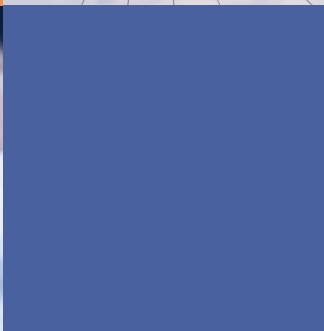
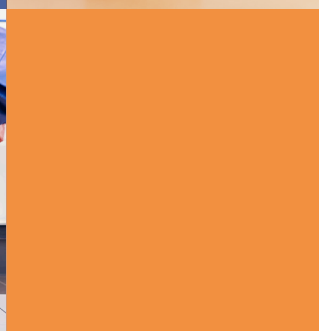
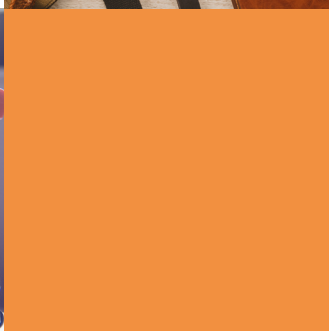
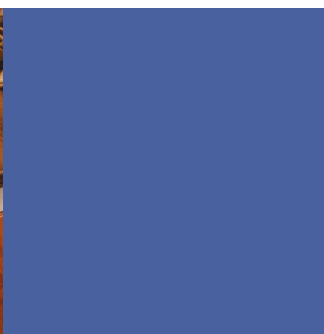


# China's Department Stores Report 2021-2022

April 2022



# Preface

Fung Business Intelligence and China Commerce Association for General Merchandise ('CCAGM') are pleased to present the *China's Department Stores Report 2021-2022*.

Despite various challenges such as COVID-19 resurgence and stagnant consumption, many department stores performed well and their revenue reached an all-time high over the past year. This indicates department stores remain the main channel for fashion and quality consumption.

Department stores bring together fashion leaders and consumers. They represent a city's commercial success and remain a crucial sales channel for high-end brands. Some department stores are even landmark buildings in the cities where they are located, and internationally renowned department stores often maintain a mutually beneficial relationship with their cities. Currently, several first-tier cities are vying to become international consumption centres, and department stores play a key role in these efforts. Department stores are also the first choice for fashion and quality consumption in second- and third-tier cities and below.

Conditions for the development of the department store industry remain favourable despite uncertainty in the overall business landscape. We expect the development of the department store industry will be supported by the long-term economic development, a shift to local spending from overseas spending, individualized needs of the younger generation, increasing quality spending, and the rise of domestic brands and products.

China's department stores are ahead of their international counterparts in digitalization, but they are still weak in store image, visual merchandising and display, product management, and customer service. The underlying reason is that many department stores still operate with traditional mindset and lack awareness and motivation to change. The gap between traditional business thinking and new consumer demand has resulted in a misalignment between demand and supply.

*China's Department Stores Report 2021-2022* collects and analyzes data from 85 department store operators. The report analyzes development trends in the industry in the past year, discusses major issues and challenges facing the industry, and puts forward policy recommendations from retail enterprises to promote the healthy development of the industry. We would like to thank all department store operators who have participated in our survey.

# Contents

<b>I. Overview of China's Retail Market Development</b>	<b>3</b>
1. Recurring COVID-19 outbreaks impact the consumer market	
2. Differentiated performance across retail formats; quality spending increases	
3. Changing relationships between retailers and suppliers	
4. The growing popularity of domestic brands and the rise of Gen Z consumers	
5. Stronger online supervision and a changing offline landscape	
<b>II. Trends and Development in the Department Store Industry</b>	<b>13</b>
1. Overall growth is positive with quality consumption increasing	
2. Market is polarized as high-end department stores perform exceptionally well	
3. Livestreaming e-commerce and duty-free shopping impacts the operation of department stores	
4. Digitalization process has further accelerated	
<b>III. Major Development Issues and Challenges</b>	<b>17</b>
1. Unable to keep abreast of the latest trends	
2. Unclear development goals and strategies	
3. Lack of means to improve performance	
4. Difficulties in achieving digital breakthroughs	
5. Weak product appeal and competitiveness	
<b>IV. Direction of Development and Transformation Initiatives</b>	<b>21</b>
1. Multidimensional in-store revamp and upgrades	
2. Remaining focused on enhancing product appeal	
3. Creating immersive consumption experiences	
4. More in-depth digital transformation	
5. Private traffic to become increasingly valuable	
6. Facilitating low-carbon sustainable development	
<b>V. Recommendations for the Sector's Development</b>	<b>39</b>
1. Reduce operating costs	
2. Regulate professional counterfeit hunters	
3. Support the transformation and upgrade of traditional stores	
4. Regulate the development of e-commerce and duty-free retailing	
5. Conduct source inspections	
6. Strengthen urban commercial planning	





# I. Overview of China's Retail Market Development



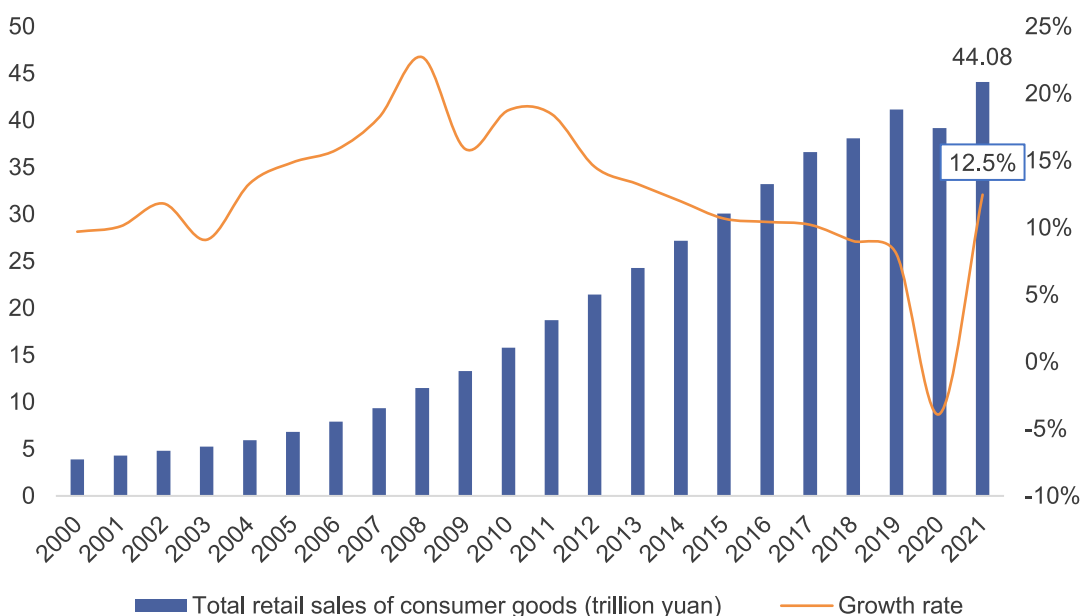
## 1. Recurring COVID-19 outbreaks impact the consumer market

Data from the National Bureau of Statistics shows China's total retail sales of consumer goods (which include the retail sales of physical goods and catering services) jumped 12.5% year-on-year to 44.08 trillion yuan in 2021. The average growth rate in the two years was 3.9%. Retail sales in 2021 were 8.0% higher than that in 2019 (Figure 1-1).

When looking at the monthly data, the growth rate of total retail sales of consumer goods showed a declining trend throughout the year. The growth rate was relatively fast in the first half of 2021, due to a low comparison base in 2020 amid the COVID-19 outbreak, and a recovery in consumption on the back of effective pandemic containment during the period. However, in the second half of 2021, there were sporadic localized outbreaks of the COVID-19 in Suzhou, Shaanxi, Henan, etc., which affected the daily economic activities of the people. Consequently, the growth rate of total retail sales of consumer goods declined. The year-on-year growth rate plunged from 8.5% in July to 2.5% in August, and registered 4.4%, 4.9%, 3.9% and 1.7% in September, October, November and December, respectively (Figure 1-2), which showed a disturbing trend.

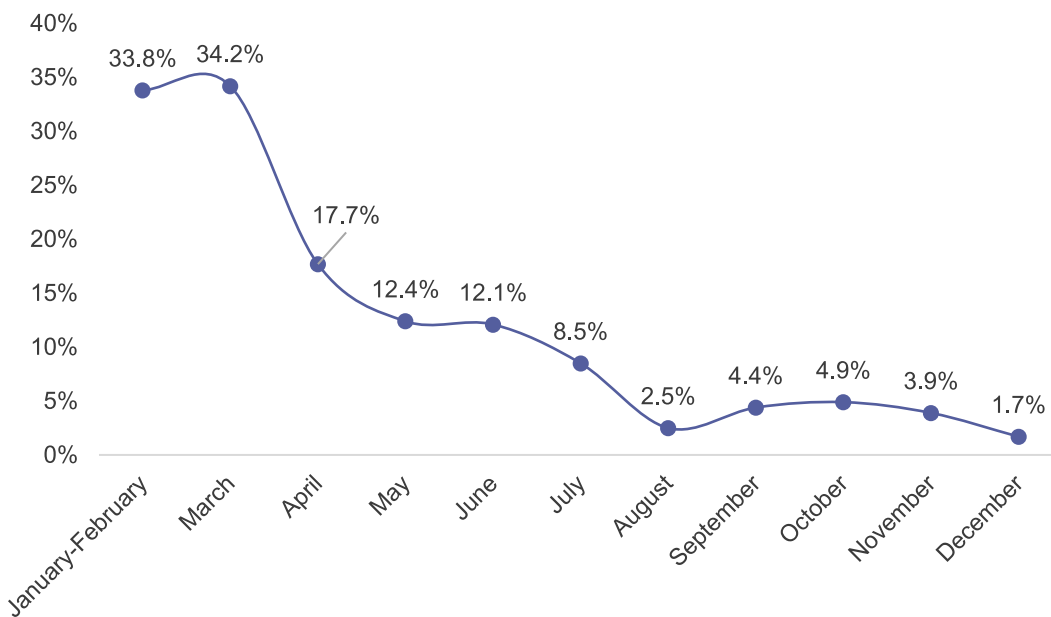
Entering 2022, the COVID-19 pandemic has lingered on, with regional outbreaks in Shanghai, Beijing, Tianjin, Chongqing, Guangzhou, Shenzhen, Hangzhou, Qingdao, Shenyang, Hong Kong and other cities. The consumer market is still facing great pressure.

Figure 1-1. China's total retail sales of consumer goods, 2000-2021



Source: National Bureau of Statistics of the PRC; compiled by CCAGM and Fung Business Intelligence

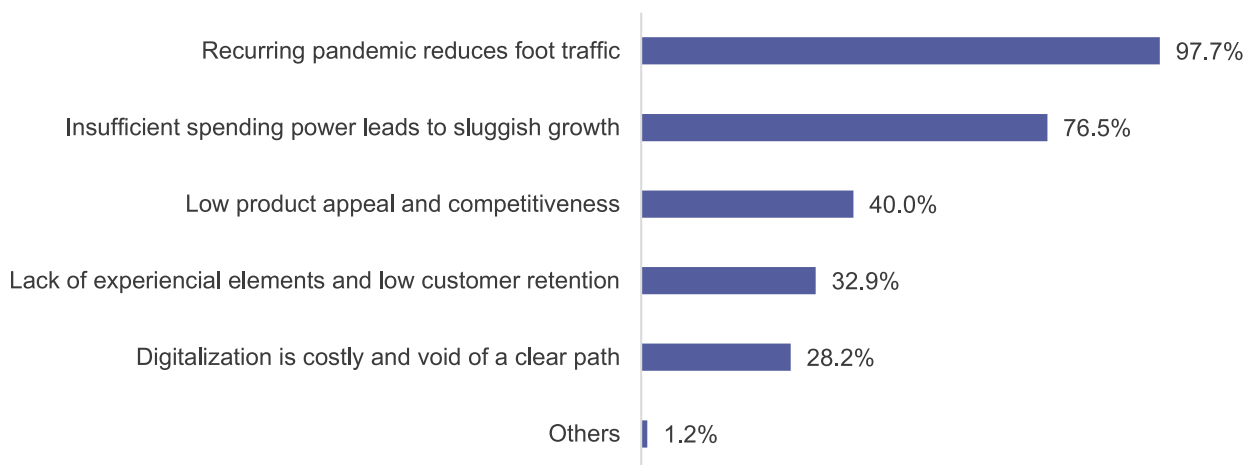
Figure 1-2. Monthly growth rates of total retail sales of consumer goods, 2021



Source: National Bureau of Statistics of the PRC; compiled by CCAGM and Fung Business Intelligence

The pandemic has weakened consumer confidence. The Central Economic Work Conference held in December 2021 pointed out that China's economic development is facing pressures from demand contraction, supply shocks and weakening expectations. According to a survey conducted by the CCAGM and Fung Business Intelligence, there are two main challenges facing department stores. The biggest challenge is the COVID-19 pandemic. About 97.7% of the surveyed enterprises said that the pandemic has reduced foot traffic. The second challenge is the insufficient spending power. About 76.5% of the surveyed enterprises reported sluggish growth due to insufficient spending power (Figure 1-3).

