

Going global: strategic implications for Chinese brands

A market trends report on China consumer
electronics and appliances industry

Trends report for 2024





Table of contents

1	Executive summary	04
2	China consumer electronics and home appliances (CEH) market overview	06
3	Global CEH market opportunity	17
4	CEH market segmentations	19
5	Industry best practices	31
6	EY solutions and case studies	40
7	References	46



Executive summary

China is a global powerhouse for consumer electronics and home appliances, dominating the market with over 22% of global sales. It also holds a significant position in the Asia-Pacific (APAC) market in terms of sales volume. As the 'world's factory', China has massive electronic manufacturing and exporting capability across a wide range of electronic products including smartphones, computers, televisions, consumer appliances and electronic components. The country has been home to most popular domestic and multinational consumer electronics brands for over two decades due to the ease of sourcing electronic components for products, saving significant logistics costs. Major cities such as Shenzhen, has established as a hub for the electronics industry with end-to-end value chain capabilities including the presence of component manufacturers, low-cost workers and product assembly suppliers. Strong supply chain network with some of the largest container ports globally, such as Shanghai, Shenzhen and Ningbo-Zhoushan which facilitates easy movement of products internationally, also enables the market growth.

The consumer electronics market attained significant growth over the past decade, driven by multiple factors on both supply and demand sides. Rapid urbanization, a doubling of disposable income, a rising middle class population and increase in lower age group population have significantly bolstered the demand for high tech consumer products for personal and professional usage. On the other hand, low-wage workers, easy access to raw materials and components, government policies that support innovation and high skilled workforce contribute to the upliftment of the region.

The market witnessed a disruption in demand since the pandemic with uneven sales. There was a remarkable recovery in 2021, attributed to a significant rise in remote work, demand for household convenience products and consumers reinstating their electronics purchasing decisions that was put on hold. However, the market has experienced a gradual downturn again in 2022 and it is further expected to largely remain sluggish in 2023 due to mixed consumer sentiment towards investments in new products.

In recent years, the market growth is primarily driven by the convenience of online channels, product advancements for sustainability, durability and convenience, availability of easy credit to enable purchases, and government incentive programs to boost consumption. The market is also exhibiting significant transformation marked by increasing popularity of smart home devices for personalized consumer experiences, demand for 5G enabled devices for better products responsiveness and reliability and rise in attraction towards premium and high-performance consumer electronics products.

As innovation always remained a key differentiator, Chinese manufacturers continue to improve product attributes by integrating artificial intelligence (AI) and 5G into their devices, revamping phones with foldable functionality and advanced camera systems, adding 3D technology in displays, launching 5G enabled PCs, developing local operating systems for both smartphones and PCs, and many more, to provide a connected and personalized experience to customers as well as for reducing the dependency on foreign branded products. There is also an increase alignment towards developing sustainable products using recycled plastics.



However, Chinese consumer electronics and home appliances companies continue to face roadblocks such as intense competition and market saturation, pressurizing them to continuously innovate and evolve products suitable as per changing consumer preferences and adopt faster go to market strategies. To overcome such challenges, Chinese brands can leverage their capabilities to further develop their businesses globally.

China's dominance in consumer electronics exports is undeniable, with its global share reaching a staggering 42%³ in 2022. Though the rise in exports of home appliances and communication equipment is in single digit, demand for cost-effective products with innovative features is driving the sales volume globally. The popularity of Chinese products has spread to regions such as Southeast Asia, Africa, Latin America and even Europe. This provides a favorable environment and significant opportunity for China's consumer electronics companies to expand their presence and capture a larger market share. However, this will require strategic vision with a multifaceted approach to establish a strong brand perception and reputation in foreign markets with readiness to address any challenges.

Certain Chinese leading brands in the consumer electronics segment have set an example by flourishing themselves as a globally recognizable company by exploring their potential. The companies initially gained dominant position in local markets by product differentiation, prospecting emerging areas through their strong distribution network and harnessing cost innovation across the manufacturing operations to maintain their competitive pricing. This locally gained reputation enabled them to increase their product exports initially and then step up their footholds operationally in countries in which their products hold higher demand.

In the initial stages of global exploration, these companies faced hurdles such as competition from global companies, cultural differentiation, additional costs of establishing sales channels, local sentiment about Chinese products, low brand recognition and issues in attracting talent. To address these challenges, Chinese manufacturers have strategically emphasized on customizing their business models suitable as per specific regional preferences and gain advantage of their competitive product prices. To assert this, they started engaging local leaders with better cultural understanding. Chinese brands have also adopted an inorganic strategy by acquiring competitive and niche companies to leverage their established presence in the regions which they aimed to develop. They were successful in gaining market hold in regions dominated by multinationals, through their own dedicated flagship stores and involving in targeting marketing initiatives through online forums and social media channels for enhancing customer experience. Providing sponsorship to sport events also played a crucial role in increasing customer awareness and fostering brand loyalty. Additionally, successful Chinese consumer electronics brands even tweaked their product sales terms and conditions in favor of customers to enhance user loyalty, provide seamless unified experience which led to higher customer retention rates.

Given the strong demand for consumer electronics and home appliances from China, this is a great opportunity for manufacturers to realize their growth potential and diversify their operations globally. They can learn from the strategic initiatives of major successful companies and view them as valuable directional drivers for their development plans.

1 China consumer electronics and home appliances market overview

China is emerging as a consumer electronics and home appliance (CEH) hub, accounting for over 22% of global sales⁶. Since 2013, it has become the leading country globally in terms of sales and maintains a strong position in CEH exports. It also holds a dominant position in the CEH market in the Asia-Pacific region, with a sales share of about 48%.²⁵

China's CEH market growth is driven by increasing demand, supported by rapid urbanization and significant growth in disposable income, compared to some of the major developed countries.

- ▶ **Rapid urbanization:** Significant increase in urbanization from 53% in 2012 to 65% in 2022²⁴, provided impetus to growth in the consumption of CEH products.
- ▶ **Rising disposable incomes:** Doubling of per capita income during 2015-2022, has increased consumers affordability for high-end technological devices and electronics products.
- ▶ **Favorable demographics:** Higher population in the lower age group (52% falling within the 0-29 years range) has significantly boosted the demand for high-tech devices for home, entertainment and educational purposes.

Continuous technological advances in China have increased the competitiveness of local electronics manufacturers. The country is recognized as 'the world's factory' for its huge manufacturing base, including major global consumer electronics and components suppliers. Additionally, various supply-side factors are providing more incentives for manufacturers to set up operations in China, thereby facilitating market growth.

- ▶ **Low labor costs:** Labor availability on low wages as compared to many other developed countries
- ▶ **Vast supply chain infrastructure:** Leverage some of the largest container ports globally, such as Shanghai, Shenzhen, and Ningbo-Zhoushan for easy movement of finished products and raw materials.
- ▶ **Swift sourcing of components:** Easy access to the sub-components and materials for manufacturers, at low cost
- ▶ **Government support:** Incentive to companies for investments in research and development, introduction of new policies to facilitate the domestic demand and encourage new forms of consumption
- ▶ **Skilled workforce:** Large and skilled workforce enabled by the heavy investments in education and professional training

Thus, the combination of favorable macroeconomic as well as supply side factors supported by growing domestic demand, facilitates large-scale operations, supporting the growth of the industry globally at a prominent level.

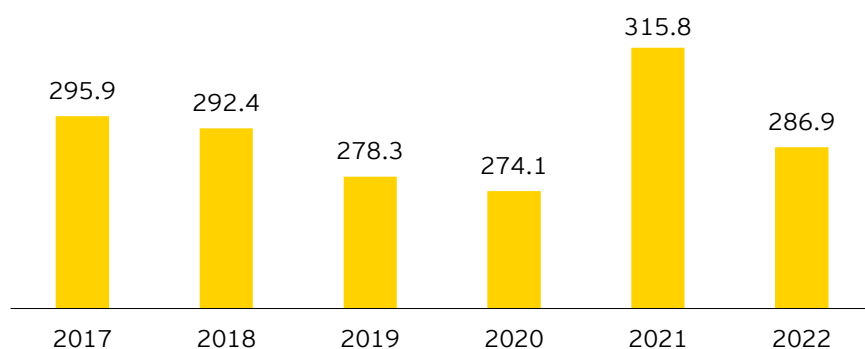
Market definition

The CEH market in consideration includes three segments: Communicating devices (smartphones), computing devices (PCs, laptops and tablets) and home appliances including major domestic appliances (air conditioners, dishwashers, dryers, freezers, microwave ovens, refrigerators, vacuum cleaners and washing machines) plus minor domestic appliances (blenders, coffee machines, deep fryers, food processors, grills, hair products, hair trimmers, curling tongs, razors, irons, juicers, kettles, stand mixers, toasters, sun lamps and fans), etc.

China CEH historic market growth

The CEH market witnessed a decrease in market size since 2019 after stable growth until 2018, largely due to the decline in sales from most of the segments, impacted by the pandemic and the extended lockdowns.

Consumer electronics and home appliances market in China (US\$ billion) *



Source: IDC¹, GfK Zhongyikang², *the market size is derived by adding numbers from the two mentioned sources

In 2021, the market witnessed a significant growth spurt, with a remarkable year-on-year (YOY) increase of 15.3%. This increase was largely driven by strong demand for PCs and notebooks for remote working and other consumer appliances and home entertainment devices due to delayed purchasing decisions by consumers. According to The National Bureau of Statistics China (NBS), there was a notable increase of 14.1% and 9.0% YoY in the sales of communication appliances and household appliances respectively in 2021. However, this recovery was short-lived, and the CEH market experienced a gradual downturn in 2022, mainly due to the decrease in consumer spending and impact of supply chain volatility.

