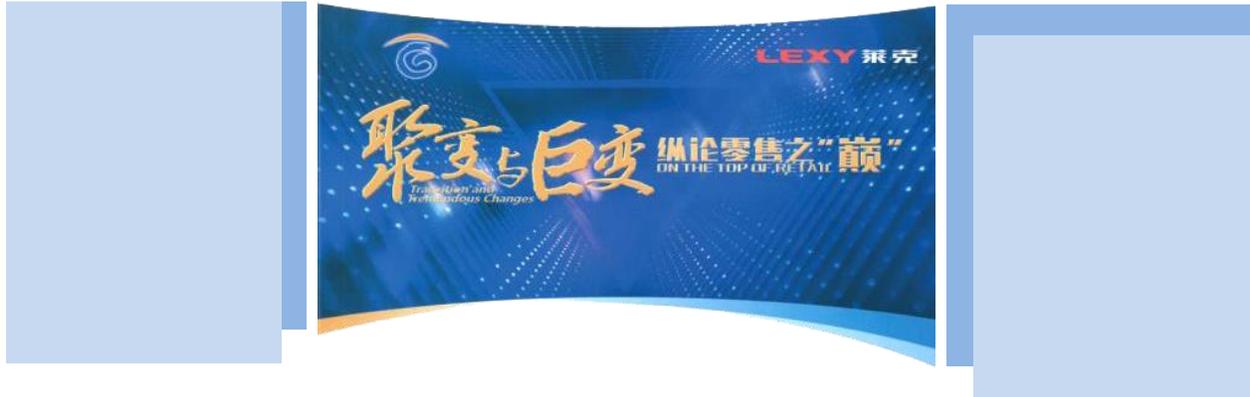


Key takeaways from the 15th China Department Store Summit

“Transition and Tremendous Changes – On the top of Retail”



Fung Business Intelligence attended the 15th China Department Store Summit which was held in Beijing during March 30-31, 2017. The China Department Store Summit is an annual event organized by the China Commerce Association of General Merchandise (CCAGM). It is one of the most important events for the department store sector in China. With the theme of “Transformation and Upgrade”, this year’s Summit established an exchange platform among the sector and industry experts for exploring new business models and strategies as well as how to upgrade the sector in response to the changing market and versatile consumer behaviors in the “New Retail” regime. Key topics discussed include “New Retail”, online-to-offline (O2O) integration, experiential shopping, upgrading of supply chain, etc.

Fung Business Intelligence, along with the CCAGM, also launched the China’s Department Stores Report 2016-17 at the Summit. The report identifies key trends and major challenges faced by the department store sector, and make policy recommendations to facilitate the development of the sector. To read the full report, please see [here](#).

Here are our key takeaways from the Summit:

1. The emergence of “New Retail” propels the department store sector to adapt and reinvent

In the “New Retail” regime, developing new business models with new innovations and breakthroughs has become industry consensus. **Chu Xiuqi, President of the CCAGM**, made a keynote speech on the key trends and major challenges faced by the department store sector in 2016-17 with the emergence of “New Retail”. He pointed out that against the backdrop of



slower economic growth and keen market competition, China’s department store sector has exposed to considerable threats and pressure. Rapidly changing consumer behaviour has forced operators to adapt and change. Increasing numbers of department store operators have sought to transform and upgrade themselves, and explore new business models and practices. Major strategies adopted by department store operators include partnering with key Internet players to roll out O2O initiatives; enhancing uniqueness, focusing on product quality and service offerings; and accelerating transformation and introducing new business model.

“Under the “New Retail” regime, the transformation of China’s department store sector is inevitable”. Chu urged the department store sector to react quickly and explore their own strengths to pursue a positive future.

About CCAGM:

Founded in 1990, 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 nearly 800 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.

2. O2O being a crucial transformation element in the “New Retail” regime

O2O is no longer a buzzword but a consensus among the department store sector. It is imperative for the traditional department store operators to transform and upgrade with O2O as the cornerstone. **Zhou qing, Vice President, Wangfujing Department Store Group**, talked about the transformation and O2O strategies of Wangfujing Group and how the group successfully transformed itself from a physical retail group into an O2O retail enterprise.



According to Zhou, the transformation and O2O strategies of Wangfujing Group include:

1. Adopting new business models – new sales channels, new retail formats, new positioning and new business structure.
2. Actively deploying O2O strategies to ensure seamless integration of all channels – brick-and-mortar, online, mobile and social. The group established an O2O centre by merging its marketing department, e-commerce company and O2O project team in November 2016.
3. Launching O2O platforms to allow interactions between stores and customers.
4. Forming closer relationships with fans and VIPs through interactive marketing campaigns.

About Wangfujing Group:

Founded in 1955 and headquartered in Beijing, Wangfujing Group is one of the largest China-based commercial enterprises primarily engaged in general merchandise retailing business. The Company operates and manages general department stores. As of March 2017, it has approximately 30 department stores in 22 cities.

