

Asia Distribution and Retail
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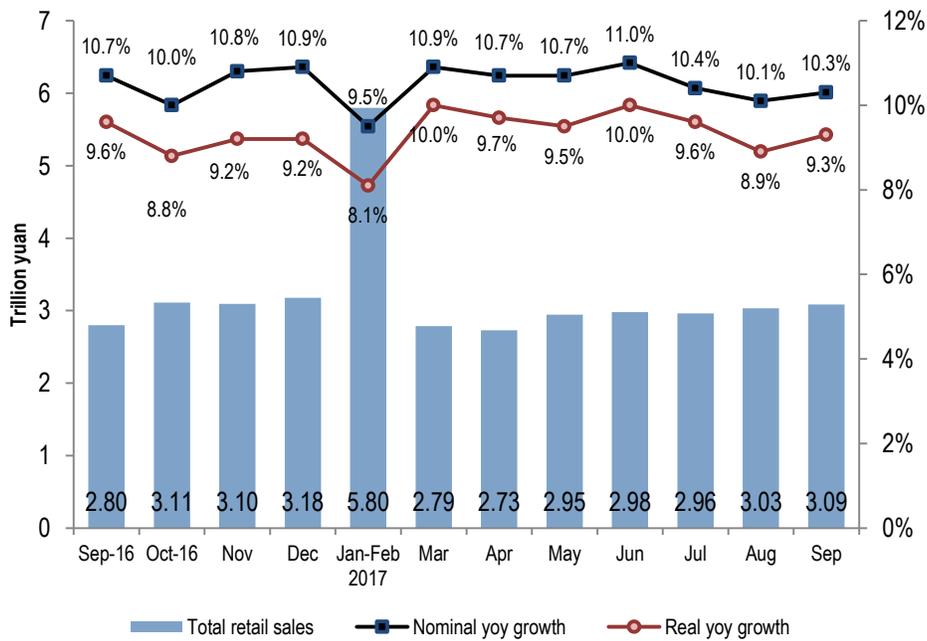
- 1. “New Retail” is being recognized as a major development trajectory30
- 2. Retail sector shows positive signs in 1-3Q17; strong growth momentum continues into 4Q1730

I. Market overview

1. Retail sales up by 10.4% yoy in 1-3Q17

Total retail sales of consumer goods reached 26.3 trillion yuan, up nominally by 10.4% year-on year (yoy) in 1-3Q17. By month, the nominal growth in July and August were 10.4% yoy and 10.1% yoy respectively. Total retail sales of consumer goods reached 3.09 trillion yuan in September 2017, up nominally by 10.3% yoy.