Factors nurturing the growth

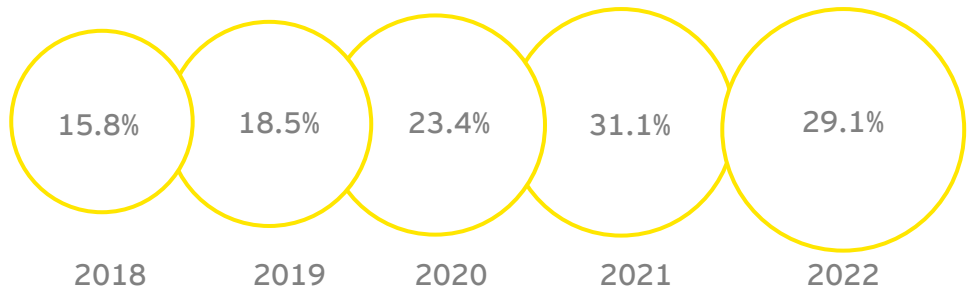
The growth of the CEH market is primarily fueled by macro-economic as well as technological advancements. The growing preference for online channels is providing customers with enhanced convenience and a broader product choice. Additionally, the surge in disposable incomes is leading to increased spending on high-tech devices. The rapid evolution of products integrated with AI, Internet of Things (IoT) and 5G is captivating consumers attention.



Growing popularity of e-commerce channels

Chinese consumers have a strong inclination towards e-commerce and live streaming for CEH shopping. In 2022, China's online retail business reached US\$1.93 trillion (RMB13.8 trillion) along with this 29.1% of consumer electronics sales and 57.8% of home appliance sales operationalized via online channels in 2022³. This likeliness is fueled by convenience, product variety, and immersive live streaming experiences that enables faster query resolution and real-time product demonstrations to support informed decisions, offering extreme similarity to in-store experience.

% Revenue generated from online channels in consumer electronics industry

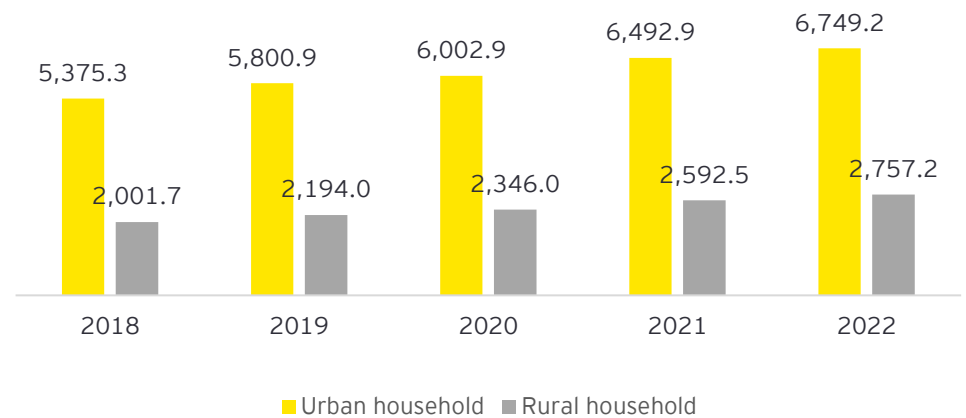


Source: Statista³

Rising disposable incomes for Chinese customers

Per-capita income in China is on an upward trajectory, as evidenced by the country's economic development and policy initiatives. This is largely indicative from the rise in the middle-class population experiencing improved income levels and therefore a better quality of life. Notably, narrowing of income gap between urban and rural regions is fostering a more equitable and inclusive economic landscape, supported by the government's focus on modernizing rural areas and infrastructure development.

Average annual per capita disposable income of urban and rural households in China (US\$)



Source: The State Council Information Office - The Peoples Republic of China, Statista⁴

Innovation in product categories

Innovation is the foundation for the development of China's CEH market, with multitude of transformations. This is because Chinese consumers are more attracted towards innovative product features that enable sustainable living such as smart refrigerators for enhanced nutrition and foldable mobile phones for higher portability. Therefore, innovation remains the driving force behind the growth of the market to deliver both novel product categories and improved living experiences.

Faster adoption of new technologies

As technology becomes an increasingly integral part of daily life, the Chinese population is showing remarkable agility in embracing new innovations with smartphones, such as wearable devices to advanced household appliances. Additionally, the smart home concept is swiftly gaining traction among Chinese consumers, fostering a heightened demand for a diverse range of smart household devices. This surge in interest is evident from the growing appetite for connected devices that seamlessly integrate with the smart home ecosystem, making life more convenient and efficient.

Government digitalization programs

The Chinese government is promoting domestic production and consumption of consumer electronics through short-term and long-term programs. These programs aim to enhance the competitiveness of manufacturing through incentives, appealing to both domestic and global consumers, supporting sustainable and consumer-driven economy with a focus on safety and quality.

Digital China 2035

The ambitious plan envisions China positioning at the forefront of global digital development by 2035, to consolidate the national digital infrastructure and national data resource system, promote the deep integration of digital technology.

Guidelines for green appliances

The directives to stimulate the adoption of green and smart home appliances as a part of its strategy to maintain economic stability. These guidelines advocate the promotion of green and smart home appliances in rural regions.

The increasing availability of consumer credit

The Chinese government is encouraging banks to provide consumer loans with favorable terms to stimulate consumption. These benefits include access to available funds at favorable lending rates, innovative incentives such as gift cards to encourage consumers to increase retail spending. This strategic alignment between financial institutions and the retail sectors empowers customers with greater purchasing power and contributes significantly to increased sales. Additionally major e-commerce companies are offering interest free financing options for purchasing consumer electronics products to further boost sales.

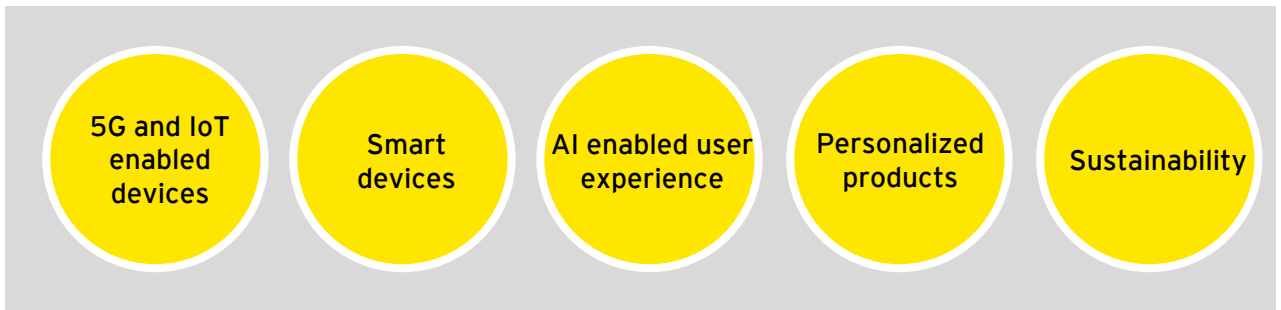
It is evident that the CEH market is mainly driven by the demand for innovative products as well as advancements in value added features. Further government support and easy access to credit is also facilitating the growth.



Major trends in the market

The consumer electronics industry in China is undergoing a transformative phase, marked by several notable trends. Trends in 5G, IoT, smart devices, AI, personalization, and sustainability are transforming the industry, supported by the demand for new innovative products from Chinese consumers.

Key trends in Chinese consumer electronics market

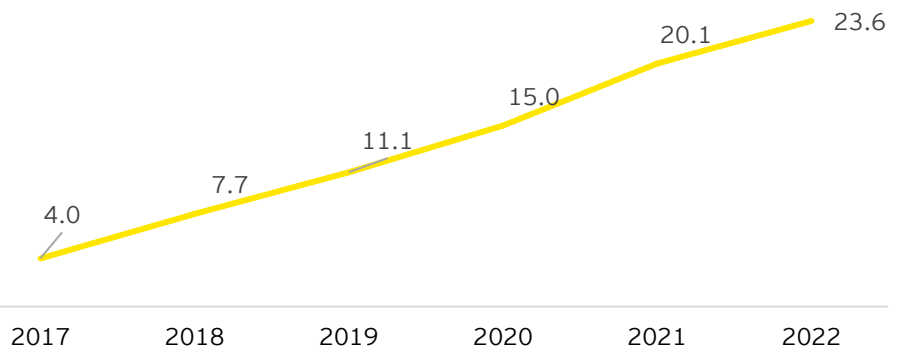


Rise in 5G and IoT enabled devices

5G-enabled products which provides the benefits of higher bandwidth, significant speed, lower latency and suitable for high-end connectivity applications are gaining traction among customers. Integrating 5G in IoT enabled smart home devices, wearables and industrial sensors, that increase the responsiveness and reliability are making these devices more popular. The technology is also driving the growth of cloud-based gaming solutions among customers in China.

Increasing popularity of smart devices

China smart home devices market (US\$ billion)



Source: Daxue consulting⁵

The smart home market in China grew by a compound annual growth rate (CAGR) of over 20% during 2017-22 and is expected to rise further at the similar rate. China's smart home market is growing rapidly, driven by growing consumer awareness, affluence, and tech-savviness. The Chinese government's support in the development of smart home devices and the availability of innovative features at affordable costs are also contributing to the market's growth.

Enhancing user experience with AI technologies

Chinese companies are at the forefront of transformation among home appliance by understanding local market requirements to develop advanced AI-enabled home appliances. As AI technology continues to advance, leading home appliances manufacturers are innovating their products to personalize consumer experience with AI-enabled features to make homes smarter and more efficient.

The increasing demand for personalized products

Demand for personalized consumer electronics products in China is growing rapidly as consumers are increasingly willing to pay a premium for products that suit their personal needs and preferences. Most devices are integrated with AI-powered personalization features that are assessed from users' preferences over time. Rising disposable income and growing individuality will further drive the personalization trend in the Chinese consumer electronics market.

The growing importance of sustainability

Sustainability is becoming increasingly important to Chinese customers and companies in the consumer electronics sector due to rising awareness of environmental issues, government policies and increasing pressure from global investors. Chinese companies are increasingly shifting towards usage of sustainable materials in their designs, such as recycled plastics and renewable energy products. As Chinese consumers are shifting towards longer product replacement cycles, Chinese electronics manufacturers are designing more durable products.

Market challenges

As the CEH market is intense and diverse, dominated by a mix of domestic and foreign companies, healthy competition keeps the market vibrant, however puts pressure on manufacturers to continue to invest in resources. The entities also need to deal with the changing regulations while remain balanced with customer expectations.