Figure 1-3. Major challenges encountered by surveyed department store operators



Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence

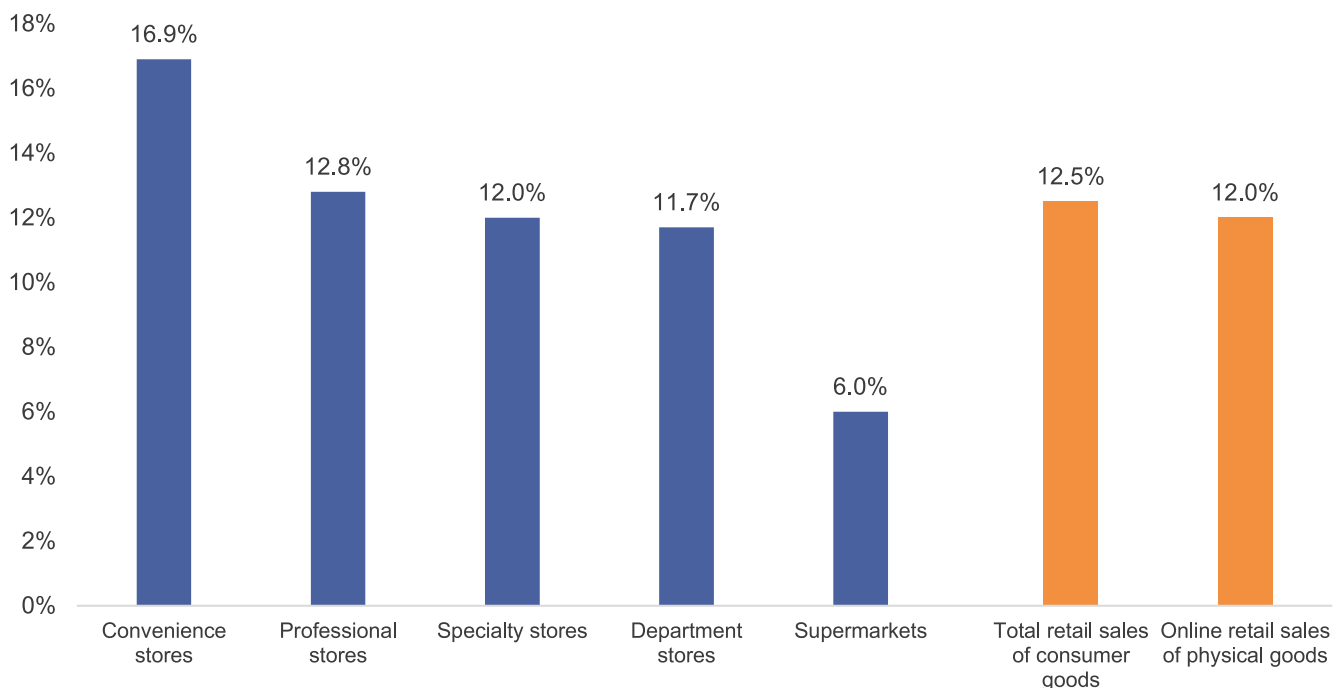


## 2. Differentiated performance across retail formats; quality spending increases

There were a few bright spots despite the overall downward pressure on consumption growth. In 2021, among retail units above designated size, convenience stores registered fast year-on-year growth of 16.9% in retail sales, followed by professional stores and specialty stores, with year-on-year growth of 12.8% and 12.0% respectively. The retail sales of department stores also grew by 11.7% year-on-year last year (Figure 1-4). The double-digit growth of these retail formats could be attributed to a low comparison base (negative growth in the previous year) (Figure 1-5) and a stronger recovery in the spending on consumer discretionary products.

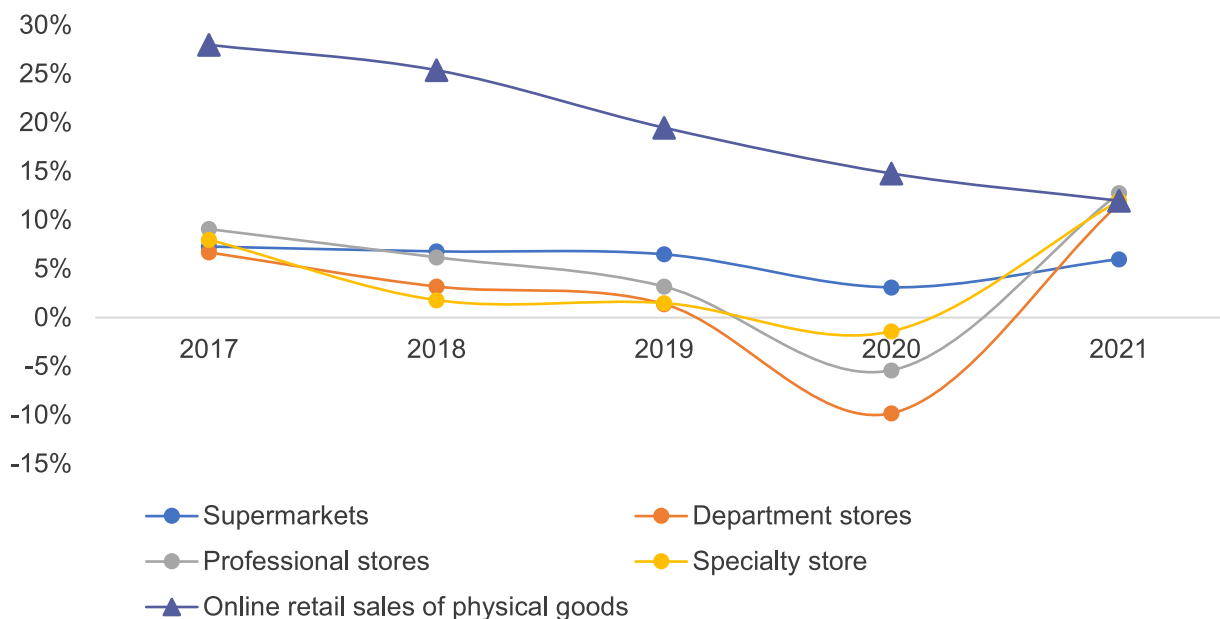
Retail formats that mainly sell standardized products were in a more difficult situation, as reflected in the continuous decline in the foot traffic of hypermarkets and supermarkets. In 2021, among retail units above designated size, supermarkets recorded the slowest year-on-year sales growth of 6.0% (Figure 1-4), which was markedly lower than the growth rate of the total retail sales of consumer goods. The main reasons are threefold. First, offline sales of standardized products are easily substituted by online sales. Second, there have been changes in consumption habits – the pandemic has caused a shift to online shopping. Third, young consumers rarely go to retail stores which are mediocre and feature no experiential elements.

Figure 1-4. Growth rates of retail sales of retail units above designated size, by retail format, 2021



Source: National Bureau of Statistics of the PRC; compiled by CCAGM and Fung Business Intelligence

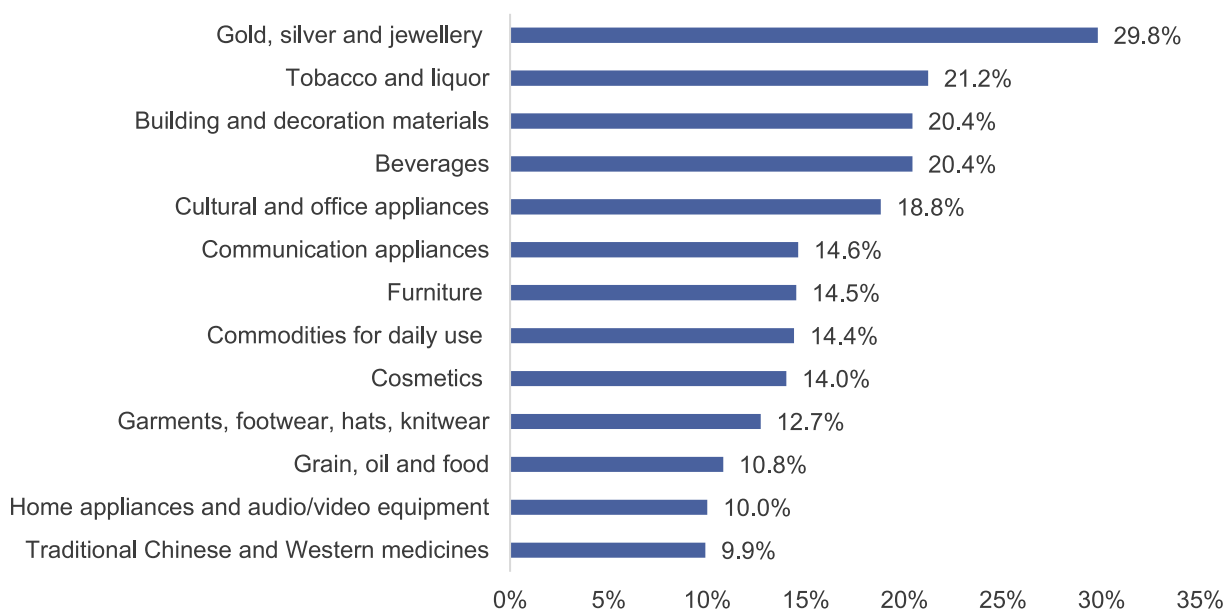
Figure 1-5. Growth rates of retail sales of retail units above designated size, by retail format, 2017-2021



Source: National Bureau of Statistics of the PRC; compiled by CCAGM and Fung Business Intelligence

On the other hand, data shows that demand for consumption upgrade has continued to rise. In 2021, the retail sales of cultural and office appliances, cosmetics, gold, silver and jewellery, and communication appliances of retail units above designated size increased by 18.8%, 14.0%, 29.8% and 14.6% respectively over the previous year (Figure 1-6). The average growth rates in the two-year period were 12.1%, 11.7%, 11.2% and 13.7% respectively, which were significantly higher than that of the total retail sales of goods. As the overall retail market has been recovering, the consumption structure will continue to optimize and upgrade.

Figure 1-6. Growth rates of retail sales of retail units above designated size, by product category, 2021



Source: National Bureau of Statistics of the PRC; compiled by CCAGM and Fung Business Intelligence

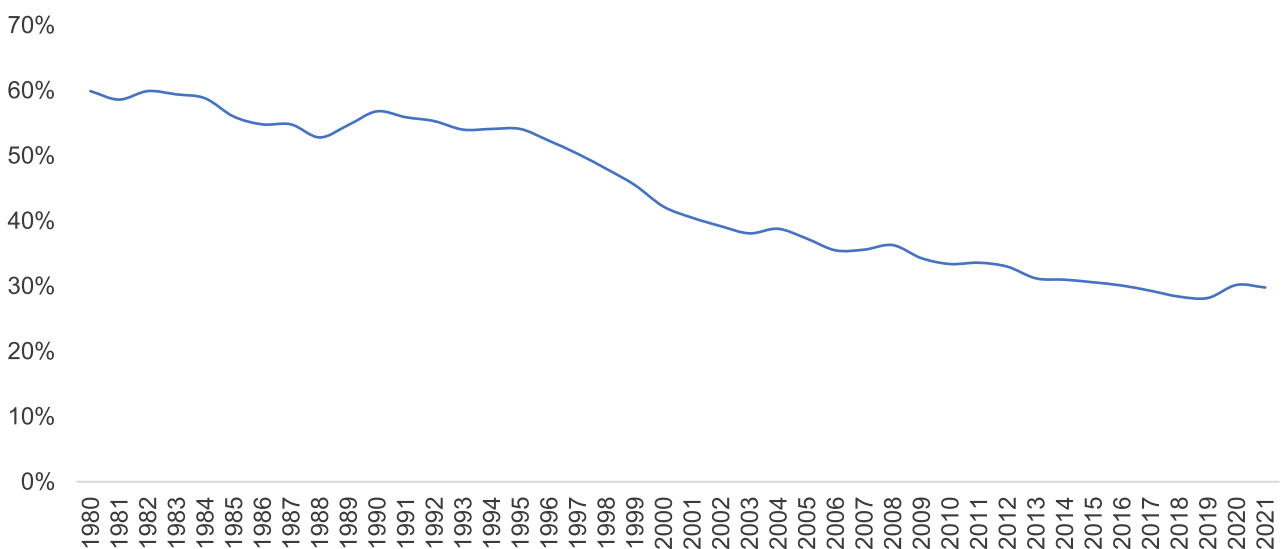


The rise of quality consumption is also manifested in the rapid growth in luxury consumption. A number of institutions have made forecasts on luxury sales. According to a report jointly released by Bain & Company and Tmall Luxury, the Chinese mainland's share of the global personal luxury goods market nearly doubled from 11% in 2019 to 20% in 2020, despite a 23% fall in the global personal luxury sales in 2020, and the share grew further to 21% in 2021. China is on track to become the world's largest personal luxury goods market by 2025.

