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China's New Consumer Brand Report 2019 & Top 100 Brand List

October 2019

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Why read this report?

Grasp it – the foreseeable big bang in China's consumer brands

The wealth of Chinese consumers is changing rapidly, despite the 'new normal' stage of the country's economy and the geopolitical uncertainties. Consumer-facing companies should show keenness for this market in order to power their growth over the coming decades.

The development history of the world's famous consumer brands has repeated itself – but varies from region to region. From both a macroeconomic and 'cultural confidence' perspective, today's China resembles Japan in many aspects from the 1970s to the 1980s. Only the country now boasts a much greater middle-class population than anywhere else in the world and expects an unprecedented wave to come in the consumer market.

This report will unveil the factors underpinning the unstoppable trend of consumer upgrading in China and will also showcase of the TOP 100 new consumer brands[1] list, with a special look at trailblazing cases in the China's diverse fast-growing market.

Exhibit 1: Global consumer brands development timeline

Source: AliResearch

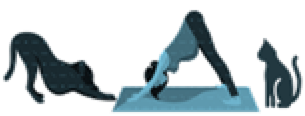
EqualOcean.com

[1] The TOP 100 new consumer brands are selected on three basic criteria are illustrated on P19.

Know it – the features of future Chinese consumers

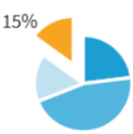
An understanding of China's changing demographics and the impact of these changes on the profiles of consumers helps to identify some key trends in consumption patterns likely to follow in succeeding decades. Four types of new consumers – middle-class, singles, seniors and generation Z[1] – are selected as representative of the future. However, the diversification of population, along with geographic and Internet clusters, will eventually generate a much more complex matrix of consumer types – such as small-town youth, urban middle-class and so on – that will pose both opportunities and challenges for brand merchants.

Exhibit 2: Three main types of future consumers in China



240 million singles

Singles represent 15% of population in 2018. Most of them like convenient and fast living, keeping fit and pretty, eating out alone or ordering takeout, and they are pet-lovers.

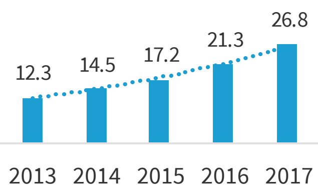


Only 15% of tier-one city singles cook three times or more per week.

1/3 of the population will be over 60 by 2050

Seniors are wealthier and have stronger consumer awareness. At the same time, information technology and high-tech medical care companies are becoming the main driver of senior care industry.

Market size of high-tech devices for seniors (BN CNY)



70% of them are happier than their parents

378 million Gen Z

Affluent in life and well-educated, Gen Z are the main consumer force of China. They are more diverse, progressive, rational, global-minded and patriotic. Most importantly, they are digital natives.

Source: EqualOcean analysis EqualOcean.com

Think it – implications for the future

New technologies have been making the time varying trends more exciting. The implications for both companies and investors are crucial for finding solutions to build stronger brands in the consumer market in China. A brand's positioning, personalization, customization, digitalization and experience-orientation are all areas where future revolutions will take place.

[1] The consumer features is not selected from a categorization based of MECE, but a cross-analysis on consumption types and branding logic.

Contents

Factors Shaping China's Consumer Market

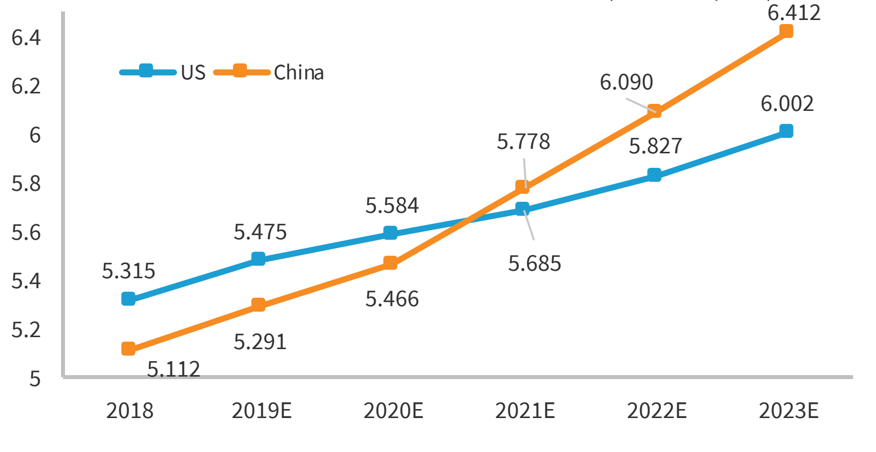
The macro context of China

At the 19th National Congress of the Communist Party of China (CPC) in October 2017, China's leadership announced that the country had entered a new stage of development. One of the priorities stated is to transform into a society that fosters innovation while improving people's well-being. President Xi Jinping remarked that the government will improve systems and mechanisms for stimulating consumer spending and will leverage the fundamental role of consumption in promoting economic growth.

Facing the ongoing trade turmoil with the United States and a slowdown in the economy, China is looking increasingly inward to domestic consumption to counter the downside pressure on the growth of manufacturing activity, car sales, exports and gross domestic product. In the quarterly economic meeting of China's top leadership, chaired by President Xi on July 30, 2019, the Politburo rejected the use of the large-scale stimulus employed in 2008 or the idea of easing restrictions on the housing market to boost activity. Instead, Xi urged officials to raise their "anxiety awareness" and to turn a "crisis into opportunity" by continuing targeted support and reliance on consumer spending.

The consumer market, from both the supply end and the demand end, has been elevated to the level of national development strategy to bear the brunt of all the negative indicators.[1]

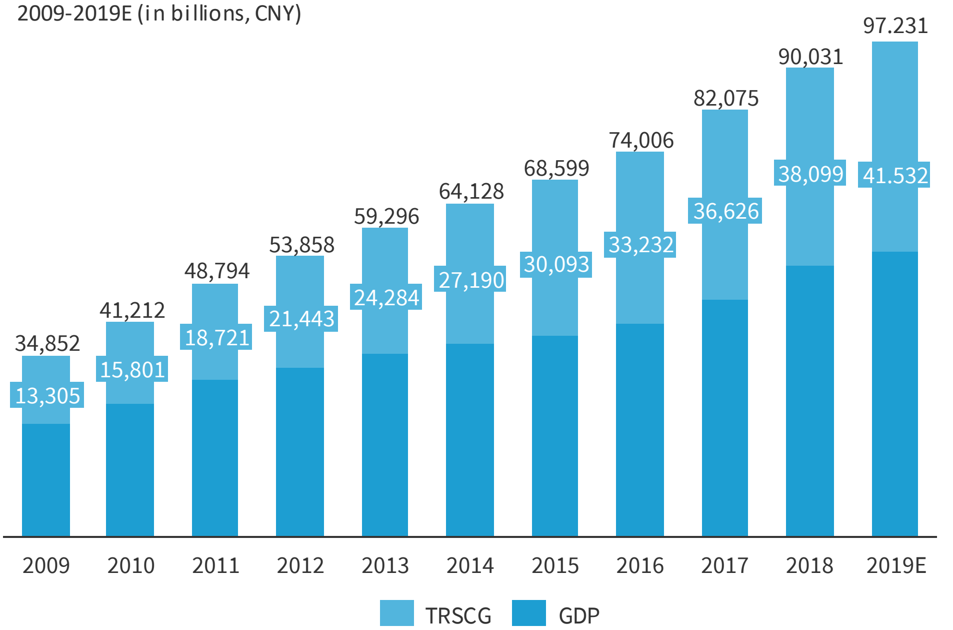
Exhibit 3: Total retail sales in China mainland (in trillions, USD)



Source: eMarketer EqualOcean.com

Even with the economic headwinds that were escalated by the trade war, **China is still expected to overtake its rival and become the world's largest retail market (see Exhibit 2) in the coming three years.** Based on a report from eMarketer, China and the US currently represent 21.1% and 21.9% share of the global retail market respectively, while China has an estimated retail sales growth rate double that of the US. [2]

Exhibit 4: Total retail sales of consumer goods and gross domestic product (GDP) in China, 2009-2019E (in billions, CNY)



Source: National Bureau of Statistics EqualOcean.com

In addition to mixed private estimates, the National Bureau of Statistics of China announced that the total retail sales of consumer goods (TRSCG, a major indicator of retail markets) reached CNY 19.5 trillion (USD 2.87 trillion) in the first half of 2019, with an increase rate of 8.4%, higher than previous projections. The TRSCG, which accounted for more than 43% of GDP in the second quarter of 2019, is the stabilizer of China’s economic growth.

