



FUNG BUSINESS INTELLIGENCE

Asia Distribution and Retail

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The China Department Store Summit is an annual event jointly organized by the China Commerce Association of General Merchandise (CCAGM) and Fung Business Intelligence, and supported by the Ministry of Commerce of the PRC (MOFCOM). It is one of the most important events for the department store sector in China. The Summit came to the 16th year and was held in Beijing during 27-28 March, 2018. With the theme of “Meet the New Era; restructure a new value”, this year’s Summit established an exchange platform among the sector and industry experts for exchanging ideas and cases on new business models and strategies in response to the changing market and versatile consumer behaviors. Key topics discussed include innovative retail transformation, upgrading and digitalization of supply chain, omni-channel and digital strategies of department store operators, etc.

At the Summit, Fung Business Intelligence, along with the CCAGM and the MOFCOM, launched the ***China’s Department Stores Report 2017-18***. The report identifies key trends and major challenges faced by the department store sector, and addresses the implications and future outlook of China’s department store sector in the new era. To read the full report, please click [here](#).

Here are the key messages from the Summit:

1. China has entered a new consumption era, propelling the department store and retail sector to speed up business innovation and transformation

(1) New retail trends and development

In recent years, China's retail sector has undergone tremendous changes. **Mr. Zheng Wen, Director of the Department of Circulation Industry Development of Ministry of Commerce of the PRC**, made a keynote speech on the key trends faced by the retail sector in 2017-18. He talked about major retail trends and their implications for retailers:



- Pursue quality retail in response to the trend of consumption upgrading

Profound changes have taken place in China's consumption structure. In particular, demand for service and quality consumption has remained strong. To adapt to the dynamic retail environment, retailers should better understand consumer needs and preferences, speed up the transformation of business models, and provide quality products to meet the needs of sophisticated and discerning consumers. They should also focus on improving service quality and enhance shopping experience to meet the needs of the younger consumer segments.

- Pursue omni-channel and smart retail strategies

Smart retail refers to the use of technologies to establish seamless and highly connected shopping experience for consumers; select the right products for consumers, offer precise marketing, convenient payment and efficient delivery based on the needs of consumers through big data analytics on consumer behavior.

- Focus on experiential consumption

As the level of income increases, consumers' sensitivity to prices dropped drastically. Service and experience are increasingly valued by customers. Retailers should create unique consumer experience by adopting innovative formats and business models, or by forming partnerships across industries or sectors.

- Meet the needs of green consumption

With continuous consumption upgrading, the concepts of environmental protection, green consumption and low-carbon energy consumption have been widely accepted by people and gradually become new consumption trends. The concept of green retail and the role of green supply chain in providing the society with more efficient and environmentally friendly products and services have been highly welcomed by consumers.

(2) A changing consumer market led by new generations



China’s consumer market has been driven by the growingly influential middle class and young consumer segments (post-80s, post-90s and post-00s generations). **Mr. Yujian, General Manager of Kantar Consumer Index, Greater China**, shared his views on key success factors for retailers to revamp and adapt to the needs of Chinese millennials and stay relevant in the rapidly changing market. He stressed that, “retailers should strive to optimize the composition of three core business elements – customers, merchandise, and physical settings”. According to Yu, the three success factors are:

- Customers: satisfying consumers’ desires of new lifestyles is the key to winning consumption upgrade
- Merchandise: creating surprises for consumers; stimulate consumers’ consumption intention with the support of big data analytics and technologies
- Physical settings: creating retail brands that are empowered by “scenes” (examples: pop-up stores, experiential stores, “retail + catering”), “intelligence” (examples: artificial intelligence (AI), augmented reality (AR), virtual reality (VR), unmanned stores) and “instantaneous” (examples: mobile payment, O2O services, fast delivery)

(3) Smart retail and digital economy being the new growth impetus



The advent of smart retail, digital economy and new technologies has changed the relationship between brands and consumers. **Prof. Jing Linbo, Dean of China Academy of Social Sciences Evaluation**, talked about how traditional retailers should transform and upgrade. Specifically, he highlighted the importance of pursuing smart retail. He cited the origins of the concepts of “new retail” and smart retail. In October 2016, Jack Ma of Alibaba Group suggested five areas that are being transformed by technologies – namely new finance, new manufacturing, new technology, new energy and new retail. Later in November 2017, Tencent officially announced its “Smart+” strategy with its cloud platform establishing a smart ecosystem covering retail, finance, logistics, marketing, communication, etc.

Jing stressed that, in the near term, smart retail (with the use of technologies like AI, AR and VR) will become more and more prevalent in enhancing consumers’ shopping experience. In order to achieve that, Jing suggested that businesses should shift their focuses – from products to services and experience; and from “4P” (place, price, product, and promotion) to “4C” (consistency, content, convenience, and contextual).