In a report jointly released by Tencent Ads and Boston Consulting Group, the luxury market of the Chinese mainland was forecast to grow by 23%-25% to 520 billion yuan in 2021, on top of a 27% growth in 2020. The report believes that the main reasons behind the increasing luxury spending are a better luxury shopping environment in the Chinese mainland and changes in the spending attitudes of consumers, in addition to a shift to local spending from overseas spending.

There are two reasons for the growth of quality spending. The first is the trend of consumption upgrade. Whether China's consumption is upgrading, downgrading or there is bifurcation among Chinese consumers has become a hot topic of discussion. However, in general and in the long term, China's consumption is undoubtedly upgrading. Even in 2020 when the economy was negatively impacted by the pandemic, China's per capita disposable income grew by 2.1% in real terms. As the economy grows and people's income rises, consumption will continue to upgrade. The second reason is the declining Engel coefficient. The Engel coefficient is the ratio of food expenditure in the total household expenditure. The Engel coefficient usually falls as income rises, as consumers tend to increase their food expenditure in percentage terms less than their increase in income. A smaller share of income allocated to food implies a larger share of income devoted to quality spending. Over the past 20 years, China's Engel coefficient has shown an obvious downward trend. Every percentage point change in the Engel coefficient corresponds to a shift of trillions of consumption expenditure, which has a huge impact on the spending on upgraded consumer goods (Figure 1-7).

Figure 1-7. China's Engel coefficient, 1980-2021



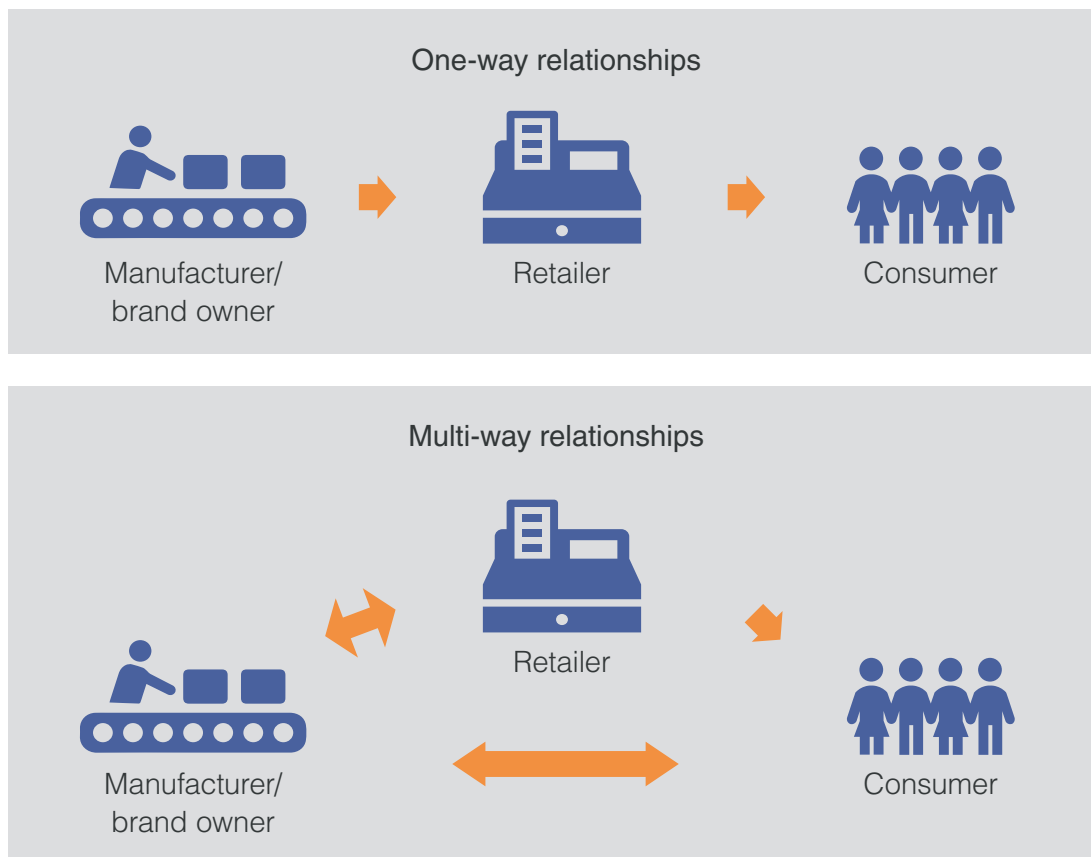
Source: National Bureau of Statistics of the PRC; compiled by CCAGM and Fung Business Intelligence

### 3. Changing relationships between retailers and suppliers

The relationship between retailers and suppliers has changed across three main aspects over the past two years.

Firstly, the previously defined roles are undergoing some changes. Many brands are now using their self-built channels, particularly online channels, to engage in direct sales. Some retailers are also leveraging their sizeable market share to develop private labels and carry out customized production and processing – this means that the line between manufacturer and retailer has become blurred as more and more retailers and brands have been involved in the supply chain.

Figure 1-8. Retail channel relationships



Source: Compiled by CCAGM

Secondly, the tools available to the supply chain are upgrading. The traditional retailer-supplier relationship largely relies on humans, such as brands' shopping guides and retailers' buying teams. The connection between people determines the product turnover rate. As the industry continues to digitalize, the retailer-supplier relationship is becoming increasingly dependent on the digitalization level across the entire supply chain, while human actions become less important.

Thirdly, the status of brand owners continues to improve. Nowadays, brand owners have a much wider variety of channels to reach their customers directly. They can sell through offline stores, e-commerce platforms, or develop their own sales channels. Compared to the past, present-day brand owners are much less dependent on retailers or other intermediaries, which gives them a stronger market position than before.

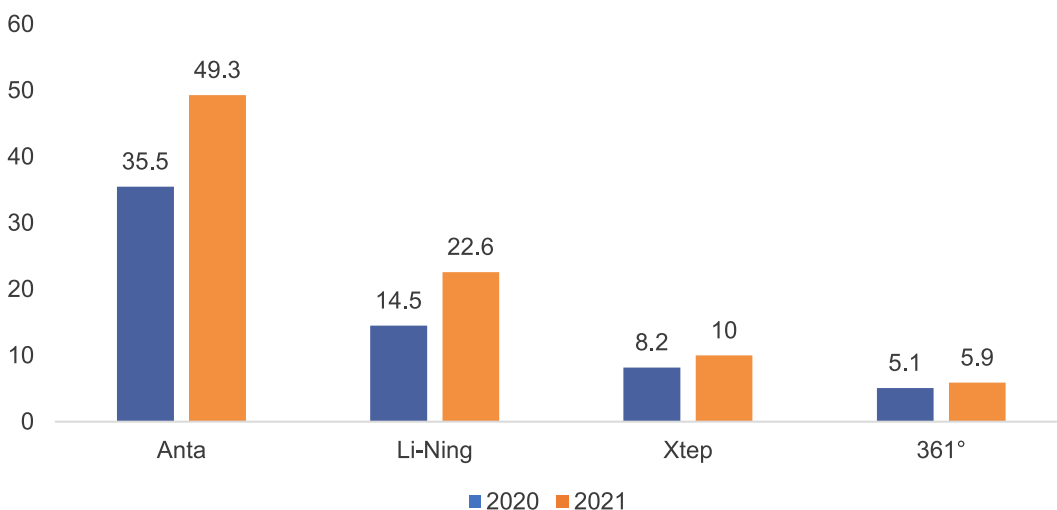


## 4. The growing popularity of domestic brands and the rise of Gen Z consumers

The rise of domestic brands not only shows the cultural confidence of Chinese consumers, but also reflects the improvements in product quality, production, and R&D capabilities of domestic brands. According to a report released by the AliResearch – the research arm of Alibaba Group, the market share of domestic brands in online channels surpassed 70% in 2020. Furthermore, according to a survey conducted by Aurora Mobile in September 2021, 76.4% of young people are interested in domestic products. The survey also found that 70% of post-90s consumers and nearly 80% of post-00s consumers mainly buy domestic brands in their daily lives.

Sportswear and cosmetics are representative of the meteoric growth of domestic products. The revenues and net profits of some domestic sports brands have grown rapidly in recent years. For example, Anta's operating income in 2021 was 49.3 billion yuan, representing a year-on-year increase of 38.9%. Li Ning's operating income reached 22.6 billion yuan in 2021, a year-on-year increase of 56.1%.

Figure 1-9 Operating income of Chinese sportswear brands, 2020-2021 (bn yuan)



Source: Company annual results; compiled by CCAGM and Fung Business Intelligence

According to government data gathered by qixin.com, the number of new cosmetics companies exceeded 25,000 in 2020, with a growth rate of 70%. In addition, from January to November 2021, China's cosmetics market size reached 367.8 billion yuan, at a growth rate of 15.3%.

These new brands have been actively enhancing their competitiveness by improving product quality, incorporating traditional Chinese culture, or collaborating with other well-known brands. They have also adopted various marketing promotion strategies through different channels to reach their target customers, using e-commerce platforms and social media such as WeChat official accounts, Douyin, Taobao Live, Xiaohongshu, etc.

We can see Generation Z consumers have gradually become the driving force of domestic consumption. They grew up in the Internet Age and pay close attention to personalization; as consumers, they have diversified needs and are willing to interact and share while shopping. It is estimated that the consumption expenditure driven by China's Generation Z exceeded 5 trillion yuan in 2021.

## 5. Stronger online supervision and a changing offline landscape

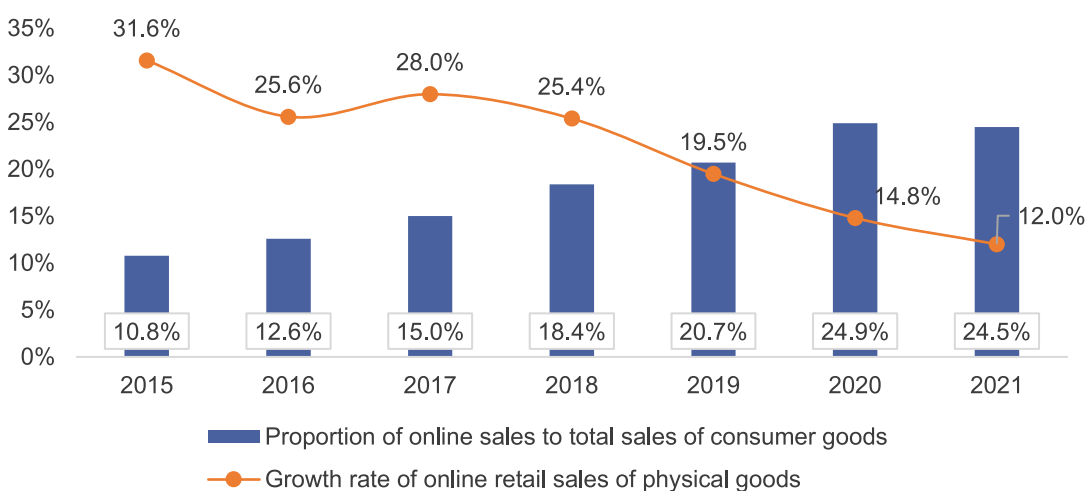
Online consumption has developed rapidly in recent years. In particular, retail models such as livestreaming and community group buying are becoming popular among consumers. However, some e-commerce platforms conduct unethical or improper business practices such as adopting predatory pricing to gain market share, false advertising, and even tax evasion. These issues pose a threat to the healthy development of the industry and must be addressed swiftly.

The government has tightened regulations on Internet platforms in 2021, which has addressed some of the above issues. It also benefits the entire consumption market, including the offline sector, in the following aspects.

Firstly, a fair competitive market is taking shape for online and offline players. After tightening the regulation of community group buying and tackling e-commerce platform monopolies, online e-commerce development will be more regulated. This will lead to a narrowing price differential between online and offline as well as a better balance between online convenience and offline experience.

