



Here are several key takeaways from the Summit:

## 1. Government supports the development of “New Retail”



*Xiang Xin, Director General of the Department of Circulation Industry Development, Ministry of Commerce (MOFCOM),* made a keynote speech on the Summit. According to Xiang, “satisfying people’s demand for a better life is the core of all the transformation in the consumption market in the “New Retail” era, and optimizing the consumption market and supporting the transformation of retailers would be the core tasks of the MOFCOM.” Xiang is optimistic towards the future of the retail market, that said, she also highlighted some major challenges facing the market – rising costs and the uncertainty of transformation and upgrade. How to realize the new retail trends, incorporate technologies into operations are some of the keys of success for retailers. The MOFCOM will continue to push forward the development of e-commerce, lead the revamp and upgrade of physical retailers, encourage green consumption, and reduce transaction costs in the future.

According to Xiang, the government will put more focus on the following areas:

- Accelerate transformation and upgrade of traditional physical businesses. Physical retail is still an important part of the whole retail market. The MOFCOM will continue to support enterprises to transform and develop their private labels;
- Encourage enterprises to adopt advanced technologies to revamp their business models, reduce costs, increase operation efficiency and quality of service.
- Support green consumption by producing more green products and creating more environmental friendly shopping environment.

## 2. Meeting the needs of customers is the key



*Liu Xing, a partner at Sequoia Capital China,* shared with the audience his views on the new group of Chinese customers. He said that “consumer” is the core of retailing in the next five years. Young consumers, especially the post-90s and post-00s generations, are the major drivers in the retail market. He highlighted several characteristics of this group of young consumers:

- High aspirations for a better life and a strong desire for premium goods and services that can give them a sense of entitlement.
- Prefer niche brands that are of high quality or limited quantity.

- Express their opinions more freely; ready to listen to others' opinions on brands, products, and services, especially on social platforms.
- Open to trying new things.
- Less sensitive to price; prefer goods with better quality.

Liu added that business should adopt a consumer-centric mind, and together with data and talent, they would be able to strengthen the connections between consumers, products and stores. Lastly, Liu concluded that customer experience, branding, going smart, consolidation of operation and customer segmentation would be the five keywords in retailing in the next five years.



**Wang Di, President of Suning Supermarket of Suning Commerce Group**, commented that the cost of acquiring customers, both online and offline, is getting higher now. Getting the right customer is the key for every business. Post-00s generation is an important group as they will become the core customers in the consumer market. This group of young consumers has high spending power – more than 70% of the post-00s consumers spend around 3,000 yuan per month. Wang also expects that in four years' time, the post-00s generation will become the major consumer group when they graduate and enter the workforce, and will create another wave of retail revolution. Therefore, understanding the post-00s and integrating with the post-00s generation will be very crucial.

### 3. O2O is the essence of “New Retail”



E-commerce players and pure-clicks enterprises are seeking to expand their offline presence; while brick-and-mortar companies are actively pursuing digital expansion to generate more customer traffic and meet the new demands. **Wang Tian, Chairman of Better Life Group**, forecasted that consolidation of the retailing industry will accelerate in five to ten years' time. China's retail landscape is still very fragmented. Retailers that are strong in physical retail may not do well in e-commerce; Internet giants, on the other hand, are eager to go offline. Both offline and online

retailers are actively seeking for mergers and acquisition opportunities as well as strategic cooperation in order to stay relevant in the market and gain large market share. Wang used Alibaba to illustrate. Alibaba has made intensive investments in recent years, particularly in 2016 and 2017 – Alibaba invested in Suning Commerce in 2015 and Sanjiang Shopping Club in 2016, privatized Intime Retail Group in 2017, and invested in Bailian Group, Lianhua Supermarket and Sun Art Retail in 2017. Wang expects the retail industry to further consolidate, while the integration between online and offline enterprises to continue to speed up.

**Shangguan Changchuan, President of New Huadu Supercenter**, also commented the importance of retailers to adapt in the “New Retail” era. He pointed out four keys to survival in the retail industry:



1. Respond quickly to the rapidly changing external environment;
2. Integrate retailing with lifestyle elements such as entertainment, food and leisure elements to provide a one-stop experience for customers;
3. Integrate online and offline enterprises to have the maximum customer reach;
4. Create new value for consumers and get closer to them.

