth-testament of the importance of having popular hosts to generate good exposure and demand. For example, livestreams involving Bosch products totaled 3 billion views during Double 11. Top hosts' follower base are usually very broad without specific indication of interests; therefore brands would engage them for branding rather than sale of products. Brands would follow up by rolling out promotions to align brand image and products in the right price range.

02

Brand-operated livestreaming

Brands having their own 'livestream rooms' usually focus on overall branding and the introduction of specific models. Haier and Midea run their own livestreams frequently. For Double 11, we identified hero products if it appears every day in livestreaming, products introduced to the market this year are identified as 'new product'. Single item sales contributing between 1% and 3% of total sales revenue are identified as 'Customer's favourite', while those exceeding 3% of total sales revenue are identified as 'Best sellers'. Haier and Midea focus more on New Products and Customer Favourites in livestreams, leveraging the traffic from Customer Favourites to their livestream rooms to introduce New Products. Positive results have been reported for both product categories. Take Haier's washing machines for example; the New Product and Best Sellers combined, accounted for more than 80% of the total sales of the brand. Sales for Midea refrigerators and washing machines also respectively accounted for 80% and 90% for the brand. Brand-operated livestreaming is more appropriate for promoting their usual product range. With the leverage of traffic from Bestsellers and Customer Favourites, new models can be introduced to the audience to help drive sales growth.

03

Industry experts endorsing products

Example of this includes Luo Yonghao livestreaming mobile phone products. As mobile phones are high in unit price and prices online are relatively transparent, his key messaging did not focus on pricing. Luo attracts traffic because of his credibility as an industry expert and has a large number of followers. The brand would engage him as he is highly trustworthy, and this would help with conversion. Another example is Gree's livestreaming featuring industry personalities and is supported by resellers. The brand 'ambassador' is the CEO of Gree, Dong Mingzhu. She leads her team in the livestream and interacts with consumers and retailers. This not only attracts traffic for the product but also attract traffic for resellers-forming a new way of 'online and offline integrated retailing' unique to Gree.

Rise of smart home direct-sale stores narrows gap between manufacturers and consumers

Direct-sale from both manufacturers and retailers are on the rise

In addition to online livestreaming, domestic brands' innovative efforts on offline physical stores are also being observed. During the pandemic where physical stores are being hit hard, manufacturers are focusing on direct-sale stores to simplify management. Direct-sale stores offer more competitive pricing as they are managed directly by the manufacturers—its most fundamental advantage.

Domestic brands making an effort to develop offline direct-sale stores



The birth of Haier's Tri-winged Bird brand

Haier introduced a range of scenario-based solutions

Haier introduced a range of high-quality products and services within the same ecosystem to customized solution design for specific consumer, scenario, or household.

Haier cloud-based platform for smart home experience

Interacting with customers, providing customised services from single smart appliance to fully integrated smart home based on user's persona.

'1+N' Service System

Single point of contact by a designated service butler, connecting customer with a number of ecological service providers, and providing one-stop service covering everything from design, to renovation, and installation.



All-category direct-sale store - 'Hisense Quality Home'

The direct-sale store plan

Hisense is launching the direct-sale store project, introducing 60 'Hisense Quality Home' direct-sale stores that will offer a full range of brands and categories in 2021.

Service Differentiator

Customers will be able to trial and experience new products that have just been introduced in the market and participate in parent-children activities on special occasions. Customers are encouraged to visit and enjoy their time at the stores without feeling obligated to make a purchase.

Direct-sale management

Offering extremely competitive price due to direct management under Hisense, so that customers no longer need to 'trial in the store first, then make a purchase online later'.

Manufacturers are also brainstorming to provide 'service differentiators' to attract customers, and focusing on the interactive experiences unique to the offline channel.