Secondly, the online sales growth rate has dropped significantly compared with previous years. In 2021, the online retail sales of physical goods increased by only 12.0%, which is a historical low point since records began; online sales made up 24.5% of total retail sales of consumer goods, down 0.4 percentage points from 2020 and the first decline since the data was first published in 2015 (Figure 1-10).

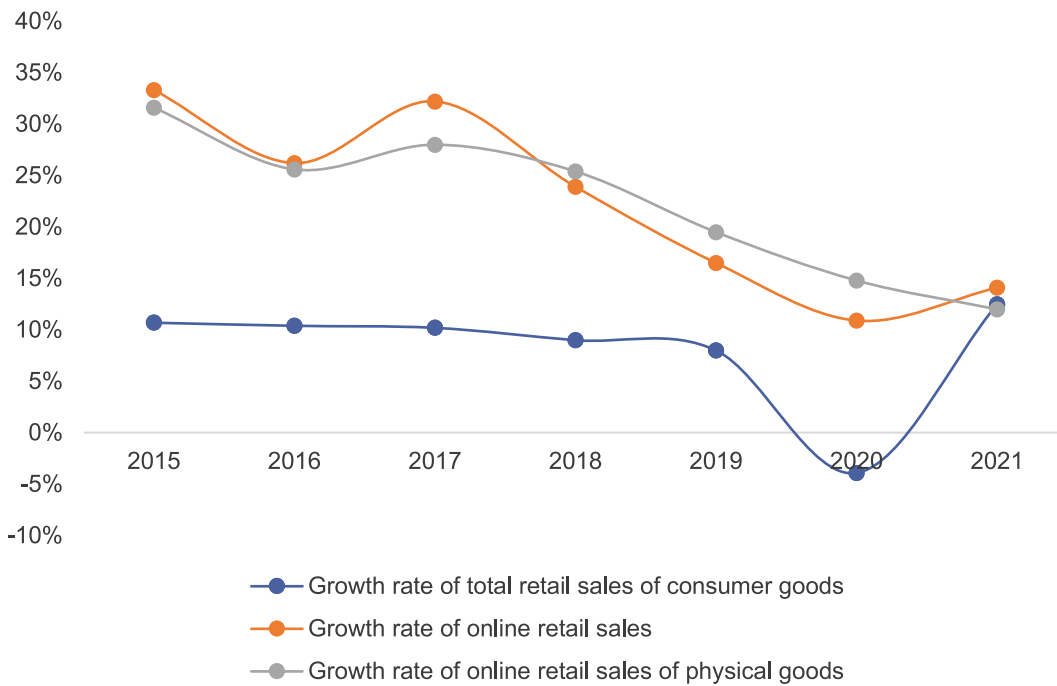
Figure 1-10. Growth rate of online retail sales of physical goods and proportion of online sales to total sales of physical goods, 2015-2021



Source: National Bureau of Statistics of the PRC; compiled by CCAGM and Fung Business Intelligence

The slowing growth rate of online retail sales has narrowed its gap with the growth rate of total retail sales of consumer goods (Figure 1-11). This leads to a gradual reduction in the degree to which online consumption is crowding out offline consumption. On the other hand, with the transformation and upgrading of offline brick-and-mortar businesses and the rise of omni-channel digitalization, the advantages of offline consumption are being fully realized. As such, more consumers are returning to offline shopping, which presents a new set of opportunities to the offline commercial sector.

Figure 1-11. Year-on-year growth rates of total retail sales of consumer goods, online retail sales and online retail sales of physical goods, 2015-2021



Source: National Bureau of Statistics of the PRC; compiled by CCAGM and Fung Business Intelligence





## II. Trends and Development in the Department Store Industry



## **1. Overall growth is positive with quality consumption increasing**

Among the 41 A-share listed companies that mainly operate department stores, 34 companies achieved year-on-year growth in operating income throughout the first three quarters of 2021, while 32 companies achieved year-on-year growth in net profit. Among companies that have released their forecasts for annual results, most expect solid revenue growth and substantial increases in net profit. Overall, the department store retail industry showed robust growth in 2021.

This solid growth in 2021 can be attributed to the following factors: First, high-end department stores have benefited from the rise in domestic luxury consumption, as Chinese consumers have to put overseas shopping on hold and turned to domestic shopping due to travel restrictions. Secondly, the economic recovery and strong demand in the first three quarters of 2021 has led to improvement in the operations of department stores, allowing them to restore profitability. Thirdly, quality consumption increases, with sales of cosmetics and jewellery performing well. Furthermore, some companies have engaged in mergers and acquisitions, and the integration of resources has created synergies and efficiency gains. Finally, the strong growth figures are in part due to the low comparison base in the previous year.

## **2. Market is polarized as high-end department stores perform exceptionally well**

The development of the department store retail industry appeared to be polarized in 2021. On one hand, the operating performance of some high-end department stores has continued to improve significantly. According to media reports, SKP Beijing's sales in 2021 reached 24 billion yuan, a year-on-year increase of 35%; Nanjing Deji Plaza's sales exceeded 20 billion yuan, a year-on-year increase of 28%; Hangzhou Tower's sales surpassed 10 billion yuan, a year-on-year increase of 25%.

This double-digit year-on-year growth is particularly notable in the context of the generally weak consumption in 2021, and can be explained by the following: first, as mentioned above, restricted global travel has prompted Chinese consumers to make luxury purchases domestically; second, the brand effect of high-end shopping malls has become stronger, which has improved their market competitiveness.

On the other hand, stores with homogeneous products and undistinguished operations struggled during the pandemic. They have to make a choice – either transform and upgrade the stores, or close them to prevent further losses.

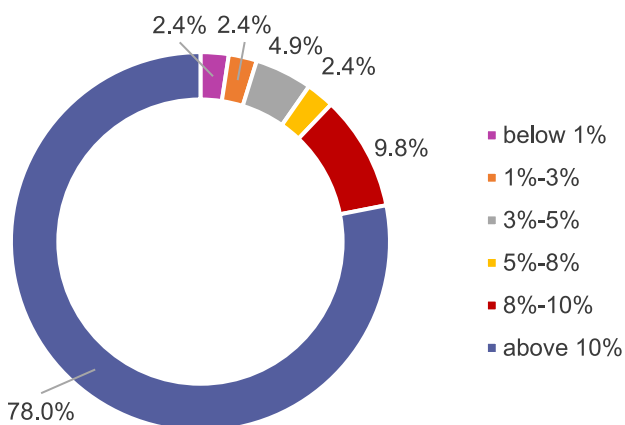
### 3. Livestreaming e-commerce and duty-free shopping impacts the operation of department stores

Livestreaming e-commerce has gradually become an important retail channel, and the top streamers have demonstrated their strong selling abilities. According to the media, Li Jiaqi and Viya pre-sold a combined 18.9 billion yuan worth of goods on 20 October in pre-Singles Day promotions, which is equal to the annual operating income of a large department store.

Popular livestreaming e-commerce products, such as cosmetics, overlap significantly with products sold in department stores. Therefore, the boom of livestreaming e-commerce is likely to hit the sales of department stores. In addition, there are some unregulated practices in marketing, taxation, pricing, etc., in the livestreaming e-commerce industry, which have given livestreaming e-commerce an unfair advantage over offline retail.

A survey by the CCAGM finds that 95% of surveyed department store operators believe livestreaming e-commerce has affected their cosmetics sales; 78% believe that livestreaming e-commerce has reduced their cosmetics sales by 10% or more (Figure 2-1).

Figure 2-1. Impact of livestreaming e-commerce on cosmetics sales of surveyed department store operators



Source: CCAGM Survey

The impact is twofold: The first is the price advantage. 98% of the respondents believe livestreaming e-commerce has a clear price advantage because brand owners have offered more favourable prices to them. The second problem is improper advertising. 84% of respondents believe streamers have made misleading claims such as 'the lowest price' to deceive consumers into buying their products.

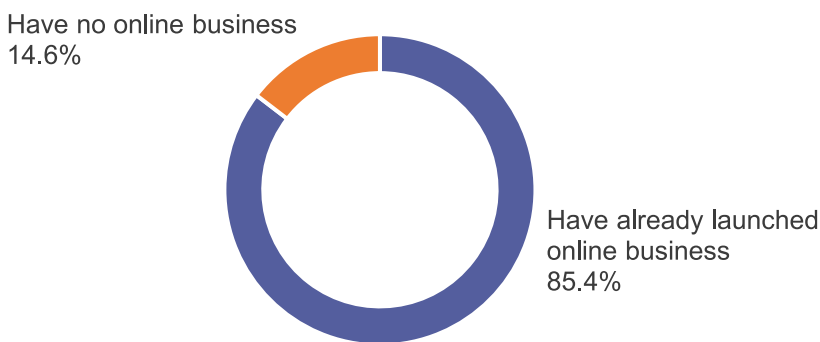
The continued popularity of duty-free shopping has also affected department store sales. China Duty Free Group, China's largest duty-free operator, achieved revenue of 49.5 billion yuan in the first three quarters of 2021, an increase of 41% over the same period last year, exceeding the combined revenue of the top two A-share listed department stores in this period.

The main products and target consumers of duty-free shops overlap with those of department stores, and thus the rapid development of the duty-free market has created further pressure on department stores.

#### 4. Digitalization process has further accelerated

The joint survey by the CCAGM and Fung Business Intelligence finds that 85.4% of surveyed department store operators have launched online business (Figure 2-2). Some of them launched online operations for the first time during the pandemic. Therefore, their online platforms remain underdeveloped. In the post-pandemic era, these enterprises shall re-evaluate the cost-effectiveness of their online operations and continue to extend their efforts on e-commerce. The other enterprises had already developed their online business before the outbreak of COVID-19, which then proved highly valuable during the pandemic. Both kinds of enterprises are now facing the need to further strengthen their online capabilities.

Figure 2-2. Penetration of online business among surveyed department store operators

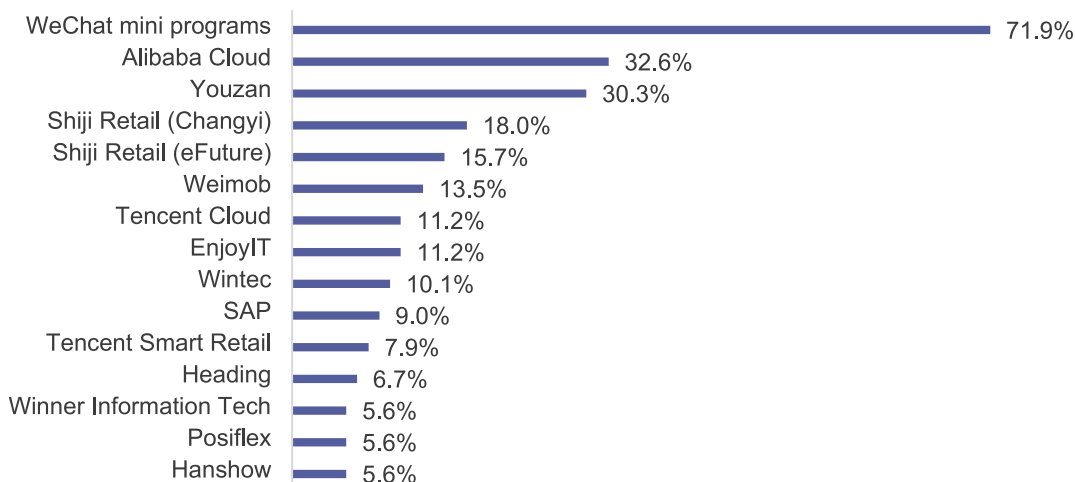


Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence

Over the past two years, as the department store industry has entered the next phase of digitalization, their digitalization strategies are now focusing on omni-channel construction and operation, middle- and back-end platform construction, system renovations, data operations, low-carbon efficiency, etc.

Department store operators are also constantly introducing new technologies that fit their needs. The most widely used technical service providers include WeChat Mini Programs, Alibaba Cloud, Youzan, etc. (Figure 2-3).

Figure 2-3. Service providers for systems and technologies used by surveyed department store operators



Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence



# III. Major Development Issues and Challenges



## 1. Unable to keep abreast of the latest trends

China's department stores are ahead of their international counterparts in digitalization, but they are still weak in store image, visual merchandising and display, product management, and customer service. Many domestic department stores still operate with traditional mindset, and are lacking the sensitivity to fashion and new market trends. The gap between traditional business thinking and new consumer demand has resulted in a misalignment between demand and supply.

Many department stores are state-owned, with traditional management styles and a lack of awareness and motivation to change. According to public information, nearly 40% of the management team at A-share listed companies that operate department stores are born in the 1970s, with a very small number of executives born in the 1980s and most of the rest born in the 1960s. On the other hand, some of the new, trendy and well-managed department stores have relatively young management teams.