Government support on domestic brand and the consumption upgrade

As China has entered a ‘new normal’ stage of economic development, overseas consumption continues to rise. According to the United Nations World Tourism Organization, Chinese outbound tourism expenditure surged from USD 13 billion in 2000 to a staggering USD 258 billion in 2017. [3] The National Bureau of Statistics also reported that, in 2018, overseas consumption represented 2.2% of China’s GDP and 5% of TRSCG.

Encouraging overseas consumption is of great benefit to promoting the balance of international trade and reducing foreign trade frictions. However, considering the current situation of China's economy, ensuring stable growth is an imminent and important task. In order to open up new spaces for drivers of development, the 13th Five-Year Plan released by Communist Party of China on March 2016 clearly points out that the government will actively work to encourage those who commonly choose to shop overseas to buy domestic products.

Policies have been made intensively since 2018 to attract overseas consumption to domestic spending. For example: cutting taxes for imported goods, raising purchasing quotas for cross-border e-commerce platforms and improving the distribution of duty-free shops across major tourist destination cities and developing international consumption centers have all played roles in the drive.

More importantly, the return of overseas consumption will push the domestic consumer market to upgrade. Increasing variety, improving quality and fostering brands are crucial for the consumer market to promote the upgrading of product supply structure, assist the rise of the domestic market and brands amid the new normal.

The Party Central Committee and the State Council have attached great importance to brand development. On May 10, 2014, President Xi proposed to "promote the transformation from Made in China to Created in China, from China Speed to China Quality, and from Chinese Product to Chinese Brand". On April 24, 2017, the State Council approved the establishment of ‘China Brand Day’ on May 10th every year.

Demographic shift

Another significant factor that affects the consumer market and brands is a slow variable – demographic shift. By applying the Leslie Model, a population forecasting model based on birth and death rate, we can deduct the demographic structure for the decade ahead. EqualOcean adopted the estimates of Zhongtai Security[4] and focused on three demographic trends that will contribute most to influencing consumption in China.

Exhibit 5: 2015 & 2050 population distribution in China (in thousands)

Source: National Bureau of Statistics EqualOcean.com

First, China will become a deep aging society in two years.

According to Zhongtai Security, when a country or region has more than 7% of the population aged 65 or over, it means entering an aging society; reaching 14% is a deep aging society; exceeding 21% is a super aging society.

China is expected to become a deep aging society by 2021 and the population will continue greying. By 2050, over one third of the population will be people over 60 years old.

Challenges coexist with opportunities. The Japanese government, a forerunner in tackling its demographic time bomb, is picking up on aging and technology changes to turn a negative into a positive and shed light on the consumption opportunities among elders.

Second, less newborns and a shrinking population

To help address the aging issue in China, the universal two-child policy was proposed in October 2015. Nonetheless, the incentives are not good enough to engineer another baby boom akin to the one that happened three decades ago. In 2018, newborns in China numbered 15.23 million[5], a drastic decrease by 2 million compared to the previous year. The birth rate of 10.94% hit a record low since 1949. Demographers estimate the number of babies born in 2019 will slump to 14 million; later the downward trend of birthrate will be sustained and the number of the newborn will fall under

Third, most skewed sex ratio generates more singles

The traditional preference for boys in China has encouraged selective abortions with the result of a serious imbalance of sex at birth. The ratio peaked in 2004 when every 100 girls were born for 121 boys. Though the imbalance declined after, the sex ratio stands over 1.1, high than the normal range from 1.02 to 1.07.

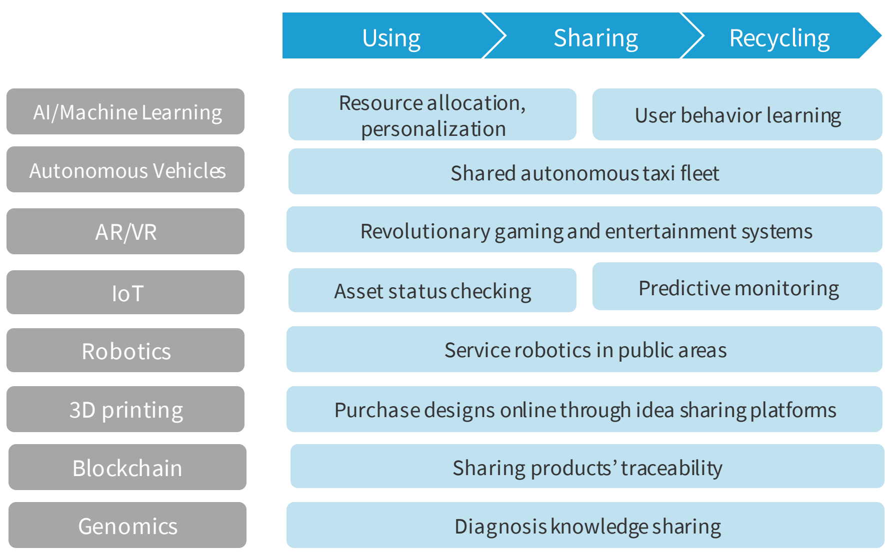
But that might not be the whole picture. Due to the one-child policy, some families who had a girl may hide her from the authorities, only to be included later when she grew older. Therefore, the skewed sex ratio caused 30 to 40 million more males than females at marriage age. With this discrepancy, plus the millennials' no-rush attitude towards marriage, the number of single people in China reached 240 million in 2018 or triple the population of the UK.

Technology innovation

The consumer market is transforming rapidly through the game-changing technologies sometimes called the 'Fourth Industrial Revolution'. According to a World Economic Forum (WEF) Report[6] on consumer markets, to successfully navigate through the changes, a premium will be placed on innovation, the willingness of organizations to disrupt themselves, a quest for active collaboration and a commitment to advance inclusive growth strategies.

The WEF report stated that China will leapfrog from being a participant to a leader in technological innovation via three factors: 1) a strong technological infrastructure; 2) a supportive policy environment and active investments in leading-edge technologies; and 3) the transition of domestic companies from 'copier' to 'innovator'. While technologies will affect the consumption value chain from production to distribution, retail and finally to consumption, we focus on the consumer end in this report. Below shows how technological applications will affect consumer behavior and needs. (It turns out that future consumers will 'want it all'.)

Exhibit 6: Disruptive technologies on consumer end



Source: World Economic Forum EqualOcean.com

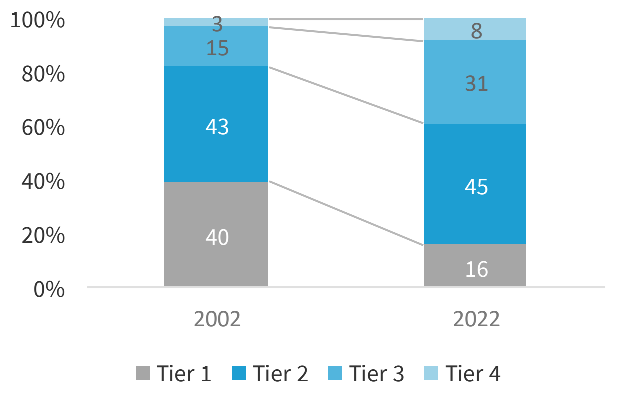
Technologies will create tremendous implications for companies by giving consumers more choices, convenience and better experiences thanks to the new models of consumption. The new technologies will create powerful ecosystems around consumer data as well as major potential issues in such areas as privacy, inclusion and sustainability.

Features of China's New Consumers

The explosive middle-class in 'new tier-one' cities

Over the past several decades, China's eye-catching development has lifted hundreds of millions of people out of poverty and resulted in a burgeoning middle class. According to the McKinsey quarterly report, 'Meet the Chinese consumer 2020', the household income of USD 16,000–USD 34,000 will become the mainstream, at a percentage of 51% in urban cities, a huge jump from only 6% in 2010. Moreover, the expansion of middle class will be stronger in smaller, inland cities than in the coastal tier-one cities, making the lower-tier cities more appealing to consumer-facing companies.[7]

Exhibit 7: Share of middle-class by type of city



Source: McKinsey & Company

EqualOcean.com

Beneath the middle-class, there are significant shifts in consumption dynamics; for instance, the once practical and frugal Chinese shoppers are willing to pay a premium for quality and brand. **The historically pragmatic purchase habits are turning to more discretionary spending**, which is estimated to reach USD 4.4 trillion by 2020.[8] Emotional benefits also became one of the key buying factors. Despite the saying of 'consumption downgrade', the reality is that an increasing percentage of Chinese middle-class buyers believe in the brand and are willing to pay for a healthier meal, sophisticated apparel and a better lifestyle.