Exhibit 1: Total retail sales of consumer goods, September 2016 – September 2017

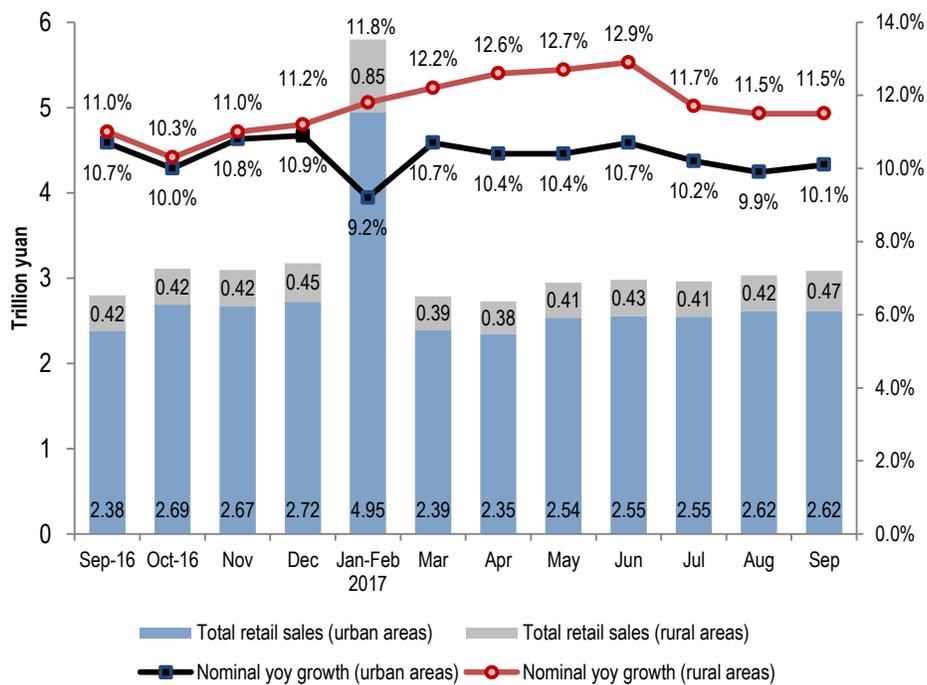


Source: National Bureau of Statistics of the PRC; compiled by Fung Business Intelligence

2. Rural retail sales growth continue to outpace urban retail sales growth in 1-3Q17, but the difference narrows; per capita income of rural residents also grows faster than urban income

Rural retail sales continue to grow at a faster pace than urban retail sales. Urban retail sales increased nominally by 10.1% yoy to 22.6 trillion yuan; while rural retail sales rose 12.1% yoy to 3.8 trillion yuan in 1-3Q17. By month, rural retail sales amounted to 0.47 trillion yuan in September 2017, up by 11.5%, while urban retail sales amounted to 2.62 trillion yuan, up by 10.1% yoy.

Exhibit 2: Total retail sales of consumer goods, urban vs. rural areas, September 2016 – September 2017



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

The increase in rural household income contributed to the fast growth of rural retail sales. Per capita disposable income of urban and rural households reached 27,430 yuan and 9,778 yuan in 1-3Q17, up by 8.3% and 8.7% yoy in nominal terms respectively. Rural household income grew faster than that of urban households, but the per capita disposable income of urban households was almost triple than that of their rural counterparts.

Exhibit 3: Per capita disposable income of urban and rural households, 1Q16 – 1-3Q17

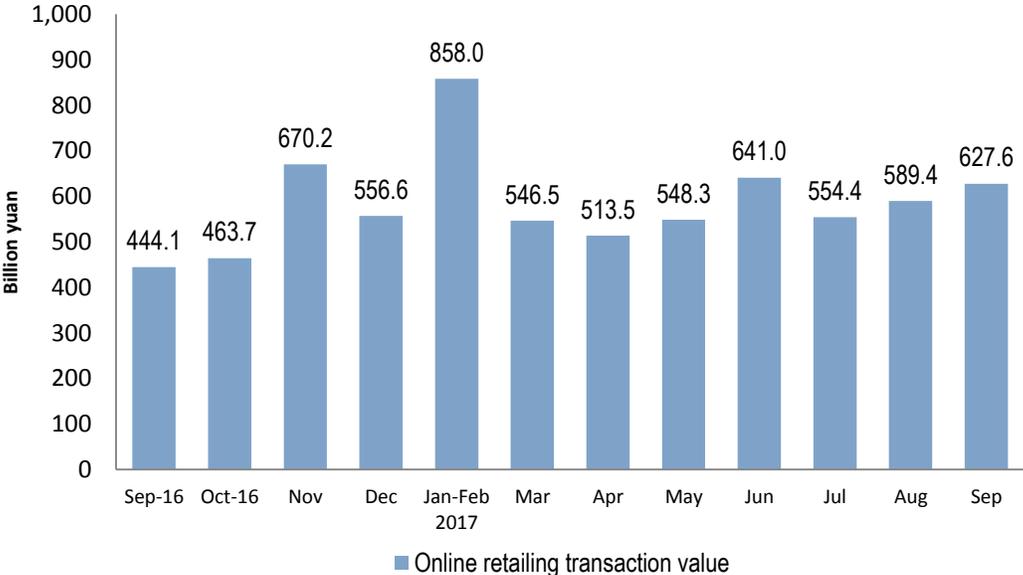
	Urban households		Rural households	
	Absolute value (yuan)	yoy growth	Absolute value (yuan)	yoy growth
Quarterly data				
1Q16	9,255	8.0%	3,578	9.1%
1Q17	9,986	7.9%	3,880	8.4%
Half-yearly data				
1H16	16,957	8.0%	6,050	8.9%
1H17	18,322	8.1%	6,562	8.5%
1-3Q data				
1-3Q16	25,337	7.8%	8,998	8.4%
1-3Q17	27,430	8.3%	9,778	8.7%
Yearly data				
FY16	33,616	7.8%	12,363	8.2%