For example, Gree is directing online shoppers to their offline stores and encouraging customers to experience their services there. Haier launched the scenario-based brand 'Tri-winged Bird' in Beijing in September 2020; Haier Smart Home Beijing Store which is primarily based on Haier's smart home series, integrating home appliances with the 'Internet of Things' experience. Unlike the traditional sales model of a single smart home appliance, 'Tri-winged Bird' pays more attention to

the concept of personalised smart home experience. Not only are they providing a suite of scenario-based smart solutions, they are also customizing solutions for individual households based on their interactions with each customer. Hisense's 60 direct-sale stores - Hisense Quality Home - are also being planned for launch in 2021. From retail perspective, the Hisense Quality Home stores will offer all seven brands under the brand's umbrella, including Hisense, Toshiba, Kelon, Ronshen, gorenje, ASKO and HITACHI, covering the full product range from air-conditioner, TV, refrigerator and washing machine. Direct-sale stores have a specific focus on interactions with customers. In addition to offering a home experience and trialling new products, they also host special events from time to time, organising in-store entertainment in spacious areas, and encourage customers to visit the stores without needing to make a purchase. The offline competition among major retailers is equally fierce. According to GfK's Consumer Life study, the biggest attraction of the offline channels

to domestic consumers is having immediate access to the products they purchase. More so for the physical stores in lower tiered cities where logistic services are not as developed as the big cities. In comparison with manufacturer-managed direct stores, retailer's physical stores also have the advantage of carrying more brands and more categories which offers customers more options. In recent years, retailers have been actively expanding into the vertical markets through the model of cloud stores and small stores. Such stores occupy a relatively small area and have a more flexible layout. In 2020, Suning opened 3,021 new cloud franchisees, and sales for cloud retail is expected to exceed 100% year-on-year; at the end of 2020, JD.com had 15,000 home appliance specialist stores, following the organisation's guideline of 'at least one store per town' and 'multiple stores per county'. Major retail players' bold ambitions on the offline market has stirred up the low tier markets.