Representative brand

PurCotton lepur BYDEEM ERDOS ROBOROCK

Singles economy

The recent data from Zhenai.com[9] unveiled that the number of single adults in China reached 240 million in 2019, accounting for 15% of the population. Among them, nearly half were between the ages of 20 and 29, with many citing that it was their personal choice to remain single. This ever-increasing group has spawned the growth of China's 'singles economy'.

According to the 'Chinese Family Development Report' released by the National Health and Family Planning Commission, families are getting smaller, with an average of 3.02 people per household in 2014. Small-sized families of one to two members have increased to count for 40% of all families, double the number of a decade ago. Moreover, data released by e-commerce giant Alibaba in 2016 shows that more than half of the country's single men and women have monthly disposable income which is twice as much as the average. Thus, the swelling singleton segment forms a consumption trend around convenience, self-entertainment, spiritual needs and self-improvement, as well as yielding opportunities for tourism, the fitness market, beauty industry, small home appliances, the pet industry and vocational education.[10]

Exhibit 8: Smaller families

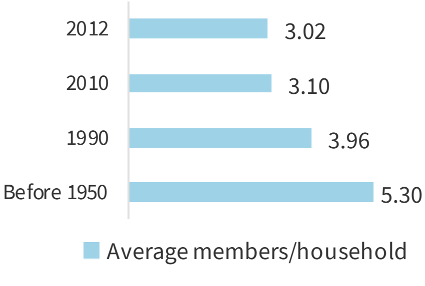
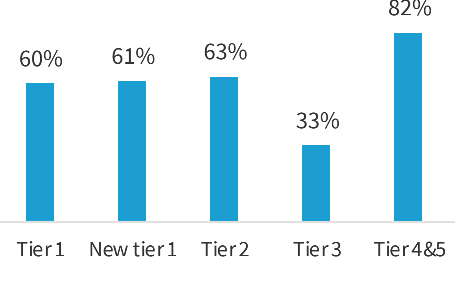


Exhibit 9: White-collars take a large share of singles population



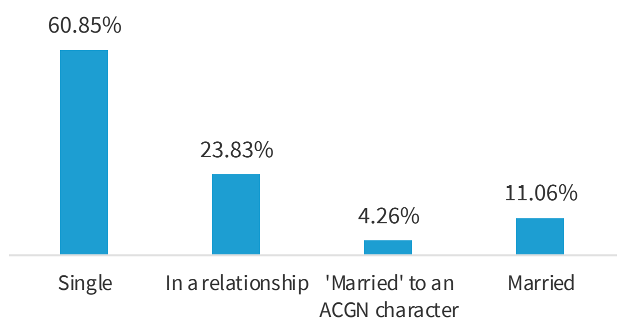
Source: China Family Development Report & Sinolink Security EqualOcean.com

Singles are more willing to pay for convenience. With over 60% of singles being white-collar workers, free spending is given in exchange for free time and space. They tend to rely more on online shopping and community-based stores, they start to receive more attentive service in restaurants with seats for singles, one-person karaoke booths and apartment designed for one.

Fast foods such as self-heating hot pot and rice, smaller red wine, mini-fridge selections and so on are getting momentum with sales at least tripling that of previous year. The sales of mini-microwaves and mini-washers surged 973% and 630% over the previous year’s performance in the Alibaba Singles Day 2018.

And of course singles sometimes feel lonely, so they turn to fluffy pets for comfort, fulfillment and again, for convenience. Moreover, video games remain one of the mainstream cultures for singles. Their social lives can be easily connected by video games and they will naturally watch more streaming that contains video game content and ACGN culture.

Exhibit 10: Marriage status of ACGN culture fans



Source: Sinolink Securities EqualOcean.com

Moreover, singles spend to please no one but themselves. They pay more attention to their beauty, inside and outside, promoting the skincare, cosmetic markets as well as tourism and vocational education. For the beauty industry the turnaround has been an invasion of male consumers, especially those who were born after the 1995s.

Representative brand

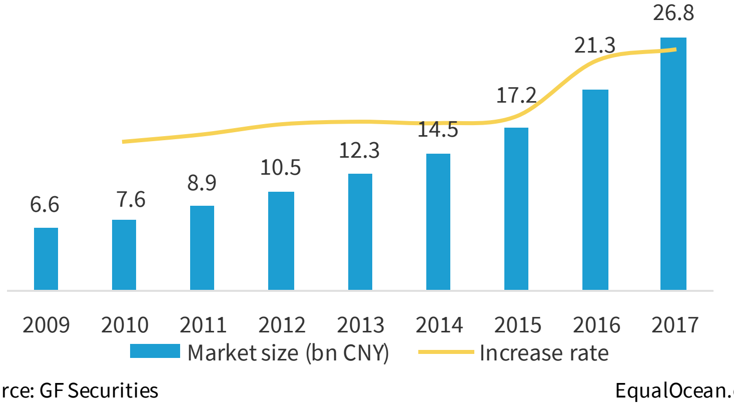
MiniJ Wanpy FacialJoy LOHO Zihaiguo

Silver Economy

China will become a deep aging society by 2021 and the population will continue greying by 2050, by which time over one third of the population will be people over 60 years old.[11] Facing these aging challenges, the 12th Five-Year Plan (2011-2015) points out that the government will actively work to establish a multilevel elderly care service system called 9073, meaning 90% of the elderly populace will receive at-home care, 7% supported by communities with supplementary care for 3% by elderly care institutions. Compared with the current situation, 96% of elders still receive at-home care and only 1% can reach community service. The lack of manpower, funding and service has posed great challenges for community-based services. Moreover, China's filial piety tradition made at-home care the major solution for looking after the elderly.

Therefore, the large number of at-home elderly people have produced and will keep on generating huge demand for domestic care products and smart devices in the coming five to ten years. Meanwhile, information and healthcare technology have become the main force of the smart care sector. Of the 53 smart care companies[1] in a list released by the Ministry of Industry and Information Technology in 2017, more than 60% are tech-driven companies associated with 5G technology, AI and IoT, helping to accelerate the application of at-home smart care.

Exhibit 11: Market size of smart care devices in China, 2009-2017



Source: GF Securities EqualOcean.com

Compared with Germany and Japan, who have 21% and 27% of their populations now over 65 years old respectively, China is better off for the moment with

[1] List of 53 smart care companies: http://www.mtmt.com.cn/news/newsDetail-19-8346.html

an 11% senior population. Nevertheless, how Japan and Germany cope with the challenges will become a reference for China as she faces demographic time bombs in the future. Below is the product list of some elderly care devices.

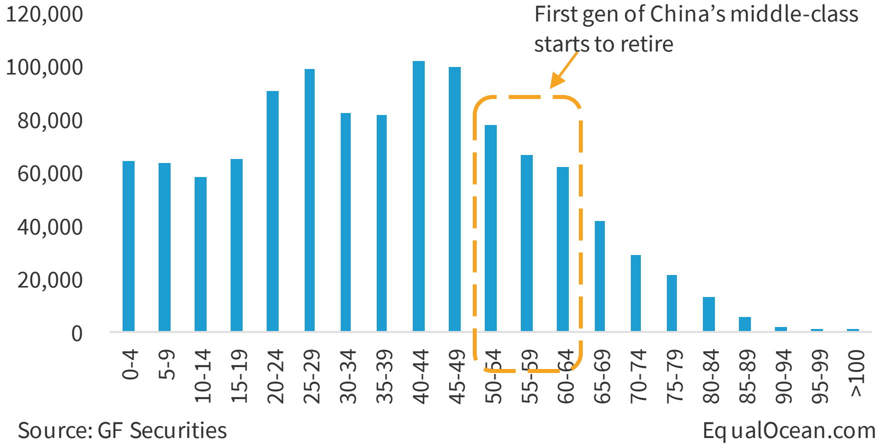
Exhibit 12: Elderly care products

Categories	Products
Household aids	Stander's Security Pole & Curve Grab Bar, Bedside Shower, Bed Pull Up.
Smart care devices	Telephony devices, Wearable Electronics, Smart Household Sensor.
Caregiver devices	Hearing-aid, Massage Chair, Oxygenerator, Smart Monitor & Alarm.
Mobility aids	Three-wheel travel scooter, Walking Aid, Wheelchair, Car Transfer Assist.

