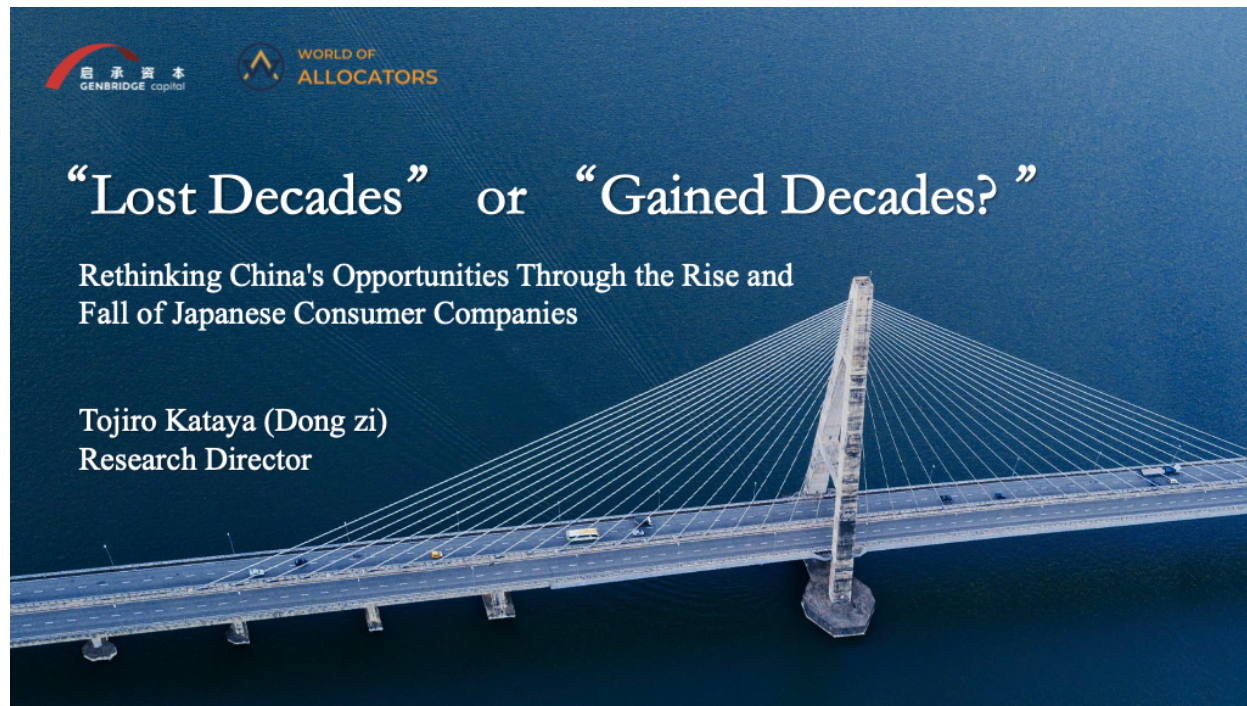


WOA Event - China GenBridge Capital (27Mar2025)

“Lost Decades or Gained Decades” - Tojiro Kataya (Dong Zi), Research Director

Rethinking China's opportunities through the rise and fall of Japanese Consumer companies.



GenBridge Background - China Growth Capital for Chinese consumer companies

We are China's Leading Consumers Growth Capital Firm

China's Consumers Specialist Growth Capital



Where We Play

Investing into new generation consumer brands and retail formats with innovative models, as a catalyst to build winning consumer businesses



What We Offer

Exploring investment themes ahead of market, identifying high growth / proven companies to generate repeatable 3x MOIC per vintage



How We Win

Leveraging powerful resources of JD Group, to source proprietary deals with data analytics, to drive growth with dedicated value-add capabilities



Our Mission

Empower China's Next Generation Consumer Champions

Four brands with annual revenue of over 5 billion RMB



Three 10-billion-RMB chains with over 10,000 stores



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Speaker Biography - Japanese studied in US, now working in China



Tojiro Kataya (Dong Zi)



Joined GenBridge Capital in 2019, specializing in consumer industry research.

Offered insights to China's leading consumer companies such as JD.com (京东), Wumart (物美), New Hope (新希望), ANTA (安踏), and Genki Forest (元气森林)



B.A in Economics, Doshisha University (Kyoto, Japan)

M.A in East Asia Studies, Duke University (Durham, US)

Using Japan parallels to think about Chinese companies.

- Switch thought perspective, not of loss, but of gain.
- GenBridge China consumer specialist growth capital, want to empower China's next-gen consumer champions
- Speaker Background: Consumer research focus, offered to JD, Wumart, New Hope, ANTA, Genki Forest, BA in Econ Japan, MA in Duke, US

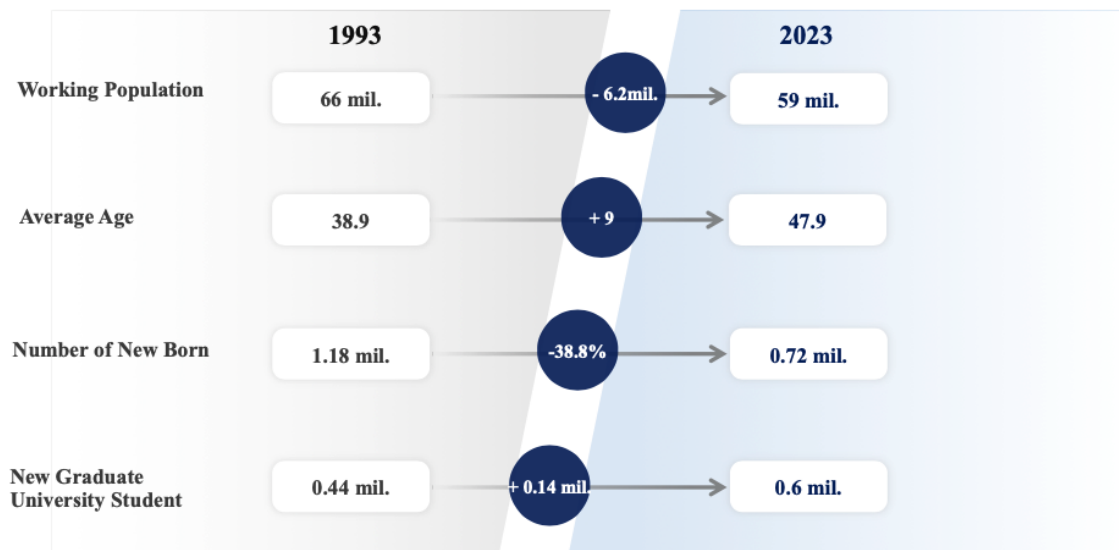
Main Arguments of Today's Presentation

1. Japan's "Lost Decades" were also "Gained Decades" — at least from the perspective of consumer value.
2. During this period, a paradigm shift occurred: the market moved from supply-driven to demand-driven.
3. Three types of consumer companies successfully navigated the turbulence — those focused on distribution efficiency, product innovation, and globalization.
4. China's consumer market is undergoing similar structural shifts — but at greater scale, speed, and complexity.