Intense competition

The consumer electronics market in China is highly competitive, with both domestic and global companies competing for market share. To maintain a competitive advantage, the companies are required to constantly innovate and invest in research and development (R&D). This adds additional pressure on their profit margins and limits marketing spends, making it challenging for companies to differentiate themselves in terms of cost benefit.

Rapid change in technology

With the continuous emergence of new technologies and products, the Chinese consumer electronics market is continuously evolving, making it challenging for companies to keep up with the latest trends to develop competitive products in shorter period. For example, the rise of smartphones has led to the decline of traditional feature phones. Similarly, the rise of smart TVs has led to the decline of traditional TVs.

Intellectual property protection challenges

Companies need to be vigilant in protecting their IP while developing innovative products that can harm the profits of companies. The government has taken measures to enhance intellectual property and patent protection as well as to cope with infringement.

Regulatory challenges

China is accelerating its pace on the development of its cybersecurity, data protection systems and its capability and strengthening relevant legal, technical support and cooperation. China is also refining the data protection laws regarding cross-border data transfers and tracking consumer data usage. Facing new regulatory challenges, companies should enhance compliance awareness.

Barriers to trade

China's AI industry is reeling under a series of US export restrictions, including a ban on exports of flagship AI chips in September 2022 and a ban on exports of components, advanced chips and tools in October 2022. China's AI industry is facing challenges from US barriers to trade.

Intensive supply chain competition

Due to the impact of trade protection and industrial upgrading, China's supply chain costs have been increasing, causing the production of some low-end products to be shifted to countries with cheaper labor cost, such as India, Mexico, and Vietnam.

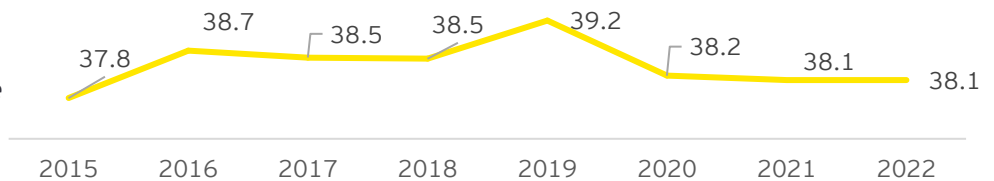
Gradual decline in consumption

The decline in Chinese household consumption spending poses a major threat to the economy, as consumers shift focus from spending to saving. This is evident in the modest growth in online sales during the 618 festival. There was a marginal rise of only 2% year over year in gross merchandised value of products sold during the Double 11 festival in 2023²³, which clearly indicated that customers are only looking to buy products at cheaper cost, and more sustainably oriented. This environment poses a challenge for the Chinese consumer electronics market, as falling demand and increased competition could dampen market growth.



Attributing to low consumer confidence, there is a social media discussion about cutting back on purchases, with hashtags such as #ConsumptionDowngrade gaining traction

China households' final consumption expenditure (% of GDP)



Source: Worldbank⁷

Despite the ongoing challenges and a shifting consumer landscape within China, the demand for consumer CEH products is still witnessing gradual growth globally.

2

Global CEH market opportunity

In 2022, the global exports of CEH are significantly influenced by China, accounting for about 42%, indicating an undeniable dominance and widespread demand for Chinese products globally⁸. There is strong preference for these brands in Southeast Asia, Africa, Latin America, and even Europe. The popularity of the Chinese products could facilitate the expansion of Chinese CEH companies in these regions.

Chinese companies continue to gain global traction

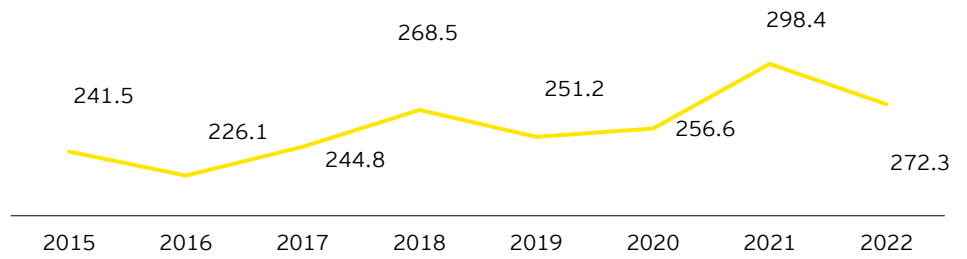
To gain a recognizable position swiftly, Chinese brands continue to customize their product strategies based on the specific country and segment in which they operate. Leading smartphones manufacturers leverage competitive technological features and efficient local distribution networks to gain a dominant market position in the country they aim to expand operations. To build consumer trust and increase product penetration, Chinese brands are also adjusting customer-oriented features such as extending the smart fridges warranty from 10 to 25 years in Europe.

A leading China based smartphone manufacturer was able to elevate its position as the third largest smartphones company globally, within eight years after being launched; A major home appliances brand exhibited a continuous growth of 20% in Europe after acquiring a local firm.

Significant increase in exports is indicative of demand

China's exports of consumer electronics and home appliances (CEH) continue to grow at a CAGR of 6.0% during 2016 to 2021, driven by the strong demand from overseas markets enabled by the products' competitive advantage in terms of low cost, innovative and updated technology features.

China CEH exports (in US\$ billion)

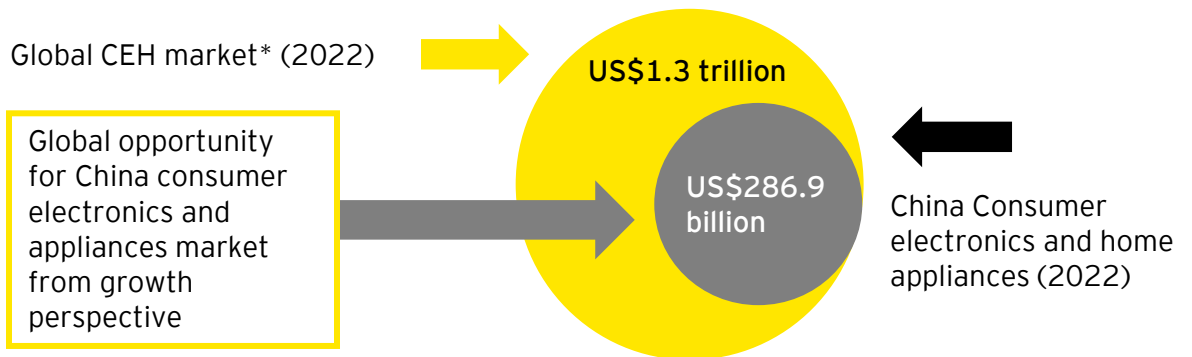


Source: Trademap⁸

Inclusions: Smartphones and other telephones for cellular networks, domestic appliances, with self-contained electric motor; radiobroadcasting or television, vacuum cleaners.

This indicates Chinese consumer electronics companies have great potential to capitalize on the market expansion opportunities and scale their global operations gradually with technological advancements and innovative product features while maintaining product cost effectiveness.

Global opportunity for China consumer electronics and home appliances market



Source: EY analysis; * the global CEH market is estimated using IDC and GfK Zhongyikang numbers

3

CEH market segmentation

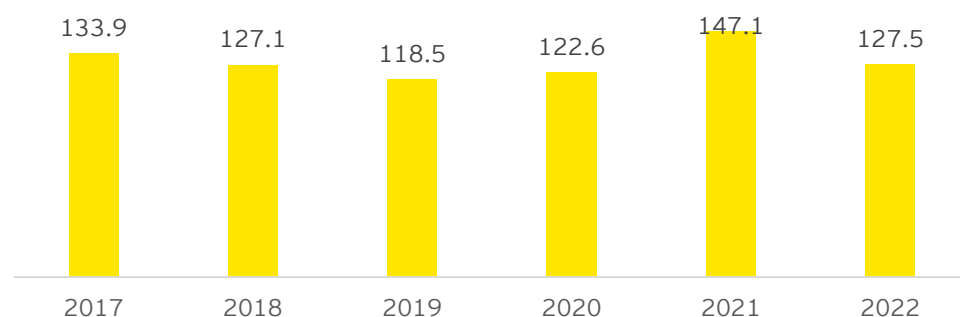
As each CEH market segment has its own characteristics and exhibits varied market dynamics and growth potential, understanding the key growth drivers and factors driving them are crucial. Even the growth patterns of each segment are distinct in nature which would narrate a unique growth story.

Communication equipment segment

The communication segment, which is mainly comprise of mobile phones retail sales, significantly contributed to around 47% of China's overall CEH market share by 2022. ⁸ Despite market saturation and smartphone price inflation, communication equipment remains the fastest growing segment in China's CEH market. This growth is driven by the increasing demand for mobile internet and the continuous advances in technology, making smartphones an indispensable part of people's lives.

Historic market growth

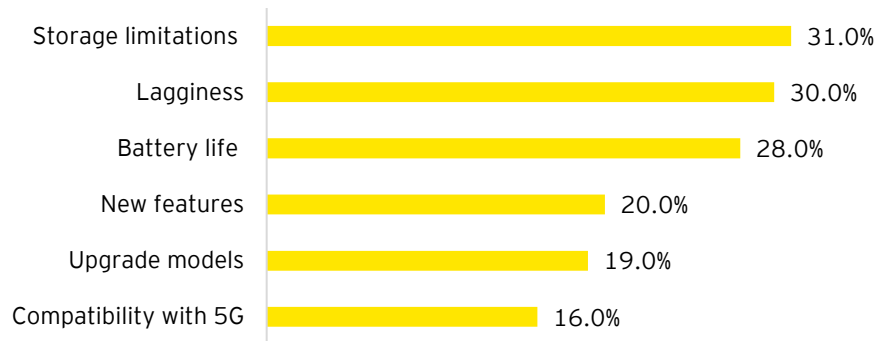
China communication equipment market (US\$ billion)



Source: IDC¹

The communication equipment market declined 13% YoY in 2022 to reach US\$127.5 billion. This was attributed to 13.2% YoY decline in smartphones shipments to 285.8 million, below 300 million marks for the first time in a decade. This was mainly attributed to economic slowdown causing demand to decline.⁹ Even during the 618 shopping festival in 2023, China witnessed sluggish demand as customers are mainly focused on features related to longevity and value for money.