Home appliances innovative retail case studies

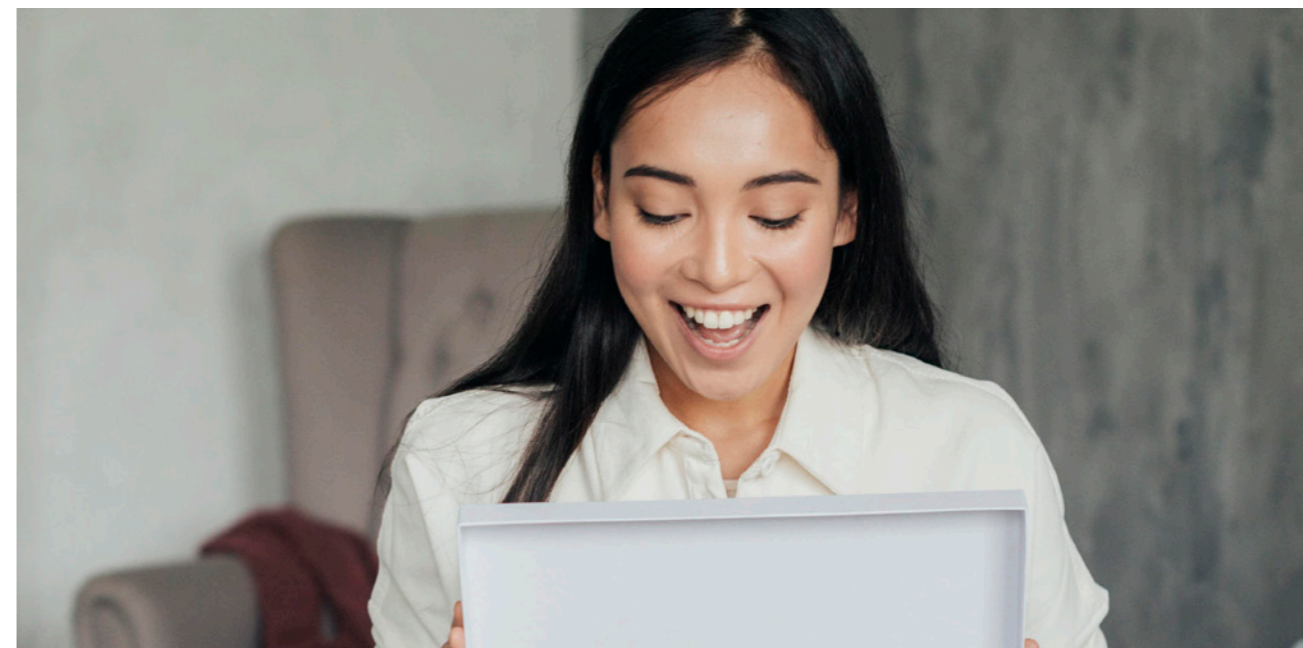
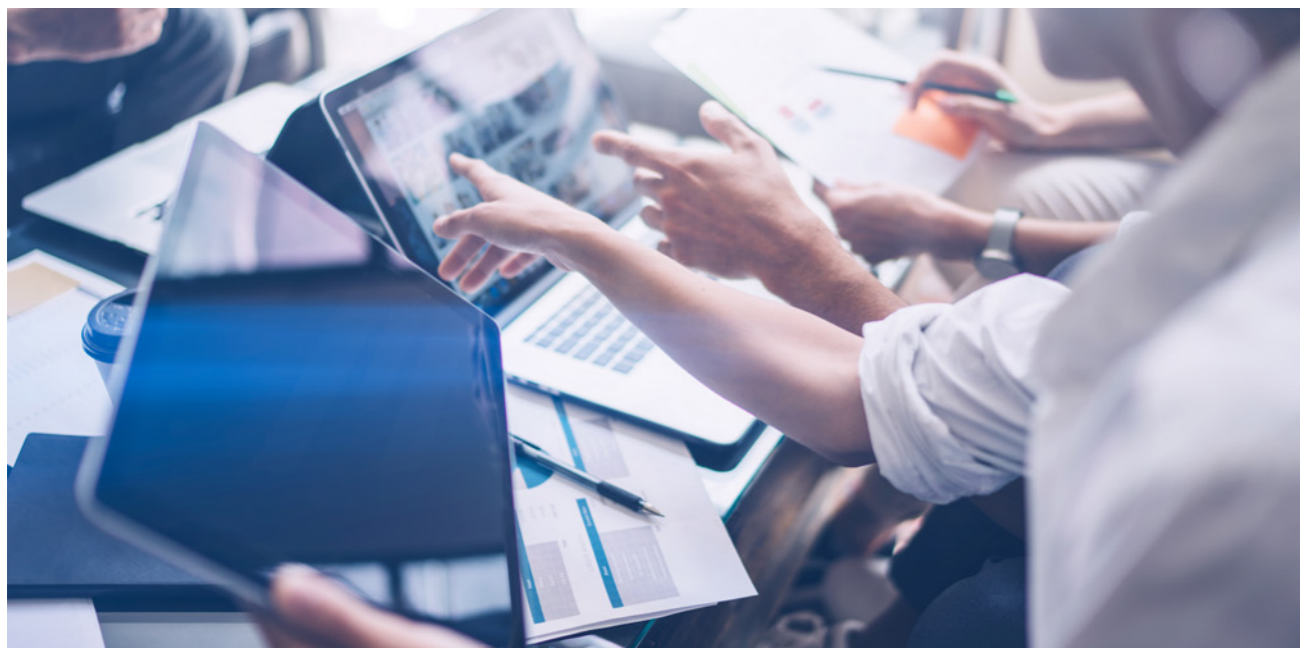
The advantages of selling online is gradually diminishing due to the increasing cost to drive traffic in the public domain. The need to build and increase traffic to private domains is increasing in urgency, in order to lower customer acquisition costs and to increase the user value within their lifecycle. The industry agrees that to enable a second growth curve, it is critical to create a more strategic retail landscape, and to deepen the integration between online and offline market.