**Wang Yongxi, Founder of CEO of 52shangou.com**, predicted that in five years' time, more retailing enterprises backed by Internet finance will evolve. The lines between online and offline retail will continue to blur. It does not mean that online retailing will win over offline retailing, but companies with data capabilities will beat those without data capabilities. In the future, operations will be facilitated by data; and new technologies that facilitate data collection will also be crucial to every business.



#### 4. Enhance in-store experience is the trend



Experiential elements remain indispensable for physical retailers. Operators of retail stores, shopping malls and department stores are all allocating more space to lifestyle and experiential usage such as food and beverages (F&B), children’s playground, cinemas, leisure facilities, etc. in order to attract more customers. **Chen Weimin, Vice President of Carrefour China**, told the audience about Carrefour’s innovations and new strategies. Carrefour has started to open hypermarkets with smaller store size of around 5,000 sqm since 2016. They have also adjusted the merchandise mix to maintain the same-store sales value. Chen said that Carrefour aims

to launch more neighborhood shopping malls, which can accommodate customers' needs for shopping, food and beverage, entertainment, learning, children-related and health-related activities under one roof. It aims to increase the proportion of food and beverage of its tenant mix from 32% in 2016 to 40% in 2019; and decrease the proportion of clothing and accessories from 33% in 2016 to 20% in 2019.



Besides redesigning the current stores, retailers are also actively creating new retail formats to offer better shopping experience to customers. **Jing Xing, Vice President of Jiangsu Five Star Appliance Co., Ltd.**, shared the company’s efforts in launching new retail formats to attract more customers and improve their shopping experience. Five Star has opened a new retail format “Five Star Jijia” in September 2017 in Hefei which focuses on delivering lifestyle experiences to customers. With an operating area of over 4,000 sqm across three storeys, the store not only sells home electronics, but also sets up various home scenarios. This type of scenario-based display appeals to young consumers as they enjoy the lifestyle experiences. There is a bookstore, a café, a bakery and a gardening shop inside the store. Consumers can also join DIY courses.

Jing highlighted that consumer electronics is closely connected with consumers’ everyday lives. It is not just about putting all the hi-tech products in-store, but it is important to tell people that how these products can enhance their experience. “Selling consumer electronics has been “boring” in the past years, it is time to revamp and provide interesting experience for shopper in-store”, he added.

Brookstone of Sanpower Group is another example of experiential store embedded with advanced technologies. **Yang Fan, CEO of Hongtu Sanbao under the Sanpower Group**, shared with the audience the launch of its Brookstone store 5.0 in September 2017, which is a smart store with unique and advanced products sourced globally. Examples of the new products include OLED screens, underwater drones, smart suitcases which can follow users automatically, and hologram audio devices. Customers registered on the Brookstone app can scan QR codes for product information and place order via the app. Besides selling products, Brookstone also arranges experiential courses and trainings for customers to learn how to use the new products. Brookstones also makes efforts to analyze customer data and react according to the preferences of its customers.

## 5. Technologies facilitate retailing and improve operational efficiency

Data and technologies offer retailers a wealth of opportunities to better understand their target customers. By analyzing immense amounts of data, companies can generate valuable real-time insights to understand and predict customer’s needs. **Hou Yi, Vice President of Alibaba Group and Founder and CEO of Hema Xiansheng**, said that understanding customer preferences is one of the major goals of Hema. Hema aims to acquire customers offline and encourage them to purchase online. Hema will launch a more precise user database so as to capture more customer



data through its app, website and in-store. Hema hopes to get closer to consumers and satisfy their immediate needs. With all the data captured, it becomes easier for Hema to expand into other categories, from fresh food to FMCG and other daily necessities.



**Wang Jing, Founder of Sinovation Ventures**, believes that use of Artificial Intelligence (AI) in retail is also inevitable. The application of AI is revolutionary to the whole supply chain of any business – from product design to production to logistics and product distribution. Retailers can leverage AI to align supply and demand for better inventory control; they can also use predictive analytic tools to make accurate predictions and identify trends. They can apply AI robots and warehousing automation to achieve total cost reduction and improve operational efficiency. Also, retailers can adopt new technologies in-store to improve customer engagement.

