Deloitte. 德勤

# Deloitte China Consumer Products & Retail Industry Overview

**Deloitte China**

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# Contents

# Research scope

**Deloitte researched the performance of nearly 500 listed consumer products & retail companies. By comparing the performance of leading companies in each segment, this study presents insights into industry trends and identifies the drivers of industry performance.**

## Companies overview

After removing duplications and excluding companies that did not disclose their financial results for the relevant period, this research covers 492 companies with combined revenue of RMB5.71 trillion in 2020. In particular, there were:

- 329 A-share companies with combined revenue of RMB2.6 trillion in 2020
- 146 H-share companies with combined revenue of RMB2.91 trillion in 2020
- 17 China Concepts Stocks with combined revenue of RMB0.2 trillion in 2020

▲ The data in this study is from the latest annual reports of the 492 listed companies for fiscal years ending between the start of June 2020 and 31 March 2021.

# Main findings

## General conclusions

- The post-COVID recovery is accelerating in the consumer products & retail industry
- The structure of consumption has changed, with consumption upgrading trend more prominent for all consumer products
- With consumption upgrading and China's supply chain advantages, new brands are developing rapidly and the number of newly listed consumer products companies is surging
- Most of the new listed retail companies are internet platform retailers, indicating this new digital retail format has been gaining market recognition

## General trends in different segments

- With rapidly rising demand for green, high-end, and quality products and changes in consumers’ shopping preferences, frequency, and scenarios amid the pandemic, segmentation in the consumer products industry is accelerating
- The food, cosmetics, agricultural products, and household cleaning product segments performed well during the pandemic; the sports and outdoor apparel and beverage segments segmented further
- The revenue of offline segments including specialty stores and department stores continued to decline, with supermarkets the only non e-commerce segment to grow revenue and profit

# Overall analysis of consumer products & retail industry

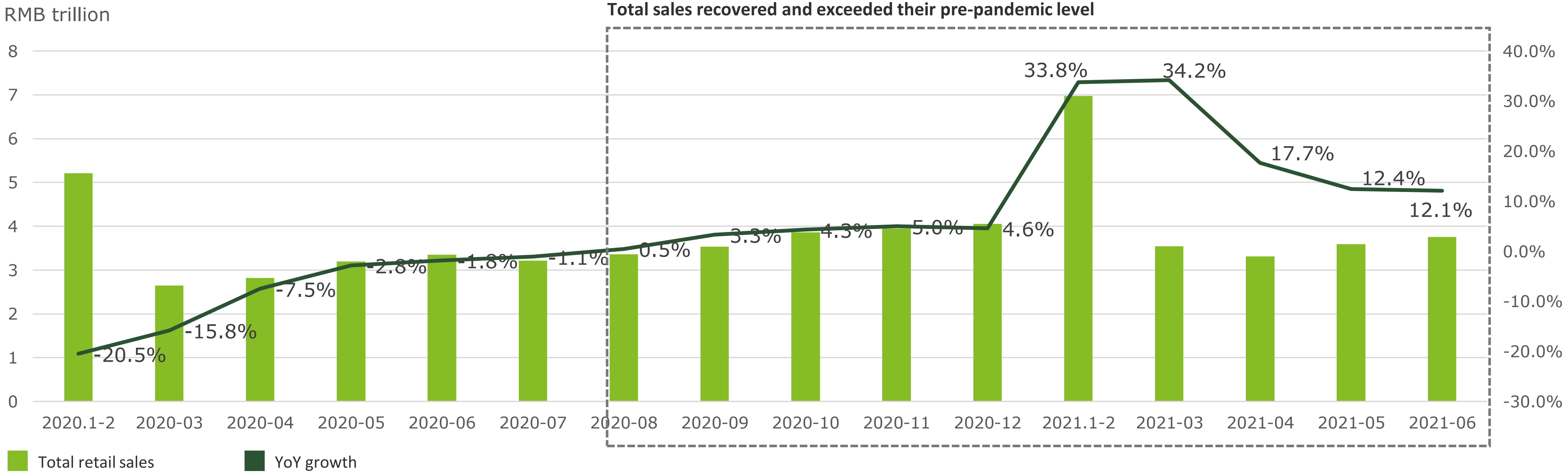
# An accelerating post-COVID recovery in the consumer products & retail industry

## Total retail sales of consumer products in China have grown YoY growth since August 2020, with sales picking up and exceeding pre-pandemic levels

**Figure: YoY growth in retail sales of consumer products**

| | YoY growth in 2021 vs. 2019 |
|---|---|
| 2021.1-2 | 5.6% |
| 2021.3 | 11.8% |
| 2021.4 | 8.4% |
| 2021.5 | 9.1% |
| 2021.6 | 10.9% |

**>8.0% (average growth in 2019)**

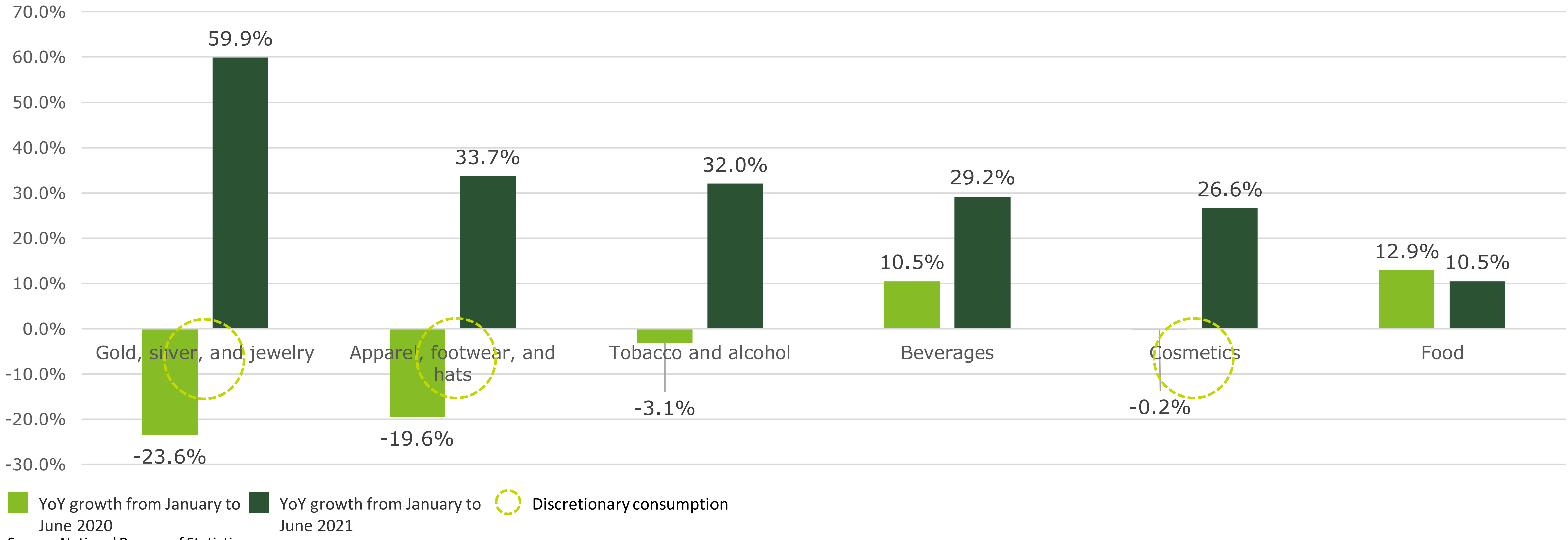



Source: National Bureau of Statistics

# Post-COVID changes in consumption structure

## Consumption upgrading remains the main trend in the consumer market, with discretionary consumption picking up at an accelerated pace