Factors for Smartphone purchase among customers*



Source: Toluna¹⁰, * The items are not exclusive so may not add up to 100%

The top three reasons for Chinese customers changing their phones are storage limitations, phone lagging and battery life.



Major growth enablers

Chinese smartphone vendors are focusing on innovation to deliver better experience to their customers. Companies are innovating in areas such as display technology, design, processor performance and camera technology as Chinese customers demand improved features for smartphones.

► Rising demand for premium phones

The share of high-end smartphones in the overall Chinese smartphone market has surged from 11% in 2016 to over 26% in 2022.¹¹ This upward trend is expected to continue, fueled by rising consumer spending and technological advancements in high-end smartphone designs. Breakthroughs in flagship SoCs (System-on-Chip) and growing brand loyalty among Chinese consumers are further propelling the premium smartphone market in China.

Chinese smartphone companies are launching their premium smartphones to tap the premium phones market

A major smartphone manufacturer targeted expansion in the premium segment by launching new premium smartphones series while expanding its portfolio across price band

► Continued growth of foldable phones

Foldable smartphones are gaining popularity in the Chinese smartphones market as they differentiate themselves by offering a larger screens, multitasking capabilities, and compactness. China holds the largest share of the global foldable smartphone market, with a market share of 58.6% in 2Q23.¹² Its shipments grew by 173% YoY to 1.26 million units driven by the launch of China-specific foldable phones and strong demand from consumers for premium phones.¹³

► Refurbished phones gaining traction

Demand for premium phones is growing, but the higher costs has led to customers often exchanging their existing smartphones, which are normally used or refurbished premium models that are against lucrative buyback value. To further build the customers trusts in refurbished phones, smartphones vendors in China are offering extended warranties.

Initiatives by smartphone companies in China

A global smartphone brand offers certified pre-owned devices at heavy discounts with one year warranty.

A premium smartphone company offers a new battery, a new outer shell, authentic part replacements, and a one-year warranty with products purchased from its certified refurbished store.

- ▶ Increased demand for 5G-enabled smartphones

5G is driving the Chinese smartphone market as consumers are eager to embrace faster speeds, lower latency, advanced features such as Augmented or Virtual Reality and cloud gaming. As 5G networks expand and devices become more affordable, 5G will continue to propel the Chinese smartphone market.

The Chinese smartphone market is booming, driven by rising demand however, it is very dynamic in terms of the changing requirements. It is imperative for manufacturers to continue upgrading and launching products quickly in the market based on the changing customer preferences.

Major growth trends

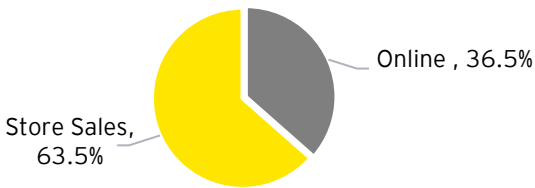
Innovation is propelling the Chinese smartphone market. The market is dynamically evolving with change in business models, emergence of locally manufactured software, product customizations and integration with industrial applications.

- ▶ Shift from product centric to service centric back-end offerings

Technological advancements have led to an increase in the smartphone replacement cycles from 27 months to 31 months.¹⁴ This highlights the importance of improving the service-centric ancillary services. The pandemic has further accelerated the saturated of the smartphone market, facilitating a shift from product-centric to service-centric back-end offerings to improve user experience and differentiate brands.

- ▶ Vendors focusing on online sales

Online vs offline smartphone sales in China, 2022



Source: IDC¹⁵, EY Analysis

Share of online smartphone sales by brands in China, 2022

Apple	43.3%
Xiaomi	19.0%
Vivo	11.2%
Honor	8.4%
Oppo	6.6%

Source: IDC¹⁵, EY Analysis

With the growth of e-commerce in China, vendors are focusing on online distribution channels to increase sales. On the demand side, consumers are increasingly buying smartphones online due to the convenience and the availability of wider range. Online sales of smartphone in China accounted for 36.5% of total market sales in 2022. The smartphone online sales in China were majorly dominated by the top five brands, accounted for 89% of total online sales in 2022.

- ▶ Rise in average selling prices of smartphones

Consumers updating their device opt for a higher-end model with better features resulting in a higher average unit price. Further, the increase in average selling price (ASP) of phones is also due to the increasing cost of components required in smartphones, such as chips and displays. ASP is increasing at a higher rate for premium smartphones than budget phones due to an increase in demand from Chinese customers for premium smartphones.

- ▶ Integration of AI in smartphones

Smartphone vendors are strengthening their technological prowess in areas such as mobile imaging and artificial intelligence and leveraging them in the smartphones. Companies are investing heavily in generative AI (GenAI) to develop ChatGPT like products and integrate them within handsets.

Chinese smartphone companies' investments in AI

A conglomerate consumer electronics manufacturer integrated an AI model into the latest version of operating system.

One of the leading China based global smartphone manufacturer showcased its ChatGPT-like service with voice assistant in their phones.

- ▶ Emergence of smartphones with connected mobility

Smartphones are used to access connected mobility solutions, including navigation, parking, electric vehicle charging, public transportation and more. China's leading electric car manufacturer has launched a high-end smartphone model that can be used with its cars. The company has integrated a variety of related features operated from smartphone including unlocking the car when the engine is turned off and the ability to command the car to park itself.

- ▶ Launching own customized operating system

Chinese smartphone companies are launching their own operating system to reduce dependency on the Android operating system (OS). Chinese smartphone vendors plan to customize the user interface, pre-install their own apps and integrate their own services through the operating system. A leading consumer electronics (CE) company launched its own OS in 2019 and has since gained significant market share in China, reaching about 8% in just three years.¹⁶

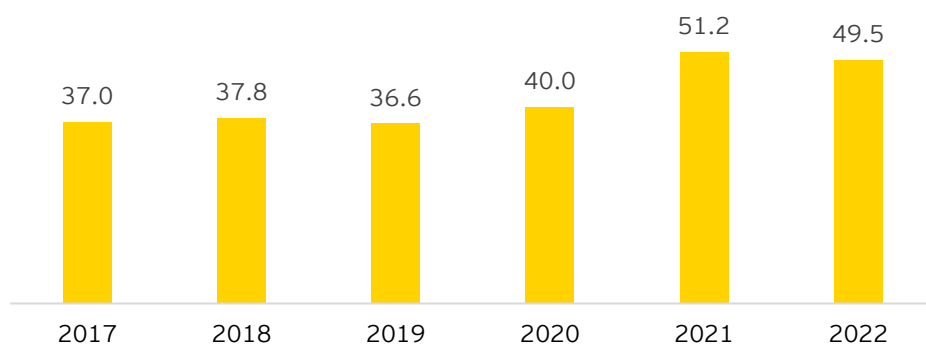
New products with innovative features largely drives the Chinese smartphone market. Companies demonstrate higher efforts for providing customized products to provide unique experience to the customers based on their demand. The market dynamics is expected to change as the adoption of local customized OS will impact foreign companies' sales in the region.

Computing devices market

China held a prominent position in global PC market contributing to nearly 15% share. The country also plays a vital role in revitalizing the APAC PC market, as it accounts for almost 60% of the total PC market. While the number of local brands is vastly greater, the strong presence of well-known foreign brands in the region is noteworthy.

Historic market growth

China computing devices market (US\$ billion)



Source: IDC¹

The PC market in China witnessed a steady but modest growth of 2.7% from 2017 to the early stages of the pandemic in 2020. The market recorded a significant increase of 27% in 2021 driven by the heightened demand for the laptops and desktops, primarily attributed to a significant rise in remote work. This increase was the highest YoY rise in decades. Despite the surge in demand, the supply remained constrained due to a scarcity of essential components and deteriorating logistics conditions.

Definition: The computing devices market includes retail sales of desktops, notebook, and tablets.

In 2022, the market reported a 3.4% slump in revenues at constant currency, primarily due to a 15% YoY decline in shipments to 48.5 million units. This was due to reduced business investment and IT spending and was further exacerbated by the unstable macroeconomic conditions. Desktops segment grew modestly, supported by the demand from the commercial sector, mainly from investments in desktop upgrades.

The overall PC shipments in 2023 are expected to remain stable, at par with the 2022 levels, largely driven by the demand from the commercial sector with the gradual recovery in business activities.

Key market drivers

Despite the current temporary slowdown in market demand, manufacturers continue to develop innovative products, ensuring sustainable growth once macroeconomic conditions stabilize and demand begins to increase. The demand for such innovative products remains intact, given the increased purchasing power and the pursuit of advanced features.

- ▶ Demand for high performance PCs

Increasing purchasing power among Chinese consumers is resulting in an escalating desire for innovative and distinctive PC designs, including sleek notebooks and 5G-enabled devices. In 2022, demand for gaming PCs increased rapidly, accounting for more than 20% of overall shipments in China. Additionally, the increase in creation of online content, has pushed the need for high-performance PCs for tasks such as video editing and rendering.

- ▶ Emergence of domestically made operating systems

Local companies in China are making strong efforts to thwart operating systems (OS) based on foreign technology by launching open-source OS. It was successful in smartphones and expected to drive the demand for domestic PC products as an alternative to Windows OS and reduce dependency on products from multinational companies.

- ▶ Activation of specialized small and medium business (SMBs) to create demand for PCs

The China Ministry of Industry and Information Technology (MIIT) is aiming to support development of over one million creative SMBs as sophisticated and specialized enterprises capable of producing novel and distinctive goods for the domestic market. This program will drive the demand for PCs in SMBs as vital production tools to support manufacturing of high-quality products.

Major trends in the market

Macroeconomic instability affected sales of domestic and international PC brands. Additionally, local product preferences and other supply chain challenges are putting additional pressure on global foreign brands. As a result, these brands are taking significant strategic actions to stabilize their sales. Despite these challenges, most PC manufacturers continue to improve their products to remain competitive in the market.