In recent years, private domain businesses whose core business format is focused on mini app in WeChat has been on the rise. The WeChat mini app ecology exceeded 400 million DAU in the first quarter of 2020. As a key link connecting online and offline markets for scenarios-based services + Tencent ecology + WeChat ecology, the mini app enable the online and offline coverage for a full range of scenarios and multiple touch points. According to a retail case study provided by Tencent, Dyson has portrayed its WeChat mini app as the official website. Utilising its mini app and official WeChat account, Dyson diverts purchasers and potential consumers from the public domain to its private domain, and then transforms them into its long-term GMV through operations. Then through long-term refined user operations, improves the value of users' full life cycles and promotes the growth of long-term GMV. In addition, Dyson also opened outlets in the mini app, and officially refurbished machines are available only via the mini app. By doing so, they differentiate their positioning by offering new product releases, exclusive gift boxes, and product customisation, which all help to attract consumers to shop at their private domain.

Lenovo adopted the cloud store model to create hierarchical livestreams from major KOLs to store staff through a mini app customized for each store. Lenovo and Weimob jointly established the Lebei Member Carnival livestream event, which attracted more than 4.4 million viewers in the livestream room. The cumulative sales for the day reached 120 million yuan, and the cumulative sales volume was 20,932 units, which was equivalent to the monthly sales of 200 offline stores, hitting a new sales record for one single day. Driven by innovative retail, the development of the retail industry has gradually shifted to a consumer-centric mode. How to accurately target consumers and build a sophisticated operating system are now the new challenges faced by enterprises' in today era of digital transformation. New challenges have also given birth to new markets, and companies that provide manufacturers with omni-channel industry solutions are becoming increasingly popular. This type of solution aims to help companies achieve data-driven growth. Through professional R&D teams, marketing algorithms, and data capabilities, they can help businesses achieve closed-loop solutions for comprehensive growth.

In the case of Volcano Engine, the home appliance company realizes the smart home experience throughout the entire home with the support of digital solutions. By making TV the smart home entertainment hub and turning refrigerator into the smart hub of the kitchen, and the other appliances within the house all inter-connected, the company is able to enhance the overall smart home experience of users, and this becomes their unique selling proposition. According to the retail case provided by Weimob, Sacon supported nearly 6,000 stores and franchise outlets to connect to the cloud mall with the aid of smart retail solutions to further open up online and offline sales channels. Using the mini app mall as the carrier, Sacon implemented the 'all-employee marketing' strategy. At present, Sacon has 1,800 employees and more than 4,000 operators and distributors who have completed the partner registration, and the number of cloud mall users has reached 150,000. Users help to achieve a win-win situation between brand communication and sales by helping to drive product sales in the mini app mall while obtaining additional commissions. In the future, Sacon expects half of its online sales to come from the mini app Cloud Mall.



Retailers have also been driving traffic through a variety of interesting activities. **Gome** launched the 'True Happiness' app to for social networking and entertainment. The products selected within the 'True Happiness' app are screened through 8 different criteria such as quality, price and reputation etc., combining genuine low-price with entertainment-oriented marketing strategy, creating a 'grab-group buy-ZAO' entertainment game combination which is favoured by young consumer groups. Since the launch of the 'True Happiness' app, GMV increased nearly 4-fold year-on-year, with DAU consistently over one million, and DAU exceeding 10 million in a single day when there is an event.

In addition to building their own private domain traffic, collaborating with brands to attract traffic is also a popular approach for retailers. In recent years, **Suning** has constantly pushed boundaries, collaborating with brand owners to trial innovative approaches. On the eve of Double 11 in 2020, Suning and Konka Group staged an 'All-Star' party on Beijing Satellite TV—a high profile event which appeared in top searches multiple times. Just 19 minutes post midnight on the 11th, Suning's omni-channel GMV reached 5 billion.

