

"New Retail" in action:

Alibaba, Bailian Group Announced New Retail Strategic Partnership

- Key highlights and takeaways

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Key highlights

On 20 February, 2017, Alibaba Group Holding Limited and China's leading retailer Bailian Group announced the formation of a strategic partnership to explore new forms of retail opportunities across each other's ecosystem. The two companies will leverage Big Data capabilities to achieve integration across bricks-and-mortar stores, merchandise, logistics and payment tools with the aim to deliver a better overall customer experience. Alibaba will not take a stake in Bailian.

Teresa Lam, Christy Li, Lucia Leung
Asia Distribution and Retail

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What happened?

On 20 February, 2017, Alibaba Group Holding Limited and China's leading retailer Bailian Group announced the formation of a strategic partnership to explore new forms of retail opportunities across each other's ecosystem. The two companies will leverage Big Data capabilities to achieve integration across bricks-and-mortar stores, merchandise, logistics and payment tools with the aim to deliver a better overall customer experience. Alibaba will not take a stake in Bailian.

Under the agreement, the cooperation will focus on six areas, including:



Retail outlets

- Jointly design cross-channel store operation and ordering systems to enable real-time service solutions for customers at physical stores



New retail technology

- Jointly invest in the research and development of new retail technologies in areas such as artificial intelligence, Internet of Things, and Big Data



CRM system

- Integrate both companies' membership database to enhance customer service capabilities through technologies such as geo-location, facial recognition, Big Data and customer management systems



Supply chain management

- Both companies will combine resources in customer insights and supplier channels to help improve merchandise selection and reduce cost



Payment tools

- Alipay will be made available at all Bailian stores, while Bailian's payment tools Safepass and Bailian OK Card will be integrated with Alipay to provide a unified third-party payment solution for consumers



Logistics

- Bailian Logistics will work with Alibaba on Cainiao's logistics platform and co-develop logistics rules to enhance services for both consumers and merchants

Comments and implications

In our view, Alibaba's move to tie with Bailian underscores its "New Retail" vision, which highlights the importance of online and offline integrations in shaping the future of retail. Indeed, this is another major initiative taken by Alibaba to extend its involvement in offline retail businesses following the privatization of Intime Retail Group in December 2016*.

We also see Alibaba's initiative as a strategic move to better compete with JD.com in the supermarket segment, as JD.com has invested 4.3 billion yuan for a 10% stake in Yonghui Superstores back in August 2015. In June 2016, Wal-mart sold YHD, its online grocery marketplace, to JD.com, which further strengthens JD.com's leading position in the online supermarket segment. Bailian operates supermarkets under the brands Lianhua Supermarket, Hualian supermarkets, and Century Lianhua. By partnering with Bailian, Alibaba will be able to consolidate its position in both the online and offline supermarket segment.

The partnership will also enable Alibaba to leverage Bailian's logistics strength in Shanghai; Bailian has built a 100,000 sqm central distribution center in Shanghai which can support omni-channel fulfillments. This distribution strength of Bailian facilitates the companies to consolidate its position in the regional market. We also think that it can enable Alibaba to better compete with JD.com in logistics and warehousing as the latter has built a "Asia No. 1" smart logistics center in Shanghai.

The partnership can also allow Alipay, a mobile payment service under Ant Financial Services Group, an affiliate of Alibaba, to further extend its offline coverage. This is particularly important as Alipay has been facing increasing pressure from Tencent's WeChat Payment.

*For more information, please refer to our earlier publication "New Retail" in action: Alibaba proposes to privatize Intime Retail Group. https://www.fbicgroup.com/sites/default/files/Alibaba_privatizes_Intime.pdf

For Bailian, partnering with Internet companies such as Alibaba is a fast way to reinvent and revamp its businesses, as well as to roll out O2O strategies amid the challenging times facing traditional retailers. Although Bailian has launched its O2O e-commerce platform “iBailian” through its online transactional website “bl.com”, as well as mobile app “iBailian App” and a WeChat public account, these platforms are unable to draw much customer traffics. The partnership will hopefully enable Bailian to leverage Alibaba’s huge traffic sources as well as its Big Data and logistics capabilities to provide better O2O services**.

We expect to see a new retail scene in Shanghai. Shanghai is one of the most vibrant consumer markets in China, and Bailian is a leading state-owned enterprise in Shanghai with more than 3,300 stores in the municipality. By partnering with such a strong offline regional player, Alibaba can gain fast entry to Shanghai retail market by having direct access to Bailian’s membership database. According to statistics from the Shanghai Municipal Commission of Commerce, the total sales of goods in Shanghai in 2016 amounted to 10.08 trillion yuan, up by 7.9% yoy. Of which, online sales accounted for 11.4% of the retail sales of consumer goods and were up by 15.8% yoy to 125 billion yuan. Shanghai also had the second-highest per capita spending in China in 2016 following Beijing, amounting to 45,322 yuan. Having a greater understanding of the Shanghai market is crucial for any online and offline retailer.

** As of December 2016, Alibaba has 443 million annual active buyers on its platforms, while mobile monthly active users reached 493 million. Bailian, on the other hand, has 21 million memberships nationwide.

To Recap...