Source: Public Information EqualOcean.com

Besides elder care products, people have long overlooked the fact that seniors are essentially consumers, even some of the most promising ones. The first generation of the country's middle-class are now in their 50s and 60s; this group of over 200 million people have accumulated considerable wealth, possess consumer awareness and more importantly, identify with the power of brands, especially after China's accession to WTO in 2001. After retirement, these well-off people will be the future biggest drivers of the senior markets. They've got plenty of time to travel, also pay great attention to Yang Sheng (nourishing life) and are willing to spend money on self improvement. Thus, skincare, apparel & accessories and health products all hint great potential as well. Nonetheless, the primary brands for seniors are yet to come.

Exhibit 13: Population distribution in different age, 2015



Source: GF Securities EqualOcean.com

Generation Z in China is fueled by an increased sense of security and optimism for the future

Millennials are not off-the-table, but a new generation has arrived. Roughly born between 1995 and 2010, this group of ‘kids’ is considered to be the main consumption force of China – Generation Z.

Due to the one-child policy launched in 1980, over 378 million Gen Z consumers in China grew up as the only child and were more likely to be brought up affluently, well-educated and with generous financial support. Having grown up as the focus of the family, **they tend to have a strong desire to stand out and feel unique. They attend more to self-recognition and experience through consumption than other factors.** According to OC&C, almost a fifth of Gen Z strongly agree that they would rather spend money on experiences than products.[12] The activity is not just about consuming but to have a better understanding of themselves and express their attitude. For example, Lolita dresses and Hanfu gear (the traditional dress of China's Han people with wide sleeves, crossed collars and long robes) – are both representative of ACGN culture (an abbreviation of "Anime, Comic, Games and novel", used in some subcultures of Greater China) and have become carriers of uniqueness for Gen Z.

Exhibit 14: Increase rate for Tmall Global Double 11 participants

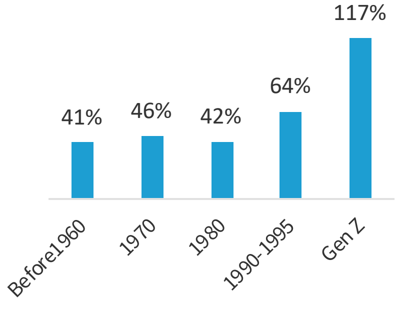
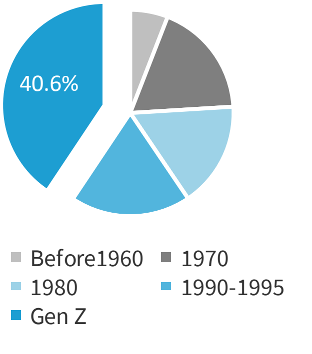


Exhibit 15: ACGN fans distribution



Source: AliResearch

EqualOcean.com

Witnessing China’s fast-growing economy and stronger impact worldwide, **they are global-minded and patriotic.** Guochao (国潮), referring to the rise of Chinese domestic brands, is largely backed by Chinese Gen Z, who are proud of Chinese culture and heritage. The top 10 search entries of Chinese elements, such as Peking Opera, Suzhou embroidery and the Imperial Palace, accumulated 12.6 billion entries on Alibaba’s e-commerce platform in 2018.

What’s more, revenues of items under the search category of National Treasure increased 560% over last year. Traditional Chinese brands such as Feiyue (飞跃, a sport shoe brand), Yongjiu (永久牌, a bicycle brand), Tong Ren Tang (同仁堂, traditional Chinese pharmaceutical company), Dabaitu (大白兔, a creamy candy brand) and so on are seeing a resurgence thanks to Gen Z’s love of retro heritage brands.

Most importantly, Gen Z are digital natives. Largely exposed to the Internet, their social networks are more easily built online by hobbies and interests. China’s Gen Z is the first Chinese generation to be born in a fully digital era. They are an extremely tech-savvy crowd, willing to share their feelings and experiences in forms of online reviews, blog posts and other means of self-expression. Compared to their Western counterparts who prefer to limit social media interaction to people they know in real life, Chinese Gen Z is more likely to make social media introductions. This suggests that information sharing extends even further beyond their immediate circles for Chinese Gen Zers, posing an immense marketing potential if leveraged appropriately.

On the other hand, **they are under the influence of friends, celebrities, bloggers, etc.** Take RED (小红书) and DU (毒App) for example, the two social-media apps that have flooded Gen Z with their user-generated content (UGC). These two platforms, which focus heavily on building trust and reliability between platforms and consumers, have attracted both domestic and global brands which are growing in a big way. International brands like Chanel, Gucci and Dior, and Chinese domestic brands such as Perfect Diary and Yuanqisenlin are beneficiaries of Gen Z’s prolific interactions on social media.

Representative brand

HEYTEA | Perfect Diary | White Rabbit | Feiyue | RELX

List of TOP 100 New Consumer Brands

Pet

GAMBOL
SINGEN
Wanpy
Fullpet
Crazydoggy
Peidi

Wine & tobacco

Jiangxiaobai
RELX
MOTI
Guxiaojiu
KAI SHAN
FLOW
LINX

Food & beverage

HEYTEA
Nayuki Tea
Saturnbird Coffee
LELECHA
Modern China Tea Shop
Yuanqisenlin
lepur
Luckin Coffee
Xibei
DONGPO RESTAURANT
Hefu Noodle
YAO NEXT
Baman
BINGZ
CLAY POT KING
Haidilao
Xijiade
Xiaoxiandun
Zihaiguo
Muwu BBQ
Fengqi Long You
BLISS CAKE
BaoShiFu
Duo Luo Xia
Xia Xiao Shi
Lurenjia
Lu Mei Institute
BESTORE
Three Squirrels
Mystic South Yunnan Ethnic Cuisine

Mother & baby

FeiHe
PurCotton
zifeel
retty feather
baby care
LEJU ROBOT
ling

Beauty

PERFECT DIARY
WIS
Florasis
HFP
Facial Joy
AFU
TIMAGE
Nattitude
Beauty Base
URTEKRAM
COCOVEL
Marie Dalgar
Scent Library
JUNPING
Manuka Bee

Apparel & accessory

LI-NING
PEACEBIRD
ANTA
ERDOS
Ubras
Yin Man
NEI WAI
URBAN REVIVO
Particle Fever
Darry Ring
Dare One
LOHO

Home appliances

Midea
BEAR
BUYDEEM
MUZEN RADIO
ROBOROCK
GIMI
SOOCAS
Deerma
JMGO
smartmi
LOOCK
DJI
MINIJ

Houseware & lifestyle

90
NetEase Yeation
BEAST
ONEZONE
MINISO
NŎME
ZAOZUO
BABO
YANG ZI
JORDAN&JUDY

Selecting criteria

The TOP 100 new consumer brands are selected according to three basic criteria:

1. Recently founded: this report selects China's new consumer brands established after 2013 as the standard of ‘new’. The list also includes 15 brands that were established before 2013 because they have major financing events or have strategy adjustment in recent years, and nine post-IPO brands that can represent China.

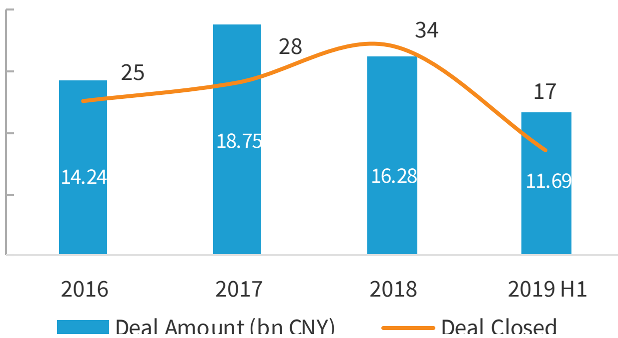
2. Capital recognition: since obtaining capital favor is an important step for a company to scale up and a criterion for determining the capital capabilities of these new consumer entrepreneurs, investors' recognition functions as an endorsement for their potential. The funding stage of most brands progress from Angel round to Series C. Those with no capital support have either refused to accept investment due to their outstanding operation performances or are still at an early stage.

3. Direct-to-consumer brands: the list focuses on high-value consumer brands that may emerge in China's major segments of consumer goods in the next few years. The list excludes e-commerce platform brands that function as online retail distributing channels such as Taobao (a Chinese version Amazon) or JD.com.

Pet industry sees transition in younger, richer and better-educated consumers

According to Frost & Sullivan, China presents a significant opportunity for pet industry. It posted a CNY 172 billion (USD 25 billion) market volume in 2018, tripled the number in 2013 and is expected to jump to CNY 472 billion (USD 69 billion) by 2023 with a CAGR of over 20%.