Figure: YoY growth in January to June 2020 vs. 2021

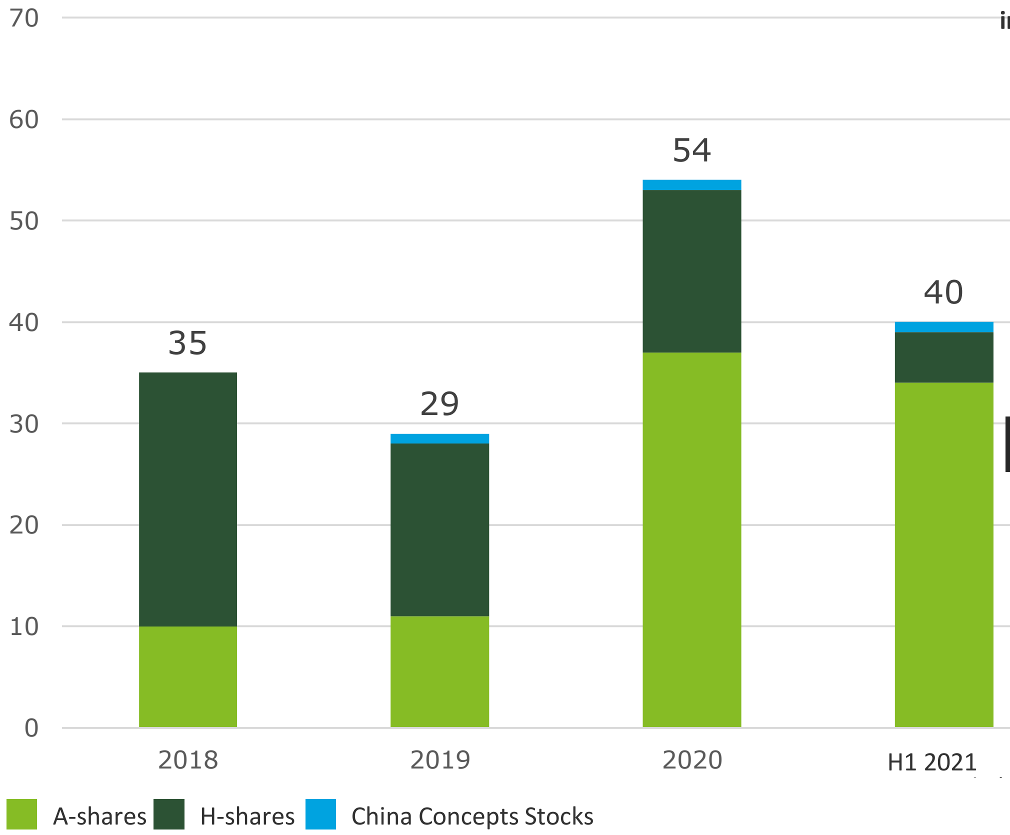



Source: National Bureau of Statistics

Note: Ranked by growth from January to April 2021 vs. 2019

# With consumption upgrading and China's supply chain advantages, new consumer brands are developing rapidly and the number of newly listed consumer products companies is surging