The current retail industry is in an era of digitalization and product upgrading. Younger teams are more capable of understanding and responding to changes in consumer demand, and delivering the right products and services accordingly.

## 2. Unclear development goals and strategies

Against the backdrop of weak overall growth and poor performance in the retail industry, enterprises must clarify their own development goals and strategies.

We have seen some department store operators making a push into other sectors, such as new energy, office space, digital payment, life science and healthcare, etc. However, the effectiveness of these transformations or investments remains to be seen.

Some department stores have considered morphing into shopping malls, but in practice successful cases of such transformation are few and far between. Most department stores are just trying to make local adjustments, such as by adding child-related facilities/stores and Internet-famous stores, which still fit within the conventional department store model.

In addition, there are certain internal conflicts within enterprises on issues such as increasing digital investment and strengthening direct sales business; some enterprises have not clearly defined their goals and strategies.

Ultimately, the core of retail is selling products and services to customers, and therefore, enhancing product appeal and service capabilities should always be the top priority whatever changes the department store is trying to make.

### **3. Lack of means to improve performance**

Faced with weak demand and fierce competition, department stores' attempts to improve their performance are met with various challenges. For example, opening a new store requires a lot of capital investment, alongside uncertainty about the surrounding spending power; developing a multi-brand store requires the support of a professional team and brand owners; scaling up direct sales business is risky in terms of funding and expertise.

Many department stores have been aware of the importance of O2O integration and have achieved some short-term growth by leveraging membership schemes, livestreaming, WeChat Mini Programs, etc. However, some of their online platforms cannot meet the long-term need due to reasons such as inadequate investment and internal organizational limitations. From an industry-wide perspective, only a small number of enterprises are realizing new growth through digitalization and omnichannel development.

### **4. Difficulties in achieving digital breakthroughs**

Difficulties in achieving digital breakthroughs are largely due to the inherent nature of department stores. First, it can be difficult to quantify the impact of digital initiatives, which is a barrier to decision-making. The results of digitalization are not necessarily directly reflected in sales improvements, but rather less visible aspects such as efficiency improvement and better responsiveness to the changing customer expectations.

The second problem is the talent shortage, which is an ongoing challenge for most department stores. The digitalization efforts require skilled professionals who are expensive to recruit. It is difficult for department store operators to pay new hires significantly more than their existing teams.

Third, there are usually many systems, such as membership, inventory management and marketing systems, in a traditional department store, and these systems often use different service providers. Interconnecting data and integrating the various systems would require huge costs and cooperation from various teams, making it a big challenge for the enterprise.

Fourth, gaps in understanding of and mindset for digital transformation pose obstacles. Digital transformation requires buy-in from all levels of an enterprise, and it also requires the full attention and participation of the enterprise's management. Therefore, it can be carried out smoothly only if there is a shared understanding of the significance of digitalization.

Fifth, there are many components in a digitalized system, each of which is indispensable. For example, even though processes may be digitally managed, the whole system cannot operate if lower-level employees do not know how to operate its individual elements.

Furthermore, it is difficult for service providers to respond quickly in the face of diverse and rapidly changing demands from the department stores. Some department stores have developed their own digital systems, which can meet their own needs almost perfectly, but this requires a large investment which reduces the already slim profit margins.

## 5. Weak product appeal and competitiveness

Most department stores are still in a state of homogeneous competition, both in terms of operations and products.

The homogenization of operation is manifested in the prevalence of the concession model in China's department store industry. This model helps department stores avoid some business risks and guarantee certain profits. However, their reliance on brands and suppliers means department stores lack full control of supply channels and understanding of consumer needs, leading to weak product competitiveness and missed market opportunities. On the contrary, some department stores have performed well under the direct sales model in recent years, as they are more sensitive to market changes and responsive to customer needs. However, the direct sales business comes with various challenges such as high capital requirements (Table 3-1).


Table 3-1. Major challenges encountered by surveyed department store operators when developing direct sales business

Rank	Challenge
1	Requires a large amount of working capital
2	Difficult to train a professional buying team
3	Hard to find suitable suppliers/brands to collaborate with
4	Hard to grasp consumers' needs
5	Lack of management expertise and experience
6	Difficulties in retaining talents
7	Internal organizational problems

Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence

Product homogeneity has long plagued the department store industry due to the following factors: first, there is a limited number of high-quality brands and most of them are based in the first- and second-tier markets, so department stores do not have many to choose from; second, there are too many department stores on the market, making it difficult for newly opened stores to attract brands or products that are differentiated from other stores.

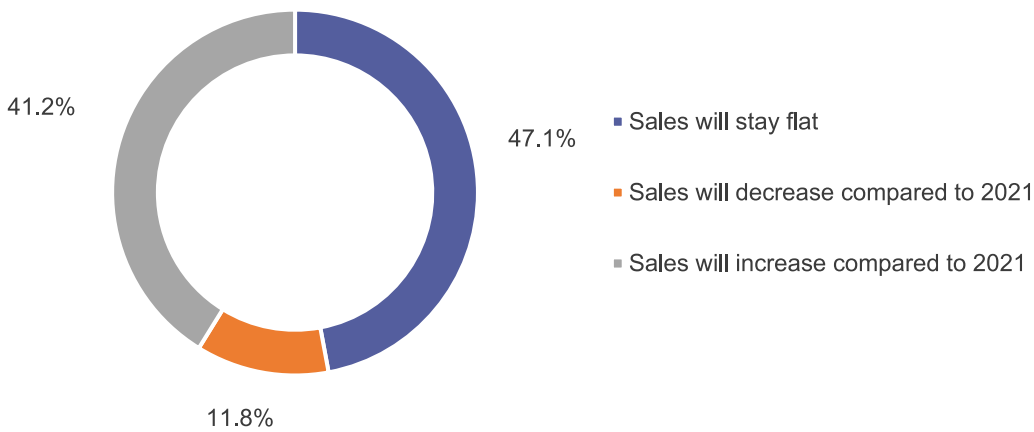


A hand is shown holding two white shopping bags with blue handles. Overlaid on the bags are two blue shopping cart icons. The background is a blurred image of a person's face. The text 'IV. Direction of Development and Transformation Initiatives' is centered over the image in a white, bold, sans-serif font.

## **IV. Direction of Development and Transformation Initiatives**

The retail industry has now entered a 'new normal' in the post-pandemic era. Although some provinces and cities are still fighting the COVID-19, department stores have significantly improved their disease prevention and control measures. Compared with 2020, the impact of the pandemic on department stores' operation has significantly reduced, and most operators are optimistic about the coming year. According to a survey jointly launched by the CCAGM and Fung Business Intelligence, 47.1% of respondents expect sales in 2022 to stay flat, while more than 40% of respondents expect their sales to increase. (Figure 4-1)

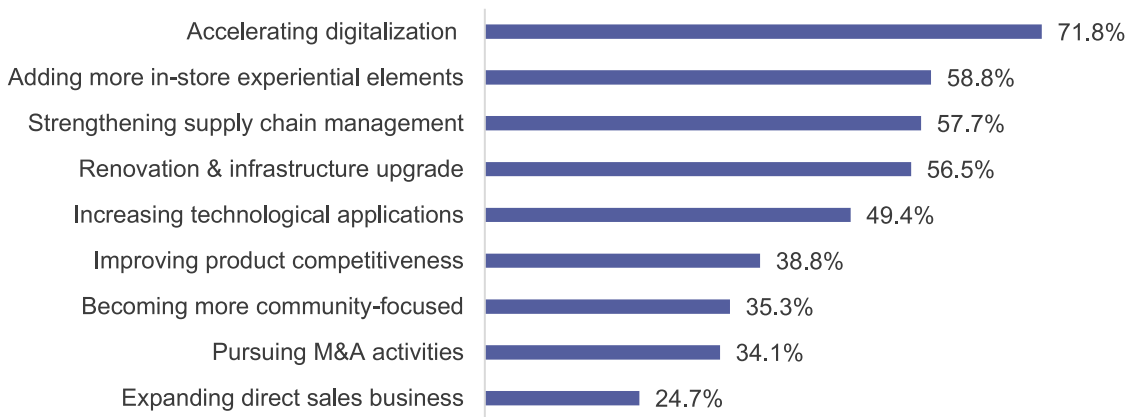
Figure 4-1. 2022 sales expectations among surveyed department store operators



Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence

71.8% of the survey respondents believe that accelerating digital transformation and pursuing O2O integration are the main development directions for the coming year (Figure 4-2). Other development trends include adding more in-store experiential elements (58.8%), strengthening supply chain management (57.7%) and renovation and infrastructure upgrade (56.5%).

Figure 4-2. Key development goals of surveyed department store operators for the next 12 months



Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence

## 1. Multidimensional in-store revamp and upgrades

The pandemic has given rise to new consumer behaviours and consumption patterns. Revamping and upgrading stores according to changing market trends has become the department store industry's main focus. In recent years, almost every department store has undergone revamping, transformation or upgrading projects of various scales, but not all of them have been effective. The success of these projects depends on the operator's judgment on the market, prediction of the future, and understanding of consumer needs. These revamps and upgrades should be multi-dimensional, extending beyond just in-store decorations or simply adding some interactive or experiential elements. Over the past year, the transformation and upgrading projects of China's department store industry involves exterior decoration, retail space expansion, brand renewal, business format adjustment, digital transformation, etc.

**Exterior decoration:** The exterior wall renovation project of Guangzhou CapitaLand Rock Square was completed in December 2021. More than 1,000 square metres of dreamy lighting paintings have been added to the exterior wall, and the various night sky motifs have attracted many tourists.



*Moonlight Stairs at Guangzhou CapitaLand Rock Square*

*Image Source: Guangzhou CapitaLand Rock Square WeChat official account*

**Brand renewal:** The jewellery department of Shanghai Huijin Department Store (Xuhui) underwent a three-year upgrade between 2018-2021 which included product categories, services, and store environment. The upgraded jewellery department has integrated brand resources from 12 brands including Chow Sang Sang, Chow Tai Fook, Tse Sui Luen, CHJ Jewellery, making Huijin's jewellery product portfolio and operating scale the best in the Xujiahui district. Furthermore, the focus of jewellery brand operation has shifted from scale to specialization, refinement, and quality. Some counters are positioned as affordable luxury jewellery area, targeting the youth market. In addition, repair points have been added to provide services such as jewellery cleaning and resizing.

Block A of Cuiwei Department Store in Beijing's Haidian district reopened in December 2021 after an eight-month renovation. The upgraded store has introduced nearly 100 new brands, of which 12 brands are introduced for the first time into Beijing or Haidian District. This upgrade has also transformed the in-store decorations while adding more experiential elements.



**Market repositioning:** Wangfujing Group's Beijing Dong'an Market has reopened in January 2022 as Dong'an Luxemporium, a buyer-model department store for trendy luxury goods. The brands in the mall are mainly international high-end luxury goods and independent designer brands, and nearly half of them are the first stores in the Chinese mainland.



*The first floor of Dong'an Luxemporium is named as 'Shapes Dong'an', combining traditional Chinese architecture with future technology  
Image source: Wangfujing Group's official Weibo account*

## **2. Remaining focused on enhancing product appeal**

Enhancing product appeal remains a key focus for department stores. Better product appeal means greater competitiveness, allowing department stores to stand out in the market. Consumers' attraction to a store's products depends on various factors: functions, quality, appearance, price, displays, etc. Currently department stores are trying to enhance product appeal by strengthening direct sales business and developing private labels. By partnering with upstream manufacturers, department stores can strengthen their supply chains and improve their product management and service capabilities.

### **(1) Strengthen direct sales business**

China's department stores mainly operate on the traditional concession model. This guarantees a certain level of profit but limits department stores' control of product supply channels, potentially leading to missed market opportunities. In recent years, some department stores have begun exploring the direct sales business model: by establishing their own sourcing teams to source goods from international manufacturers, opening multi-brand stores, and introducing independent designers and niche brands. These ventures can increase department stores' product appeal and differentiation, which in turn boosts their competitiveness.

According to our survey, 71.8% of respondents have already engaged in direct sales business (Figure 4-3), which is almost the same level as last year. However, direct sales business remains a relatively small part of department stores' overall business. About half of respondents (50.8%) indicated that the proportion of their direct sales business did not exceed 10%. For some department store operators (36.1%), direct sales business has made up over 20% of their business. Meanwhile, more than half of the respondents said that the proportion of their direct sales business has not changed compared with the same period last year; another 39.4% said that the proportion has increased, and most companies have seen a small increase of less than 5% (Figure 4-4). About half of the respondents also indicated that they will continue to expand the proportion of their direct sales business in the next 12 months (Figure 4-5).