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

3. Online retail market continues to rise in 3Q17

Total transaction value of online retail sales of goods and services amounted to 4,879 billion yuan in 1-3Q17, up by 34.2% yoy. Of which, online sales of goods amounted to 3,683 billion yuan, up by 29.1% yoy and accounted for 14% of the total retail sales of consumers goods. By month, total online retail sales of goods and services in July and August were 554.4 billion yuan and 589.4 billion yuan, respectively. Total online retail sales in September amounted to 627.6 billion yuan.

Exhibit 4: Transaction value of online retail sales of goods and services, September 2016 – September 2017

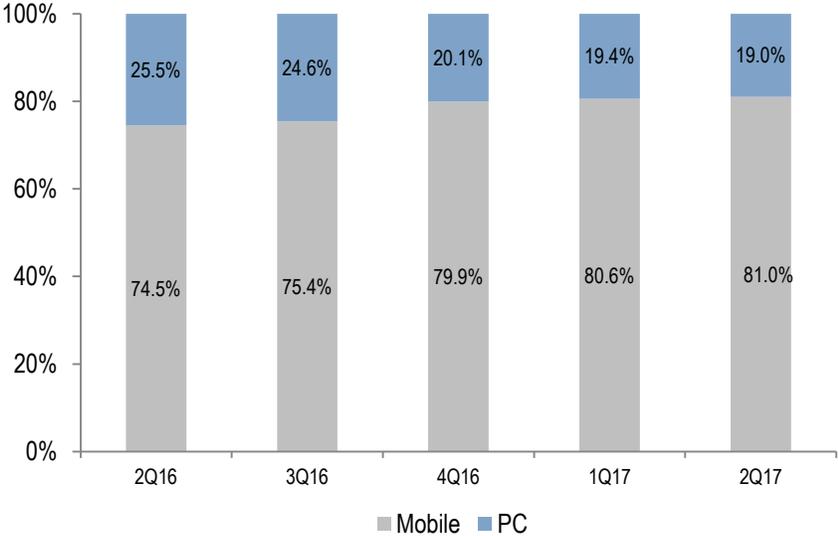


Source: National Bureau of Statistics of the PRC; compiled by Fung Business Intelligence

4. Mobile-based online shopping becomes the mainstream

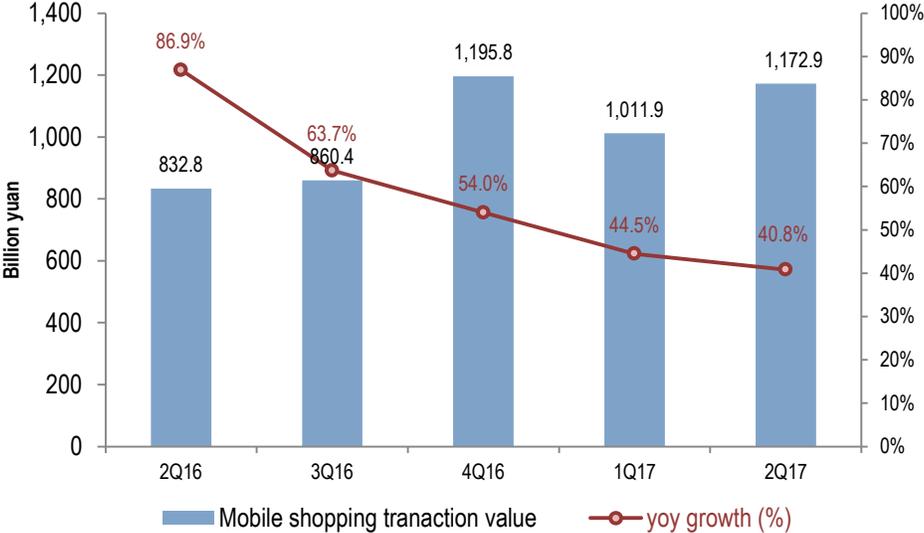
The growth of online shopping via mobile devices has been remarkable. 81.0% of the online shopping transactions were made on mobile devices in 2Q17 and total transaction value of mobile shopping reached 1,172.9 billion yuan, up 40.8% yoy.