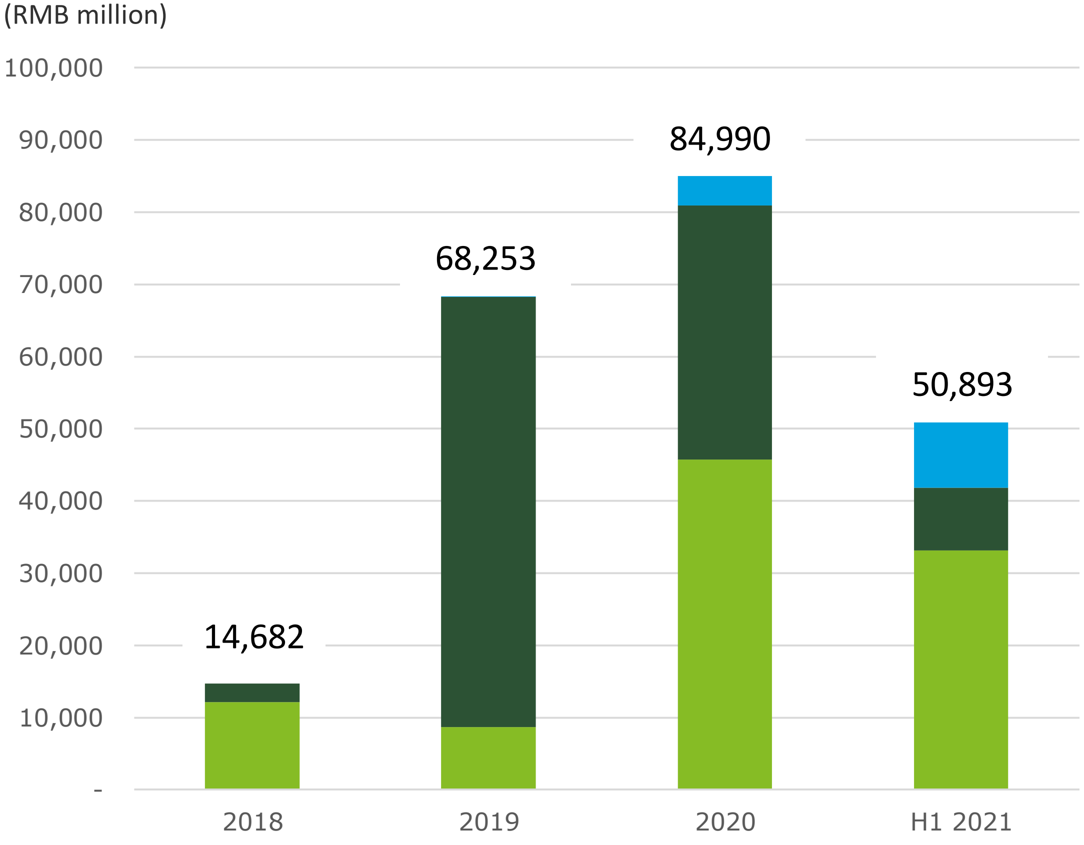
## Number of listed companies




**Representative enterprises listed in H1 2021**

RELX
奈雪の茶 NAYUKI
优然牧业 YOURAN DAIRY
东鹏饮料
BTN
南僑
AIMA 爱玛

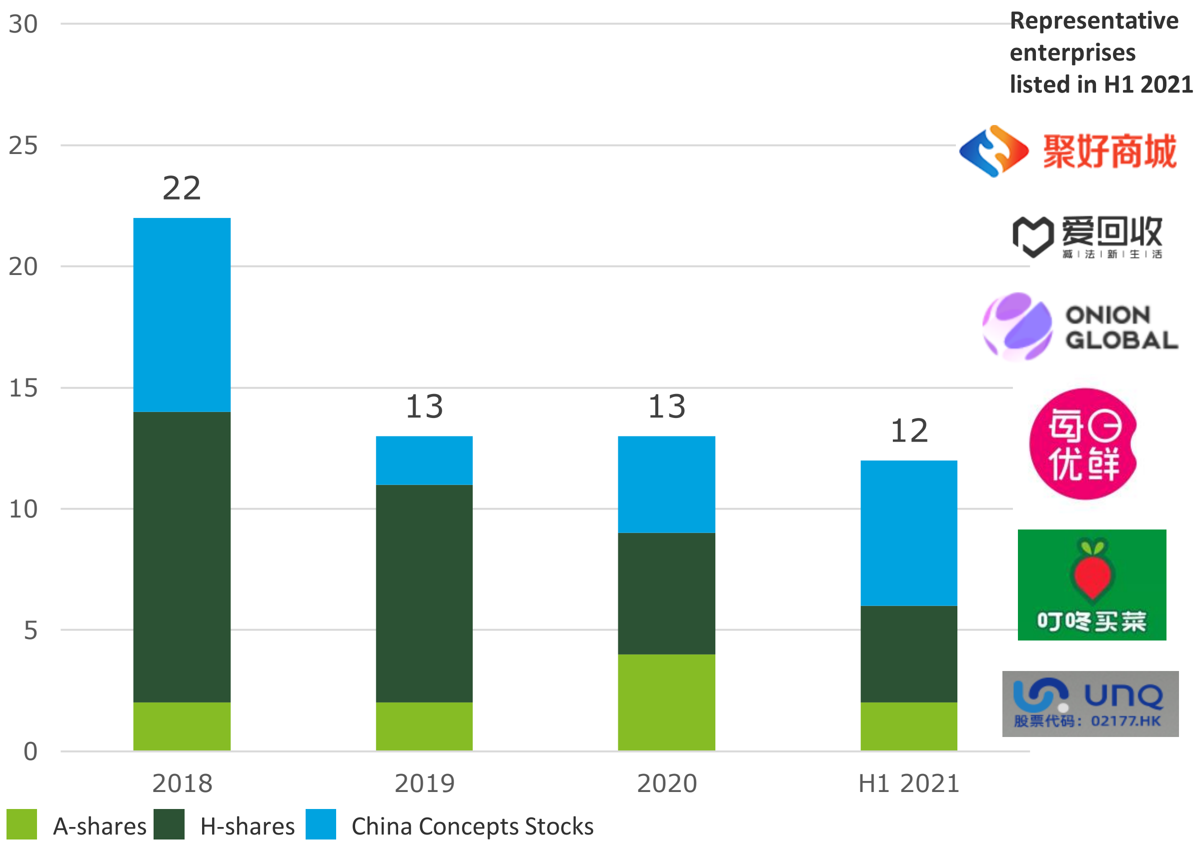
## Funds raised



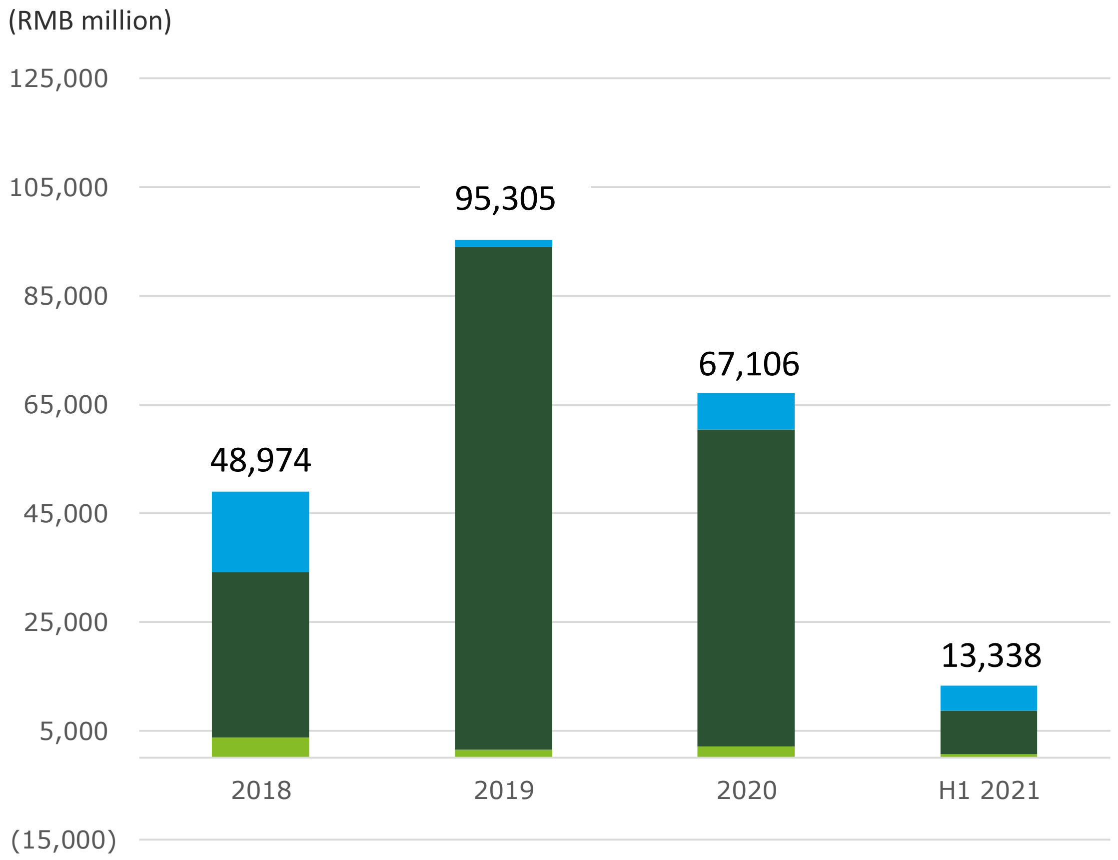

Source: WIND, Deloitte Research

# Most of the newly listed retail companies are internet platform retailers, indicating this new digital retail format has been gaining market recognition