2. Supply chain transformation and digitalization is a prominent trend

(1) Global retail trends are transforming the supply chain

Mr. Rasih Ozturkmen, Country Manager and Executive Vice President of Li & Fung Limited talked about major retail trends in the world and how they reshape and transform the global supply chain.



- Bricks vs. clicks – despite the fact that e-commerce has been posing a threat to the physical retail business, brick-and-mortar stores are not going away; 90% of worldwide retail sales are still done in physical stores.
- Technologies – the Internet of Things (IoT), AI, AR, VR, and robots should be on every retailer’s radar. Many of them have already leveraged technologies to further elevate their businesses and advance customer relationships.

He then talked about the key global trends and development of supply chains.

- Globalized supply chain network – in a globalized economy, production and consumption happen all around the world and drive the expansion of supply chain to a global context.
- Quick response – Fast fashion is the “McDonalds of Fashion” or so-called “McDonaldization”; small orders, multiple orders, rush orders, and quick response are the common practices.
- Digitization in supply chain – The entire supply chain is being transformed by digitalization and the Internet. The digital disruption is gradually moving upstream, from the consumer end to the production end of the supply chain.
- Promoting fluid supply chain through digitization – The entire supply chain is now consumer-centric, which quickly delivers consumer demand to the supply chain. The various networks in the supply chain react instantly. From production to consumption, the entire supply chain becomes very fluid and agile, with cycles shortened and reaction speed improved.

He then shared with the audience the case of Li & Fung’s digital supply chain and stressed the importance of digitalization. He said, a digital platform is the core of Li & Fung’s new business model – creating the supply chain of the future where brands and retailers, vendors and suppliers can seamlessly connect into an ecosystem of Li & Fung’s digital services and data insights. It will fundamentally change how the company operates as it integrates ecosystems of people, businesses, partners, processes, and things.

Another speaker, **Ms. Susanna Chiu, Director & Group Chief Presentative of Eastern China of Li & Fung Development (China) Limited**, also shared with the audience the case of Li & Fung’s digital supply chain and how the company endeavors to build the supply chain of the future.



As a multinational company with a long history of 111 years, Li & Fung has transformed from a trading company, to a global supply chain company with a fully digitalized and integrated supply chain. Li & Fung has established an integrated digital platform to digitalize the global supply chain, allowing data and

information to flow seamlessly from end-to-end, delivering valuable business insights and customized services that meet customers' needs. Ms. Chui cited the example of the 3D rendering technology of Li & Fung's design team and showed that how the virtual design technology is changing the game. She closed the presentation by pointing out that, Li & Fung's integrated digital platform would continue to capture and share data across the entire value chain, to enable smarter, faster and more effective decisions. "This is the supply chain of the future", she claimed.

During the breakout session which focused on discussing the transformation and upgrading of supply chain, **Ms. Vera Lam, Executive Vice President of Li & Fung Limited** shared with the audience the success factors of the Li & Fung's supply chain. She pointed out four elements that are crucial for the success of Li & Fung's supply chain:



- One-stop shop for all product categories – Li & Fung offers a complete and integrated service chain acting as an extension of its customer's business to manage all aspects of its global supply chain. The company's integrated supply chain—from product design, material costing, product development, sampling to final creation and delivery are digitalized to allow data and information to flow seamlessly from end-to-end.
- "Product is the king" – Li & Fung's supply chain can respond quickly to the latest market trends and produce high value-for-money products; with its digital platform which captures and shares data across the entire value chain, the use of predictive and prescriptive analytics can help the company's customers and the company itself to make better commercial decisions to source and create the right and best products for customers.
- Global network for sourcing the best products from the world – Li & Fung's global sourcing team finds the best and most distinctive products for clients from more than 10,000 suppliers all over the world; their vendors, suppliers and factories are all connected online to enhance transparency and efficiency.
- "Create and curate" – Li & Fung helps its customers to create their own private labels and curate a compelling brand story with a consistent brand message, so as to build up a loyal customer base for its customers.

(2) The mission of retailers: Back to the basics of retailing; lead the evolution of supply chain

Ms. Fu Yuehong, Secretary of the Party Committee and Chairman of the Party Committee, Beijing Capital Retail Group Co. Ltd. shared her views on the role of retailers in driving supply chain transformation. She said, regardless of business formats, it is of paramount importance to ensure that the supply side continues to offer value-for-money products and services for consumers. To do this, retailers should provide accurate and precise information of the needs of consumers to the supply side, which would be essential for product research and development, design and marketing, etc. Ms. Fu

firmly believed that only by focusing on the basics and essence of retailing to provide desirable goods and services to consumers, and by driving the evolution of the entire supply chain can retailers grow and develop in a sustainable manner.