► Plummeting market shares

Most leading PC manufacturers witnessed a decline in units' shipments in 2022, primarily due to lower sales from the commercial enterprises. Major companies lost market share to newly emerged local companies which reported strong sales from notebooks despite of slowdown. However, as part of their diversification strategy, they continued to release new notebook models with advanced features.

China desktop and notebook shipments (million) and market share (%)

Vendor	2022 shipments	2022 Market share	2021 shipments	2021 Market share	Annual shipments growth (%)
Lenovo	19.3	39.7%	22.8	40.0%	(15.5%) *
Dell	5.6	11.6%	7.2	12.6%	(21.5%) *
HP	4.4	9.0%	5.3	9.2%	(16.6%) *

Source: Canalys⁹ * - figures in () indicates negative growth

► Differential pricing strategy to enhance tablet sales

Despite the decline in the overall PC market, vendors in the tablet segment have strategically increased their market penetration. They bolstered their user base by entering in tier-II and tier III cities, improved their entertainment offerings and diversified their product range to offer an affordable alternative to unbranded tablets.

- ▶ Emergence of 5G enabled PCs

Major PC vendors are collaborating with 5G device and processor manufacturers to launch 5G-enabled notebooks and PCs for improve work productivity. The vendors are focusing on cultivating a 5G-enabled ecosystem to provide customers with connected experience for online education and workstyle innovation. This provides customers with an opportunity to benefit from faster PC browsing, streaming and gaming on their PCs with the advent of 5G.

- ▶ Investment in innovative and sustainable products to maintain competitive edge

Dominant PC vendors continue to invest in introducing innovative, sustainable and environment friendly products to improve user experience and differentiate their brand positioning to sustain in the sluggish market. This includes launching of glasses-free 3D technology to laptops displays for real-time graphics, and eye-tracking stereo cameras to enhance user media and gaming experience. They also expanded their range of eco-friendly PC products, manufactured using recycled and ocean-based plastics to support customers in reducing their carbon footprints.

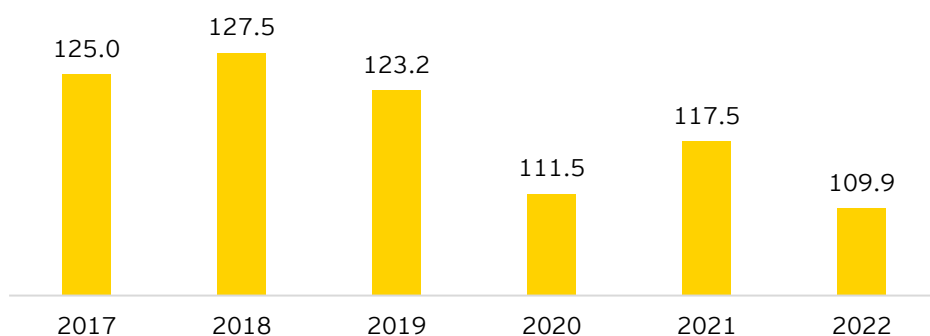
It is imperative that PC vendors should continue to differentiate and launch innovative products to maintain their market share in a highly competitive market such as China, while also dealing with macroeconomic uncertainties.

Consumer home appliances market

The China consumer home appliances market is rapidly evolving sector within China's consumer electronics industry. It encompasses a wide range of household electronic devices designed to enhance daily living. The main categories of products include large domestic appliances (air conditioners, dishwashers, dryers, freezers, hobs and extractors, microwave ovens, refrigerators, ovens, stoves, vacuum cleaners and washing machines) and small domestic appliances (blenders, coffee machines, deep fryers, food processors, grills, hair products, hair trimmers, irons, juicers, kettles, stand mixers, toasters, sun lamps and fans).

Historic market growth

China consumer home appliances market (US\$ billion)



Source: GfK Zhongyikang²

In 2022, the consumer home appliances segment was valued at US\$109.9 billion, with uneven growth over the past five years. The decline since 2019 was driven by a significant drop in consumer investment ability and confidence in non-essential durable goods, which was further exacerbated by the downturn in the real estate market. Many consumers delayed home-related expenditures, which affected demand for home appliances. However, there was a modest recovery in 2021, driven by increased demand for convenience products, such as dishwashers, leading to increased market penetration.

Major growth enablers

- ▶ Emerging sales channel to drive the market

Chinese consumers continue to prefer purchasing home appliances online, a trend that gained significant momentum since the pandemic. This inclination towards digital shopping is expected to persist and grow in the coming years. In 2023, 62.2% of total revenue³ in the market is expected to be generated through online sales. Additionally, consumers are also attracted to live streaming platforms, where influencers and experts showcase and demonstrate home appliances in real time.

- ▶ Pro-consumption policies to drive sales in the sector

The Chinese government is actively promoting smart and eco-friendly home appliances through policies aligning with sustainability and technological goals. In July 2022, the Ministry of Commerce (MOFCOM) introduced a notice with nine measures, including nationwide appliance trade-ins, rural promotion of green appliances, service improvements, and infrastructure development. The policy aims to boost household renovation consumption, increase smart home appliance adoption, and advance digital home development. It includes credit support for households purchasing new smart appliances.

- ▶ Rise in demand for imported home appliances

China's surging population is playing a pivotal role in the escalating demand for imported home appliances. Its appeal lies in the recognition of superior quality, safety standards, innovative designs and evolving spending habits, characterized by a growing preference for improvement-oriented consumption.

- ▶ The rise of the middle class and the growing consumer sophistication

There has been notable rise in China middle-class population over two decades accompanied by a significant rise in their disposable income. Around one third of China's 1.4 billion¹⁸ people were middle class in 2022 from just 3 % in 2003, with monthly disposable income between US\$1,325 to US\$4,172⁴ (RMB9,500 to RMB29,900). This economic shift had a profound impact on the domestic home appliance market. Urban households recorded a 4.4% increase in median disposable income in the first half of 2022 and rural households saw a growth of 6.1% as compared similar period in 2021.

It is evident that the market is evolving towards experiential purchasing formats such as live streaming, social media and e-commerce, however there was also a larger push from the supportive factors including government support and overall economic uptrend in the country. Additionally, it is critical to understand how these enablers have shaped the market in the recent past.

The online retail sales accounted for 57.8% of the total retail sales¹⁷ of home appliances in China during 2022, up 6% from 2021.

Imported kitchen appliance in China generated ~US\$27.22 billion (RMB189.75 billion) in revenue in 2022¹⁷, and the market is anticipated to further grow by a CAGR of 5.14% from 2022 to 2027.

Key trends in the market

- ▶ Rising demand for premium appliances prioritizing health, convenience, and aesthetics

Significant shift in consumer preferences is driving a surge in sales for high-end home appliances that offer both health benefits and aesthetic appeal. Chinese consumers are now seeking more than just functionality in their home appliances and desire products that contribute to their overall well-being and seamlessly blend with their home interiors. This trend has increased the popularity of premium appliances such as air purifiers and smart refrigerators.

- ▶ Scenario-based experience for the appliance industry

Home appliance brands are establishing scenario-based kitchen showrooms, offering a one-stop experiential platform enabled with augmented reality (AR) and virtual reality (VR) for appliance displays, living demonstrations, and cutting-edge technology. This immersive approach connects users with domestic and western lifestyles. For instance, companies are designing smart kitchens to showcase seamless integration, demonstrating convenience and time-saving features in scenarios such as busy weekday dinners or weekend gatherings.

- ▶ Rise in demand for multi-functional household appliances

Chinese consumers are increasingly attracted to multi-functional household appliances, a trend linked to evolving demographics. With a rising number of single individuals in smaller apartments, there's a demand for versatile and space-saving appliances. In 2021, China had 92 million single people, 66.7% residing in 30-40 m² apartments²⁰. Home appliances such as combination washer-dryers and compact kitchen units are popular as they maximize utility in constrained spaces. From 2017 to 2020, all-in-one washer-dryers' market share grew from 19.0% to 28.9% online and from 19.0% to 46.6% offline.

- ▶ Smart homes concept driving demand for IoT enabled home devices.

China's smart home market is experiencing significant growth due to a rising tech-savvy population. The surge in smart home adoption is having a profound impact on the demand for smart home appliances. As an illustration, in 2022, the sales volume of robot vacuum cleaners in China totaled 6 million units²¹ in 2022 as compared to 5.7 million units in 2021. It is anticipated that the sales volume will reach near 18 million units by 2024. Household appliance manufacturers are offering IoT and artificial intelligence-equipped platforms for connected appliances to lure customers for convenience.

The share of refrigerators priced above US\$1,366.2¹⁹ (RMB10,000) went up 5.4 percentage points to 37.1% in the offline market in 2022.

In 2022, the Chinese Smart Home market, generated revenue of US\$23.3 billion⁸, and it is anticipated to sustain this growth trajectory with a projected CAGR of 13.5% from 2022 to 2028.

4

Industry best practices

As Chinese CE products continue to exhibit strong demand globally, there remains huge opportunity for growth. It is of vital importance to understand how successfully Chinese companies overcame the domestic growth dynamics and established their local presence before exploring their potential for scaling the operations globally. To achieve the same, they undertook a range of strategic initiatives including collaboration with local vendors, exploring e-commerce channels in local countries, acquiring niche companies to expand their presence, making strategic product enhancements to fit the specific customer base, and more. Their demonstrated growth trajectory could inspire emerging companies with aims to grow globally.

Strategic imperatives which enabled success of PC manufacturers - China and Beyond

For years, foreign brands had a positive reputation in the Chinese market. However, with China's shift towards a consumption-driven economy, domestic brands gained advantage in the country. Successful PC manufacturers have thrived in the market by developing strong sales distribution channels, leveraging their better customer understanding for faster response and focusing on innovative products for developing their market share.

Unearthing success leveraging core strengths

▶ Product innovation

China PC market always remained very innovative with continuous alteration of demand across wider gamut of products including workstation, thin & light, and Gaming PCs. This inspired PC manufacturers to rely on continued efforts to deliver innovative products by significantly investing in R&D, over 10% of revenues. Major companies integrated IP strategy as an integral part of their innovation cycle and product design process, to quickly develop unique featured products and commercialize to maintain an edge in the highly competitive market.