## Number of listed companies



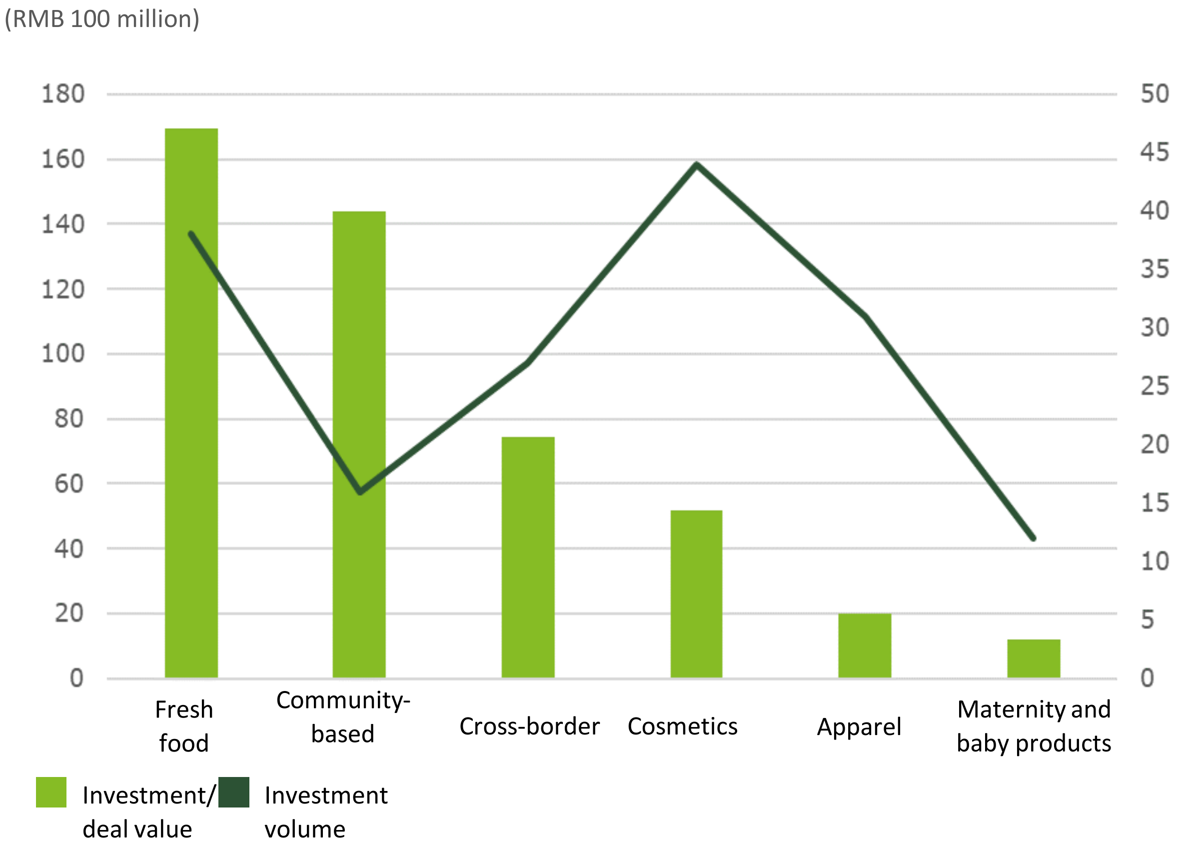

## Funds raised




Source: WIND, Deloitte Research

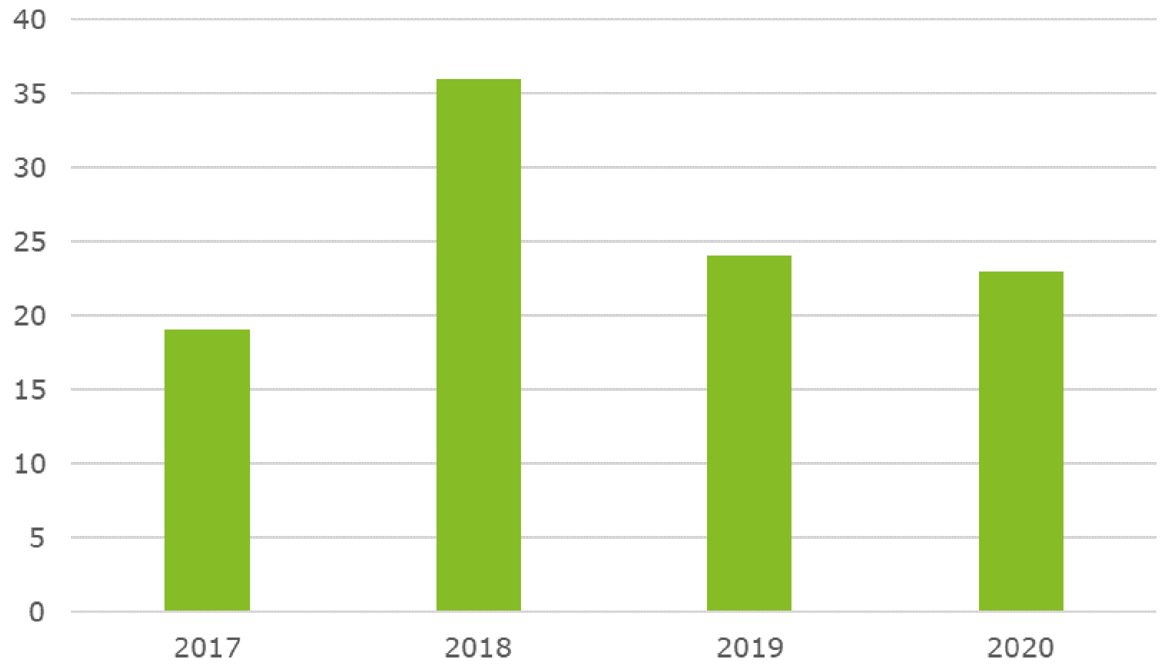
## New domestic consumer brands and community-based and cross-border business models favored by rising young consumers are gaining popularity in the capital market