Alibaba's New Retail Regime - online and offline cooperation deepens

The concept of “New Retail” was propagated by Jack Ma in October 2016, which is set to become a new model of online and offline retail in China. According to Jack Ma, five major development trends are going to shape the world in the coming three decades: namely “New Retail”, “New Manufacturing”, “New Finance”, “New Technology” and “New Energy”. The trends are expected to fundamentally change all industries. He remarked that the upcoming technology revolution will provide tremendous opportunities for small enterprises from around the world. Technology, data and innovation will be the keys. Jack Ma also pointed out that pure e-commerce players will soon face tremendous challenges. “E-commerce” will be replaced by “New Retail” in 10-20 years.

Indeed, Alibaba started to invest in several offline retail players a few years ago in a bid to extend its online dominance into physical retail. Noticeably, Alibaba has announced two significant moves following Jack Ma's initiatives of “New Retail” in two months – the privatization of Intime Retail Group in January 2017, and the retail strategic partnership with Bailian Group in February 2017. Exhibit 1 highlights selected major M&A activities of Alibaba in rationalizing its online and offline retail businesses in 2016 and 2017.

Exhibit 1: Alibaba's initiatives in investigating retail businesses (March 2016 – January 2017)

Date	Target		Amount	Details
10 January 2017	Intime Retail Group (Department store and shopping malls)		HK\$19.8 billion	73.7% stake of Intime
23 December 2016	Lianhua Supermarket (Supermarket chain)		237 million yuan	Alibaba invested in Yiguo (Online shopping platform focusing on fresh food) which holds stakes of Lianhua Supermarket
18 November 2016	Sanjiang Shopping Club (Supermarket chain)		2.1 billion yuan	32% stake of Sanjiang
17 November 2016	Ruhnn (Online celebrity Incubator)		300 million yuan	9.58% stake of Ruhnn
8 August 2016	52shangou (Online shopping platform focusing on communities)		267 million yuan	Series C Funding
2 June 2016	Suning Commerce (Home electronics chains, integrated online shopping platform)		28.3 billion yuan	19.99% stake in Suning
28 March 2016	Yiguo (Online shopping platform focusing on fresh food)		N/A	Alibaba invested in Series A, B, C Fundings of Yiguo
March 2016	Hema Xiansheng (Online shopping platform focusing on fresh food)		US\$ 150 million	Series A Funding

Source: ebrun; modified by Fung Business Intelligence

Company snapshots

Bailian Group

- Headquartered in Shanghai, the state-owned Bailian Group is one of China's largest retail conglomerates with more than 5,000 outlets across 25 provinces, 200 cities and autonomous regions in China.
- The Group's major retail businesses include department stores, shopping malls, factory outlets, supermarkets, convenience stores, specialty retail stores. As of to date, Bailian Group owns 24 department stores, 16 shopping malls, 5 factory outlets in China.
- Bailian established its O2O subsidiary company in May 2015 to explore O2O and e-commerce strategies. It launched its O2O e-commerce platform "iBailian" through its online transactional website "bl.com", mobile app "iBailian App" and a WeChat public account. These platforms have grown quickly leveraging Bailian's huge membership base (approximately 21 million) to provide seamless service to consumers online and offline.

Alibaba Group

- Founded by Jack Ma in 1999, Alibaba is a leading Chinese e-commerce company that provides consumer-to-consumer, business-to-consumer and business-to-business sales services via web portals. It also created a business ecosystem that covers commerce, on-demand services, logistics, data & technology, social media, marketing, finance, and other services.
- In the quarter ended December 30, 2016, Alibaba's revenue was 53,248 million yuan, an increase of 54% year-on-year (yoy).
- As of December 2016, there were over 493 million monthly active users of Taobao App across China and the rest of the world.
- Alibaba's 11.11 Global Shopping Festival has constantly gained worldwide attention due to its magnificent amount of sales and it fully demonstrated the strength and scale of the entire Alibaba ecosystem. The total GMV of 2016's 11.11 reached 120.7 billion yuan, a 32% increase compared to 2015.

“New retail reimagines the relationship between consumers, merchandise and retail space by leveraging mobile Internet and Big Data. It will upend the traditional manufacturing and supply chain, the connection between merchant and consumer, as well as the overall consumer experience. Businesses will increasingly embrace Big Data and new innovations to better identify, reach, analyze and serve their customers, and their digital transformation will be empowered by Alibaba’s ecosystem. Our partnership with Bailian is an important milestone in the evolution of Chinese retail, where the distinction between physical and virtual commerce is becoming obsolete.”*



Picture source: Sina.com

*Daniel Zhang Yong
Chief Executive Officer of Alibaba Group*

“A new consumer era calls for a new retail approach. Traditional commerce needs to embrace innovation and change to thrive if they are to ride atop this new consumption trend. New retail is not just the convergence of online and offline worlds. It also means we need to be able to leverage technologies such as the Internet of Things, AI and Big Data to provide consumers with new and immersive shopping experiences across channels and product categories anytime and anywhere. It is with this shared vision that our companies have joined forces in this strategic partnership to redefine commerce and reshape the retail industry.”*



Picture source: auto.163.com

*Ye Yongming
Chairman & President of Bailian Group*

CONTACTS

Asia Distribution and Retail

Teresa Lam

Vice President

teresalam@fung1937.com

(852) 2300 2466

Christy Li

Senior Research Manager

christyli@fung1937.com

(852) 2300 2476

Lucia Leung

Research Manager

lucialeung@fung1937.com

(852) 2300 2481

Fung Business Intelligence

10/F, LiFung Tower,

888 Cheung Sha Wan Road,

Kowloon, Hong Kong

Tel: (852) 2300 2470

Fax: (852) 2635 1598

Email: fbicgroup@fung1937.com

<http://www.fbicgroup.com/>



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