Exhibit 16: VC deals in pet industry in China

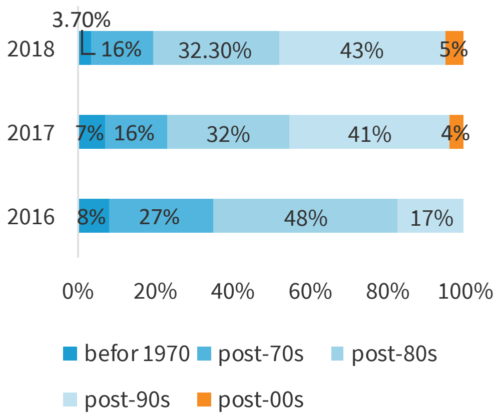


Source: IT Juzi EqualOcean.com

The pet industry can be further divided into pet staple food, treat, nutrition, necessities, beauty care and healthcare services. Pet food and necessities accounted for over 80% of pet care market share in China. In first half of 2019, seven out of 17 primary market investments deals were in pet food and necessities.

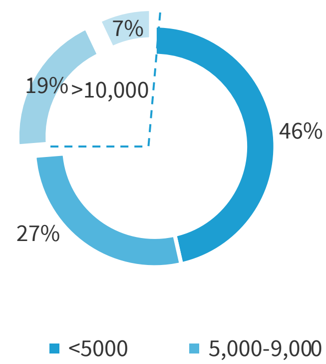
People keep pets for comfort and fulfillment. Based on research from Essence Securities, **pet owners are younger, richer and better-educated.** The post-80s and post-90s account for 35% and 48% of pet owners, more than one fourth of pet owners, earn over CNY 10,000 (USD 1470) per month; people with undergraduate and graduate education background represent over 70% of the pet-owning population; all the above-mentioned facts add vitality to the pet market. Families who raise pets amounted to 99.8 million with a five-year CAGR of 43.9%. The pet-raising penetration rate for every 10,000 families increased from 16% in 2013 to 22% last year.

Exhibit 17: Age distribution of pet owners, 2016-2018



Source: Guoyuan Securities EqualOcean.com

Exhibit 18: Monthly salary distribution of pet owners (in CNY)



Source: Frost & Sullivan EqualOcean.com

Furthermore, **China's 'cat economy' is set to drive a pet spending surge**. In 2018, the dog population in China reached 509 million, with an increase rate of 1.9% while the cat number amounted to 406 million, with a steep growth rate of 8.2% year-on-year.

Based on 2019's 618 shopping festival (first initiated by JD.com, a twin of China's Singles Day shopping festival) data – released by boqii.com (波奇网), China's largest pet e-commerce platform – cat product orders surpassed dog product orders in both amount and GMV increase rate in 2019. The explanation the cats' popularity is quite simple: cats are more independent and require less time to take care of. This trait suits young people's living and working situations and has led the most populous country to

Even though pet staple food represents a high market share in China, staple food brands are facing fierce competition from foreign brands such as Mars and Nestlé. The raw materials for producing pet staple food are heavily rely on the byproducts of chicken and other animals that many foreign people won't eat, therefore the cost of raw material is much lower than that in China, where people love chicken feet and animal innards. The advantage of ingredient cost in oversea markets would pose great challenges for domestic pet staple food manufacturers. However, the more segmented needs from the younger generation would hint at opportunities in the pet treat and necessities category.

The star product of pet treat made by Myfoodie under Gamble and the dog chews manufacturer Peidi have been showing increasing growth potential and a capacity to differentiate themselves from the staple food players. Currently, there are not many pet necessities brands standing out that represent China's pet owners' consumption upgrading – but we've seen some good trials in this field, such as Furrytail and Vetreska, so it seems worth the wait.

GAMBOL®
乖宝宠物食品集团 Gambol Pet Group

Headquarters: Shandong, China
Employees: ~2000
Founder: Qin Hua

Business overview

- Founded in 2006, Gambol is one of the largest pet food manufacturers in Asia with six facilities in China and one facility in Thailand. Gambol provides a wide range of pet food products including dry food, wet food, real meat jerky treats, rawhide chew, dental bone, etc.
- The product family includes three brands: Myfoodie, Wetnose and Gambol. The brand 'Myfoodie' holds the NO.1 ranking in China's pet treat category and is a leader in the dry food category.
- Gambol and KKR have partnered to expand the company's production capacity in key markets including China, Thailand, countries in Europe, and the US, where it is currently the largest private-label provider of pet treats to Walmart.

Updates

- Aims at younger, experimental, customized and branded products.
- The Thailand facility plans to strengthen the product line in cat food.

Major Investors

LEGEND CAPITAL 君联资本

KKR

EqualOcean

Source: Company websites, IT Juzi, Businesswire

E-cigarette market is well-equipped in supply chain but needs integration and branding

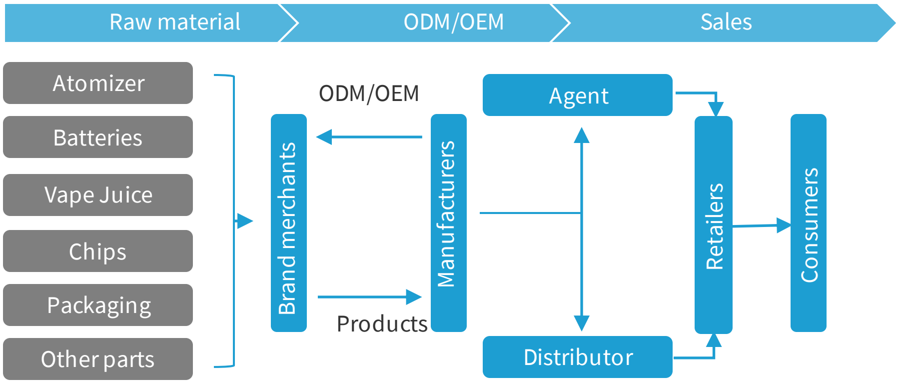
E-cigarette and Heat-not-Burn (HnB) are considered as the major two representatives of new tobacco, with dissovables and other non-burning products such as the nicotine patch and snus completing the whole category. Currently, HnB sales and imports were banned in China due to the concern of harming the traditional tobacco industry. For e-cigarettes, the regulation is yet to be released, but should arrive later in 2019.

The penetration rates of e-cigarettes (e-cigarettes sales against retail sales of tobacco) in the US and UK are 5.48% and 9.50% respectively, while that of China is 0.32%, implying a blossoming vaping market in China, with the world's largest number of smokers. Compared with four investment deals in 2018, Chinese e-cigarette startups raised large sums of venture capital in 2019 with more than 25 investment deals closed so far. Despite public concerns and unclear regulation, this is a market that cannot be ignored.

In the 2019 JD 618 shopping festival market review, the turnover of e-cigarettes on JD.com increased 5.6 times over the previous year and 2.1 times over Singles' Day performance six months prior. RELX, FLOW, and MOTI ranked at the top three in sales respectively. **Vape juice quality, flavor diversity and marketing are considered the top three competencies for players in the market. Nevertheless, the current nascent supply chains status will pose more challenges to the over 1,000 e-cigarette brands in the next three years.**

China is the largest e-cigarette manufacturer in the world, undertaking over 90% of the global production. The well-equipped upstream industry is made up of raw material and parts manufacturers (mostly in Shenzhen), including chip design and manufacturing, vape juice/smoke pod making, batteries, plastic hardware and atomizers. The midstream players are brand merchants and manufacturers operating on the ODM/OEM mode. Finally, downstream are sales of e-cigarettes.

Exhibit 19: Industrial chain of e-cigarette market



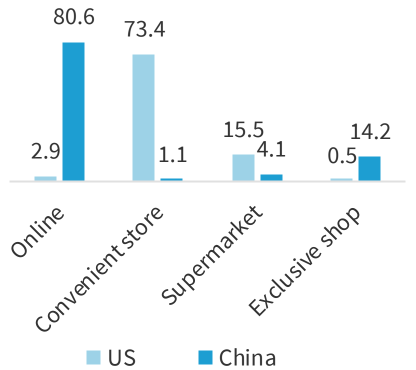
Source: Great Wall Securities EqualOcean.com

From a global perspective, the e-cigarette industry chain presents the pattern of having a manufacturing center in China, while demand is in overseas countries like the US and Europe.

In China's e-cigarette market, there are major two kinds of brand merchants: one is the ODM/OEM manufacturers who specialize in good design and production capabilities, but are weak in sales and marketing. Therefore, their products are mainly exported overseas rather than sold internally. The other kind that favored by venture capitalists is the Internet veterans who are strong in branding, however, their inferior product ability can cause an increasing customer churn rate.

