

Home Appliance - China

Expert call takeaways: heightening pricing pressure

Industry Overview

We recently hosted a conference call with a white-goods distributor, Mr. Zhao, based in Southern China, and we summarize our key takeaways below. Please note that these discussions were specific to the distributor's region and may not represent national trends; information should be used together with other sources and channel checks.

Recent update: better-than-expected retail sales

The distributor said that he saw better-than-expected retail sales in his region in 4Q23, with sales decline narrowing MoM and turning positive in Dec (did not see low base in 2022 in his region). 2024 started with a strong Jan. The distributor saw AC retail sales up strong double-digit YoY (partially due to calendar shift), or up 8-9% vs. Jan 2022 in the region. He attributed the growth to property completions in 2023 (with home appliance purchase demand occurring in 2024) and some recovery in consumption sentiment.

2024 outlook: positive growth

The distributor took a conservative approach on sell-in in-take for 2023, and focused on inventory clearance in Dec. As a result, he only achieved 70-90% of the 2023 target. Growth targets are set at 15-20% for 2024. The distributor conservatively thinks such growth targets are too optimistic, but still believes positive growth is achievable.

ASP pressure heightening with more price cuts

Both high-end and low-end sub-brands of leading home appliance players have seen prices declining since 3Q23 till now, with high-end product prices down low-teens% and low-end down mid-single-digit%. Core brands' (mid-end) pricing has been relatively resilient, thanks to mix upgrade.

The distributor shared his concerns on ASP pressure and believes there could be another single-digit downside to ASP, likely in March before the peak season. His view is based on the following: 1) commodity price deflation has left brands with margin buffers; 2) leading white-goods players now have more exposure to high-end than 3-4 years ago, which leaves them with more buffer to offer price discounts; 3) even after this round of ASP cuts, ASP is still 20% above the 2019 level; and 4) consumption downgrades at more value-for-money products. On a positive note, the resiliency of core brand pricing could largely offset the declining high-end and low-end pricing and leave a flattish ASP at the group level.

Channels re-balancing

Although online could generate volume quickly, offline is still the major channel for high-end brands. eCommerce growth (incl. offline stores opened by eCommerce platforms) is moderating. Major brands are rebalancing their online and offline exposure and strategies. Brands that earlier focused on online are adding new distributors and offering subsidies to them to open new stores (without KPIs), which seems attractive to distributors. While, some brands have invested more on online to boost volume (mainly low-end).

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AC: air-conditioner

CNY: Chinese New Year

MSD: mid single digit

ASP: average selling price

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