3. Chinese consumers become more sophisticated, accompanying with rapidly changing behavior and preferences

Marco Hamers, Executive Vice President, Global Brands Group (China) shared with the audience his views on Chinese consumers. He highlighted that the new generation of consumers – the “post-80s” and “post-90s” have become one of the most important consumer groups in China. The new Chinese consumers nowadays are sophisticated and they know very well about the latest trends of the market. They possess the following characteristics:

- Convenience-driven and impulsive shopping habits
- Highly connected and deeply influenced by KOLs and celebrities
- Demand personalized products and customized services
- Enjoy interactions and sharing on social media and demand holistic experience



Marco also raised a question on how retailers can win customers in the “New Retail” regime. He stressed that retailers ought to “do the right things”, including:

- Constantly upgrade the image and positioning of retail stores
- Adopt an agile supply chain model to ensure a rapid flow of products from suppliers to consumers
- Proactively implement robust marketing plans and promotions
- Embrace e-commerce and response promptly to the changing needs of consumers

Marco concluded that in order to achieve a win-win situation among retailers and customers, retailers should get rid of the traditional mindset and opt for relentless innovations and reinventions.

About Global Brands Group

As a member of the Fung Group, Global Brands Group Holding Limited is one of the world's leading branded apparel, footwear and fashion accessories companies. The Group designs, develops, markets and sells products under a diverse array of owned and licensed brands and a wide range of product categories. The Group works with brands under its four business verticals: Kids, Men's and Women's Fashion, Footwear and Accessories and Brand Management.

Another speaker, **Tang Dong, Director of Retail Business Research, Nielson (China)**, also commented on the behavior of Chinese consumers. He said that Chinese consumers' shopping habits have changed dramatically with rising incomes and new products entering the local market. Higher discretionary income has led to an increased appetite for better quality products and more leisure activities.



Tang also pointed out three popular keywords for lifestyle:

1. “Enjoy life” – in terms of quality and convenience

Consumers nowadays are more quality and convenience-driven. They are willing to pay a premium for better quality products, and they also demand instant door-to-door delivery services. Meanwhile, the demand for family entertainment and overseas trips also keep rising rapidly.

2. “Beautiful life” – in terms of attitude and pursuit of a healthy life

Consumers are getting more and more health conscious. The fresh food and grocery market is flourishing due to the changing consumer habits. Demand for green and organic products, as well as sportswear and sports equipment increase significantly.

3. “Intelligence life” – in terms of Internet of Things (IoT) in everyday life

Consumers especially the new millennials are digital savvy. Technology, mobile and social are now an integral part of their everyday life. Tang said that retailers and enterprises should move along the track of agile and intelligent business operations with digital innovation. They should connect seamlessly with customers across different channels and engage with them anytime and anywhere.

4. Experiential and lifestyle shopping continues to thrive

Another key topic discussed at the summit was experiential and lifestyle shopping. **Sun Huanyu, Regional General Manager, Red Star Macalline Group Northern China** stressed that the phenomenon of consumption upgrade in China has provided tremendous business opportunities for physical entities. From the macroeconomic perspective, the market is increasingly consumption-driven. “There has been a shift from product consumption towards service consumption, and from mass consumption towards high-end consumption,” said Sun.



Sun pointed out that shopping malls and department stores should transform and upgrade by providing more experiential elements or lifestyle facilities for customers. According to Sun, the shopping malls of Red Star Macalline Group have introduced more experiential elements to lure customers, such as creating themed shopping scenes, adding more green facilities, encouraging social interactions and creating a shopping ambiance that is rich in art and culture.

Sun closed his presentation by making the following recommendations to shopping malls and department stores operators:

1. Back to the basics of retailing – high quality products and services are crucial.
2. A correct positioning is the key to attract and retain customers – shopping malls or department stores are not merely a “consumption venue”, but an “ideal extension of home”.
3. Actively integrate and consolidate offline resources with the online world.
4. Leverage technologies to transform and upgrade their business.

About Red Star Macalline Group Northern China:

Founded in 1992 and headquartered in Shanghai, Red Star Macalline Group Corporation Ltd. operates and manages shopping malls. The company also engages in the leasing of retail space to tenants; retail sale of home furnishing merchandise; and related decorating services. In addition, it involves in the O2O platform business; bulk procurement; sale of pre-paid cards; Internet finance; home design and decoration, as well as logistics and delivery services.

5. Mobile Internet brings new opportunities to physical retailers

Mobile Internet now plays a crucial role in facilitating O2O integration. **Liu Sijun, President of Dashang Group, President of 51tiangou.com** stressed that mobile Internet allows physical retailers to better control and manage their products and services. “Customers can enjoy better convenience at retail shops by using mobile apps to scan QR codes of products to place order, share on social media and complete the transactions by online payment. Furthermore, mobile Internet allows enterprises to collect, own and analyze customer data, and divide customers into different segments based on their different needs,” said Liu.