▶ Business diversification

Most PC manufacturers in China believed in diversification of product lines to suffice their business during uncertain times, as well as gaining edge with additional stream of revenues to lead the market. They largely expanded into the closest segments such as cloud service, storage solutions and software and service solutions to scale their business and offer integrated products.

▶ Differentiated sales strategy

China based multinational corporations (MNCs) emphasized on differential strategy for sales to various segments which enabled them to retain their local market position against global brands, while parallelly focus on new segments expansion. They emphasized on sales to small and medium-sized enterprises and retail customers, through websites, storefronts, and distributors to expand their share in the established segments while driving business in less mature segments. This include enterprise clients and government agencies through internal sales representatives and business partners providing personalized services.

▶ Targeted market segmentation

With the increase in demand for laptops across customers of all income levels, domestic PC manufacturers targeted selling products to all levels unlike foreign brands that often targeted upper and middle class audience at premium prices. This enabled domestic manufactures to establish and gain larger market share in China.

▶ Manufacturing locally capturing market globally

While global brands relied on offshore resources in terms of R&D, design and procurement, domestic PC vendors in China extensively leveraged production modularization (modular components) utilizing resources domestically for manufacturing. This enable them to easily access components during difficult times and manufacture products in economies of scale with customizations, being located at the center of the global factory. This combined with the strong domestic distribution network proved as an advantage to scale operations over global brands.

▶ Insistence on cost innovation

Major brands in the PC segment harnessed cost innovation integrating low-cost product design in R&D, low-cost manufacturing including internal, contracted and low-cost engineering and administration. This enabled them to focus on additive innovation and customization while maintaining competitive costs.

Overcoming roadblocks in the path of global expansion

Although Chinese laptop brands are now globally recognized, when they first entered the international market, they were hampered by the lack of competitive technology, quality and general awareness of Chinese products in Western countries.

- ▶ A win over cultural difference

Chinese companies have experienced cultural differences and language barriers while dealing with global companies' way of working. To overcome these differences, major Chinese PC companies deployed a local executive with sound cultural understanding to manage their acquired entity and make an impact in business growth in the target nation. Enabling trust was considered as one of the strategic factors by Chinese PC manufacturers.

- ▶ Gaining position in emerging market such as India

It was always challenging to mark position in emerging and high potential market such as India which is dominated by foreign PC brands. After initial failure for marking presence through point of sales (POS) stores, Chinese PC vendors followed an omnichannel approach for reaching customers through network of own flagship stores as a one stop for enhancing customer experience, along with the existing point of sales (POS) stores. They also marked success through e-commerce channels on their own websites integrating online and offline channels for 24/7 delivery.

- ▶ Strategy to normalize expansion related costs

As PC industry holds heavy inventory, manufacturers faced high operating losses while expanding its presence by develop sales channels in the target market. However, the successful companies endured such loss-making phase with a specific objective in mind. After achieving a double-digit market share, the company planned to shift its focus to maintaining a balance between profitability and growth.

Strategies for setting business globally through adoption of localization

▶ Brand positioning

One of the core strategies adopted by the major PC manufacturers is to uplift its brand image, making it relevant to the global audience. These companies changed their brand names to a less Chinese-sounding name to demonstrate higher value while expanding their business outside the APAC region. Some of the companies also became sponsors of events to familiarize their brand name in the global market.

▶ Strategic acquisitions and partnership for growth

Major Chinese PC manufacturers have adopted an offensive strategy by identifying and acquiring growing PC brands of their global suppliers which are well established in the target country. This enabled them to leverage the brand recognition in the region while expanding their portfolio with high-quality products. These companies also gained synergies from the customer bases, product offerings, and distribution network to substantiate their position.

▶ Customized Content

Successful Chinese companies prioritized providing customized content and themes on their local websites to attract customers. They designed customized websites for each country, not only language but also for other major localization aspects including images, content, customer stories, and external links. Some of them adopted influencer marketing with local brand endorsements for their advertisement displays.

The distinctive growth enablers facilitating triumph for smartphone manufacturers

Major Chinese smartphone makers pioneered smartphone market by launching affordable feature-rich smartphones to the growing middle class. They gained success in serving innovative products to China's dynamic consumption-driven economy. These companies also gained popularity in many major markets by emphasizing localization, gaining traction in price-sensitive markets like India while competing with popular global brands. The strategies adopted by these companies can be a value enabler for companies looking to expand globally.

Strategies adopted by Chinese smartphone manufacturers

Sub-brand strategy

Chinese smartphone manufacturers have been increasingly using sub-brands to expand their reach and market share. Sub-brands allow them to target different market segments - from youths to premium customers with tailored marketing messages for varied products - budget-friendly to premium flagships without diluting their main brand identity.

Diversification

Chinese smartphone manufacturers have diversified their product offerings by entering markets like smart home devices, wearables, and smart TVs. Major companies have created comprehensive ecosystems that include a wide range of interconnected products and services.

Focus on premium smartphones

Chinese phone brands are shifting their focus on high-end phones, aiming to transcend their budget phone manufacturer image. They aim to compete with high end phone companies after gaining hold in the budget phone market. They are innovating with foldable phones or pop-up cameras and shedding the image of manufacturing low-cost copies of existing products.

Domestic market saturation and strong demand globally has enabled expansion

China has a massive domestic market for smartphones, but it has become increasingly saturated and competitive with numerous brands offering similar features and capabilities. Thus, it was imperative for Chinese manufacturers to tap into new markets and reaching a broader customer base, ensuring continued growth.

Challenges faced by major smartphone manufacturers



Highly saturated market

As the Chinese smartphone industry is becoming highly saturated and competitive, smartphone brands are diversifying their product range to differentiate themselves by creating comprehensive ecosystems of interconnected devices. These ecosystems can enhance user loyalty and retention, as consumers may prefer products that work seamlessly together, creating a more unified and convenient user experience. For example, leading Chinese smartphone manufacturers launched health and wellness devices, including blood pressure monitors and thermometers, catering to users' health needs.



Brand recognition and trust in foreign markets

While expanding in countries where Chinese brands were relatively unknown, the smartphone manufacturers faced challenge around building brand recognition and trust among consumers while also competing with well-established brands. To deal with this situation, Chinese brands invested heavily in marketing and advertising campaigns, exploring famous personalities such as product endorsers and major gaming events to raise awareness about their products and build a positive reputation.

Factors attributing global success

Chinese smartphone brands focused on affordable pricing, localization of the customer experience and the decision to rely on strategic local partners for their international expansion strategy to overcome the above mentioned challenges.

► Affordable pricing

Successful Chinese smartphone brands offered high-quality smartphones at low prices, aimed to capture the price-sensitive consumers in emerging markets. They also adopted a direct-to-consumer model, selling their products online or through their own stores, to reduce distribution costs and pass the savings to the customers.

► Localization of customer experience

Chinese smartphone manufacturers tailored their products and services to local preferences and needs of the target markets. They connected with customers through online forums, social media, and fan events, to solicit feedback and build loyalty. They also leveraged local celebrities to promote their products, which help them connect with a broader audience and boost brand visibility.

► Strategic local partners

Chinese smartphone brands collaborated with local partners to gain a foothold in new markets and expand their reach. This involved partnerships with manufacturers, suppliers, distributors, content providers, app developers, and internet service providers to ensure sufficient production, efficient supply chains, a robust ecosystem, and value-added services for customers. Chinese brands have also localized their product features and marketing campaigns to appeal the local market.

From domestic brand building to localization lead home appliance companies to go global



► Core building stage

Prior to entering global markets, Chinese home appliance firms prioritized strengthening their domestic capabilities. This strategy, based on the resource-based view, emphasized internal resources to build a stable foundation in volatile external environments. They recognized that competitive advantage, not just industry appeal, drove profitability.

► Service orientation

In the early growth phases, companies form alliances with foreign appliance producers for exchange of knowledge, reducing risks and costs in expansion. Chinese firms prioritized quality accreditation for marketing advantages, while also establishing advanced service centers to enhance customer support and monitor consumer behavior.

► The development and diversification stage

Acquisition is a primary method for firms to diversify and increase market penetration through expansion of product diversity. Diversification aims for growth and risk reduction but can yield underwhelming shareholder returns. Chinese firms adopt a focused yet diversified strategy, believing satisfied customers of one product, are likely to buy related items, creating a shared customer base. When diversifying, they prioritize parental fit, aligning the parent's skills and resources with individual businesses to enhance their value.

▶ Internationalization

Chinese home appliance companies expand internationally through incremental steps, starting from domestic markets, then progressing to culturally or geographically similar foreign markets. Their expansion begins with exports and advances to more involved operations like joint ventures or establishing overseas manufacturing subsidiaries. They focus on building international brands, later transitioning to producing localized mainstream brands globally.

▶ Location strategy

Firms strategically locate themselves in markets with sophisticated and demanding customers. This approach forces the companies to elevate its standards in product development, manufacturing, marketing and customer service, driving competitiveness.

▶ Localization

Chinese companies believe that international success hinges on adapting to local markets, fostering the perception of a localized brand rather than a Chinese exporter. By adapting to local conditions brands are more likely to be accepted by the local population. They feel more familiar and relevant, which can boost adoption rates.

▶ Organization

Companies in the region aim to create an organization suited for the internet age, much like the decentralized architecture of the internet. They implement a unique organizational structure by dividing the company into microenterprises which stand as autonomous business units. These microenterprises serve three primary functions:

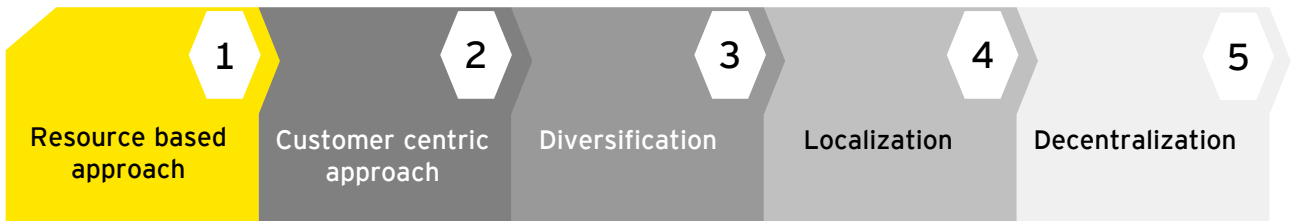
Transforming units: These units are customer-centric and focused on understanding consumer needs. They produce products tailored to the demands of a web-enabled market.