### Figure: Investment in new business formats in the consumer products & retail industry in 2020



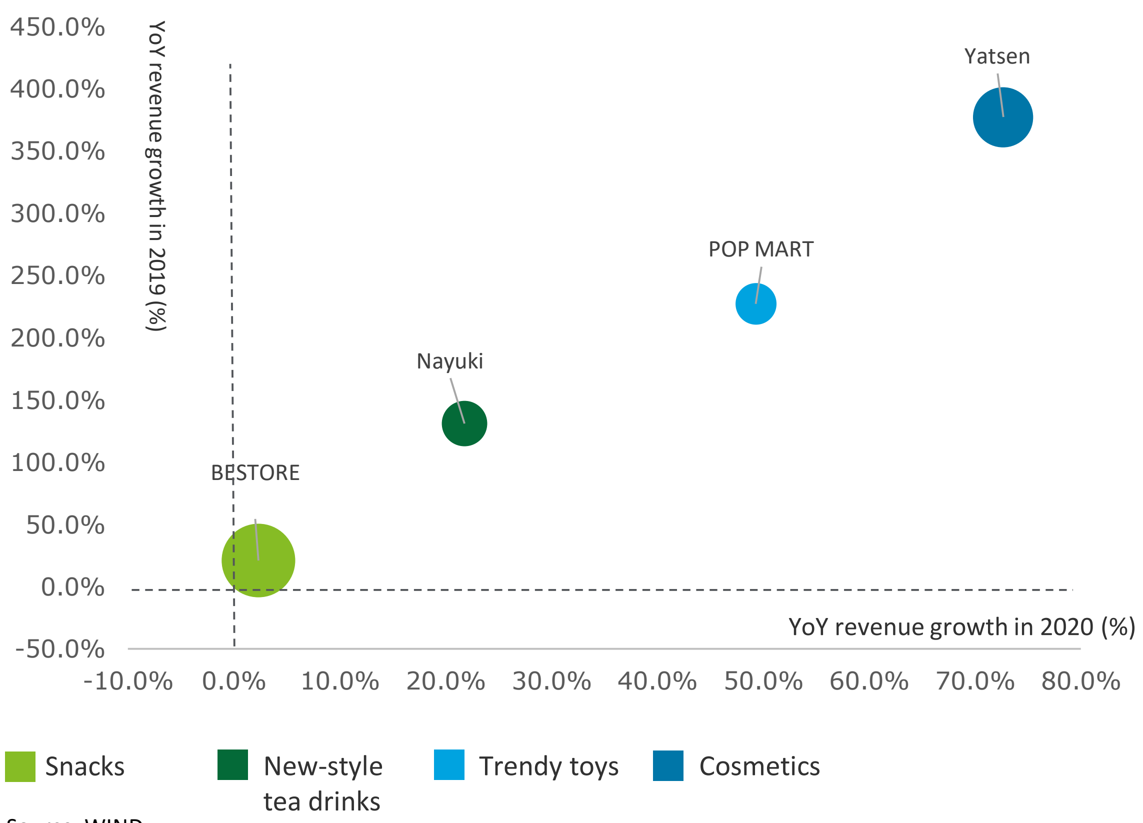

Source: ITjuzi

### Figure: Number of M&A deals in the e-commerce sector from 2017 to 2020



## Consumption upgrading has boosted new domestic consumer brands and new retail formats. Over recent years, leading new consumer brands and new business formats and models have maintained rapid growth and accelerated their pace of listings, with new brands covering snacks, new-style tea drinks, trendy toys, and domestic cosmetics, social and fresh food e-commerce companies, stepping up efforts in the race for the “1st IPO" in their segments.

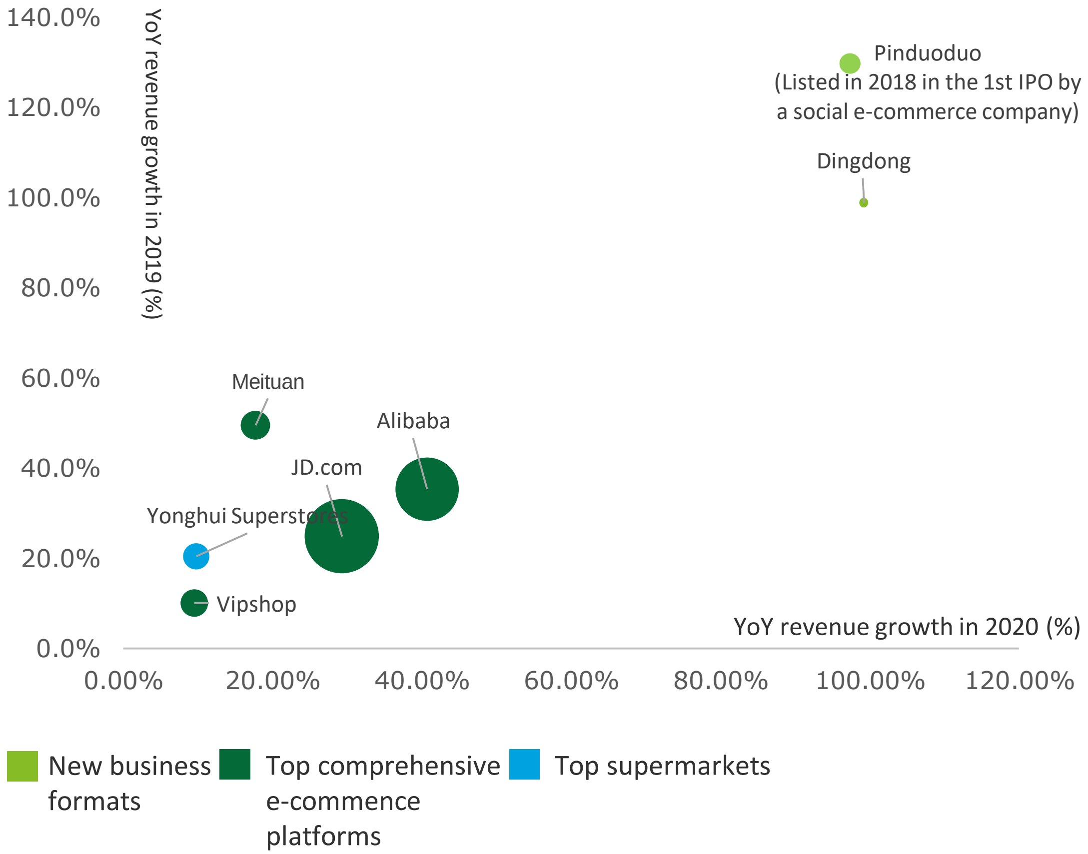
**Figure: Revenue growth of typical new consumer brands in 2019 and 2020**




Source: WIND

Note: All the companies above were listed in 2020 or later.