China 1993 vs 2023

- Larger population, Aging society, lower newborns, more graduates
- Japanese younger generations earning less and spending less
- Household income tend to peak around age 50-54 then start declining
- As population grow older, household consumption decline as % of disposable income
- Japanese consumers reached material abundance in the 1990s
- New companies to grow have to replace existing products from competitors\

Comparison of Macro Situation: 1993 VS 2023

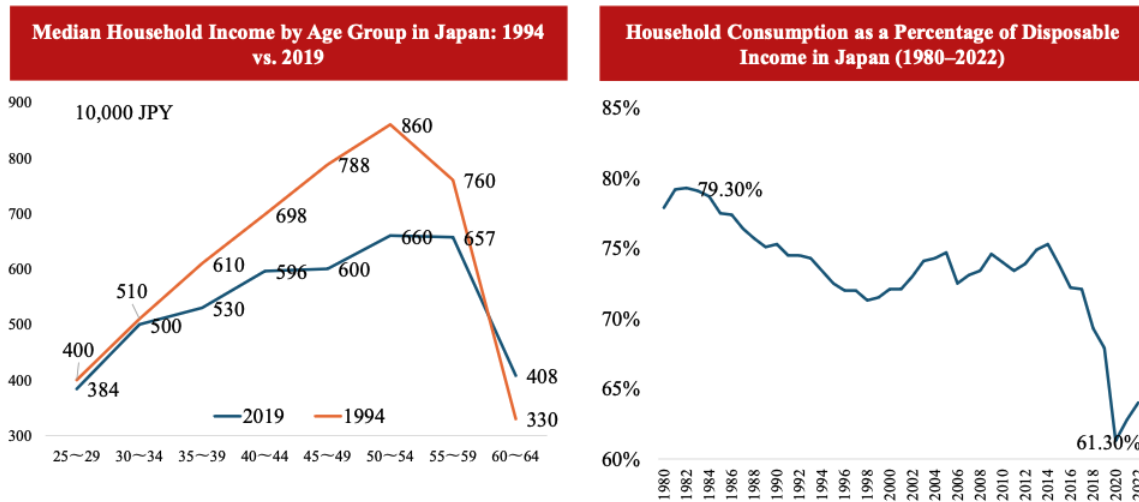


Source: "Statistics Bureau of Japan"
 "Basic School Survey by the Ministry of Education, Culture, Sports, Science and Technology (MEXT)"

Japanese Younger Generations Earn Less And Spend Less



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Source: "Statistics Bureau of Japan"

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Japanese Material Abundance in the 1990s, before shifting from the excesses of rampant consumerism and the desire for simpler and more functional goods.

Japanese Consumers Have Reached Material Abundance in 1990s



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Source: Peter Menzel "Material World: A Global Family Portrait" Two Japanese Families in 1990s

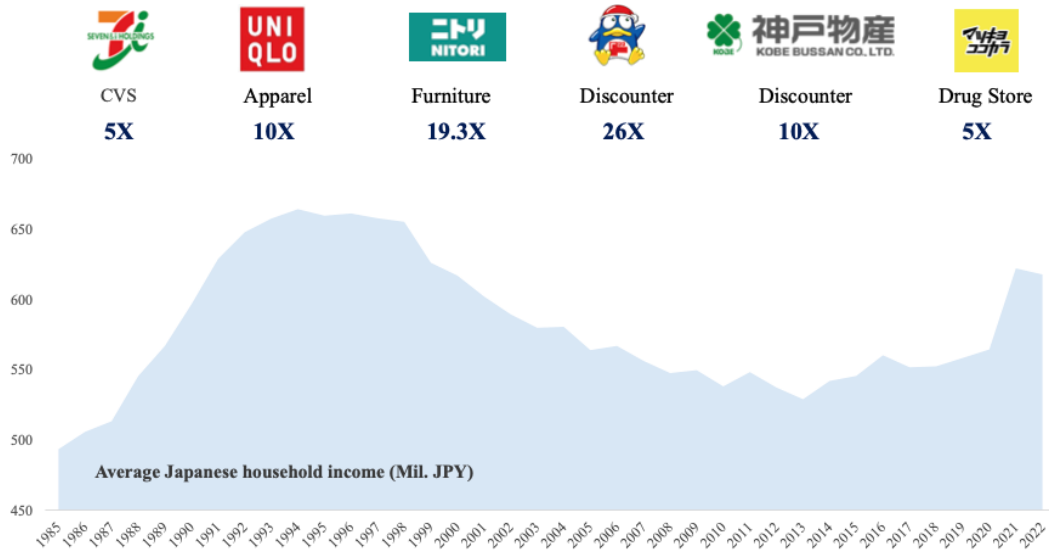
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A number of Japanese companies continued to grow, 7-eleven, Uniqlo, Donki, etc for example

Consumer Companies Grow Successfully During “Lost Decades”



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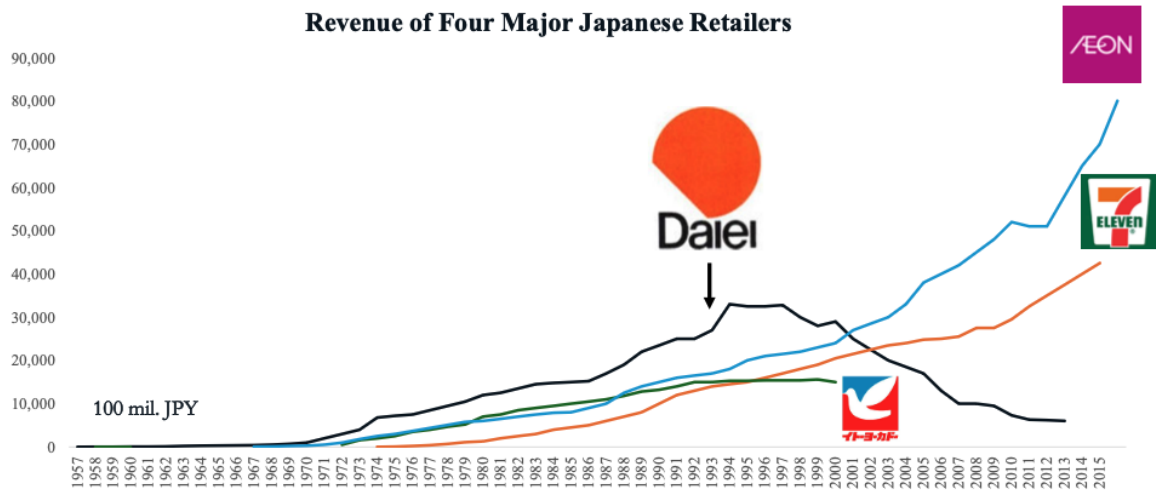
Daiei vs 7-Eleven

- Daiei was once Japan's largest retailers in the 1990s, then subsequently declined
- Daiei business model was supply driven, chain store operation and vertical integration
- Selling hero products with low cost and mass merchandise, lowering cost and lowering price
- Daiei vision was good products at lower prices, founder was communist (often cited Mao Zedong)
- ● Daiei had a big store full of goods (cheap, wide variety) but nothing customers want (Jap consumers already have a lot)