Exhibit 6: Market structure of online retailing: mobile vs. PC, 2Q16 – 2Q17



Source: iResearch Consulting Group; compiled by Fung Business Intelligence

Exhibit 7: Transaction value of mobile shopping, 2Q16 – 2Q17

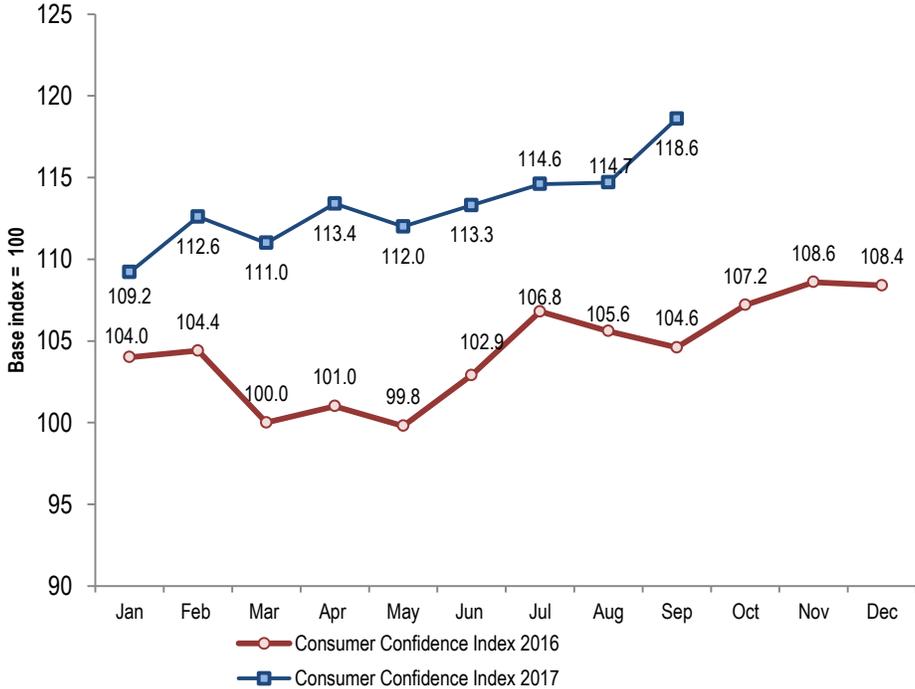


Source: iResearch Consulting Group; compiled by Fung Business Intelligence

5. Chinese consumers more upbeat as consumption environment improves; consumer confidence surges in 1-3Q17

Consumer confidence index has gradually picked up since the end of 2016, and continued to rise in 1-3Q17, suggesting that the consumption atmosphere in China remained positive. Consumer confidence index in July, August and September continued with the rising trend and reached the highest index in the year of 118.6 in September.

Exhibit 10: Consumer Confidence Index, January 2016 – September 2017



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

6. Performance of large-scale retailers still faces headwinds in 1-3Q17

Retail sales growth of 100 key retailers increased by 2.8% yoy in 1-3Q17, down slightly from 3.1% yoy in 1H17. By month, retail sales growth increased by 3.7% yoy and 2.9% yoy in July and August, then drop to a 0.2% yoy increase in September.