Incubator units: These units concentrate on emerging markets, including areas like smart appliances.

Node microenterprises: These units provide component products or services such as research and development, design, marketing and manufacturing to the market-facing units.

While business units have autonomy, they follow common standards for setting targets, internal communication and cross-unit coordination.

Strategic enablers



Winning over the challenges

► Foreign development risk

Entering into foreign markets can present significant challenges for Chinese home appliance companies. Cultural differences, foreign regulations, and market-specific nuances can create hurdles that require careful navigation. These companies adapted their products and marketing strategies to fit local cultural preferences and consumer behaviors, which were vastly different from those in China. Additionally, international regulations, safety standards, and trade policies necessitated compliance efforts and possible product modifications.

► Attracting and retaining talent

Attracting and retaining the right talent has been a notable challenge for Chinese home appliance companies during their growth. These firms need individuals who could help transform them into global brands while also maintaining a localization focus to cater to diverse markets. Home appliance companies established attractive work environments, offer innovative incentives, and foster a culture of entrepreneurship and innovation to retain and nurture talent.

► Overcoming supply chain challenges

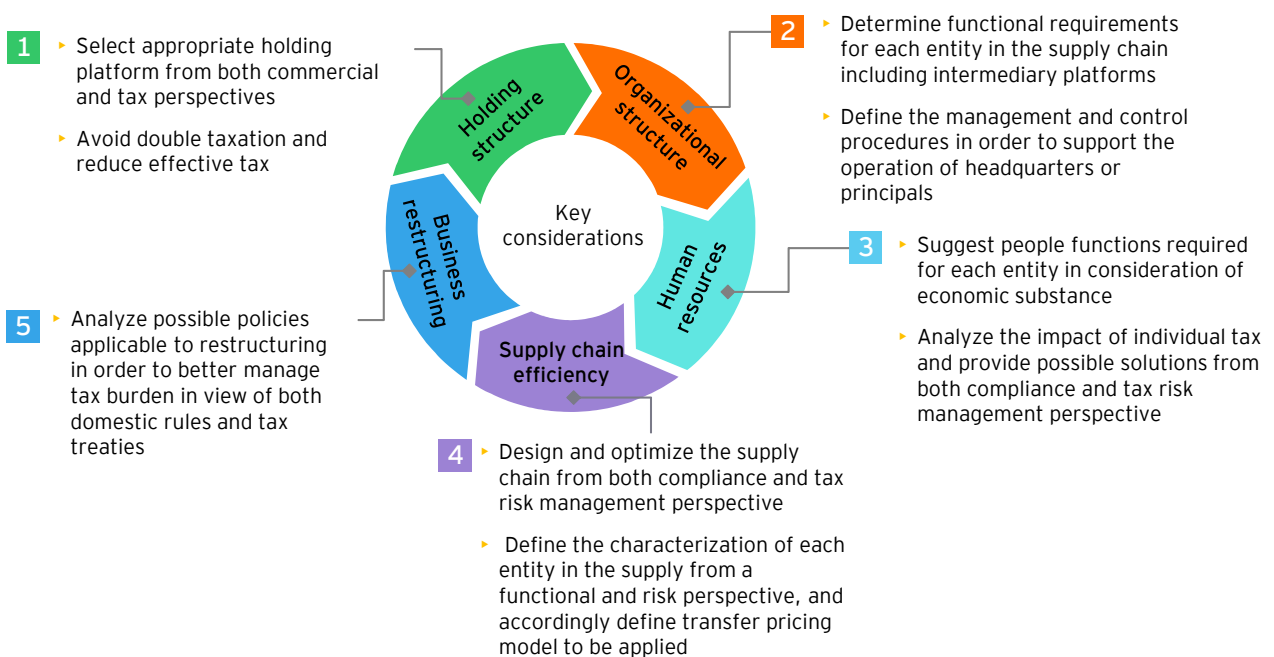
Supply chain disruptions had a significant impact on Chinese home appliance companies, causing production delays, increased costs, and potential damage to customer relationships. Many companies adopted a multi-pronged approach and diversified their supplier base to reduce reliance on a single source. They also implemented digital supply chain technologies for real-time visibility and inventory management, and developed agile supply chain processes.

5

EY solutions and case studies

Tax solutions for overseas investment

When implementing an internationalization strategy, businesses would have to consider taxation issues from an operational efficiency perspective since there are differences in taxation systems among jurisdictions. For example, they will need to assess whether indirect investment through intermediary platform is better than direct investment and what economic substances are required for such intermediary platform, how overseas subsidiaries would operate in the supply chain of the group (e.g., would it be a distributor, a manufacturer, or a service provider.), what taxes should be paid and whether there are favorable tax policies during operation in a target jurisdiction, whether exit would trigger any taxation, and more. All these considerations would have significant impact on the investment return or supply chain net profit margin from a group level. Below is a case study where we demonstrated key considerations when we assisted a CEH company in implementing its internationalization strategy from a tax perspective.



To summarize, in the international process, tax solutions should be considered through different stages of market entrance, continuous operation and market exit for both compliance purpose and operation efficiency purpose. EY member firms across the globe (“EY”) can provide full support in all stages covering various tax services:

- ▶ International tax: covering all tax services related to international investment, including holding and financing structure design, international tax planning, supply chain and operation model effectiveness, and transfer pricing services
- ▶ Corporate income tax advisory: tax advisory services applicable to certain jurisdictions
- ▶ Corporate income tax compliance: assistance in global compliance and reporting across jurisdictions
- ▶ Indirect tax: advisory services regarding indirect tax, including VAT, customs and global trade
- ▶ Employee tax advisory services: individual income tax advisory and compliance services for high-level management with high mobility
- ▶ Individual income tax services: individual income tax advisory services for business travelers regarding certain jurisdictions
- ▶ Tax accounting and risk advisory services: advisory services about tax accounting and internal control, in particular in compliance with the US Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS)
- ▶ Transaction tax: tax due diligence services in connection with financial modeling and due diligence for transactions

International tax planning services		Corporate tax services			Financial transaction tax	Indirect tax services	People advisory services	
Transfer pricing	Cross-border tax advisory	Corporate tax advisory	Compliance and reporting	Tax accounting and risk management	Due diligence and tax planning	VAT, customs and global trade	Overseas employee tax	Performance and rewards

Tax efficient holding and financing structure

Background:

A leading Chinese home appliance company has been actively expanding its global operations through a series of overseas acquisition transactions and newly set-up of local subsidiaries. As a result, the holding and financing structure becomes quite complex and unorganized which results in tax inefficiency. Accordingly, EY team was engaged by the company to review the holding and financing structure to enhance the overall tax efficiency and flexibility in the use of funds.

EY team provided the following services to the company:

- ▶ Review of the current holding and financing structure and to have an in-depth understanding of the future strategic plans in relations to overseas operations
- ▶ Assist to design the overseas holding structure for new acquisition or newly set-up and to develop a step by step plan to restructure the current holding structure in a tax efficient manner from the following perspectives:
 - ▶ Tax treatment on profit repatriation and financing transactions
 - ▶ Tax treatment on future restructuring or exit
 - ▶ Flexibility of use of funds amongst subsidiaries
 - ▶ Future business development plans
 - ▶ Complexity and time required to perform the restructuring steps
- ▶ Assist to implement the restructuring steps including execution of all the relevant share transfer transactions
- ▶ Advice on the necessary substance to be maintained at the holding company

Through the above exercise, the company achieved the following objectives:

- ▶ Have a clear guideline on the holding company to be used under different scenarios in future acquisition transactions
- ▶ Performed the restructuring with only minimal tax costs
- ▶ Significantly reduced the withholding tax cost on future repatriation of profits from the US and Europe subsidiaries
- ▶ Have an overseas holding and financial platform to facilitate the future use of funds

Global human resources (HR) regulatory and compliance leading practice and solutions

Background:

A leading China CE company has strengthened its globalization strategy to better explore international markets and resources for continued and rapid growth and cutting-edge innovation. With global expansion comes a unique set of people challenges. Accordingly, the EY People Advisory Services team was approached by the company to help them build their global HR regulatory and compliance capabilities.

Scope and solution:

1. Global HR Compliance Risk Framework scanning

- ▶ Establish a global HR compliance framework:

Identify typical dimensions of global HR operational compliance risk profile (as per rule-based regulatory frameworks of people domain globally, including visa and immigration, labor, individual income tax, employment tax, data privacy, collective bargaining, employment health and safety, related law, regulations, treaties, directives).

Risk profile analysis to help on understanding the overall risk exposure and aids in making informed decisions regarding risk management mitigation actions through assessment and evaluation of risks faced by the organization, likelihood of impact and occurrence and prioritizing them based on significance.