Figure 4-3. Penetration of direct sales business among surveyed department store operators

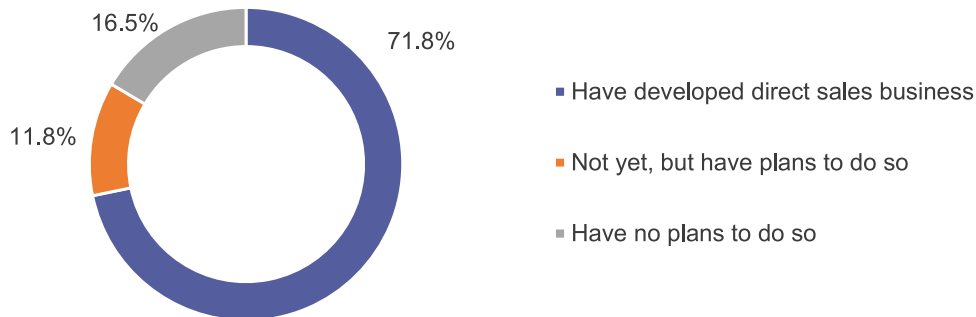


Figure 4-4. Change in the proportion of direct sales business compared to the same period of the previous year among surveyed department store operators

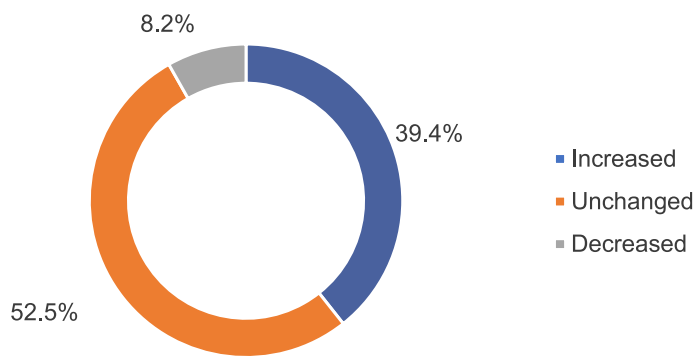
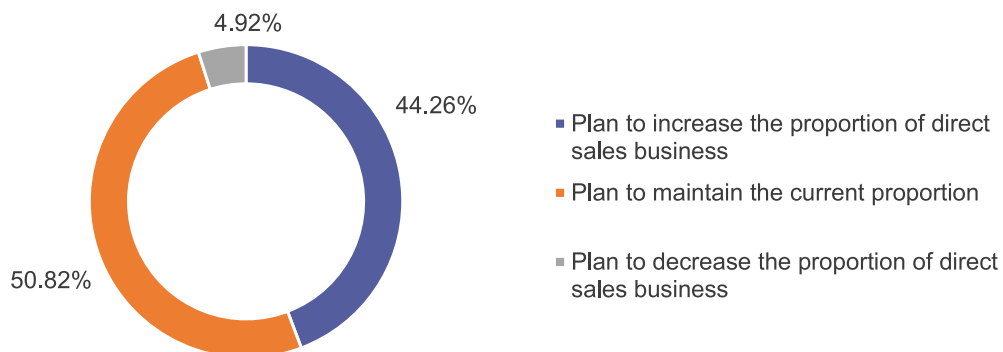


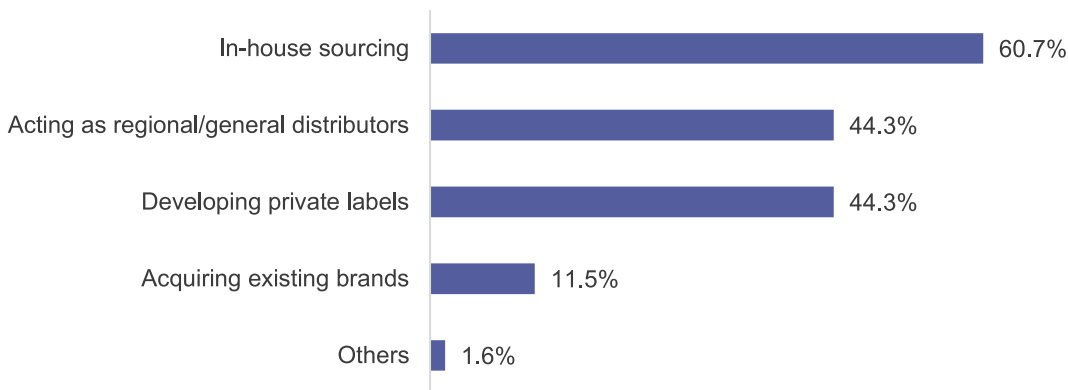
Figure 4-5. Direct sales business plan among surveyed department store operators in the next 12 months



Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence

In terms of business models, the number of department store operators adopting the in-house sourcing model has increased significantly this year to 60.7%. 'Acting as regional and/or general distributors' and 'developing private labels' are also popular models, each accounting for 44.3% (Figure 4-6).

Figure 4-6. Types of direct sales models adopted by surveyed department store operators



Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence

## (2) Developing private labels

The department store industry can also enhance its product appeal by developing private labels, which can help operators break through the profit bottleneck. Working directly with manufacturers allows department stores to avoid intermediaries, which will reduce costs and improve flexibility in pricing. This will also allow retailers to better understand the quality and characteristics of their products

The pandemic has slowed down the development of private labels by department stores. Our survey finds that 38.8% of respondents have launched their own private labels, while 16.5% of them plan to develop private labels in the future (Figure 4-7) - a decrease from last year's 26.5%. Among the respondents that have already established private labels, nearly half said that private labels currently account for less than 5% of their total sales, while 24.2% of respondents reported that the proportion has exceeded 20% of total sales. Additionally, about 30.3% of respondents said the proportion of their private label business has increased compared to the same period last year (Figure 4-8). Looking ahead, 63.6% of the companies surveyed said they would expand the proportion of their private label business in the next 12 months (Figure 4-9).

Figure 4-7. Penetration of private labels development among surveyed department store operators

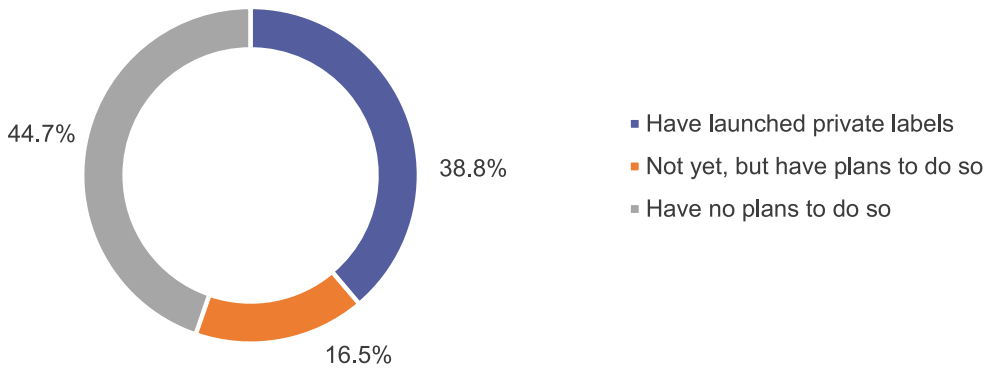


Figure 4-8. Change in the proportion of private label business compared to the same period of the previous year among surveyed department store operators

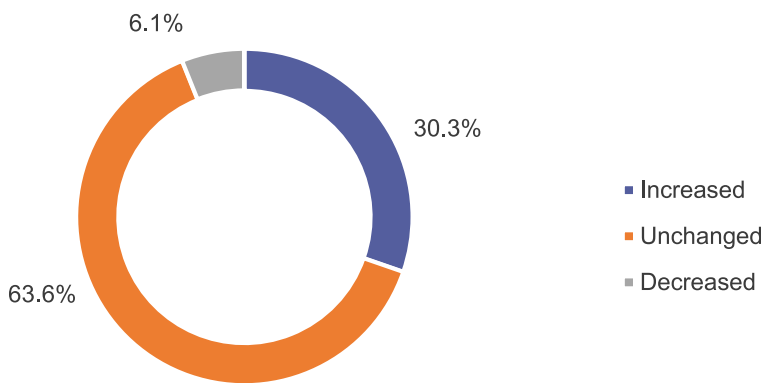
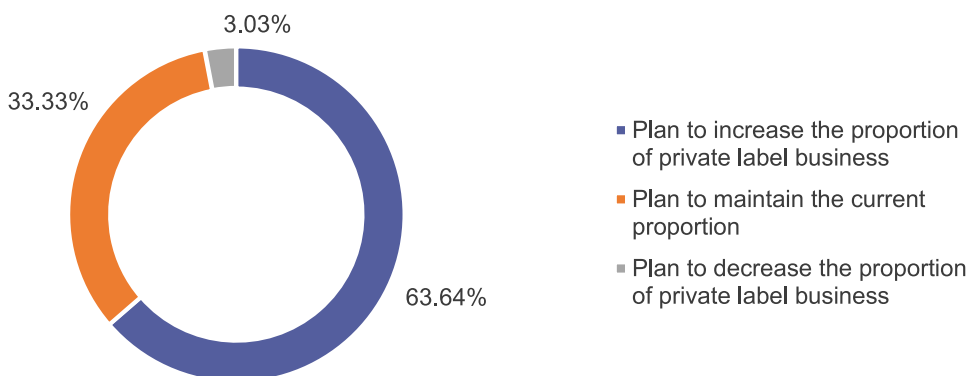


Figure 4-9. Private label business development plan among surveyed department store operators in the next 12 months



Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence

In general, although many department stores have established direct sales business and developed private labels, these remain a small proportion of their total business. There are certain challenges and risks in developing direct sales business and private labels. Developing direct sales business would require department stores to establish self-operating capabilities: this requires capital investment, establishing buyer teams, improving incentive and trial-and-error mechanisms, as well as a supportive environment such as a mature supply chain, suitable suppliers, etc. Similarly, private label development also requires a certain scale of operation and financial strength. Department stores need to take full ownership of the supply chain – conducting market research, developing products, monitoring production, engaging in marketing activities, and building logistics and distribution channels.

Due to the aforementioned challenges, most department store operators are still in the exploratory stages of their direct sales and private label business. Meanwhile, a few are relatively mature in their operations. For example, Xinyulou Department Store Group has operated under the direct sales model for many years and has launched various private labels. At present, it has developed 17 types of private label products including food, jewellery, clothing, etc. Xinyulou's products feature affordable prices and high quality. Their prices are significantly lower than those of comparable quality from other brands .



*Xinyulou's private label in the womenswear category  
Image source: CCAGM WeChat official account*



Beijing Dong'an Market, owned by Wangfujing, has transformed into a self-operated buyer-model department store named Dong'an Luxemporium which reopened in January 2022. The shopping mall brings together more than 600 international high-end luxury brands, independent designer brands and high street brands across boutique shoes and bags, clothing, jewellery, fragrance, cosmetics, etc. The buyer model can expand the department store's profit margins. At the same time, direct sales business helps avoid product homogenization, low profits caused by price wars, and difficulties in acquiring new brands.



*Trendy shoes area 'Moon The Space' in Dong'an Luxemporium  
Image source: Dongan Luxemporium's official Weibo account*



### 3. Creating immersive consumption experiences

As the pandemic has been largely brought under control, the surge in online traffic has gradually subsided as some consumers return to offline channels. This is an opportunity for the department store industry. Compared to e-commerce, the unique advantage of physical retail stores is the experiential element, which cannot be replicated online. As such, many department stores are focusing their efforts on creating an immersive consumption experience, designing various sensory elements, and transforming physical stores into an ‘all-inclusive entertainment space’ where people can relax in their free time.

Many newly opened department stores are centred around a themed shopping environment. For example, the design of Ruihong Tiandi’s Hall of the Sun in Shanghai revolves around the theme of ‘urban oasis’ – integrating water, plants and light in natural settings alongside a 5,300-square-metre indoor and outdoor botanical garden. Shenzhen Longgang Wanda Plaza features a six-storey escalator, indoor glass walkway and other unique interactive design elements which have made the store itself a popular attraction. Tianjin Yanlord Isetan has added a semi-open rest area with a simple Japanese style under the theme of ‘shopping museum’, revitalizing the elevated space within the atrium.



*The ‘urban oasis’ in Ruihong Tiandi’s Hall of the Sun*  
Image Source: China Xintiandi’s official website

In addition to improving the shopping environment, department stores are also actively introducing ventures which involve experiential elements. The most popular categories are indoor entertainment, indoor sports, and cultural exhibitions. Children's entertainment facilities are regarded as a guarantee of foot traffic, as they attract parents to bring their children to shop and play. Indoor amusement parks focused on exercise, exploration, challenges, experiments and growth are gradually gaining popularity.