Daiei: the Most Successful Retailer in Post-War Japan



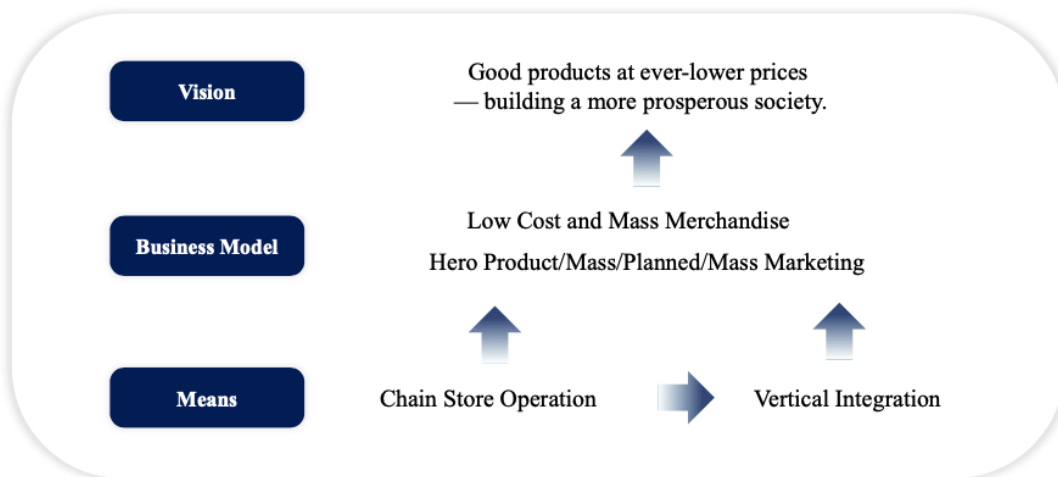
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The Business Model of Daiei Corporation



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Source: "Tatakawa Shonin-Nakauchi Isao" (Fighting Merchant)

Daiei's Downfall: What Went Wrong in the 1990s?

“Lowering purchase costs by 3 – 5% brings more benefit than reducing interest-bearing debt.”

— Isao Nakauchi, 1995

“Everything and nothing — a 12,000m² store packed with goods, but nothing customers want.”

— Isao Nakauchi, morning meeting, 1997

Source: “Souha no Ryutsu Inbe-sion” (Competitive innovation in Distribution), Katsunori Morita

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- Daiei want to lower costs of goods through bargaining, rather than lower their own operation costs
- Japanese only turn minimalist from 2010 onwards, was very materialistic before
- Muji = No brand, good products (Wu Yu Liang Pin), brand of anti-brand, origins of private-brand retailer
- Daiei = Focus on making things affordable vs ● 7-Eleven: Need proactive differentiation
- Supply-Driven Market (one product) vs ● Demand-Driven Market = More Product Variety

Winning in Growth vs. Winning in Maturity



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Isao Nakauchi
(1922年~2005年)

“Everyone says ‘the customer is king’ — but has anyone ever truly delivered on that? **We did — by making things affordable.**”

“The success stories of supermarkets in times of scarcity no longer apply today. **Without proactive differentiation, I see no future ahead.**”

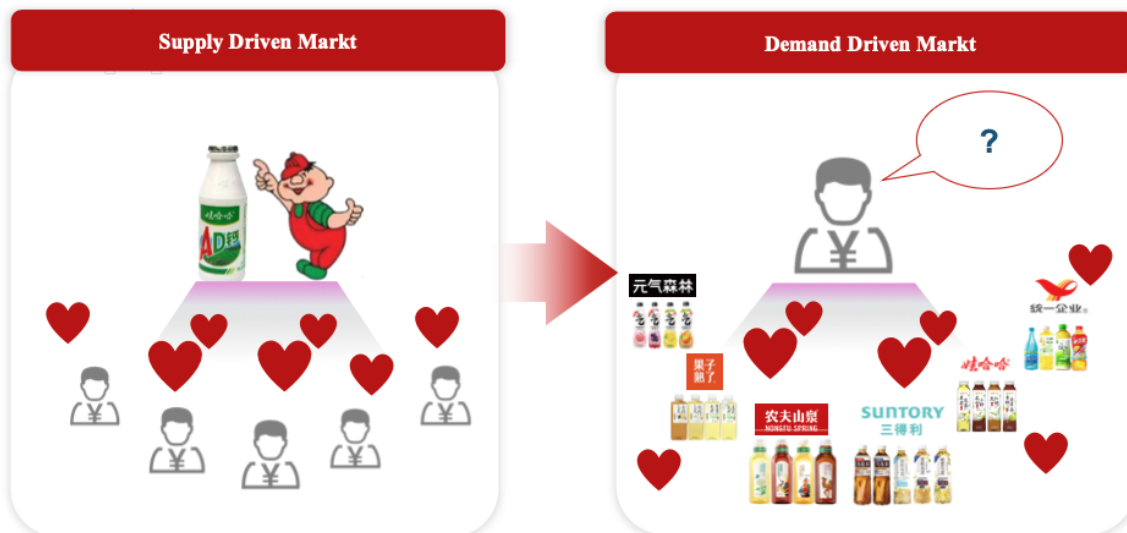


Toshifumi Suzuki
(1932~)

Paradigm Shift: From Supply-Driven to Consumer-Driven

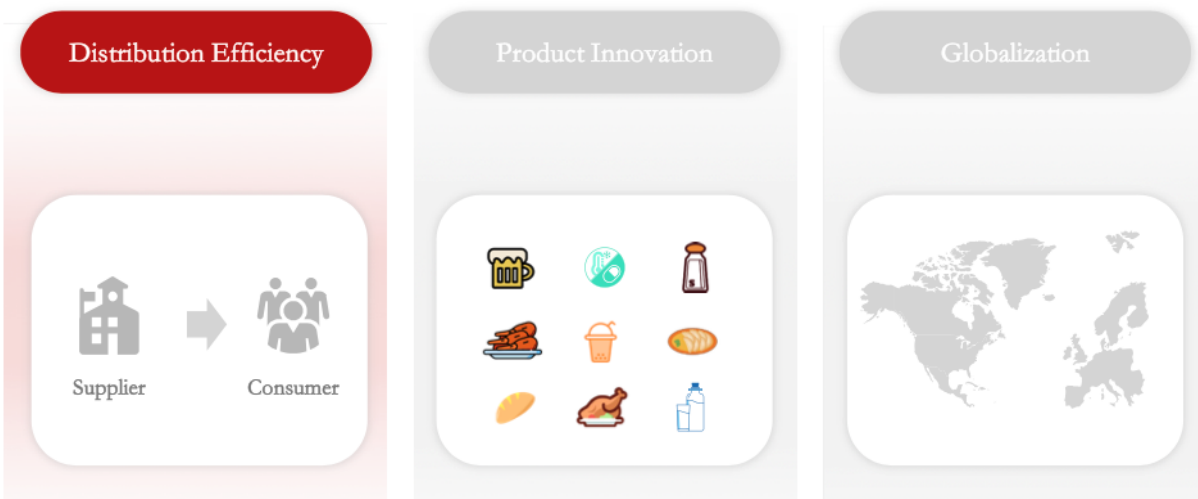


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Three Types of Successful Companies