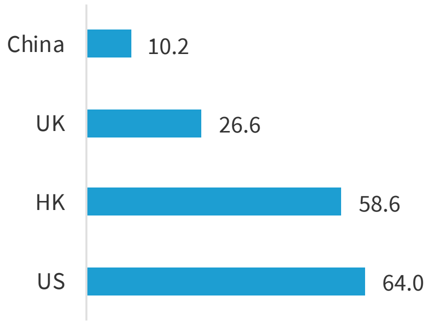
For foreign approaches, tobacco giants tend to expand their product and brand matrix through self-built factories and mergers & acquisitions (M&As). IQOS and JUUL are two biggest brands in HNB and e-cigarette markets under Philip Morris and Altria respectively. Recently, these two giants in the global tobacco market have been in talks to merge in a deal that would combine the most popular brands of both traditional and electronic cigarettes, making the industry more concentrated. **Therefore, China's e-cigarette market is still at an early stage and looks for M&As to integrate the whole supply chain.**

Exhibit 20: E-cigarette sales channels of the US and China (in %)



Source: Great Wall Securities

Exhibit 21: CR4 of e-cig sales in different markets (in %)



EqualOcean.com

Headquarters: Shandong, China
Employees: ~50
CEO: Wang Ying

Business overview

- Founded in 2018, the e-cigarette brand is funded by a group of veterans in the business including members from Huawei, O'real, P&G and Uber. The company focuses on the R&D, design, and sales of RELX e-cigarette.
- All e-liquid formulations are developed by a team of senior chemists and flavor scientists to provide users e-cigarettes with abundant flavored experience.
- The RELX New e-cigarette will have online records on the RELX App. It can track user data, including the smoking times, flavor, smoking reduction and others. The RELX New will also initiate a vibration reminder when one consumes the equivalent amount of nicotine in a traditional cigarette.

Updates

- Launched three new products, the RELX ME App, the new intelligent e-cigarette and face-recognition vending machine.
- Announced 44% of e-cigarette market share in China in 2019.

Major Investors

Source: Company websites, IT Juzi

New style tea drink industry expects super brands in exporting China's updated tea culture

Chinese people have enjoyed tea for millennia. In 2018, China remained the largest country for tea production and consumption. However, the share of traditional tea industry in China's beverage market is declining, away from its former glory. The new style of tea drink, represented by HeyTea, Nayuki Tea and LELECHA, has made a beautiful turnaround from traditional Chinese tea to become the eastern world's answer to Starbucks. Since there are already mixed reports on this sector, we will keep it short – it's a certain event for the Chinese new style tea drink to become world famous brand, all we need to do is to wait and see.

HEYTEA®

Headquarters: Guangdong, China
Employees: ~12,000
CEO: Neo

Business overview

- Founded in 2012, HEYTEA originated in a small town in Guangdong. The key products of the new style of tea drink brand include cheese-topped tea and fruit tea. It also started selling snacks and Hong Kong style coffee in early March 2019.
- The company has four types of stores: HEYTEA Lab, serving as flagship store, HEYTEA Space, providing freshly pour-over tea, standard shops and HEYTEA Go, mainly for to-go tea drinks.
- The company sets its strategic goal as becoming the world's leading tea drink brand. Since the second half of 2018, it has frequently released sideline products to strengthen its brand image. The co-branded merchants include L'OREAL, Pechoin, British Museum, etc.

Updates

- An average of 1500 cups are sold per store and the highest single store revenue can reach up to CNY 170,000 per day in 2019.

Major Investors

IDG Communications, S.A.
龙珠资本 DragonBall Capital
今日投资 INVESTODAY

EqualOcean

Source: Company websites, IT Juzi

Color cosmetics saw the most growth, leapfrogged by taking advantages of streaming and UGC marketing

The recent two decades have seen three stages in China's beauty industry. At the third development stage where we stand, multinational players still take the dominant position with over 70% of revenue while the rise of domestic brands also speed the engine up.

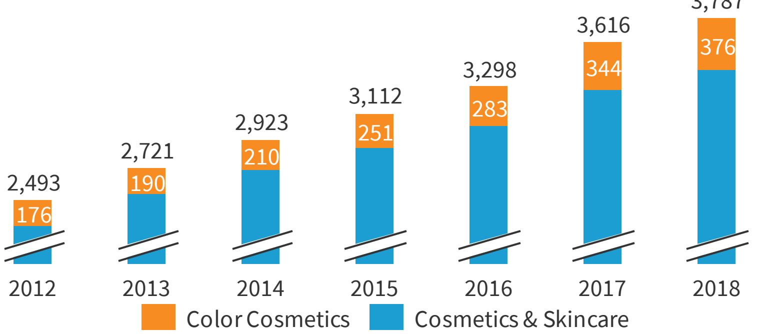
Exhibit 22: Three stages of China's beauty industry

Time	Major Consumers	Trends
1996-2000	Post 60s,70s	Domestic skincare products dominated the market, while some foreign-owned enterprises and joint ventures entered the nascent market for the first time.
2000-2015	Post 80s, Millennials	Consumer awareness awakened through exposure to TV ads and commercial sponsorship. High-end brands have appeared in tier-one and tier-two cities' department stores. Mass-market brands were seen in low-tier cities' CS stores. After 2008, e-commerce took over the offline store as the most thriving channel.
2015-now	Gen Z	Wearing makeup seems to be a daily routine. The revolutionized way of marketing and branding accelerates the duration needed to become a famous brand.

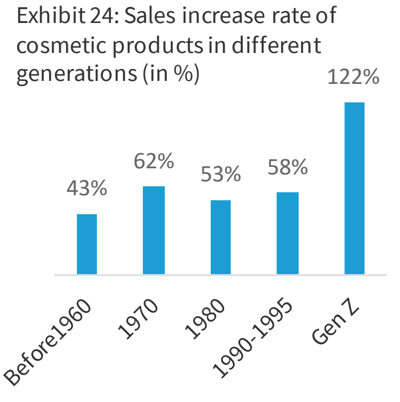
Source: TF Securities EqualOcean.com

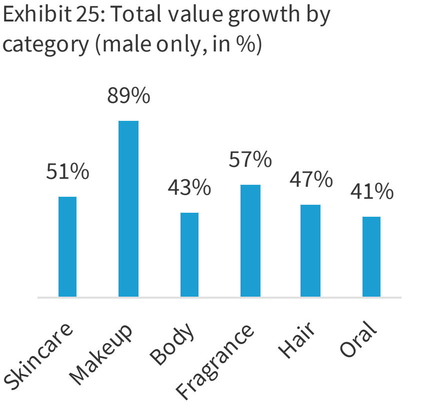
Though beauty and personal care have maintained a strong performance, the domestic color cosmetics have been seeing the most dynamic value growth. The beauty industry market size reached almost CNY 40 million (USD 5.7 million) in 2018 with a CAGR of around 9%. Color cosmetics, to be specific, nailed a CAGR of over 22%, running faster ahead of their global peers. Lipsticks and eyeshadow palettes are among the best sellers that have made consumers rave.

Exhibit 23: Three stages of China's beauty industry



Source: Euromonitor EqualOcean.com





Source: AliResearch EqualOcean.com

This strong uptrend in color makeup is supported not only by an upturn in living standards spurred by the ongoing consumption upgrade and the rising awareness of personal grooming amongst Chinese consumers, but also the expanding user base among millennials and Gen Z.

Moreover, **men in China are more confident and willing to purchase and use beauty products, including both skincare and cosmetic**. The main consumer force of the men's beauty market is the younger generation, who are more open; traditional opinion is being updated and some traditional consumption boundaries are gradually disappearing. The sales of men's skincare products surged 82% above the previous year. Color cosmetics for men posted a 122% high in increase amounts. We should no longer deem beauty an exclusively female domain.

Another indispensable factor in boosting color cosmetics is the application of live broadcasting and social media. Internet celebrities and influencers on social network platforms RED, Douyin (Chinese Tik-Tok) and the likes livestream reviews of countless cosmetic products and give purchasing advice to the audience. Chinese male beauty blogger Li Jiaqi, who can livestream test as many as 380 lipsticks a day, is also a strong promoter of Perfect Diary. He has earned more than CNY 10 million (USD 1.53 million) over the past year – a successful case of leveraging new media channels and the trend for color cosmetics.