In 2022, the indoor parent-child entertainment brand Meland Club has joined Guangzhou CapitalLand Rock Square. Meland Club has created a themed fairy tale kingdom full of natural landscape elements such as ocean ball pit and wood grain sandbox. In total, there are over 30 highly realistic experiential games which can attract a wide range of age groups.



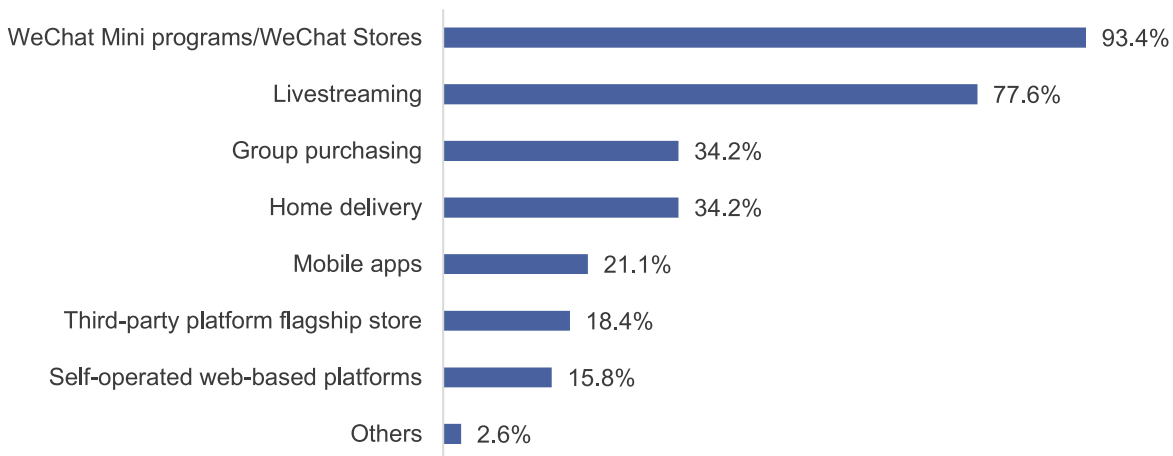
*'Fantasy Castle Garden' by Meland Club;  
Image source: CapitalLand Rock Square's WeChat official account*

## 4. More in-depth digital transformation

Digital transformation has been an ongoing trend within the department store industry for many years. Major department stores have introduced various tools to establish online business and analyze sales data. The next step is to expand digitalization capabilities by leveraging corporate resources.

85.4% of our survey respondents have already established their e-commerce business. Among them, WeChat Mini Programs and WeChat Stores are the most common channel (93.4%), followed by livestreaming (77.6%) (Figure 4-10). The high cost of implementation is the main challenge that companies face in the digital transformation process. Therefore, most operators prefer to use lighter WeChat Mini Programs instead of web-based platforms and mobile apps that require large-scale investment and operational capabilities. WeChat Mini Programs are often used to fulfil functions such as QR code payments, shopping vouchers, coupons, etc. Most respondents said that, compared with the same period last year, the proportion of sales of their online business has increased. In light of consumers' growing habits of purchasing online, many department store operators said they would continue to accelerate their e-commerce business development in the next 12 months.

Figure 4-10. Forms of e-commerce business adopted by surveyed department store operators

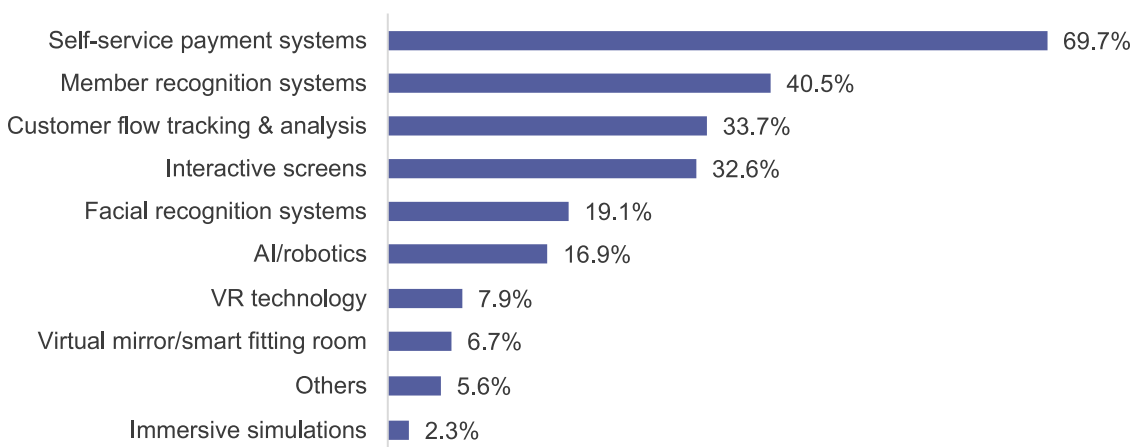


Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence



In offline outlets, department stores also use various technologies to enhance shopping experience and collect consumer data. Our survey shows that nearly 70% of respondents have adopted self-service payment systems (Figure 4-11). Customers can make self-service payments at self-checkout machines or through WeChat Mini Programs, which reduces queuing time and improves payment efficiency. Merchants can also collect sales data through the self-service payment system and record members' purchase history, facilitating smart digital membership management. After payment, customers can receive electronic invoices and save their proof of purchase.

Figure 4-11. Technology application in physical stores among surveyed department store operators



Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence

Intime Department Store has introduced new retail stores named Intime 365 in some third-tier and below cities. These stores are around just 40-80 square metres in size, with popular beauty and apparel products on display for consumers to try; there is also a digital screen to place orders. Once an order is placed, the system will allocate the order to the nearest Intime department store to the consumers and provide door-to-door delivery.



Consumers shop through digital screens at an Intime 365 store. Image source: Intime Department Store

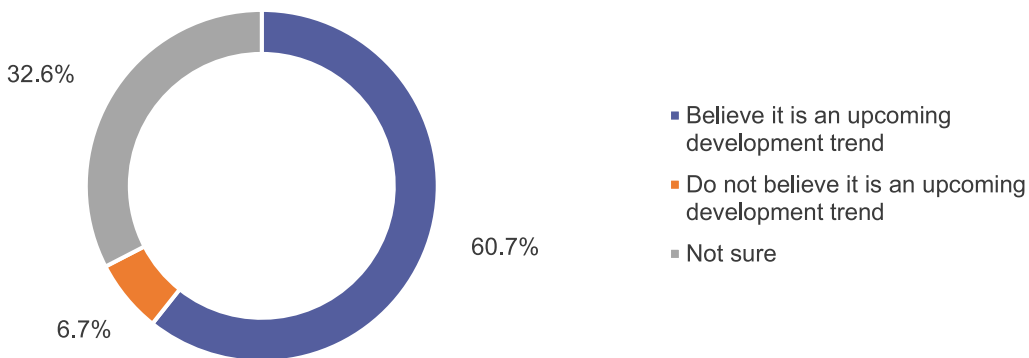


As we can see, the current digital landscape mainly focuses on the front-end, such as the order system. However, the multi-channel business development will require improvements in the structure of business informationization. Therefore, the next step in digitalization is gradually shifting focus to the 'middle platform' (also known as 'zhongtai') and back-end infrastructure, so as to better integrate online and offline business and achieve smart decision-making.

The concept of middle platform is introduced by Alibaba based on its e-commerce system architecture experience. As companies establish online business through various channels, they need a strong middle platform and back-end infrastructure to achieve cross-channel integration and coordinated development. And the middle platform is made to enable modularity and composability of various businesses.

In our survey, about 60.7% of respondents said that the middle platform was an upcoming development trend, while 32.6% said they were not sure (Figure 4-12). From a business perspective, constructing a middle platform is more essential for retail groups with multiple business formats and sales channels and with relatively complex business structures; enterprises with relatively simple operations can prepare themselves technically for this development in a longer term – after all, on the path to digital transformation, it is crucial to take into account the enterprise's individual characteristics, available capital, manpower resources, etc., in order to avoid blindly following suit.

Figure 4-12. Views of surveyed department store operators on middle platform



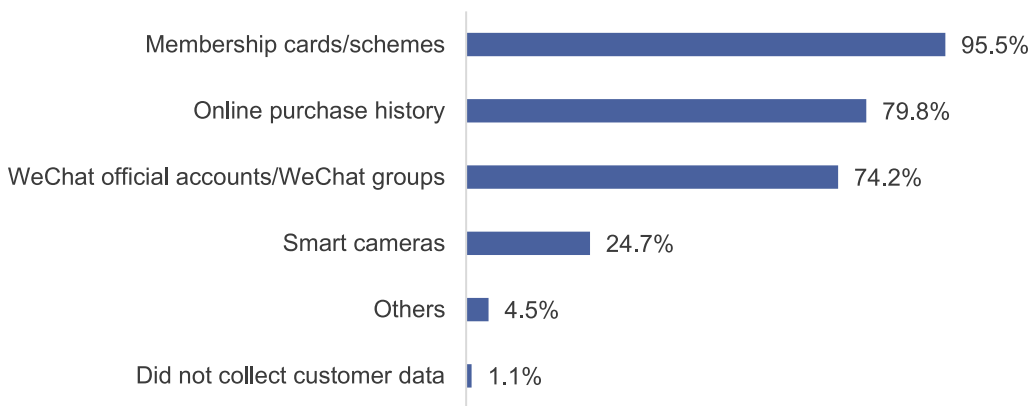
Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence

## 5. Private traffic to become increasingly valuable

Collecting and analyzing sales data is key to understanding consumer demand and thus conducting precise marketing activities. After collecting all kinds of transaction data, department store operators analyze consumer preferences and optimize their product mix accordingly.

Almost all of the respondents in our survey indicated that they have been collecting consumer data in various ways. Among them, membership schemes/cards are the most commonly used (95.5%), followed by online purchase history (79.8%) and WeChat official accounts and WeChat groups (74.2%) (Figure 4-13).

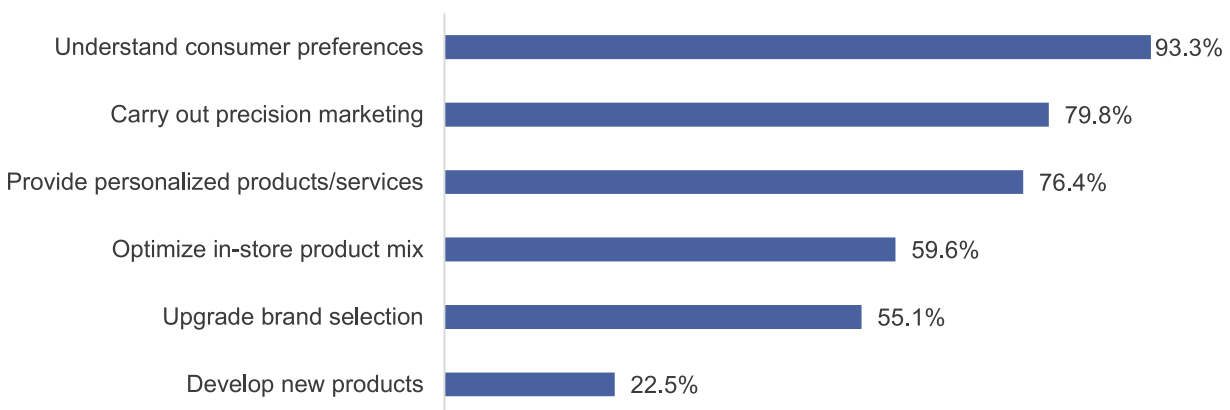
Figure 4-13. Means of collecting consumer data by surveyed department store operators



Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence

Surveyed department store operators indicated that the main purposes of collecting consumer data include understanding consumer preferences (93.3%), carrying out precision marketing (79.8%), providing more personalized products/services (76.4%), and optimizing in-store product mix (59.6%) (Figure 4-14).