April 20, 2020: Panasonic and **JD.com** partnered WABC Yitu Charity Foundation to launch the 'Guard Health, Guard Love' 24 hours charity event, donating 1% of the day's turnover to charity. On April 13, Panasonic officially launched the 'Gathering of the Guardians' program, quickly and accurately reaching the targeted audience through popular apps such as WeChat Moments Public Service Ads, Tiktok, Toutiao etc. Numerous celebrities were invited to post the topic on Weibo, and to upload short videos and livestream on all platforms such as JD, Tiktok, Kuaishou, Bilibili, etc. According to statistics, this event was exposed 170 million times online, and reached 80 million+ consumers. As a result, sales exceeded one million RMB within one minute of the event opening. Total turnover of the day increased by 1008% year-on-year, and the 24-hour turnover surged by 399% month-on-month (average daily growth in the past 30 days).

On April 20, 2020, Joyoung × Hey Tea × **Tmall Chao LIVE** co-hosted the 'Make Hey Tea at Home' event, creating culinary delights using the limited-edition small home appliances jointly developed by Joyoung and Hey Tea. Interactive activities such as food trucks, mystery boxes and livestreams at the event site attracted young people in their 20s and 30s, managing to convert Chinese culture lovers and pop culture fans to followers of Joyoung small appliances. Pinduoduo cooperated with many home appliance brands to implement joint subsidies and reward consumers via livestream. In August 2020, Pinduoduo conducted a 'limited time bargain rush' livestream at Hangzhou Joyoung factory, attracting more than 600,000 netizens to view the event, driving a surge in sales during the livestream. Many products such as blenders, pancake makers, and noodle presses were quickly sold out. Final sales revenue reached over 3 million RMB. On September 3, Pinduoduo and TCL launched the 'Brand Subsidy Day' event, where Pinduoduo brought its '10 billion subsidy' to TCL's warehouse in Guangdong. Together with nearly 300,000 netizens, they 'witnessed' the warehouse containers being 'emptied'. Within a day, sales spiked by 10+ times, and the number of store followers increased significantly because of the brand.

JD Small Home Appliances × Tencent Advertising: Traffic promoting ecommerce platform to drive conversion

Currently, traffic on the e-commerce platform has reached its ceiling. Tencent's advertising has opened up channels to help JD.com's small household appliances effectively attract traffic, realise conversion and break the status quo. JD's small appliances fully utilises Tencent Advertising's oCPX intelligent bidding system, combining advertising materials with real-time promotional information to stimulate consumer purchase behaviour. At the same time, it integrates multi-platform and multi-resource to jointly test and achieve full coverage of vertical clients (certain client with same characteristics), and then intelligently adjusts the prices according to the combination of cost of order and conversion data. These approaches helped to achieve conversion goals efficiently, while reducing CPC costs by 50%, and increasing ROI by 4 times!

Royalstar × Tencent Advertising: Interaction between public and private domains to promote conversion

Faced with intense competition in the small appliances sector, Royalstar, actively entered the mini app world with the help of Tencent's advertising system which utilizes consumer behaviour modeling to gain in-depth insights into user preferences. In the actual placement of WeChat Moments ads, multiple sets of materials with various selling points, images and messages are presented to attract users' attention, all of which resulted in high click rates. Furthermore, the steps required to complete the transaction were greatly reduced in order to improve the overall user experience and resulted in a substantial increase in the conversion rate. Through the above four refined operation strategies, Royalstar managed to complete the direct purchase from their mini app from 0 to 1 in just 7 days, and increased CTR by 376%, ROI by 245%, creating the best record of direct purchase of household appliances in mini app!

2020 goes down in history as the year where both platform enterprises and brands managed to achieve a breakthrough in retail channels despite the pandemic. Innovative retail continue to evolve and shape consumers' shopping behaviour, while at the same time creating a new retail landscape.



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