- ▶ Assist a leading China CE company on conceptual design on HR function and mechanism of operational compliance and risk management based on “as-is” assessment, also in considering alternatives of typical practices and solutions in the market
- ▶ Develop HR compliance manuals for targeted countries
- ▶ Necessary workshop and trainings for the management to improve awareness to global HR operational compliance and how it impacts their everyday work

2. HR compliance manuals for other countries on needed basis

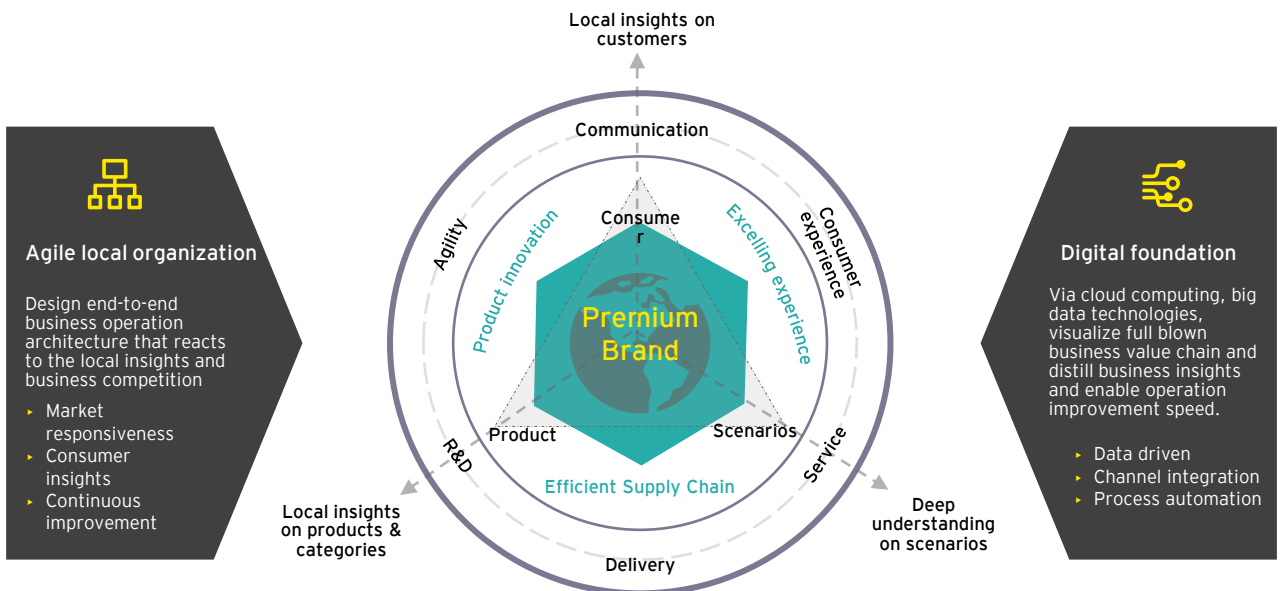
3. HR compliance health check service for specific country, targeted group companies

4. Develop a series of HR toolkits and enablement to support the company on its compliance journey. Toolkits could cover policy, process design, streamline, standard operating procedures (SoPs) development, and readiness assessment. Areas could cover recruitment and hiring, labor relations, work organization, health and safety, global mobility, and society and culture.

Customer data protection and integrated channel operation

For maintaining a sustainable business performance and scalability, the customer data governance become more important when it comes to domestic brands venturing to global markets. To accelerate the speed of operation development, organizations are more dependent on third party partners for e-commerce platforms and global technologies; geopolitics and technology are inseparably intertwined in today's geostrategic environment. Governments are increasingly using industrial policy and technology regulations to promote self-sufficiency. Lastly, with faster moving of technology innovation such as GenAI applications, Chinese enterprises should consider the potential technology risks before they deploy their new market penetration strategies.

At the same time, a complete understanding of global channel complex and delivering the premium customer experiences via efficient and consistent channel operation framework become vital for winning the competition with global brands as well as local brands in targeted markets. It goes without saying that delivering premium branding images are not just media work but to boost customer satisfaction from various scenarios such as product trials, purchase efficiencies, on-time delivery, and after-sales satisfactions. To really implement a success oversea channel operation capability, CEH companies have to consider from the perspectives below:



In such process, we can help you in following areas:

Business consulting: helping organizations to design targeted operating model and technology architectures that provides consistency, scalability and in full compliance with local market regulatory; developing omni-channel strategies and inventory operation plans that benchmark with local competitors; R&D capability localization by incorporating local sourcing and consumer insights; localize brand and redesign customer experience delivery via local online and offline channel mix.

Technology consulting: assessing data security maturity due to local regulation and compliance requirement; design consumer data security governance framework and implement data safeguard programs in targeted market; design localized technology architecture and enable data insights to be timely captured by operation stakeholders.



References

1. "Worldwide Blackbook live edition," IDC, accessed on 6 November 2023
2. "2022 home appliance market summary," GfK Zhongyikang, accessed on 7 November 2023
3. "Chinese e-commerce giants entice cautious consumers with steep mid-year discounts". Reuters, <https://www.reuters.com/business/retail-consumer/chinese-e-commerce-giants-entice-cautious-consumers-with-steep-mid-year-2023-06-16/>, 16 June 2023
4. Average annual per capita disposable income of urban and rural households in China from 1990 to 2022, Statista, <https://www.statista.com/statistics/259451/annual-per-capita-disposable-income-of-rural-and-urban-households-in-china/>, accessed on 9 November 2023
5. Over 82% of new homes in China utilize smart home systems, Daxue consulting, <https://daxueconsulting.com/smart-home-future-in-china/>, 29 September 2022
6. "Consumer Electronics - Worldwide", Statista, <https://www.statista.com/outlook/cmo/consumer-electronics/worldwide#:~:text=Revenue%20in%20the%20Consumer%20Electronics,US%24498.3bn%20in%202023.>, accessed on 8th November 2023
7. China Households final consumption expenditure (% of GDP), Worldbank Database, accessed on 9 November 2023
8. China home appliances and communicating devices exports, Trademap Database, accessed on 9 November 2023
9. China PC market to stabilize in 2023 as growth looms in 2024, Canalys, <https://www.canalys.com/newsroom/china-PC-market-Q4-2022>, 13 March 2023
10. "Evaluating the Smartphone Market in China," Toluna, <https://tolunacorporate.com/evaluating-the-smartphone-market-in-china/>, 13 May 2023
11. "China Premium Smartphone Market Outlook: Bright Future Ahead," Counterpoint, <https://www.counterpointresearch.com/insights/china-premium-smartphone-market-outlook-bright-future-ahead/>, 10 April 2023
12. "China smartphone market," Counterpoint, https://www.counterpointresearch.com/zh-hans/insights_tag/china-smartphone-market/, 2023
13. "China's foldable smartphone shipment rises 173% in Q2," China Daily, <https://www.chinadaily.com.cn/a/202308/21/WS64e2bea8a31035260b81d438.html#:~:text=BEIJING%20%2D%2D%20The%20foldable%20smartphone,according%20to%20an%20industry%20report.>, 21 August 2023
14. "From smartphones to drones: an in-depth look at China's consumer electronics market," Daxue Consulting, <https://daxueconsulting.com/china-consumer-electronics-market/#:~:text=2023%20China's%20consumer%20electronics%20trends,and%20augmented%2Fvirtual%20reality%20technologies.>, 29 June 2023
15. "Worldwide Quarterly Mobile Phone Tracker," IDC, accessed on 6 November 2023
16. "HarmonyOS is now firmly the third largest mobile phone operating system," GizChina, <https://www.gizchina.com/2023/05/20/harmonyos-is-now-firmly-the-third-largest-mobile-phone-operating-system/>, 20 May 2023
17. "FY22 annual report," Midea group, <https://www.midea-group.com/investors/financial-reports>, accessed on 7 November 2023; "The Kitchen Appliances Market in China," Ecommerce China agency, <https://ecommercechinaagency.com/the-kitchen-appliance-market-in-chinasmart-guide/>, 20 July 2023
18. "China turns to rural tourism and smart appliances to boost consumption," CNBC, <https://www.cnbc.com/2023/08/02/china-turns-to-rural-tourism-and-smart-appliances-to-boost-consumption.html>, 1 August 2023
19. "FY22 annual report," Haier group, <https://smart-home.haier.com/en/gpxx/>, accessed on 7 November 2023
20. "Health-awareness, technology, and new consumer needs are disrupting China's Household Appliances Market," Daxue consulting, <https://daxueconsulting.com/home-appliance-market-china/>, 19 January 2023
21. "Sales volume of robot vacuum cleaners in China," Statista, <https://www.statista.com/statistics/1279013/china-robot-vacuum-sales-volume/>, accessed on 7 November 2023
22. "Smart home market in China," Statista, [https://www.statista.com/outlook/dmo/smart-home/china#:~:text=The%20Smart%20Home%20market%20in,%2D2028\)%20of%2013.47%25.](https://www.statista.com/outlook/dmo/smart-home/china#:~:text=The%20Smart%20Home%20market%20in,%2D2028)%20of%2013.47%25.), accessed on 7 November 2023
23. "Sales Data for China's Singles Day Shopping Festival 2023 Reveals Robust Consumption Demand", PRNewswire, <https://www.prnewswire.com/news-releases/sales-data-for-chinas-singles-day-shopping-festival-2023-reveals-robust-consumption-demand---syntun-release-chinas-singles-day-shopping-festival-gmv-reaches-1138-6-billion-rmb-301985315.html>, 12 November 2023
24. "Urbanization Rate, National Population Census(%)" National Bureau of Statistics;, <https://data.stats.gov.cn/english/adv.htm?m=advquery&cn=C01>
25. "Consumer Electronics - Asia", Statista, <https://www.statista.com/outlook/cmo/consumer-electronics/asia>, accessed on 8 November 2023

Contact us



Denis MK Cheng
Greater China Consumer Industries
Leader
Ernst & Young Hua Ming LLP
denis-mk.cheng@cn.ey.com



Raymond Hu
Partner
Greater China Consumer Industries
Business Consulting services
Ernst & Young (China) Advisory Limited
ray.hu@cn.ey.com



Ho Sing Mak
China South Tax Leader
Ernst & Young (China) Advisory Limited
ho-sing.mak@cn.ey.com



Tommy Law
Partner
Audit services
Ernst & Young Hua Ming LLP
tommy.law@cn.ey.com



Alison Li
Partner
Audit services
Ernst & Young Hua Ming LLP
alison.li@cn.ey.com



Xueyuan Zhang
Partner
International Tax and Transaction
Services
Ernst & Young (China) Advisory Limited
xueyuan.zhang@cn.ey.com



Liu Chun
Vice President
CCCME
liuchun@cccme.org.cn



Niu Hongwei
Director of Exhibition Dept.
CCCME
niuhongwei@cccme.org.cn

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

EY embraces innovation and adopts advanced technologies, helping clients identify market trends, capture opportunities and accelerate business transformation through integrated high-quality services.

Working across assurance, consulting, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients, nor does it own or control any member firm or act as the headquarters of any member firm. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2024 Ernst & Young, China.
All Rights Reserved.

APAC no. 03019122
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com/china

Follow us on WeChat

Scan the QR code and stay up-to-date with the latest EY news.