1. Distribution Efficiency
2. Product Innovation
3. Globalization



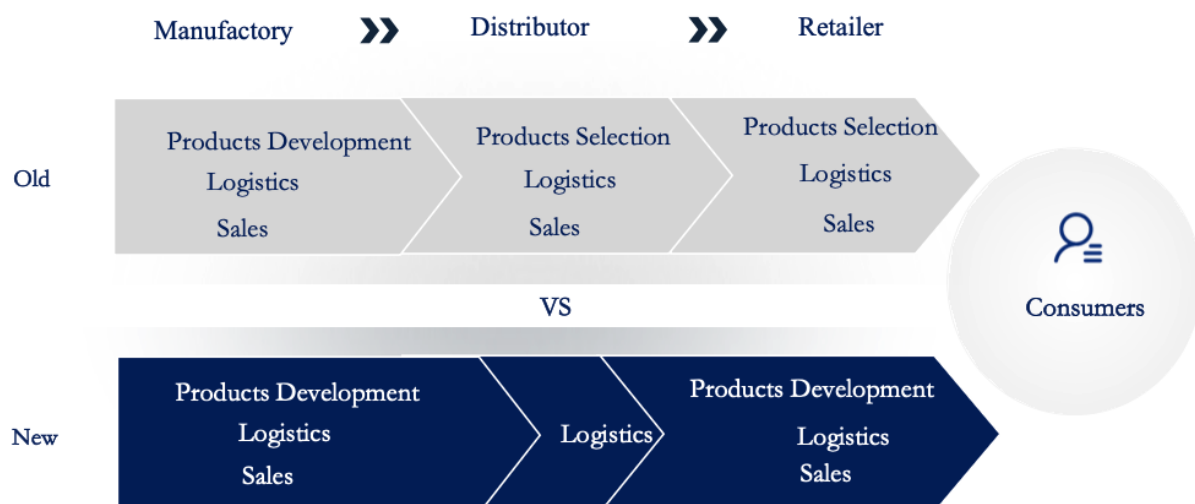
1) Distribution Efficiency: Supply chain became shorter, combining manufacturing, distributor and retailers, fast response to consumer needs, previously took long time to get feedback. Did more SPA, like GAP. W/R (Wholesale/Retail) ➡

- New products that didn't exist before e.g. desserts, oden, warm option for winter, steams buns, sandwiches/bakery
- Focused on getting right products to the right people at the right time, not just guys going to buy cigarettes

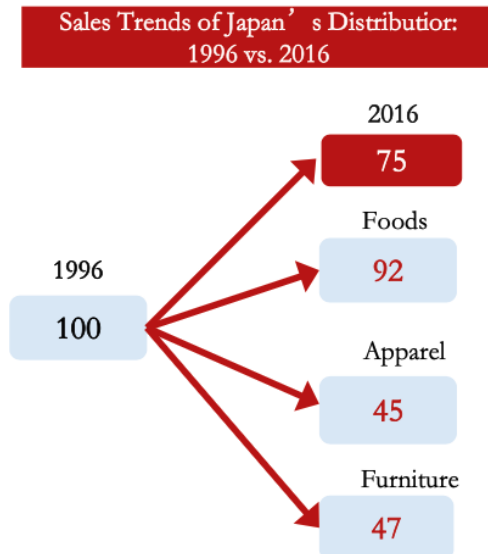
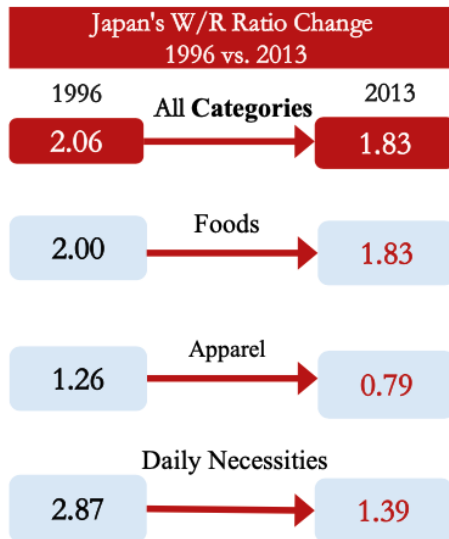
Evolution of Japan's Consumer Goods Supply Chain



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Changes of W/R Raito in Japanese Distribution



Source: The Distribution Economics Institute of Japan:

7&i and 7-Eleven Japan

- 7-Eleven knew what time which kind of customers would come - example of consumer driven market, use supply chain to create new demand. 7-eleven private label, largest food company. 7-11 had higher sales per store than peers.
- 7-11 was the first convenience store, then Family Mart and Lawsons. They think better than peers.
- 7-11 first to introduce coffee, moved from brewed coffee to capsules then customer-led, took time to innovate
- 7-11 has 30-40% market share, but 50-60% higher share of profits
- 7-11 leader, innovator, trailblazer, others were followers
- Manufacturer distributor partnership = Japan Delica Foods Cooperative (NDF)

7&i Holdings and 7-Eleven Japan



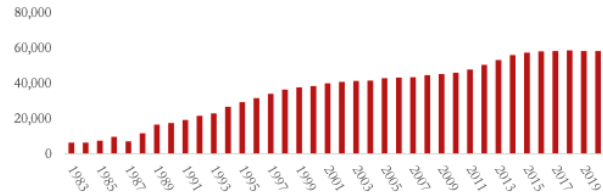
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CEO	Ryuichi Isaka
Establishment Time	1927
Corporate Philosophy	"Building a joyful future, together."
Revenue	11.4 trillion JPY
Gross Profit Percentage	18.1%
Operating Margin	2.41%
Net Profit Margin	2.38%
Market Value	6.08 trillion JPY
Number of Employees	8333 Franchisee: 47,731

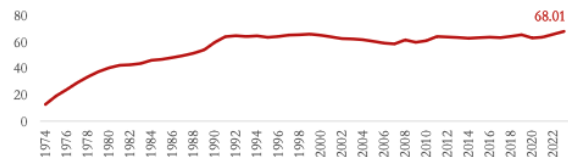
(100mil. JPY)

7-11: Sales of Total Stores in Japan



(10,000JPY)

7-11: Sales per Store



New Distribution Model Accelerates Product Developments



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Sweet Strategy: Targeting Female Consumers Through Desserts