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PERFECT DIARY BEAUTY

Headquarters: Guangdong, China
Employees: Undisclosed
CEO: Huang Jinfeng

Business overview

- Founded in 2017, Perfect Diary is an e-commerce-based cosmetic brand. The company is committed to exploring the trends in international cosmetics and the frontiers of fashion to provide easy-to-use cosmetics products for young Asian women.
- The founding members are all post-80s and post-90s with an international background and global mindset. Being confident about China's beauty industry, Perfect Diary aims to create an iconic sense of 'Chinese Beauty' with international influences.
- In order to achieve the same quality as international brands, it chooses the best makeup OEMs in the world, which also cooperate with Dior, YSL, etc. Having a full product category, its strategy is to launch one or two phenomenal products at a time to build brand awareness among consumers.
- Perfect Diary is professional in branding and online traffic management. By launching co-branded cosmetic products with KOLs, idols and even some famous organizations like the British Museum, the brand rapidly bulked up in brand awareness and sales, expecting to surpass CNY 3 billion (USD 429 million) in revenue on Alibaba's e-commerce platform in 2019.

Updates

- Rumored to close a new round of funding, valuation would reach USD 1 billion.

Mojor Investors

ZhenFund 真格基金

EqualOcean

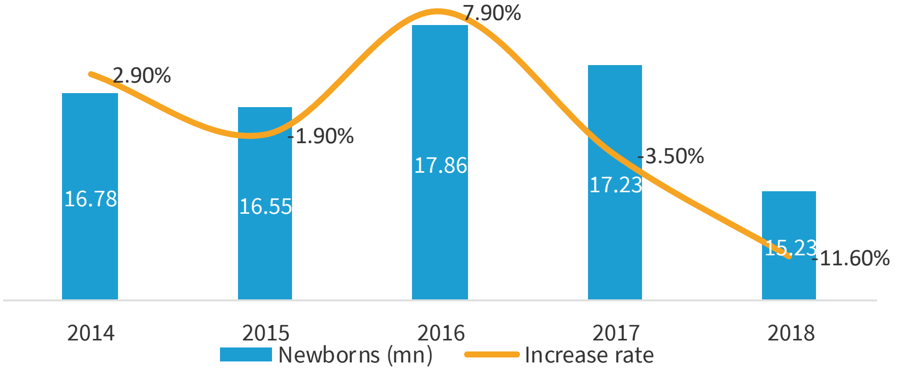
Source: Company websites, CB Insights, Pitchbook

Mother & baby industry poses opportunity in children's wear, shoes and toys

According to National Bureau of Statistics of China, the total number of newborns in 2018 decreased to 15.23 million; two million less babies were born compared with 2017. The effect of the two-child policy has been sluggish due to the unwillingness of millennials to enter early marriages and undertake early childbearing.

However, the mother & baby market is not cooled down with newborns. The market size climbed from CNY 1 trillion in 2010 to CNY 3.2 trillion in 2018 with a CAGR of 16.3%. Families with second child are considered as a strong driver of the industry.

Exhibit 26: Mother & baby products CR5 and gross margin

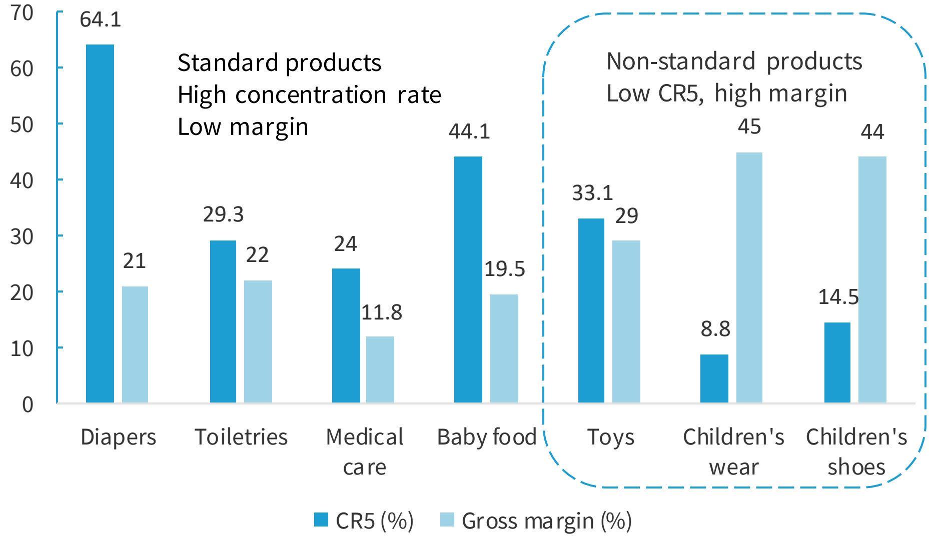


Source: National Bureau of Statistics EqualOcean.com

In addition to the incentives of the two-child policy, the emergence of wealthier millennial parents is also driving demand in this booming market. **With most new parents being post-80s and post-90s, they are willing to pay more for better quality and for product authenticity.** According to Frost & Sullivan, the mother is the primary decision maker in 82.3% of Chinese households. When asked for the most important factor when shopping online, 92.4% of consumers answered product authenticity. Moreover, **they are scientifically-minded in choosing baby products and open-minded when it comes to paying for smart products when nursing a baby.**

The mother & baby market can be divided into products and services in general. The changing concept of parents would lead to more spending on services such as early education, infant swimming and other stimulating programs. As for products, parents still prefer imported trustworthy goods. The e-commerce giants, including Alibaba, JD.com and NetEase Kaola, enable consumers to purchase foreign brands through cross-border platforms easily. However, opportunities for domestic brands are still plenty. Feihe Dairy (飞鹤奶粉), a domestic leader in infant and toddler milk powder production, has made strong growth in recent years. With the commitment of quality and reform in China’s dairy industry, Feihe reached CNY 11.5 billion in revenue last year and is the top milk formula brand in China and is also gaining on foreign brands.

Exhibit 27: Mother & baby products, CR5 and gross margin



Source: Zhaoshang Securities, Analysys EqualOcean.com

Moreover, as we find the diapers, baby food and toiletries are still a multinational playground, non-standard products with a low concentration rate and a relatively high margin – such as kids’ toys, children’s wear and shoes – hint at opportunities for domestic brands.

PurCotton
全棉时代

Headquarters: Shenzhen, China
Employees: ~300
CEO: Li Jianquan

Business overview

- Founded in 2009, PurCotton provides healthier, environmentally friendlier cotton to serve as daily goods.
- The products include four categories: baby, woman, man and houseware. Its products fill in the blank of cotton material in daily necessities: soft towels, sanitary napkin and baby cotton diapers. PurCotton's method has been patented in China, the US, EU, Japan, Brazil, India and 30 plus other countries. PurCotton is the subsidiary of Winner Medical Group, which has been engaged in import and export trades in medical textiles. With 20 years of R&D, innovation and management capability, Winner has become a renowned international medical brand.

Updates

- On 2018 Singles' Day shopping festival, the online and offline sales exceeded CNY 513 million, ranking first in Tmall's mother & baby sector for five consecutive years.

Major Investors

SEQUOIA

EqualOcean

Source: Company websites, CB Insights, Pitchbook

Small home appliances in kitchens become popular

Consumption upgrading underpins the rapid increase of small home appliances in China, with over CNY 300-billion in market scale. In contrast with the downturn of big household appliances, people have a renewed demand for existing small home appliances at home, and the purchase trends gradually inclined to high price and high quality. Small home appliances have three major subcategories: kitchen, household and personal care.

Exhibit 28: Three subcategories of small home appliances

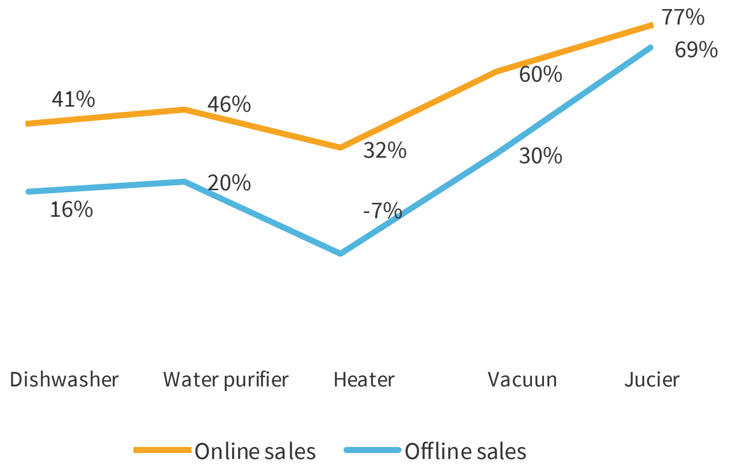
Subcategory	Products
Kitchen	Electric kettle, dishwasher, coffee machine, juicer, yogurt maker, microwave, toaster;
Household	Air purifier, small washing machine, small refrigerator, projection tv, vacuum cleaner, fan, audio;
Personal Care	Hair dryer, electric shaver, curling iron, electric toothbrush, electric face cleanser brush.