Liu also shared the experience of 51tiangou.com in supporting offline retailers to pursue O2O retailing. Developed by Dashang Group in 2014, 51tiangou.com is a mobile-based platform which provides products and services of physical retailers including department stores, shopping malls, supermarkets, and chained specialty stores nationwide to online consumers. Liu highlighted some of the major services offered by tiangou.com, including intelligent shopping guides and virtual fitting services on the mobile app; cloud-based products displayed on the official website; targeted and social marketing on the Wechat service account.

About 51tiangou.com

51tiangou is a mobile-based platform developed by Dashang Group. It partners with more than 200 Chinese and overseas retailers to provide large varieties of products and lifestyle services to meet the daily needs of consumers. Dashang offers click-and-collect services through 51tiangou. Customers can collect goods from more than 200 Dashang-owned department stores and supermarkets.

6. An agile supply-chain management model with shorter lead time, faster production cycle is key

During the breakout session which focused on discussing the transformation and upgrading of supply chain, a number of speakers who are top management of leading retail enterprises in China shared their points of view.

Hu JinDong, Partner, General Manager of Handu Group, pointed out three concepts that are crucial for the development of an ideal supply chain system.

1. “Product is the king” – this requires the supply chain to respond quickly and produce high value-for-money products;
2. “Produce products for a relatively small group of customers” – this requires the supply chain to be able to produce customized products, numerous product designs, small batch of production and fast replenishment;
3. “Managing fans” – this requires the brands to personify so as to trigger emotional attachment and interactions between the brands and the “fans”. The brands should constantly create “contents and stories of their products” on social media platforms in order to communicate with fans.

Hu further stated that it is crucial for retail enterprises to upgrade the supply chain system in order to increase sales performance. “Whether or not the supply chain can react promptly to meet the needs of the market, and produce customized products is vital. Big data, customization and intelligence manufacturing are the key development trends for the supply chain management.”



About Handu Group:

Handu Group is a Chinese online clothing company established in 2006. The company started out as an online sourcing agency for South Korean womenswear items. In 2008, the company established its first brand Hstyle, a South Korean-style fast fashion brand for women. After the rollout of Hstyle, the company has been consistently launching new product lines and new brands, including its first South Korean-style fast fashion brand for men, AMH and South Korean-style fast fashion brand for children, MinZaru. Positioned itself as an “Internet fast fashion brand ecosystem” company, it manages more than 80 brands, of which 18 brands are self-owned brands. The company is renowned in the market for its flexible, lean and agile supply chain which enables the company to achieve numerous product designs, small batch of production and fast replenishment, responding quickly to changing consumer demands.

Another speaker, **Bu Caiyou, Vice President of Beijing Aimer Lingerie Co. Ltd.**, shared the company's efforts in upgrading the supply chain in the past year. He pointed out that 60% of Aimer's products are manufactured and produced by themselves, only 40% of products are outsourced to other manufacturers or sourced by merchandisers. In short, Bu highlighted the following key strategies in upgrading Aimer's supply chain:



1. Standardization of production procedures helps enhance efficiency.
2. Adopt a flexible supply chain which allows frequent and small batch of production.
3. Make manufacturing decision quickly and supply products in shorter lead times.
4. Adopt a dynamic supply chain with stringent control and management, and is proactive to risk management.
5. Leverage technologies and introduce digitalization in retail stores to enhance customer shopping experience, coupled with intelligence manufacturing.
6. Establish an open platform among suppliers which allows exchange of resources and strategic cooperation to achieve a win-win situation.

About Beijing Aimer Lingerie Co. Ltd.

Established in 1993, Beijing Aimer Lingerie Co. Ltd. is one of China's top lingerie retailers. Its retail sales exceeded 40 billion yuan in 2016. The company designs, manufactures, and distributes intimate apparel products. Brands of Aimer include: Aimer, Aimer sports, AIMERHOME, Aimer kids, MODELAB, LA CLOVER, AIMER MEN, BODY WILD, Shinelove, NATURE'S GIFT, BECHIC, etc.

Xu Ruize, Vice President of Liqun Group, said that Liqun Group has set up its own logistics company to provide third-party delivery service for its own business units and clients since 1997. Currently, the group has four logistics centres in China. “Having our own logistics company allows us to further enhance distribution capacity and better meet the growing logistics, inventory and delivery needs of the group,” commented Xu.



About Liqun Group

Headquartered in Shangdong Province, Liqun Group Co., Ltd., has a history of over 80 years of commercial management experience. It engages in commercial retail chain, business logistics, hotel chain, medicine wholesale logistics, import and export trade, and real estate development businesses. It operates supermarkets, convenience stores, logistics centers, hotels, and drugstores.

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