Steamed Buns: Unlocking New Demand in Winter Mornings



Oden: A Warm Option for Winter Consumers



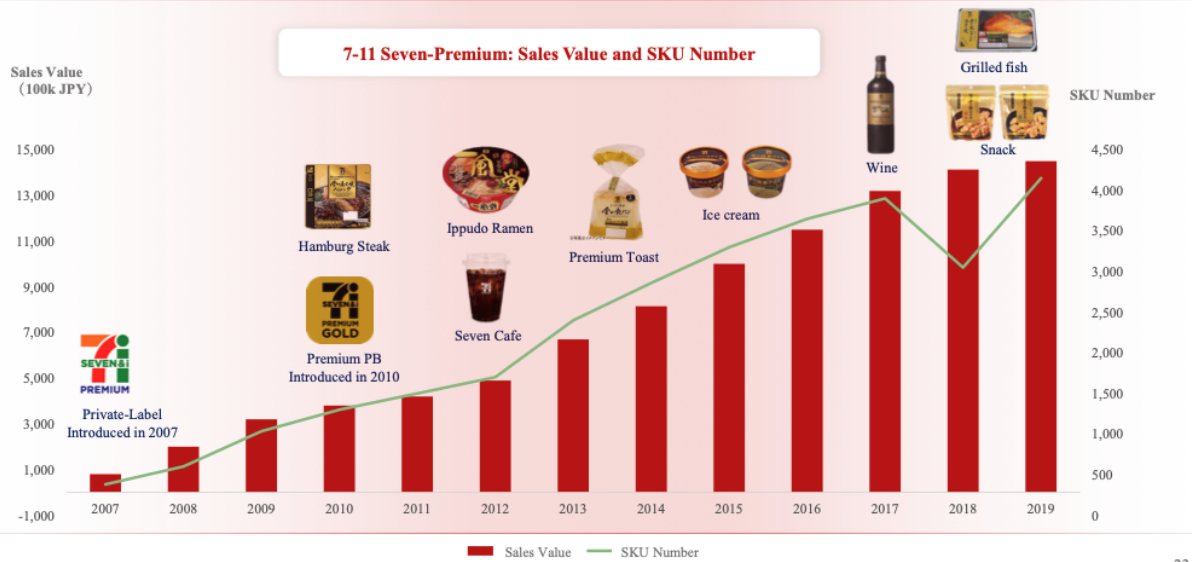
Cold Chain × Bakery = Sandwich Breakthrough



7-Eleven's Private-Label: The Japan's Largest Food Company



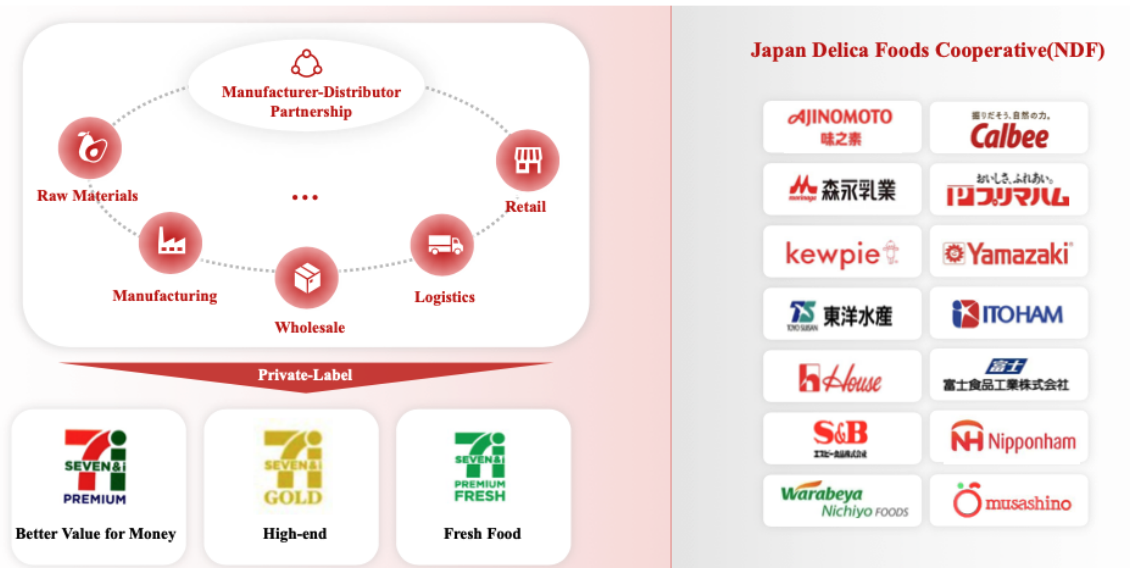
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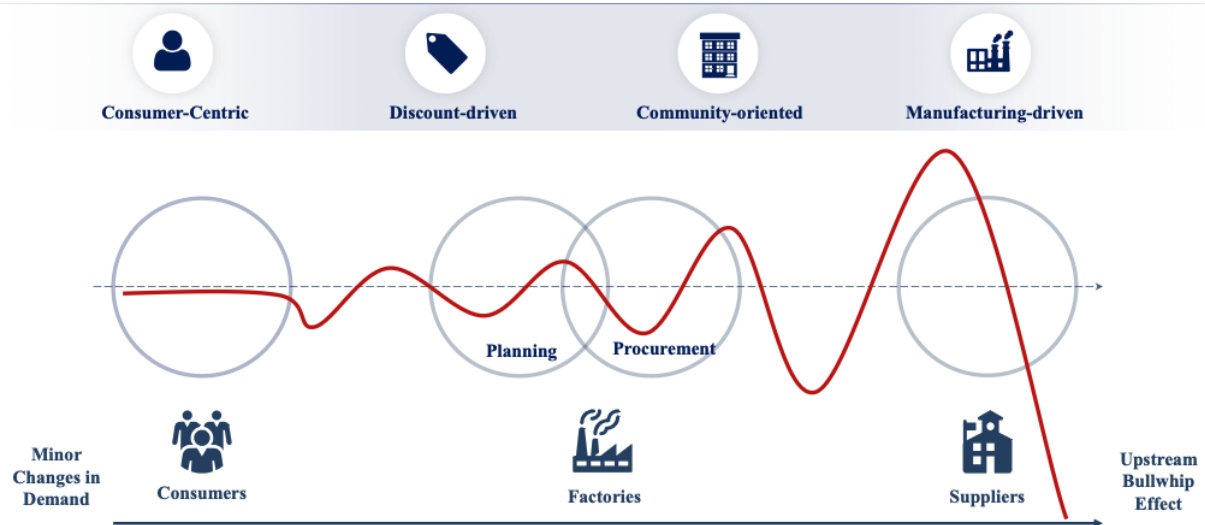
Manufacturer-Distributor Partnership



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Irreversible Trend in a Demand-driven Era



2. Product Innovation: Explosion of consumer choices, 10 shampoo brands, now 50-100 shampoo brands. Segmentation of choices became important strategy, one for morning, one at night

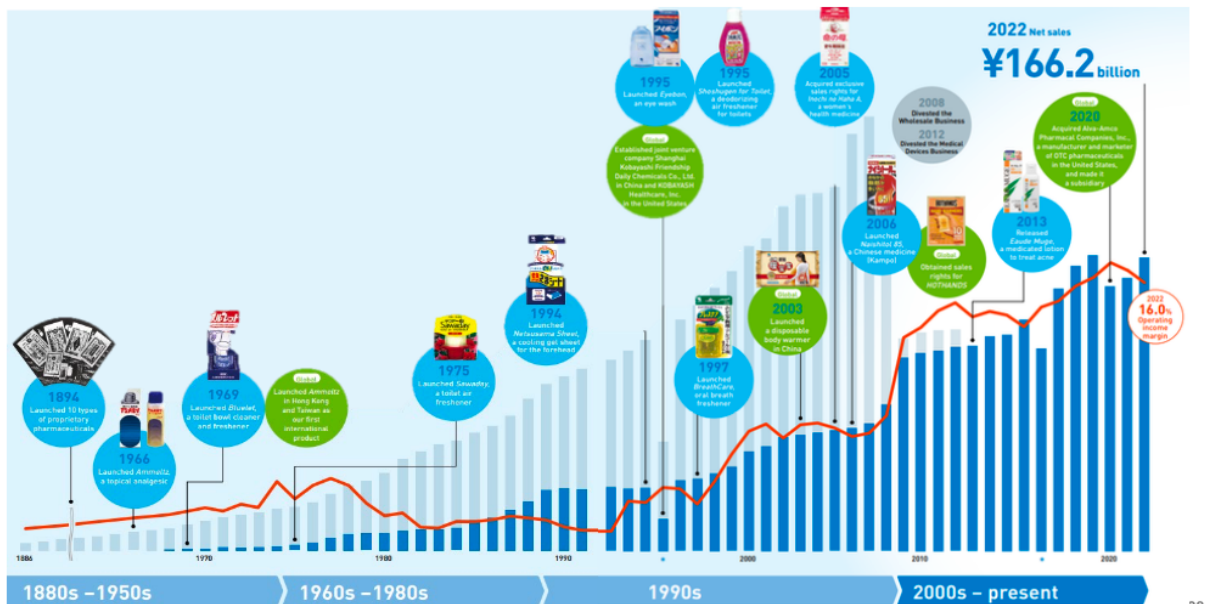
Lost Decades Have Brought an Explosion of Consumer Choice