(3) The value of physical retailers: to meet both the internal and external needs of consumers

Another speaker, **Mr. Ding Yun, Partner of Hejun Group; Director of Hejun Retail Business Research Center**, also shared his points of view on the latest retail trends in China. He commented that China's retail market is one of the most complicated markets in the world, because the supply chain infrastructure is still weak while consumers have strong desires for better quality of products. Physical retailers should meet both the internal and external needs of consumers in order to stay competitive. Apart from satisfying the internal needs of consumers by offering them value-for-money products and services, retailers should also provide consumers a place for social networking, as well as a place for them to enjoy life (to satisfy their external needs which their relationships with others can become more harmonious due to social interactions and experience). This is what e-commerce cannot offer. He cited the example of Yonghui's "Super Species", a new supermarket format launched by Yonghui Superstores in January 2017. The supermarket employs a hybrid operation model of "high-end supermarket + restaurant + O2O". The supermarket features a large self-service catering area and various quick-service food stores selling different types of food. Not only does YH Super Species provide a variety of high-quality products, a modern, convenient and comfortable shopping environment, but also meets the diverse needs of consumers in catering and offers a place for consumers to enjoy social interactions.

3. Innovative transformation strategies of physical retailers, department store and shopping centre operators

In response to the rapidly evolving consumer market and the threats imposed by e-commerce, many physical retailers and operators of shopping centres and department stores have endeavored to strengthen their physical assets in all aspects, including the upgrading in tenant mix, hardware and facilities, as well as customer service.

(1) Taikoo Li Sanlitun: A stylish landmark in Beijing

Mr. Max Yu, General Manager of Taikoo Li Sanlitun, Swire Properties shared with the audience the upgrading strategies of Taikoo Li Sanlitun over the past two years. There are three development directions of Taikoo Li:



- Tenant mix and brands portfolio upgrading

As a high quality shopping centre that features flagship stores, lifestyle brands and a wide range of regional and international cuisines, Taikoo Li Sanlitun has appealed to a large array of well renowned international brands and retailers. In the past two years, Taikoo Li Sanlitun has introduced unique and exclusive brands that debut in Beijing and even the whole country for the first time. Examples include: HEYTEA's first "Black Gold" store, Madness - an independent menswear label founded by artist Shawn Yue, and Roberto Cavalli's first flagship store in China.

- Hardware upgrading

The N8 building was originally a Montblanc flagship store in the Taikoo Li Sanlitun three years ago. It has been renovated and transformed into a new restaurant building known as N8, consisting of four special themed restaurants that are highly popular among local consumers.

Besides, a cultural and artistic space, the Red Pavilion, was transformed and launched two years ago in the northern part of Taikoo Li Sanlitun. Since its official opening in 2015, it has launched different types of cultural and artistic activities almost every week.

- Targeted marketing

The marketing team of Taikoo Li has adopted a slogan of "Let's Play Fashion". It has constantly organized marketing events with brands, KOLs and celebrities to targeted group of customers who care about lifestyle, health & athletic, and entertainment. These activities and marketing promotions have attracted heavy foot traffics to the shopping centre.

Lastly, Yu stressed that the phenomenon of consumption upgrade in China has provided tremendous business opportunities for physical entities. As a shopping centre operator, Swire Properties would continue to keep abreast of the latest market trends and provide high-quality-one-stop shopping destinations with vast numbers of trendy and fashionable brands for customers.

(2) Joy City: a lifestyle centre, not a shopping centre

Mr. Zhou Peng, General Manager of Joy City Real Estate Co. Ltd. talked about the business innovation strategies of Joy City in recent years. In short, he mentioned three key operation principals of Joy City:



- Focus on customers, not just on the properties – The fundamental goal of the shopping centre is to meet the needs of consumers.
- The core of the business is customers, not tenants – The core profit of the shopping centre should be generated by customers. Traffic flow is the core asset of shopping malls.

- A lifestyle centre, not a shopping centre – Through optimizing the tenant mix, interior design, spatial arrangement, value proportion, etc., the operator endeavors to build a lifestyle centre with immersive shopping environment and large variety of shops and activities, so as to engage customers and enlighten them with memorable experiences. Joy City has also created thematic shopping streets with special features and catering zones such as the “Joy Yard”, a lifestyle-themed space on the 5th and 6th floors of Joy City Chaoyang. Joy Yard marks an important strategic initiative to demonstrate the concept of experiential shopping by integrating a “lifestyle experience” in its retail space.

Zhou closed his presentation by making the following recommendations to shopping malls and department stores operators –"experience" and "omni-channel" should be the foundation of business innovation.

- Experience – Create a positive consumer experience before, during and after customers visit the shopping centre or department store; this involves a combination of factors including the physical settings, brands, spatial arrangement, customer service and marketing events.
- Omni-channel – for physical retail business, it is time to pursue the omni-channel operation approach. With big data as the backbone, the physical platform (shopping centre, shops and public space) and virtual platform (app, social media, and mobile payment) together would reshape the operations of shopping centre.

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