Source: Public information EqualOcean.com

Of the three subcategories, the kitchen sector dominates the market with over 76% of market share, followed by household and personal care with 13.1% and 10.7% respectively, showing a lifestyle trend to cook more, eat healthy and less couch-potato time, a transfer from the living room to the kitchen in China.

Small home appliances naturally have online sales advantages. By 2017, the online penetration of some categories exceeded 50%. Compared with large machines, small home appliances have the advantages of easy transportation and convenient installation, plus the shopping experience is much better than choosing large appliances via the Internet.

Exhibit 29: Small home appliances sales growth rate online & offline (1/2018-9/2018)



Source: Public Information EqualOcean.com

Besides, with the emergence of new technologies, new processes and new materials, consumers are constantly pursuing higher standards of design, appearance, functionality and environmental protection of small household appliances. However, the issues of high defect rate, fast renewal and price wars have arose during the market upgrading process, posing companies with the challenge of being more dedicated to R&D and operation management.

Headquarters: Ningbo, China
Employees: ~150
CEO: Li Hui

Business overview

- Founded in 2015, MiniJ is a Xiaomi ecosystem company that aims to provide innovative home appliances to the new middle class in China. Its products include refrigerators, wall-mounted washing machines and normal washing machines.
- MiniJ has been creative in product technology, exterior design, branding concepts and so on. It redefined the household by creating new consumption scenarios. Its refrigerator, for example, positioned itself as the second fridge of each house. It is designed to store drinks, and women's face masks, to be reached more conveniently outside the kitchen.

Updates

- MiniJ launched a special fridge for skincare and cosmetics, targeting women who pay great attention on the cosmetics' functionality.

Major Investors

Source: Company websites, CB Insights, Pitchbook

Self-heating instant box as one of the answers to standardized Chinese food

Chinese food has no fixed standards or formulas, depending heavily on the chef‘s technical experience on everything from fire temperature to seasoning. Therefore, the difficulty in standardizing Chinese food has become the biggest pain point restricting its expansion.

Hot pot, however, is an exception. Though quite counting on the chef’s technique in chafing the seasoning, there is no significant difference among the dishes in various hot pot restaurants. Materials can be produced, distributed and standardized relatively easily. In addition, the heavy oil and spicy taste of the mixture in the chafing dish is addictive, which tends to bring more returnees and sustainable income – another natural advantage helping its expansion.

Headquarters: Chongqing, China
Employees: ~50
CEO: Cai Hongliang

Business overview

- Founded in 2017, Zihaiguo launched its self-heating instant box on January 2018. Targeting online natives, the company aims to create a delicate, qualitative, delicious and interesting image for its brand.
- The products include a self-heating hot pot with a spicy flavor, self-heating soup, self-heating rice and so on.
- The founder of Zihaiguo, Cai Hongliang, is a self-taught entrepreneur the Internet and retail business. He’s the former founder of Be & Cherry, a famous snack company that later sold to a listed company for CNY 960 million.
- Proficient in online marketing, Zihaiguo unveiled its “build the brand” strategy, underpin rapid growth and topped in both Tmall and JD in sales of the self-heating food category.

Updates

- Zihaiguo invested CNY 300 million in sales and marketing, not only inviting celebrities to back the brand, but also promoting on hot online social platforms such as Weibo, Douyin, etc. They sponsored variety shows and TV series, and performed streaming shows to market their products.

Source: Company websites, CB Insights, Pitchbook

Implications for China's New Consumer Brands

Brand positioning

China is big enough to have diverse consumption needs. Many traditional companies and consumers have a growing brand awareness. The new middle class and seniors are more willing to pay premium for better quality and taste, while millennials and Generation Z are following aspirational brand trend to show their attitude and uniqueness. However, this is never an easy trade. Before mass production of goods or avalanche marketing, a company needs to undergo a serious assessment of its brand image.

The most important need is to have 100% clarity about what their brand stands for, both rationally and emotionally. Brands need to first understand how they want to inspire consumers; then all the following measures and actions must follow those definitions. And then, brand power can be taken as the core index to measure company performance and find out the driving key factors. At the same time, these key factors are tracked and monitored accurately and continuously. In addition, companies should also explore the intrinsic relationship between each factor and key indicators such as consumer participation, brand preference and sales performance. Good brand merchants usually reach out to consumers better than other players in the same product category. With highly differentiated and irreplaceable brand and product, they are able to establish a functional and emotional connection with consumers based on exceptional products and services.

Moreover, to become a global brand, it is crucial to abide by global standards. From this standpoint, decisions and strategies need be made in favor of globalization. To choose brand over product, and to have social responsibility over one's brand will be part of a company's development. Entrepreneurs and CEOs will spend more time thinking: Does one brand bring a difference to everyday life? How can a brand help with people's well-being through consumption?

Personalization, customization and experience-driven

Brands are under constant pressure to capture new customers and retain existing ones. As Internet penetration goes further to reach not only the tech-savvy new generations but also seniors and people from far-flung regions, **personalization will not be an option for businesses, but a requirement**. Furthermore, as future consumers grow more open to new things and choose to express their different perspectives and share their experiences openly, the preference for customization and experience-driven brands among consumers will be more likely to go viral.

Personalization takes two main versions – **professional rule based** and **machine learning**. Rule-based personalization relies on the segmentation model, whereby the consumers are broken down in to both broad and granular segments. Machine-learning personalization, on the other hand, uses algorithms.

The traditional segmentation axes -- often along lines of geography, age, purchase behaviors and affluence – are increasingly less relevant for the coming generation. New axes, fueled by the Internet and social media, as well as value sets, influence groups or even celebrity fandom can open a new world for brand merchants to reveal consumer groups with distinctive purchasing habits and brand preferences.

If brand merchants want to reach to their consumers aside from manual creation and manipulation of business rules, that's when the highly sophisticated algorithms come in. Recommendation engines are the mostly applied areas to reduce irrelevant ads bombarding consumers and may lower the risk of negative effect on brand reputation.

At the end of the day, the key to personalization is data, which will be further discussed in the next part.

All things digital

A wide mix of digital technologies has now become integral to most business functions, altering today's game entirely by the influx of digitalized processes and systems for brands to grow effectively. "Brands need to track every single interaction they have with a customer from every single touch point, across all your inbound, outbound, digital, offline, and real-time channels," said Daniel Newman, a Forbes opinion contributor. Large companies and CEOs of all brands should bear the following points in mind to nail success in the new age.

Embrace mobile: In China, the smart phone connections surpassed 1 billion with a growth rate of 58% at the end of 2018. Brands should always put mobile first to communicate with not only customers but also staff in their organizations. Having relevant and easy-to-access information on mobile, consumers will receive the most updated product notices as well as tongue-in-cheek ads. When consumers agree with a brand's attitude and values, the purchasing behavior will happen both online and offline. Mobile devices at this point will assist in shopping recommendations, products customizations, fast check-out services and after-sale tracking. **Effective use of data:** There is a big difference between owning data and making good use of data. Today, terabytes of data are captured, but analytical capabilities and insights are still lagging. New technologies such as machine learning will solve this challenges. Whether to invest more in R&D or outsource in data analysis, brands should equip themselves with digital strategies for major factors along the value chain. What's more, based on a prediction from WEF, "only a handful of companies in China may control most consumer data and decide how to make it available to others." Smaller companies should wisely extract, process and refine data from the digital ecosystem in the future, to balance the analytical needs and brands' reputations. **Agility for new transformations:** quickly evolving consumer behavior and technologies encourage flexibility in internal organizational structure of companies. The digitalization will play a crucial role in developing agile ways for brands to expand and for companies to establish fast decision-making models related with processes, marketing and consumers.

Endnote

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EqualOcean is a leading industrial tech media and investment research company that focuses on technological and industrial innovation in China. Founded in February 2014, our headquarters are in Beijing and we have branches in Shanghai and Shenzhen. We aim to assist Chinese entrepreneurial enterprises to break into the global market and provide overseas investors, VCs and enterprises with a deeper understanding of China's business environment to support their seizing opportunities in China. Ultimately, we seek to help China's leading startups from varied industries to grasp the concept of a global market and accelerate the globalization process in order to discover potential development opportunities outside of China.

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