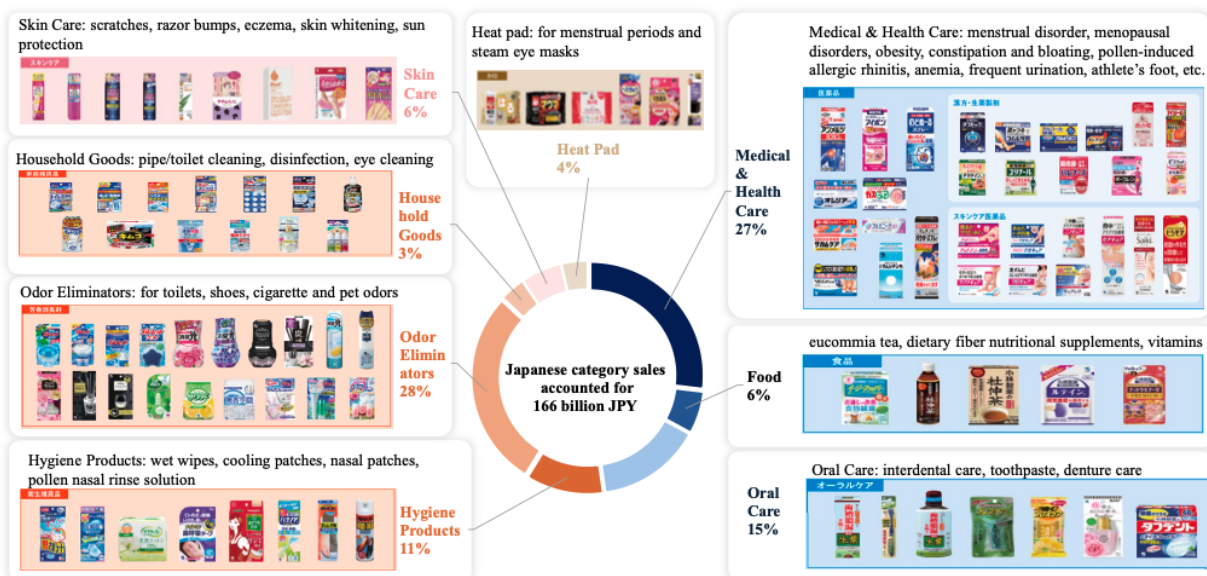
- Kobayashi: You make a wish, we make it happen.
- They don't want to compete in big ocean with big fish, they want to compete in smaller niche markets

- Don't focus on one single big TAM, but dominate many small TAMs (lesser competition)
- Japan has lower e-commerce market share 9%, more offline than online market
- Change the way to develop products, collect many different ideas (employees, CEO, overseas, customers), reminded me of Amazon