**Figure: Performance of fresh food e-commerce players vs. top e-commerce platforms and supermarkets**



# Overview of IPO activity in major consumer products & retail segments

# Main findings

With rapidly rising demand for green, high-end, and quality products and changes in consumers’ shopping preferences, frequency, and scenarios amid the pandemic, segmentation in the consumer products industry is accelerating

The food, cosmetics, agricultural products, and household cleaning product segments performed well during the pandemic; the sports and outdoor apparel and beverage segments underwent further segmentation

With the pandemic changing consumers’ shopping behavior, the revenues of offline segments, including specialty stores and department stores, continued to decline, calling for their immediate digital transformation

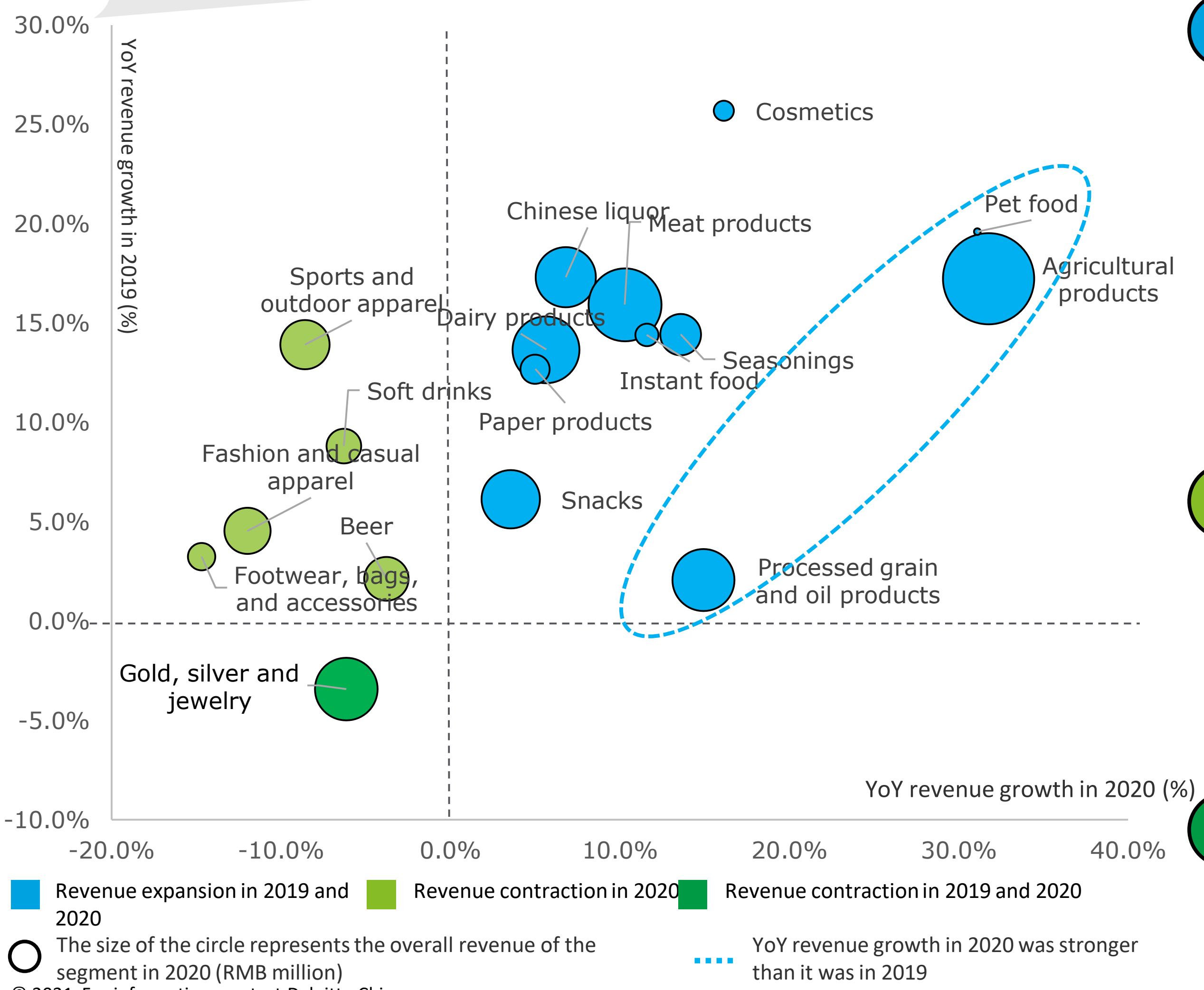
In 2020, boosted by an online-offline, integrated community-based model, supermarkets were the only offline segment to grow revenue and profit

In 2020, all consumer discretionary segments except cosmetics were hit hard, with their gradual recovery in the second half of the year failing to offset their overall poor performance

The post-pandemic trend of online business accelerated offline segments’ loss of customers

# The pandemic drove rapid growth in demand for green, high-end, and quality products, and changed consumers' shopping preferences, frequency, and scenarios, accelerating segmentation in the consumer products industry