Figure 4-14. Purposes of collecting consumer data by surveyed department store operators

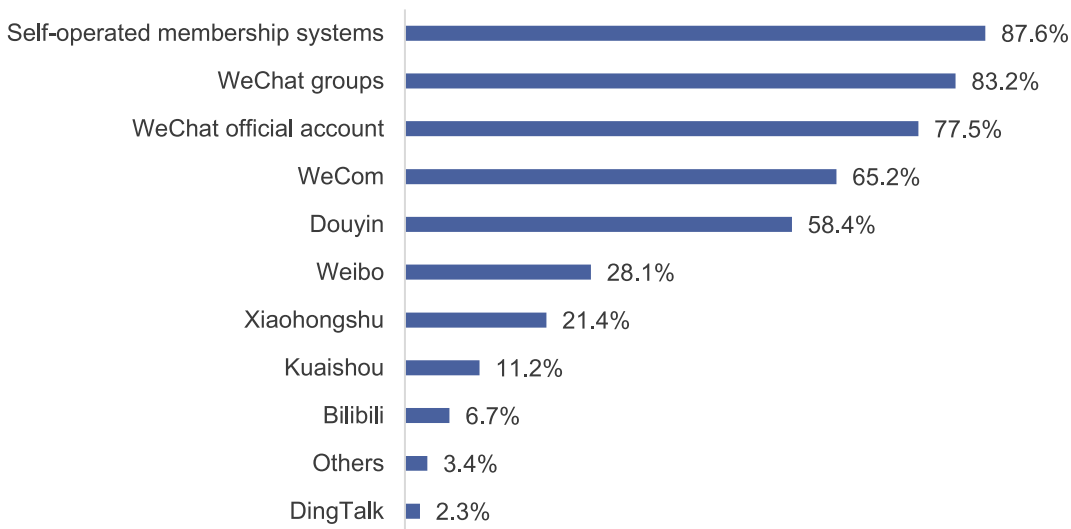


Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence

The industry has recognized the importance of private domain traffic, making membership marketing increasingly popular. Retailers keep close contact with consumers through emails, chat groups, and membership systems in order to maintain user stickiness. These consumers, who are considered to be the ‘private traffic’ of retailers, often have higher recognition of the retailers’ brands compared with random walk-in consumers. Members of department stores, especially high-end members, have the greatest value. High-end department stores often have members who spend hundreds of thousands or even millions of yuan a year in their stores; as such, they require more professional marketing and management.

According to our survey, self-operated membership systems and WeChat groups are the top platforms for department stores to build private domain traffic (Figure 4-15).

Figure 4-15. Key platforms to build private traffic by surveyed department store operators



Source: China department store survey 2021-2022 by CCAGM and Fung Business Intelligence

At present, membership marketing in the department store industry has three main characteristics: the rapid expansion of membership scale, the digitalization of membership management, and an increasing proportion of membership sales. Meanwhile, there are also challenges including low membership activity, unconnected systems, and overly simplified services.

In the future, membership marketing will focus on member segmentation, omni-channel membership integration and consumer experience improvement. Department stores could build a member database, and create members’ profiles according to their purchasing history and information collected through various online and offline channels – the key is to understand their spending power, shopping frequency, price sensitivity, etc. Using digital management systems, targeted marketing directed at corresponding members will be more effective in converting interested consumers into paying customers. Enterprises can also let dedicated shopping guides handle membership services and carry out personalized marketing by connecting directly with members.

Figure 4-16. Department stores' member marketing strategy



Source: compiled by Fung Business Intelligence

Furthermore, some department stores have begun exploring the paid membership model. Back in 2017, Intime Department Store launched a paid membership plan priced at 365 yuan per year, the INTIME365 membership program. Members can enjoy a variety of benefits and discounts, including 10% off shopping throughout the year, up to 40% off food and beverages, discounted parking, and 60-day returns and exchanges. This paid membership plan is designed to provide discounts for particularly loyal customers, attracting consumers with more favorable prices and increasing member stickiness. The spending amount and average transaction value of paid members at Intime are reportedly almost twice those of free members.

## 6. Facilitating low-carbon sustainable development

Collecting and analyzing sales data is key to understanding consumer demand and thus conducting precise marketing activities. After collecting all kinds of transaction data, department store operators analyze consumer preferences and optimize their product mix accordingly.

China is committed to reaching peak carbon dioxide emissions before 2030 and achieving carbon neutrality before 2060. The state has formulated a series of policies in light of these goals, which will lead to new approaches in the retail industry. Some large department store enterprises have been actively working towards sustainable development. Through new technologies, management innovation and other means, they are actively engaging in green transformation while reducing costs and improving efficiency.



Low-carbon development is not only about saving water and energy, but also includes reducing greenhouse gas emissions by cutting down on single-use items, recycling product packaging, utilizing renewable energy, and advocating green and healthy lifestyles to employees. Department stores can do a lot in these areas, and their effects can be magnified by influencing brand owners.

For example, leading luxury department store SKP has passed on its willingness to go green and low-carbon to thousands of its brand partners, trying to increase the adoption of green practices jointly. Meanwhile, SKP has made a series of emission reduction plans to incorporate green practices into its company culture, covering office working, business travel, project management, etc.

Golden Eagle Retail Group has actively invested in the construction of green shopping malls. As of today, it has eight 'national-level green shopping malls' and four 'provincial-level green shopping malls'. In the future, the group is committed to transform all of its malls into 'green shopping malls'.

We can see that green transformation in the department store sector is well underway. Department stores should continue to explore how to translate green goals and ideas into concrete plans and actions. Policy support is also needed throughout this process to provide clearer guidance for enterprises working towards carbon peaking and carbon neutrality goals. In addition, the state has formulated new regulations targeting low-carbon development, including solid waste treatment, use and recycling of single-use plastic products, cleaner production, building energy conservation, etc. – all of which will require close attention in 2022.



## V. Recommendations for the Sector's Development

## 1. Reduce operating costs

The top three costs for retail businesses are labour, rent, and utilities. A survey by CCAGM finds that the labour costs of all surveyed department store operators increased in 2021 compared to the previous year. Nearly half of the respondents reported an increase of 5-10%, while only 3% saw no change in labour costs. Department store operators reported that the pandemic has reduced their operating income; however, in response to the government's 'stability on six fronts and security in six areas' policies and to ensure stable employment, most of them have not laid off staff and, therefore, rising labour costs have become a heavy burden for them. Department store operators urge the government to reduce or waive employer obligations on social security contributions. In 2021, some regions introduced tax incentives for enterprises that hire fresh graduates and retired soldiers, but these policies expired on 31 December last year. Department store operators hope that they will be extended.

For some department store operators, rent expenses have surpassed labour costs to become their largest expense. In the past year, their sales revenue has been lagging and gross profit has declined. They have also provided rent reductions for merchants while facing high rental costs themselves. As such, they hope to receive some preferential rental terms from landlords.

The survey finds that electricity costs accounted for an average of 1.51% of total sales of the surveyed enterprises (mainly department stores) in 2021, a slight increase from 1.42% in 2020. The cost of electricity varies greatly, ranging between 1% and 4%, depending on enterprises' business formats and models. Some enterprises reported that the electricity prices for commercial users have increased by up to 10% since December 2021. Heavy users are even required to prepay their electricity bills one month in advance, which also increases the burden on enterprises.

## 2. Regulate professional counterfeit hunters

According to a survey by CCAGM, nearly one-third of enterprises mentioned that professional counterfeit hunters have a significant impact on their operations. Professional counterfeit hunters take advantage of enterprises' unintentional errors to make malicious compensation claims to make a profit. Some even secretly bring in problematic products to purchase or tamper with the outer packaging, making it difficult for department stores to disprove the claims and thus hurting the stores' interests. In particular, the 'punitive damages' system in the fields of consumer rights protection and food safety has given professional counterfeit hunters room for profit. Professional counterfeit hunters are adept at finding and exploiting legal loopholes, putting department stores and regulatory bodies in a difficult position.

The solutions that department stores have suggested are as follows: the authorities should pay equal attention to the protection of the legitimate rights and interests of both consumers and businesses; when dealing with malicious compensation claims, they should distinguish between true consumers and professional counterfeit hunters and treat them accordingly; if the merchant has made a minor error and has taken actions to rectify their mistake, any further demands from the claimant should be treated with caution; for unintentional negligence on the merchant's side, regulators should be cautious in filing a fraud case or forcing the two parties to settle with a large sum of compensation.

### **3. Support the transformation and upgrade of traditional stores**

Quality consumption has become a new trend, which means that traditional stores urgently need to upgrade their product offerings and store layouts. Some traditional department stores are struggling to adapt to new consumer demands in terms of store image, decoration design, etc. Our survey shows that nearly 90% of department stores have renovation plan in 2022. However, retail enterprises are generally asset-heavy, and these renovation projects require significant investment in decorations and equipment. Some department stores thus hope that policy support will be provided.

For the past two years, the Beijing Municipal Bureau of Commerce has promoted the upgrading and renovation of traditional department stores with the 'One Policy for One Store' initiative, giving individual department store up to 5 million yuan in support funds, which has led to the renovation of various department stores – including Cuiwei Department Store, Shuang'an Department Store, Ganjiakou Department Store, etc. Department store operators hope that this initiative could be promoted nationwide.

### **4. Regulate the development of e-commerce and duty-free retailing**

Internet-based innovative business models such as e-commerce and livestreaming have become important sales channels for both online and offline retail enterprises. However, some e-commerce or livestreaming merchants have adopted unfair competition practices such as exaggerated marketing and predatory pricing. If left unregulated, these practices will negatively affect regional development, offline employment, and the pursuit of common prosperity. We believe that the bare minimum is no fraud or false propaganda in livestreaming, and the industry should be regulated by the law; and all enterprises should strictly abide by the Anti-Unfair Competition Law and other relevant regulations to protect the legitimate rights and interests of market entities.

On the other hand, duty-free businesses have gained unique advantages through administrative licensing. We recommend that the government should be cautious in issuing duty-free business licenses to control the expansion of the industry. At the same time, all commercial enterprises should be treated equally, and the relevant application qualifications and procedures should be made clear.

### **5. Conduct source inspections**

Department stores carry anywhere between thousands to tens of thousands of products. Retailers can conduct some quality management including factory inspections and requesting documentation, but generally they are not able to carry out thorough product inspections.

Government supervision departments should focus on source inspection, conducting random inspections at production facilities, and strictly prohibiting unqualified products from entering the market. Retailers should be exempt from responsibility if they have exercised proper due diligence – i.e. conducting qualification reviews and meeting the relevant regulatory requirements – which would then absolve them of responsibility if any future issues arise.

### **6. Strengthen urban commercial planning**

Department store operators generally believe that there are currently too many commercial projects in an already saturated landscape. Some newly opened large-scale commercial real estate projects such as urban multi-business complexes, shopping malls, etc. are often hundreds of thousands of square metres in area. Not only do these projects affect existing commercial businesses, but they also often fail to attract enough merchants to start operations as planned, affecting the healthy development of the whole retail industry. The government should address these issues by formulating relevant development plans, regulating the development of commercial real estate projects, and promoting sustainable development of the commercial sector.



## About the Organizations

### CHINA COMMERCE ASSOCIATION FOR GENERAL MERCHANDISE

Founded in January 1990, China Commerce Association for General Merchandise (CCAGM) is a non-profit social organization endorsed by the Ministry of Civil Affairs, under the guidance of the Stated-owned Supervision Administration Commission and the Ministry of Commerce. The CCAGM has more than 1,000 members, encompassing large-and medium sized domestic department stores, enterprises engaging in retail, wholesale, and manufacture of daily industrial products, and enterprises which provide related services to the department store industry. Its members come from 34 provinces, autonomous regions and municipalities in the country, covering all forms of ownerships. The CCAGM also has corporate members, including City Department Store Industry Association, Trade Association and Trans-regional Department Store Company Union Organisation, linking more than 15,000 indirect members.

After 30 years of growth and development, the CCAGM has completed the transformation of its work model from one that was influenced by the planned economy to one influenced by socialist marketing economy. In 2009, the CCAGM was appraised as a 4A social organisation by the Ministry of Civil Affairs.



### FUNG BUSINESS INTELLIGENCE

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

### THE FUNG GROUP

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including sourcing, logistics, distribution and retail. The Fung Group comprises over 25,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

Listed entities of the Group include Retail Asia Limited (SEHK: 00831). Privately-held entities include Li & Fung Limited, LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

For more information, please visit [www.funggroup.com](http://www.funggroup.com).

## Contacts

### Fung Business Intelligence

#### Helen Chin

Vice President

#### Edith Lu

Senior Officer - Research

#### Brigitte Ng

Senior Officer - Research

#### William Kong

Senior Research Manager

#### Address

11/F LiFung Tower  
868 Cheung Sha Wan Road  
Kowloon, Hong Kong  
Phone: (852) 2300 2470  
Email: [fbicgroup@fung1937.com](mailto:fbicgroup@fung1937.com)  
<https://www.fbicgroup.com>



Fung Biz Intel



Fung Biz Intel



Fung Biz Intel



Fung Biz Intel



Fung Biz Intel

@ Copyright 2022 Fung Business Intelligence and the China Commerce Association for General Merchandise (CCAGM). All rights reserved.

Though Fung Business Intelligence and CCAGM endeavor to ensure the information discussed in this material is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without Fung Business Intelligence's or CCAGM's prior written consent is prohibited.



China's Department  
Stores Report 2021-2022