Product Innovation is the Core of Kobayashi's Success

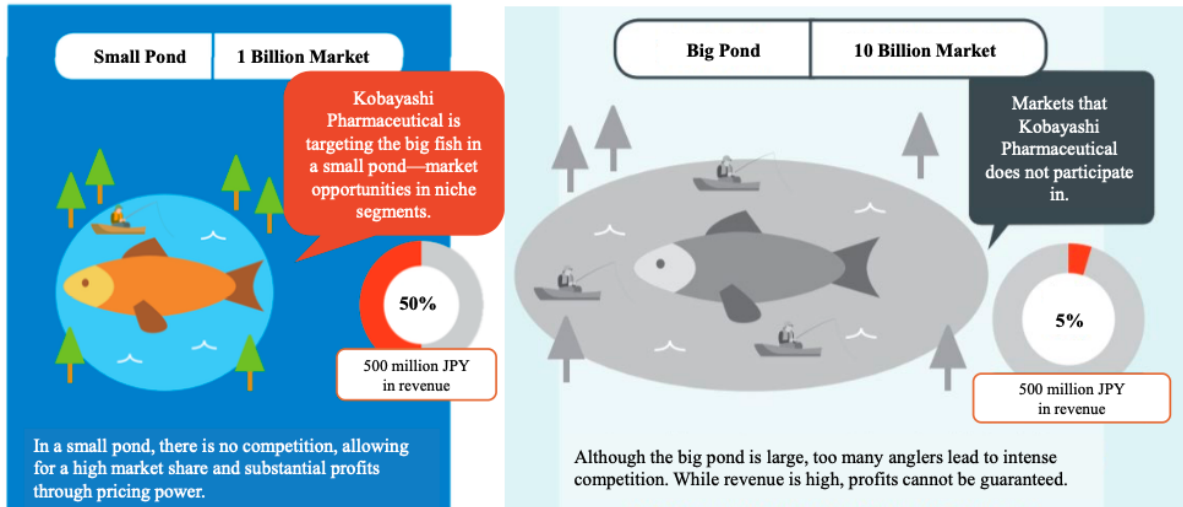


Category Segmentation Breakdown

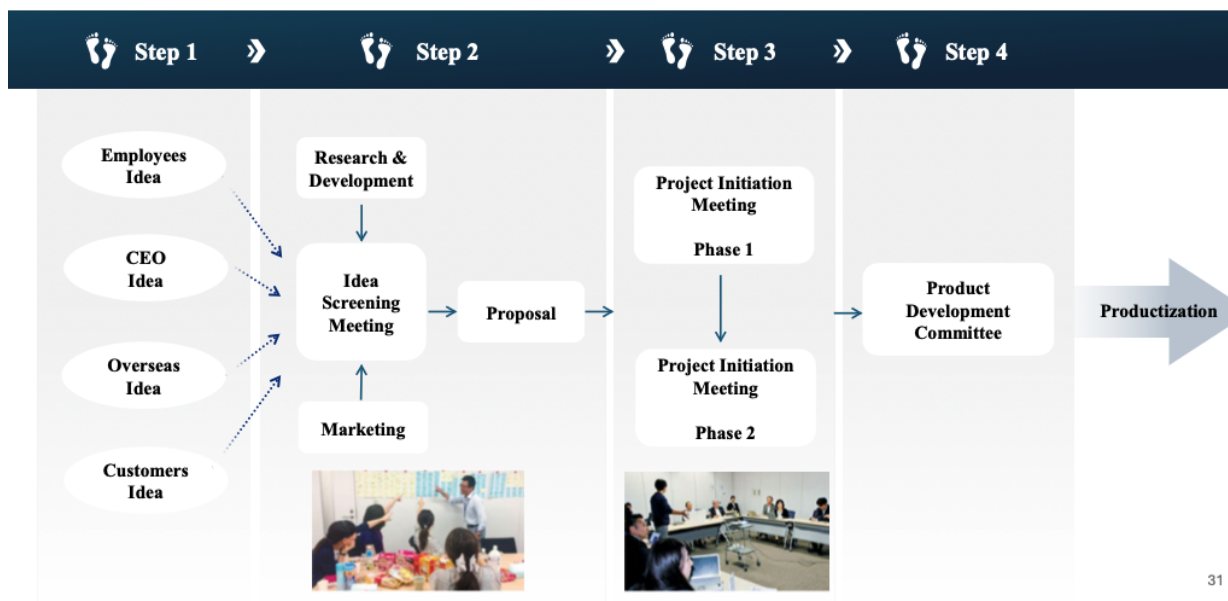


Dominating Niches: Kobayashi's 'Big Fish in a Small Pond' Approach

Focus on small markets that the leading enterprises have not yet explored.



Organizational Advantages in Product Development



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3. Globalization: Domestic sales alone was not sufficient to drive growth. Overseas growth was needed. Four types of overseas strategies: Global integration vs Localization

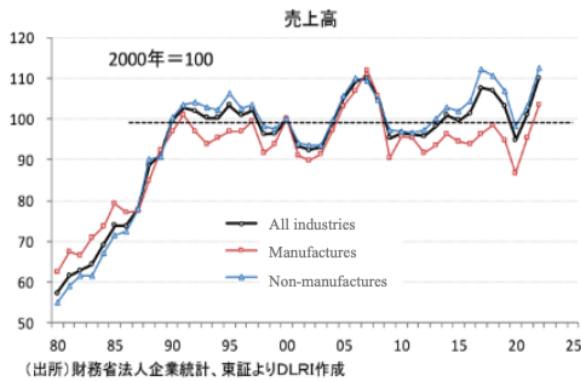
Japanese Companies Have Experienced Minimal Expansion



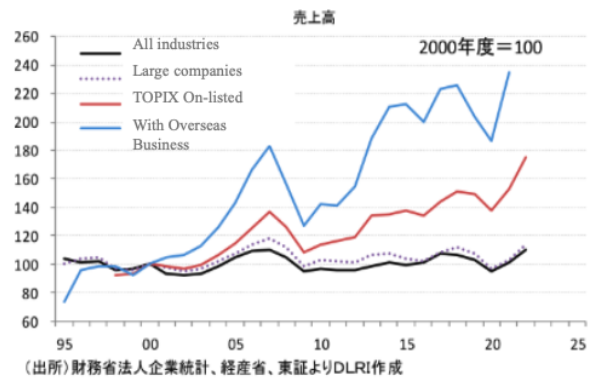
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Revenue Index by Industry in Japan
(1980–2023)



Revenue Index by Company Size in Japan
(1995–2023)



Source: Financial Statements Statistics of Corporations by Industry, Ministry of Finance Japan, Tokyo Stock Exchange

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Kikoman

- E.g. Kikoman 70% of revenue and 89% of profit from overseas, only 30% from Soy Sauce (34% food product, 29% beverage)
- Kikoman good example of globalization, adjust the same product and brand differently in different countries.
- It is about creating consumer demand that they think they want, not creating a product to fit a demand that they have

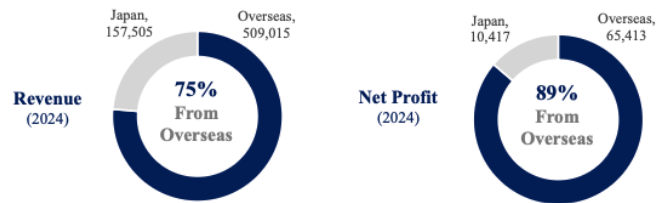
Kikkoman Corp.



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CEO	Noriaki Horikiri
Establishment Time	1917
Corporate Philosophy	"Seasoning your life"
Revenue	660.8 billion JPY
Gross Margin	33.1%
Operating Profit Margin	11.1%
Net Profit Margin	8.5%
Market Value	1.41 trillion JPY
Number of Employees	7521



Japan Domestic Revenue Breakdown

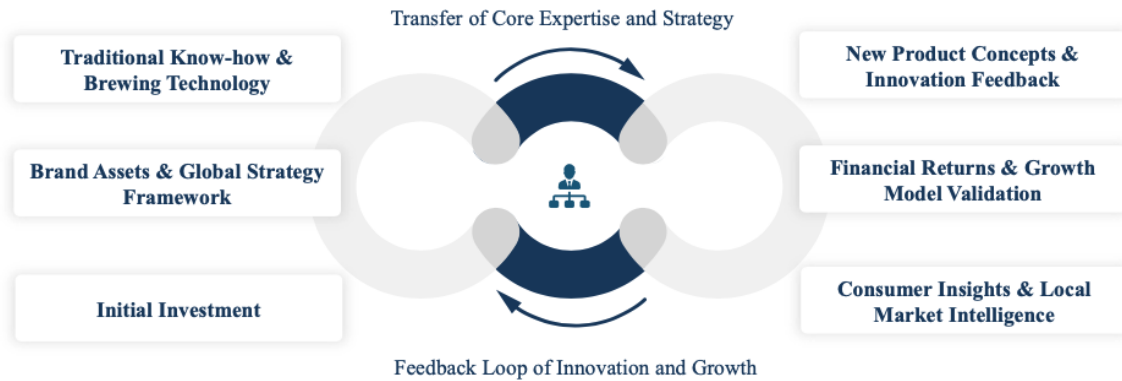


Blending Global and Local Strategies



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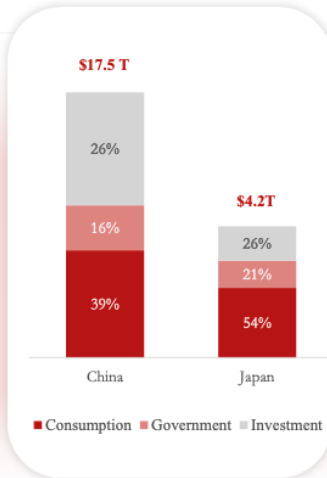


4. How can we understand China?

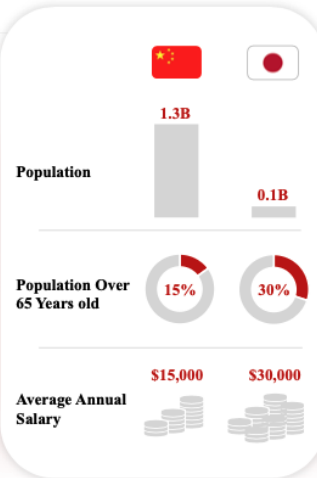
- China lower consumption level, not so old population, lower salary
- China markets 100x tougher
- Japan products 3-4 years, no one copy. China, copies within 1 month.
- China e-commerce penetration 44%, Japan 9%
- China more online
- He doesn't look at the number, but the relationship between the numbers.
- China decline consumer confidence and sales
- Rise of snack discount stores - Snack discount stores (similar to Donki, 1000s of SKUs), cut out middleman, lower prices
- Too many products, one day payables, not negative cash conversion cycle, need more working capital to grow