## 6. Community stores: The future of commerce

**Wang Wei, Founder of Shengxian Chuanqi**, expected that there will be two major trends impacting China's retail market in the coming years – aging population and consumption upgrade. He said that community fresh food stores will become one of the fastest growing retail formats, as consumers are looking for better quality food products in the neighborhoods. Wang pointed out that many people in China live in small communities. Community stores can better satisfy their daily needs compared to hypermarkets as these smaller stores can accommodate the divergent characteristics of different communities.



Alibaba is also eyeing the lucrative community stores market. **Kevin Lin, Vice President of Alibaba Group and General Manager of LST Business Unit**, said that there are around 6 million mom and pop stores nationally, representing a huge market which cannot be easily replaced by e-commerce. Mom and pop stores are important to some customers, for example the elderly who cannot walk very far, or people who have impromptu spending needs such as beer and snacks. Alibaba will partner with mom and pop stores in the communities to help revamp their stores (under the “Tmall Xiaodian” project) – the

company will allow them to gain access to Alibaba's huge supplier network, share data with them and recommend suitable products to them. Alibaba's huge supplier network also enables the mom and pop stores to source genuine goods easily. Lin said that Alibaba's LST Unit aims to cooperate with 1.5 million mom-and-pop stores by the end of 2018. The partnership will be a win-win situation for both companies. On one hand, Alibaba can extend its offline reach to get more customers data; on the other hand, the mom-and-pop store can upgrade and better serve the neighborhood by gaining access to a larger supplier network.



Besides community stores, unmanned convenience stores (CVS) or unmanned shelves are also emerging very fast. **Si Jianghua, Founder and President of Xingbianli**, pointed out that people now stay in the office for longer hours; this provides a great development opportunity for the unmanned CVS or unmanned shelves market. Si said that the conversion rate of Xingbianli unmanned shelves is very high compared with other e-commerce platforms. Chinese consumers are increasingly demanding “quick” and “immediate” products and services, especially for the FMCG; Si thought Xingbianli has an edge over its rivals as proximity to consumers is the key focus of his business.

## **Company profiles**

### **Sequoia Capital China**

Sequoia Capital China was founded in September 2005 and is based in Beijing. It is a subsidiary of Sequoia Capital. Sequoia Capital China is a venture capital firm specializing in start-up investments in the fintech sector. The firm primarily invests in consumer services sectors across agriculture, distribution, B2B, education, disruptive business innovation, hospitality, new media, retail, packaged goods, modern services, industrial technology, enabling technology and technology innovation.

### **Suning Commerce Group**

Founded in 1990, Suning is one of the leading commercial enterprises in China with 180,000 employees and two listed companies in China and Japan. Its annual revenue reached US\$62.77 billion in 2017. Suning operates in six vertical industries including retail, real estate, financial services, media and entertainment, sports, and investment.

### **Better Life Group**

Better Life Group operates over 510 stores in four major business areas including supermarkets, department stores, and convenience stores. It operates mainly in Southwestern China, particularly in Hunan, Jiangxi, Guangxi, Sichuan, Chongqing, Yunnan and Guizhou. The company achieved a revenue of 32 billion yuan in 2016. Over the years, Better Life Group has been investing in e-commerce and actively pursuing O2O strategies. It has launched its e-commerce platform Yunhou.com in 2013, focusing on products from overseas, as well as cross-border import e-commerce (Note: Yunhou Overseas, the cross-border import e-commerce arm of Yunhou.com, was closed on 31 December, 2017).

### **New Huadu Supercenter**

Founded in 1999 in Fujian, New Huadu Supercenter Co., Ltd. is the retail arm of New Huadu Group. The company engages in operating department stores, supermarkets, hypermarkets and consumer electronics stores. It operates more than 149 stores as of 2016.

### **52shangou.com**

Founded in 2014 in Hangzhou, 52shangou.com was originally a grocery e-commerce platform. It now offers O2O retail solutions to supermarkets and convenience stores in areas including backend systems, website, APP, customer relationship management, etc. 52shangou.com completed C-round financing of 267 million yuan from Alibaba, etc. in August 2016.

