

## Young China drives consumer opportunity

*While China might offer huge potential for health care and consumer goods companies and their investors, doing business on the ground can prove challenging and a new generation of Chinese youth could present some unique marketing challenges, say Walter Scott investment managers Lindsay Scott and Ashley-Jane Kyle.*

While investor sentiment towards China has been impacted by geopolitical risk, economic and trade tensions as well as concerns about the country's internal governance and economic health, from the perspective of the team at Walter Scott, the country remains a source of potentially vast long-term investment potential.

Over the past few decades, a steadily rising middle class has fueled international investment from a range of western companies, including health care providers and luxury goods and sportswear brands. Revenue in the Chinese luxury goods market alone amounted to US\$48.91bn as of the end of June this year, with the market expected to grow annually by 5.22% in compound annual growth terms from 2022- 2027<sup>1</sup>.

Walter Scott investment manager Lindsay Scott sees huge growth potential in the market but adds an important caveat in that pursuit of that growth is not straightforward. In her view and that of the Walter Scott team not every entrant has adopted the right initial approach to what can be a complex and challenging marketplace.

"China represents an enormous opportunity in what constitutes a market of almost 1.5bn people. That figure represents about 18% of the global population and the market also boasts some really good, strong demographic trends. Despite some concerns around the robustness of conspicuous consumption – where some consumers purchase goods or services with the specific intent of displaying their wealth - what seemed to be a slight dip in sales growth last year now appears to have corrected itself," she says.

Commenting on the potential difficulties some companies can face when doing business in China, she adds: "For all its potential, China can be quite a challenging market. While it is clear Chinese consumers want much the same products as high-end consumers in the west, over the years we have definitely seen examples of companies - including some of the world's biggest sportswear brands - struggle to get it right in terms of doing business on the ground in China.

"Other companies have perhaps been too conservative in developing their Ecommerce offerings, which are increasingly important in the market, particularly some of the high-end luxury goods companies. Some have also found building the right retail footprint in the so-called Tier 1, 2 and 3 Chinese cities<sup>2</sup> and in shopping malls across the country quite challenging. Just getting that balance right can be difficult."

Growing affluence and the rise of a new middle class are also having deeper and potentially darker impacts on Chinese consumers. One example is the rise in Chinese diabetes rates



that has accompanied shifting lifestyles - particularly among wealthier sections of the Chinese population.

As Walter Scott investment manager Ashley-Jane Kyle observes: “Rising wealth is having some profound impacts on China which present both threats and opportunities, particularly in the health care sector.”

“China now accounts for about a quarter of the global diabetes population. But it is a really underdiagnosed market so the opportunities to improve people’s health and address health care problems like this are becoming increasingly clear,” she adds.

## **Young China**

While China, like many other leading economies, faces the challenge of a rapidly ageing population, a new generation of its young people have significant economic power and could provide a major fillip for consumer markets. Young people of this demographic, born after 1990 and dubbed ‘Young China’ by US writer and consultant Zak Dychtwald<sup>3</sup> are highly technology savvy and will require a dedicated tech friendly approach from consumer companies and marketers, adds Kyle.

“The next generation of young Chinese is really important for many companies pursuing growth in this market. But they are also a really hard generation to serve. They have had so much access to information that previous generations simply didn’t have.

“One of the biggest differences you see with this generation is the rapid pace of accepting all things digital – digital products, digital services and we have not seen that in any other countries or with any other generations either. This means that for consumer facing businesses it is really important to think about that in terms of how companies engage with those consumers and that next generation,” she concludes.

<sup>1</sup> Statista. Luxury goods China. As of end June 2022.

<sup>2</sup> A classification of cities with “1” being the highest, most developed and “4” the lowest, according factors such as GDP, income, and population.

<sup>3</sup> Dychtwald is also the founding CEO of Young China Global Group – a think tank and consultancy designed to create understanding about Eastern and Western millennials

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