The Two Countries Have Entirely Different Conditions

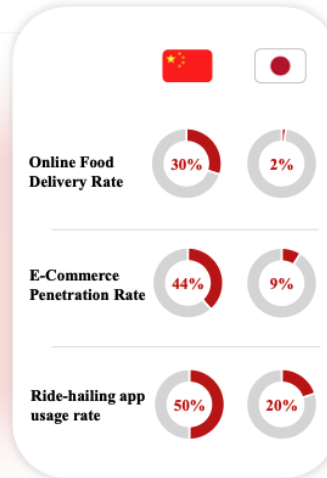
GDP Structure



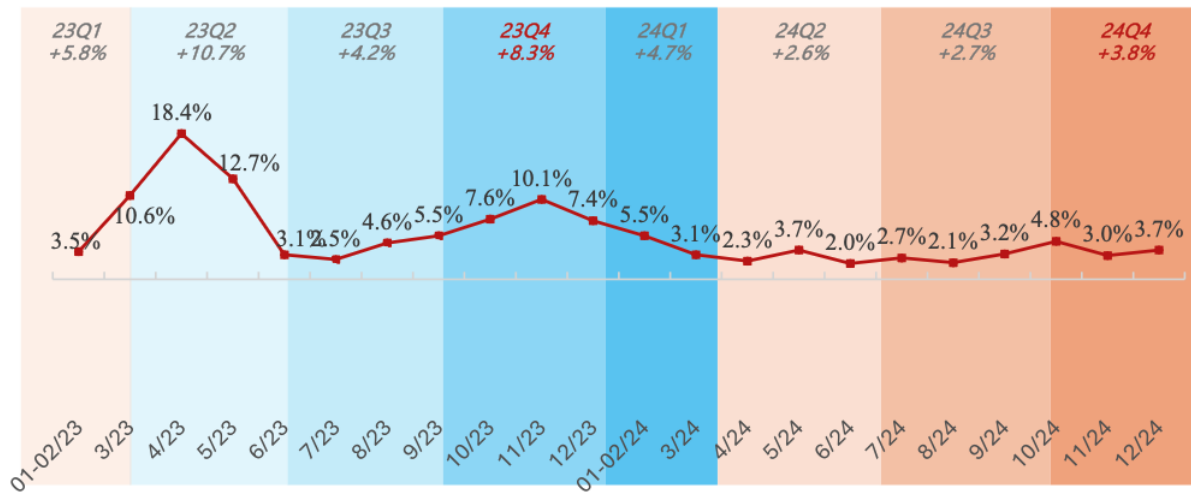
Demand Side



Online Channel



The Shifting Mood of Chinese Consumption



Total Retail Sales of Consumer Goods

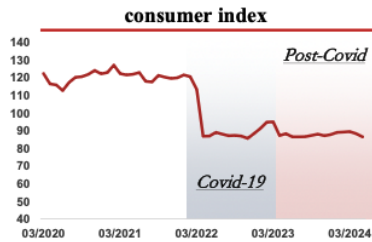
Traditional Retail is Under Pressure in Shifting Landscape



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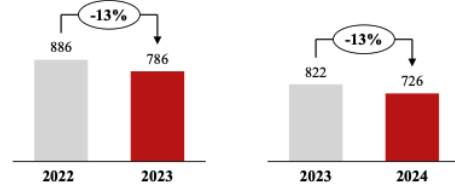


A Drop in Consumer Confidence



Decline of GMS

Revenue (100M RMB)



永辉超市
YONGHUI SUPERSTORES

大润发
RT-Mart



The Rise of Snack Discount Stores



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Traditional Retailer



Snack Discount Store

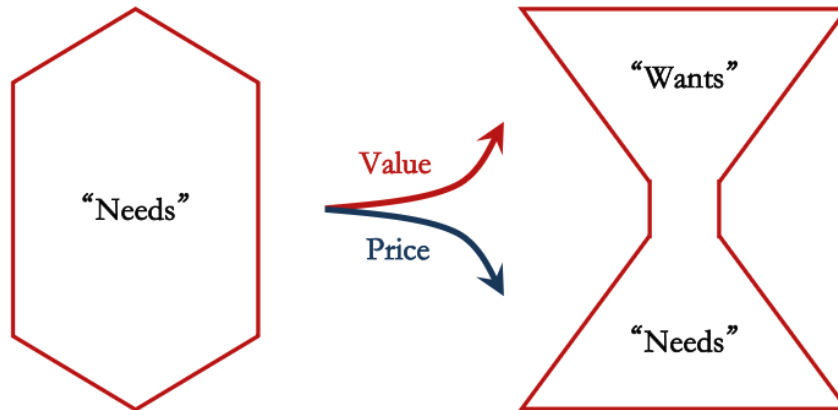


- Pick and choose, taste different products, customer visit 3-4 times a week, unplanned consumer demand
- Combine distribution efficiency with larger consumer demand
- Shift from Needs to Wants, driven by Douyin or Xiaohongshu
- Make content from themselves, faster feedback loop from consumers, when they will click and buy

From Needs to Wants: The Shift in Consumer Priorities



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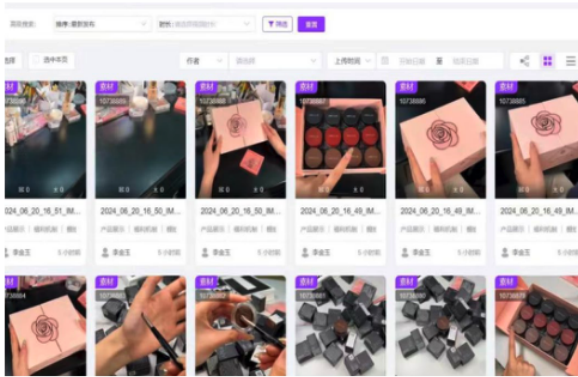
From Needs to Wants: Content as a Catalyst for Consumption



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Building a Video Content Library



Frame-by-Frame Analysis



Concluding Thoughts: Japan's consumer businesses are showing parallels to Chinese businesses, as they move from a "needs"-based consumption towards a "wants"-based one, no longer supply-driven but towards a demand-driven one based on (1) tighter supply chain, (2) increased product segmentation and variety, reinforced by (3) faster feedback loop of content e-commerce.

Additional Thoughts: That said, this trend could apply to more FMCG-type products, like lower-cost consumer packaged goods (CPG) or convenience goods, which are sold quickly with high inventory turnover and require faster customer feedback and product iteration loops. This would be a bigger contrast to higher-priced/lower inventory turnover specialty or luxury goods.

Despite China's structural weakening consumption due to much lower wealth effects from declining property prices, which stem from declining population, finding the select few companies that are well positioned to be able to capture the customer's wants and needs of this recurring consumption can bring a robust framework with many parallels for one to look at.

Notes from: Eugene Ng, Vision Capital Fund