

Chinese Consumers Embrace Pingti, and Retailers Respond

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The German sneaker and sportswear manufacturer Adidas has seen its sales rebound in China after several years of slogging through the nation's economic malaise. In some respects, what Adidas has done to achieve that rebound are the normal things a company selling to consumers might do: cleaned up old inventory, paid more attention to new fashion trends, put its marketing behind products seeing more traction, and opened new stores—particularly in small cities. But it has also reoriented its business to respond to a trend that has taken hold in China during the country's current slowdown. It's called *pingti*.

Chinese consumers have, through necessity, become very price conscious. *Pingti*, which translates literally to “horizontal replacement,” refers to a consumer buying a cheaper product that does the same thing as a more expensive one. Trading down, as we might say in the US. In the language of **Porter forces** that we use to analyze industry dynamics at Harding Loevner, it is new entrants matching the functionality of incumbents such as Adidas at better prices, leading to a more intense rivalry between companies.

And *pingti* is easy to do. There are websites, such as 1688.com (part of Alibaba) or Made-in-China.com, originally set up for manufacturers and exporters to do business with their wholesale buyers. Since most of the manufacturer supply chains are in China, it is therefore relatively easy for consumers to find cheaper versions of products from retailers such as Adidas, Li Ning, and others. All a consumer needs do is find an item they like in a store, look at the label to see who manufactured it, and go find the lower-priced, off-brand versions online.

“Customer mindsets have changed considerably in Mainland China in the post-COVID era,” Pan Ning, the chief executive of the Chinese division of Japan's Uniqlo, said in July. “We are seeing a new set of consumer values centered on *pingti*.” The trend has been especially sharp among the younger generations, he said. Given its focus on low-priced goods, Uniqlo could also be seen as a beneficiary of the trend, which would help explain why its performance held up better in China than some other retailers.

Adidas has been adapting. The company has been expanding aggressively into lower-tier cities, where it is selling more-affordable versions of its products. It has also, as much as possible, tried to organize its Chinese operation as if it was a local company. The company has teams that are focused on discerning what local buyers want, and building products based on those insights. Once they come up with those ideas, the product designs are approved by the China team, not the home office back in Germany. The efforts appear to be yielding results. Its sales in China rose 9% in the third quarter of 2024, to about US\$1 billion, its best quarter since the beginning of 2022.

While *pingti* was sparked by the economic downturn, it may outlast the eventual recovery. Chinese consumers have become more sophisticated. They no longer view price and brand as the sole markers of quality. Increasingly, they are seeing that lower-cost products can have the same essential quality. A good example of this is the Japanese brand Mont-bell, which has been opening new stores and expanding its presence in China. Mont-bell is a well-known replacement for Arc'teryx, the premium brand owned by Anta.

This dynamic doesn't have a catchy name in the US, but *pingti* has been visible here: off-price retail stores operated by TJX such as TJ Maxx and Marshalls saw sales rise after the 2008 financial crisis. Even as the economy recovered after the crisis, those new customers stayed loyal and that outcome may hold in China, too. For that reason, manufacturers and retailers in China may have to account for the trend even after the economy eventually rebounds.

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