



# FOCUS on China

January 2024



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## THE E-COMMERCE REVOLUTION: “Shop like a billionaire”!



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In December 2023, Apple unveiled the most downloaded iPhone apps of the year in the US, and to the surprise of many, a Chinese e-commerce app, Temu, topped the list. Launched just over a year ago, Temu, backed by the Chinese e-commerce giant Pinduoduo (also known as PDD), has rapidly become a challenger to Amazon on a global scale.

Shein, another Chinese app, leads the US fashion sector. In 2022, the Chinese online retailer Shein held 40% market share in the fast fashion sector in the US, outperforming Zara (27%) and H&M (17%). In late November 2023, Shein filed for an IPO in the US, targeting a valuation of \$90 billion, according to Bloomberg.

### CHINESE E-COMMERCE GIANTS ARE NOT JUST DOMESTIC LEADERS

Although China is the world’s largest e-commerce market with more than 800 million online

shoppers, domestic sector growth is expected to slow from 22% p.a. between 2014 and 2021 to about 7.5% by 2025, according to projections from China’s 14th Five-Year Plan. To offset the domestic slowdown, Chinese internet giants such as Alibaba, Tencent, ByteDance, and PDD are expanding overseas to grasp additional growth. Key players like AliExpress (Alibaba), Temu (PDD), TikTok Shop (ByteDance), and Shein are competing in Western markets, while Lazada (Alibaba), Shopee (Tencent), Temu (PDD), and TikTok Shop (ByteDance) are vying for dominance in Southeast Asia.

As global consumers tighten their budgets due to inflation, companies like Shein and Temu (PDD), which prioritize offering ultimate value for money, are emerging as distinct beneficiaries in these challenging economic times.



## INCREDIBLY LOW PRICES AND ADDICTIVE SHOPPING EXPERIENCES REVOLUTIONIZE THE E-COMMERCE SECTOR

Shein and Temu both provide a range of items like clothing, household goods, and electronics at remarkably low prices, such as \$4 sunglasses and \$10 dresses. Temu encourages small group purchases through social sharing for even cheaper prices.

Both Shein and Temu are highly addictive, embodying Temu's Super Bowl ad slogan: "Shop like a billionaire.". Shein's fast product turnover, diverse range, and personalized suggestions based on user preferences contribute to its addictiveness. Outpacing Zara's well-known three-week production cycle, Shein can design, produce, and sell items in less than a week, using AI to quickly identify and test new trends with small batches. Temu, on the other hand, engages users with interactive games like spinning roulette wheels or virtual fish raising to earn shopping credits, a concept pioneered by PDD's founder Huang to make online shopping more fun and social. This approach has led to users' spending an average of 18 minutes daily on Temu's app, surpassing Amazon's 10-minute average.

Furthermore, both companies excel in leveraging social media to enhance their appeal, especially among Gen Z consumers. Influencers and customers, some sponsored by the apps, frequently post "Shein haul" or "Temu haul" videos on platforms like YouTube and TikTok, showcasing their purchases and thereby boosting brand appeal.

### THE SUCCESS OF "LOW-COST" SIGNALS CHANGING CONSUMER PREFERENCES

Seven years before Temu captivated young, price-conscious shoppers in Western markets, PDD had already initiated its low-cost strategy in China. PDD strategically focuses on lower-tier cities in China, capturing a highly price-sensitive market. This approach has enabled PDD to successfully compete against giants like Alibaba and JD.com.

The good news for PDD stems from the trend of choosing affordability over premium brands. This trend is prominent not only in lower-tier cities, but

is also penetrating the Chinese middle class in upper-tier cities, furthered by the impact of Covid quarantines and a sluggish economic recovery. The personal experience of a 35-year-old private company director living in Shanghai illustrates this shift:

"I wore Armani suits when I was promoted as manager many years ago. Yesterday I received my \$30 winter coat from PDD. It's obviously not 'luxury', but it's good design and nice texture. I'm curious about what else I can get at this price."

Even Jack Ma, the renowned founder of Alibaba, acknowledged PDD's impressive performance after the release of remarkable Q3 financial results, noting a 94% increase in revenue and a 47% rise in net income compared to the same quarter in 2022. PDD's stock price rose by 80% in 2023. These results led to PDD's surpassing Alibaba in market valuation, marking a generational shift in a sector long dominated by Alibaba.

### SUSTAINING A LOW-PRICE STRATEGY SEEMS CHALLENGING BUT VIABLE

Many investors question the sustainability of the low-price strategy used by Temu and Shein. They are concerned that any price increase would destroy their core value proposition.

Historically, PDD has already faced similar skepticism. After going public in 2018, PDD sank below its IPO price, due to profitability concerns. Yet, since Q2 2021 PDD has reported profits for 10 quarters in a row, demonstrating the long-term viability of the low-price strategy.

To the benefit of Shein and Temu, Western consumers may be more tolerant of price fluctuations than their Chinese counterparts. The question arises: would a 30% price rise drive consumers away? While consumers might resist a 30% jump in the price of a \$300 Ralph Lauren dress, akin to the cost of a fine dining experience, or hesitate at a similar rise for a \$60 Zara dress, equivalent to a casual dining outing, a 30% rise on a \$15 dress from Shein or Temu, amounting to just an extra \$4.5 – the price of two Starbucks coffees – seems unlikely to significantly deter young shoppers.



## NEXT CHAPTER: NAVIGATING COMPLEX POLITICAL CHALLENGES.

Political challenges must be scrutinized. In 2021, Alibaba faced a huge fine in China following an anti-trust probe, leading to international investor wariness. So far, PDD/Temu seems to be in a safer political position in China as it aligns with Chinese government “common prosperity” narrative aimed at aiding the poorer and balancing wealth across classes, and as it faces less US scrutiny than TikTok. TikTok has been under threat of a ban in the US due to its heavy influence on adolescents,

without whom TikTok Shop can hardly survive. Shein has minimized its connections to China by relocating its headquarters from China to Singapore and focusing solely on global markets.

Investors are as drawn to growth stories as consumers are attracted to low prices. The journey of Chinese e-commerce giants into international markets marks an exciting new era, but their sustained success will depend on their ability to effectively maneuver through complex political environments.

## These examples are not investment recommendations

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