## Revenue trends in 2019 and 2020



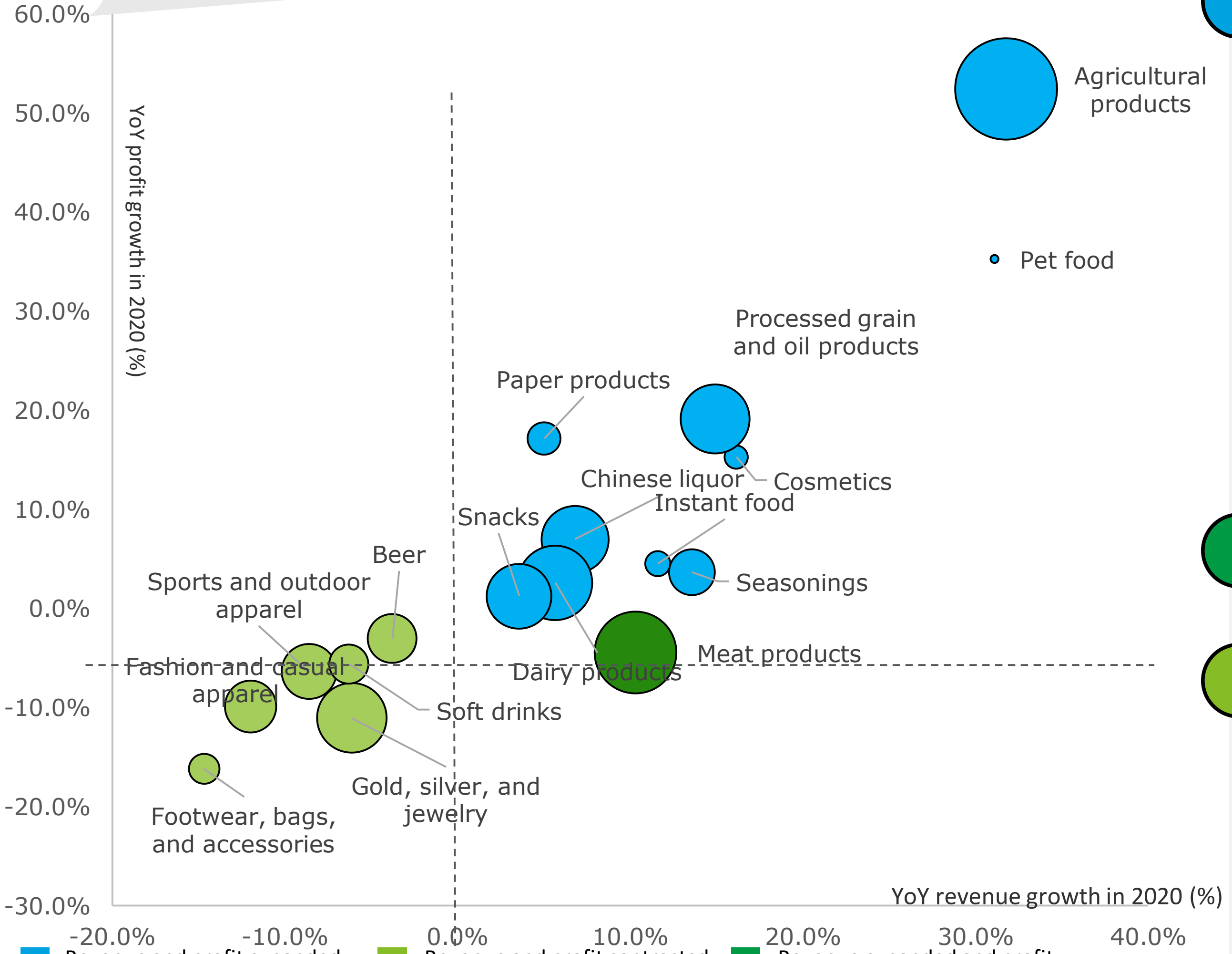

- Pet food: With changes in traditional family structure and increased pressure from work, people are becoming more emotionally attached to their pets, leading to rapid growth in pet industry sales
- Processed grain and oil products: Responding to consumers' increasing health awareness, the grain and oil processing industry continues to upgrade its product structure, promoting growth in sales of high-quality and nutritious products
- Agricultural products: Due to the impact of the COVID-19 pandemic and natural disasters, some products saw a gradual recovery in price and growth in demand
- Cosmetics: The rise of GenZ and social e-commerce boosted the cosmetics industry, leading to rapid development of new brands with cost-effective and niche products in the low-end market
- Food products: Due to inelastic demand, food products saw rapid growth in sales during the pandemic
- Chinese liquor: The Chinese liquor industry has entered a new period of long-term growth as a result of consumption structure upgrading

- Sports and outdoor apparel: This industry saw clear differentiation in sales, with leading brands achieving high growth despite the pandemic. It has great growth potential as it shifts focus from mass consumption to the experience-based demand of sports participants
- Beer and beverages: The beer industry has strengthened the operation of high-end brands; the traditional beverage industry has matured, with more manufacturers and brands entering various market segments, resulting in increasing competition
- Footwear, bags, and accessories: To meet consumers' desire for personalized and quality products, this industry is in dire need of accelerated branding

- Gold, silver, and jewelry: With profound short-term impacts, the gold, silver, and jewelry industry is becoming increasingly competitive, creating a pressing need for brand and product innovation

# The food, cosmetics, agricultural products, and household cleaning product segments performed well amid the pandemic; the sports and outdoor apparel and beverage segments are undergoing further segmentation

## Revenue and profit trends in 2020




Revenue and profit expanded | Revenue and profit contracted | Revenue expanded and profit contracted

The size of the circle represents the overall revenue of the segment in 2020 (RMB million)

- Agricultural products: Some products saw a gradual recovery in price after the pandemic, promoting the segment's overall profit growth
- Pet food: Due to high demand for quality pet food, shipment volume and the proportion of high-margin products increased, driving an increase in profits
- Processed grain and oil products: To accelerate product structure upgrading, the grain and oil processing industry launched smaller packages with higher gross margins during the pandemic to meet the demands of Chinese families;
- Cosmetics: With the rapid development of domestic products and emerging brands, their high added value improved the industry's overall profitability
- Paper products: Inelastic consumer demand, coupled with households' stocking up on products during the pandemic, enabled this flexible industry to generate considerable revenue and profit in 2020
- Chinese liquor: Brands, enterprises, and production areas with competitive advantages dominated sales and profit growth
- Food products: The industry's overall profit expanded in 2020, and the development of mid-range and high-end brands improved profitability significantly

- Meat products: Prices of raw materials such as pork remained high in 2020, resulting in a rapid increase in overall costs compared to 2019

- Beer: Shutdowns of bars and entertainment venues during the pandemic, coupled with overcapacity, low market demand, and upward cost pressure, had a substantial impact on industry profits
- Beverages: Production and sales suffered a sharp downturn due to the pandemic, leading to declines in revenue and profit
- Sports and outdoor products: This industry saw an overall decline in revenue and profit, but leading companies maintained competitive advantages, with Li Ning, Anta and other domestic sports brands achieving some growth despite the pandemic

# With the pandemic changing consumers' shopping behavior, the revenue of offline businesses, including specialty stores and department stores, continued to decline, calling for their immediate digital transformation