## **Carrefour China**

Headquartered in France, Carrefour is a global leader and the reference in food retail. Carrefour operates more than 12,000 stores and e-commerce websites in more than 30 countries. Carrefour entered China in 1995. By the end of 2017, it had 230 hypermarkets and 39 convenience stores across 58 cities in China. Carrefour China is the 11th largest retail chain operator in China in 2016 according to China Chain Store and Franchise Association.

## **Jiangsu Five Star Appliance**

Headquartered in Nanjing, Jiangsu Five Star Appliance Co., Ltd. is a leading retailer of consumer electronic appliances in China. Five Star operates over 184 retail stores in seven provinces across China including Jiangsu, Anhui, Zhejiang, Shandong, Henan, Sichuan and Yunnan. Founded in December 1998, Five Star mainly focuses on consumer electronic appliance business. In May 2006, Best Buy Co., the largest U.S. electronics retailer, acquired a majority stake in Five Star for US\$180 million. Later in December 2014, Best Buy sold its Five Star business in China to the Jiayuan Group, a prominent China-based real estate firm.

## **Brookstone of the Sanpower Group**

Brookstone is a specialized U.S.-based retailer which was acquired in 2014 by the Sanpower Group, a multi-national conglomerate based in China, and is fulfilling its corporate mission to bring premium American lifestyle products to shoppers in China while providing China-based makers access to American and international retail markets. It opened the first store in China in January 2016, it now has around 70 stores in China, focusing on smart retail and bringing advanced technologies to Chinese consumers.

## **Hema Xiansheng**

Hema Xiansheng is an O2O fresh food retailer under Alibaba Group. The first offline experiential store was opened in Shanghai in January 2016. Hema is a new retail format that can showcase Alibaba's vision of "New Retail" – the integration of online and offline, with modern logistics and big data. Initially, Hema focuses on selling fresh products such as seafood, meat, fruits and vegetables, ready-to-cook packaged food, etc.

## **Sinovation Ventures**

Sinovation Ventures is a Chinese technology-savvy investment firm, started in 2009 by a team led by Dr. Kai-Fu Lee, with presence in Beijing, Shanghai, Shenzhen, Seattle and Silicon Valley. It currently has an estimated US\$1.3 billion in assets under management, and over 300 portfolio companies across the technology spectrum in China and the U.S. It is one of the first Chinese ventures firms establishing a presence and investment practice in the U.S.

## **Shengxian Chuanqi**

Launched by Anhui Letus Supermarket in June 2015, Shengxian Chuanqi is a small-format store focusing on fresh food. Shengxian Chuanqi mainly operates in residential communities. With a store size of around 200-300 sqm, it sells only food and beverages, kitchenware, and other food-related products. Each store has around 1,800 SKUs of products. Shengxian Chuanqi does not offer discounts or run any promotion campaigns. Price of products is fixed, and all products are self-owned (owned by Shengxian Chuanqi).

## **Tmall Xiaodian**

“Tmall Xiaodian” (or Tmall small retail stores) was launched by Alibaba in August 2017. Tmall Xiaodian is reportedly backed by Alibaba’s B2B2C unit 1st.1688.com, which provides full business and digitalization services for small retail stores in areas such as sourcing, logistics, marketing and other value-added services. Alibaba targets to gather offline mom-and-pop stores in Alibaba’s ecosystem. For small and individual retailers, they can source products from Alibaba’s vast ecosystem, ranging from Tao brands to domestic and international big names. For Alibaba, the huge network of small community stores are good offline touch points to connect with mass consumers. Tmall Xiaodian can also act as community service centers, where other business units of Alibaba such as Ali Health, Alitrip, Rural Taobao, Alimama can also leverage on the Tmall Xiaodian to provide service to the neighborhoods.

## **Xingbianli**

Founded in 2017, Xingbianli is a smart convenience store startup. It has launched snack bars, cashierless convenience stores, and unmanned shelves in crowded places and office areas to meet customers’ immediate food consumption demands. Currently, Xingbianli operates mainly cashierless convenience stores of 200 sqm, selling around 3,000 SKUs of products. In September 2017, Xingbianli announced the completion of a US\$15 million angel round financing led by Lightspeed China Partners. The company plans to use the funds to expand its business to more cities across China. In November 2017, Xingbianli further received US\$57 million for Series A+ for market expansion.

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