

# China taps digital coupons in rebound effort

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*Editor's note: In the seventh installment of their continuing series, Alice Wang and Ed Rowland examine the strategic use of digital coupons and how that system is enabling China to recover from the COVID-19 economic challenges. Did China use lessons from the past to solve a modern problem?*

China has been using a unique and successful stimulus approach to restart their economy: digital coupons. A journey back to the 4<sup>th</sup> century may help explain why it is working.

The naturalist Daoist philosopher Zhuangzi used everyday people and animals to impart philosophical wisdom. One of his famous parables is known as the “three in the morning” story involving monkeys. A trainer went to his monkeys and told them that would receive 3 chestnuts in the morning and four in the afternoon. They revolted and settled on 4 in the morning and 3 in the afternoon. The trainer changed the arrangement to meet his objectives.

Stimulus was needed to spur the Chinese economy. And more upfront “chestnuts” in the form of strategically targeted coupons seemed to have worked. One wonders if Chinese leaders looked backwards to move forward.

China’s digital consumption coupons are fueling the country’s recovery. In the past two months China has issued 19 billion consumption coupons across 28 provinces and major cities. The structure of the coupon program has two important points:

**Digital coupons have spurred structural and potentially permanent incremental growth serving as “seed money” achieving a multiplier effect not seen elsewhere.**

Alibaba affiliate, ANT FINANCIAL, reports that coupons issued through Alipay have driven 3.5 times consumption. Every RMB in coupon value spent by Chinese consumers has, on average, caused an additional RMB 2.5 in consumption. Historical comparisons are educational: in Japan in 1999, 20- thousand- yen coupons only spurred a 20% increase in consumption. Similarly, the 2011 cash dividend plan in Singapore in 2011 achieved an 80% lift.

**Consumption has remained stable with no obvious drop-off after some time.**

Historically, societal consumption could be expected to plateau and drop off after coupons have been used, but this did not happen. Digital coupons behave differently than printed ones. There was no drop off.

Digital coupons have incomparable advantages; they are easier to distribute, more convenient to use, and less susceptible to speculation and black-marketing. The 1.5 million RMB coupons were distributed within a few minutes. Observers likened it to targeted therapy. In Hangzhou, home to Alibaba's headquarters, the government issued 40-10 coupon: buy 40 and get 10 off. This initially applied to essentials like food and restaurant consumption and then expanded to 100-20/300-45 for cosmetics, clothes, and accessories. This enabled a phased market recovery moving from essentials like bread and butter to non-necessities.

The consumer coupon approach did not answer all of China's recovery challenges. For low-income and low savings groups, the government issued direct cash bonds to cover urgent needs. Other countries with lower saving rates followed this course. The United States issued \$1200 checks to adults whose annual income is less than \$75000, Canada grants CAD \$8000 to each eligible citizen, and each Australian receives a one-off subsidy of Dollar AUS \$750.

Whether consumption coupons in China or cash in the US, the fundamental intention is to spur consumption and provide a stimulus to manage through the crisis.

For China, the road was appreciating and consuming four chestnuts in the morning. Meanwhile, everyone strives to keep calm and carry on.

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