## Revenue trends in 2019 and 2020

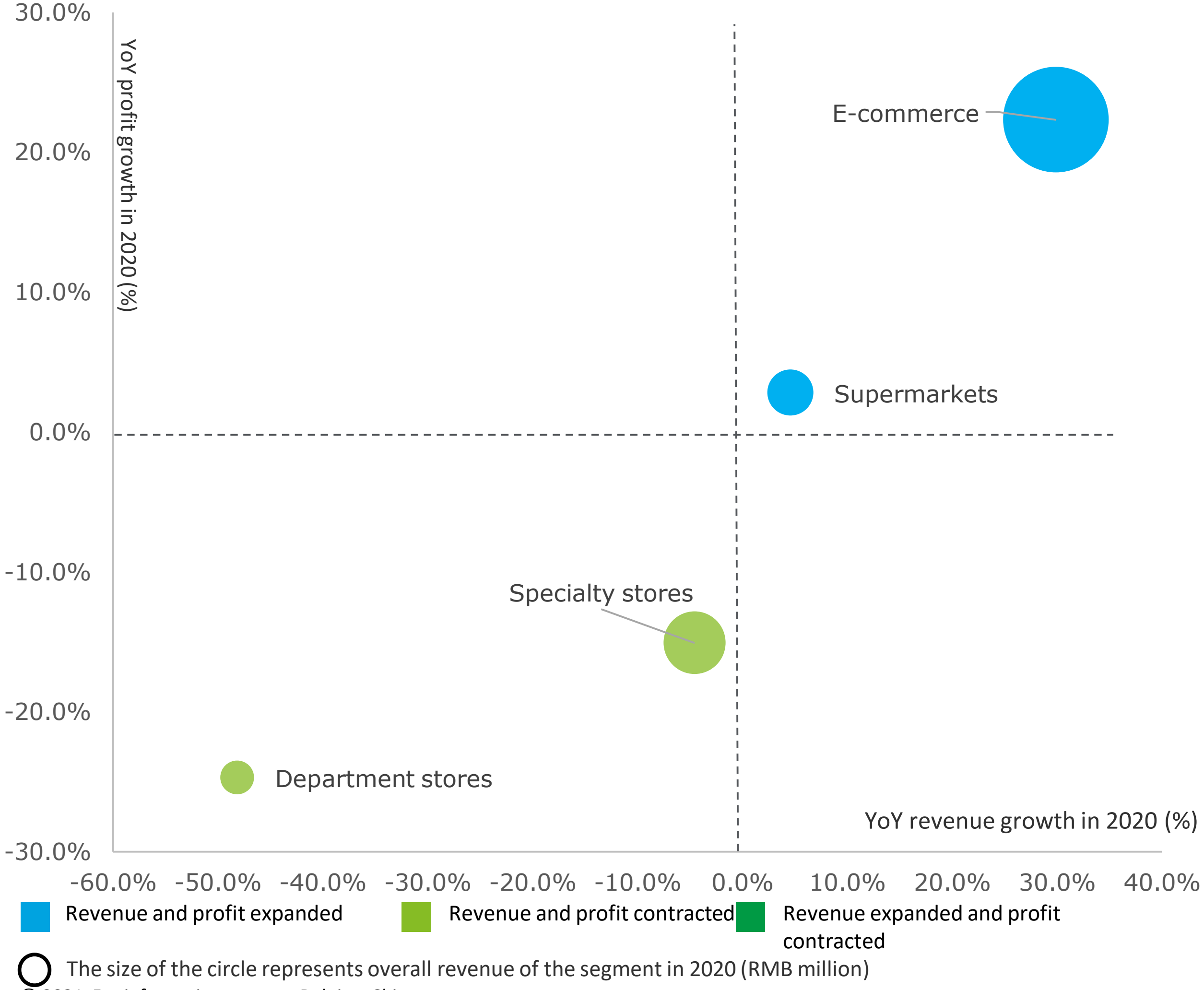

- E-commerce: The e-commerce sector has entered a period of diversification, with various business models driving a rapid increase in revenue
- Supermarkets: Continuous digital transformation contributed to overall growth in 2020

- Specialty stores: Revenue declined due to offline store shutdowns and reduced customer traffic, and there was wide divergence in the performance of different types of specialty stores

- Department stores: Performance remained sluggish, pushing the industry to accelerate digital transformation and upgrading based on advantages including good customer experience

# In 2020, boosted by the online-offline integrated community-based model, supermarkets were the only offline segment in which revenue and profit grew

## Revenue and profit trends in 2020




- E-commerce: The rapid shift of consumer purchasing from offline to online shopping as a result of the pandemic led to rapid revenue growth for e-commerce, and the gross profit of e-commerce companies maintained high growth as they faced no substantial increase in selling expenses
- Supermarkets: As a business format that provides basic necessities, supermarkets operated as usual even during the pandemic. Moreover, the O2O model enabled supermarkets to expand profit margins and revenue from online sales

- Department stores and specialty stores: The sharp drop in offline customer traffic amid the pandemic, exacerbated by selling expenses including labor costs and rent, put additional pressure on enterprises

# In 2020, consumer discretionary segments (except cosmetics) were hit hard, and their gradual recovery in the second half of the year was not enough to prevent overall poor performance

## Consumer products

| Ranking | YoY revenue growth in 2019 | | YoY revenue growth in 2020 | |
|---|---|---|---|---|
| 1 | Cosmetics | 25.7% | Agricultural products | 31.8% |
| 2 | Pet food | 19.6% | Pet food | 31.1% |
| 3 | Chinese liquor | 17.3% | Cosmetics | 16.1% |
| 4 | Agricultural products | 17.2% | Processed grain and oil products | 14.9% |
| 5 | Meat products | 15.9% | Seasonings | 13.6% |
| 6 | Seasonings | 14.4% | Instant food | 11.6% |
| 7 | Instant food | 14.4% | Meat products | 10.3% |
| 8 | Sports and outdoor apparel | 13.9% | Chinese liquor | 6.8% |
| 9 | Dairy products | 13.8% | Dairy products | 5.8% |
| 10 | Paper products | 12.7% | Paper products | 5.0% |
| 11 | Soft drinks | 8.8% | Snacks | 3.6% |
| 12 | Snacks | 6.1% | Beer | -3.8% |
| 13 | Fashion and casual apparel | 4.5% | Gold, silver, and jewelry | -6.1% |
| 14 | Footwear, bags, and accessories | 3.2% | Soft drinks | -6.3% |
| 15 | Beer | 2.1% | Sports and outdoor apparel* | -8.6% |
| 16 | Processed grain and oil products | 2.1% | Fashion and casual apparel | -12.0% |
| 17 | Gold, silver, and jewelry | -3.4% | Footwear, bags, and accessories | -14.7% |

Increase in number of segments where revenue contracted

*Sports and outdoor apparel: Leading enterprises in this segment maintained strong growth

# The post-pandemic trend of online business accelerated offline business' loss of customers

## Retail format

| Ranking | YoY revenue growth in 2019 | | YoY revenue growth in 2020 | |
|---|---|---|---|---|
| 1 | E-commerce | 28.2% | E-commerce | 29.9% |
| 2 | Specialty stores | 6.4% | Supermarkets | 4.6% |
| 3 | Supermarkets | 5.1% | Specialty stores | -4.5% |
| 4 | Department stores | -4.2% | Department stores | -48.2% |

Increase in number of business formats where revenue contracted

# Index: Analysis of industry segments

# Methodology

Segments in this report are defined with reference to the Wind industry, CITIC Securities, and Deloitte industry classifications, including retail (supermarkets, department stores, specialty stores, e-commerce) of apparel, footwear, and hats (sports and outdoor, fashion and casual, footwear and bags, accessories), food (dairy products, meat products, snacks, instant food, processed grain, and oil products), beverages (Chinese liquor, beer, soft drinks), agricultural products, gold, silver and jewelry, and household cleaning products (paper products, cosmetics)

To keep the data consistent, a small number of companies that did not disclose financial data for the current period were excluded when calculating industry revenue, gross profit, and net profit

Data in this report was obtained from the Wind database

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