Exhibit 11: Yoy growth of retail sales of 100 key retailers in China, September 2016 – September 2017



Source: China National Commercial Information Center; compiled by Fung Business Intelligence

II. Latest developments

General retail

1. MOFCOM: Total sales of retailing and catering services enterprises reach 1.5 trillion yuan during Golden Week holiday

According to the Ministry of Commerce (MOFCOM), total sales of retailing and catering services enterprises reached 1.5 trillion yuan during Golden Week holiday (1-8 October), while the daily average sales increased by 10.3% yoy. Retail sales during the holiday grew steadily with the following emerging consumption trends – consumption upgrade; increasing demand for personalized and high-quality products; integration of online and offline retailing; rise of green consumption; and dominance of mobile payment¹.

Internet & E-commerce

2. Review of the 11.11 Global Shopping Festival

This year is the 9th year Alibaba holding the world's largest online shopping event, the “11.11 Global Shopping Festival” (or the Singles’ Day). The main theme of 2017 Singles’ Day was “Elevating New Retail with deeper engagement”, promising even greater choice for shoppers and deeper levels of consumer engagement. Alibaba further took New Retail to center stage and promoted the Singles’ Day – the “Chinese phenomenon” to the world. The shopping festival rolled out through 19 October to 11 November.

Key highlights of Alibaba’s 2017 Singles’ Day

New retail

- Over 1 million merchants utilized various online-offline integrations to enhance merchant operations and create exciting engaging consumer experiences.
- More than 1,000 brands converted over 100,000 physical locations into “smart stores”, which were available in 31 provinces and 334 cities, allowing merchants to leverage data insights to deliver a more tailored shopping experience. The features of the stores included innovative technologies such as RFID and “cloud shelf,” facial recognition, mobile gamification. Location-based store and discount recommendations were available to consumers through their Tmall and Taobao apps, helping drive foot traffic to offline stores. Online coupons were offered at offline locations through Taobao and Tmall app, helping merchants track consumer’s shopping journey between online and offline.
- Tmall opened 60 pop-up stores in 52 malls in collaboration with more than 100 domestic and international brands in 12 cities in China including Beijing, Shanghai, and Guangzhou. Examples of the participating

brands include Nike, Maybelline, BabyNes, and Wyeth Illuma. These brands curated consumer experiences specific to the brands and their products through incorporating in-store technologies such as magic mirror, augmented reality (AR) product information display, and vending machines.

- 4,000 Tmall Corner Stores (with monthly merchandise volume over 10,000 yuan in locations with higher traffic) and 30,000 Rural Taobao Service Centers also participated to serve as offline touch points of Alibaba to the remote markets.

Retail-tainment

- “See Now, Buy Now” fashion show was held for the second year on 31 October 2017. The show features major brands such as Guerlain, Adidas, Pandora, Ray-Ban, Estee Lauder, Victoria’s Secret, Rimowa, Ralph Lauren, Furla, and French fashion group SMCP. Brands showed off their latest collection through livestream broadcasting and offered audience the chance to buy the things they see on the runway in real time. This was truly an O2O experience for consumers. Viewers watching the livestream broadcast could enjoy the show while shopping on their smart phones or adding items to shopping carts for check-out on 11.11. The fashion show was broadcast across seven channels, including BeijingTV, online video platform Youku, social channel Weibo, shopping apps Tmall and Taobao, smart TV platform CIBN and news aggregator Toutiao.
- Alibaba rolled out once again the AR mobile game “Catch the Cat” game, which allowed consumers to earn coupons and prizes every time they catch the “Tmall mascot” via Alibaba’s Taobao and Tmall apps, encouraging more online shoppers to visit brick and mortar stores. 65 brands participated in the campaign through the smart stores across China.
- A lottery pool of 250 million yuan was shared among Chinese consumers through a mobile game “Red Envelope Torch Relay” in the form of red packets.

International participation

- Over 140,000 brands and merchants, 60,000 of which were international, took part in the shopping festival, offering 15 million product listings to Chinese consumers.
- 225 countries participated in the shopping festival this year. Top five countries selling to China by GMV were Japan, U.S., Australia, Germany and South Korea.
- Alibaba also helped Chinese brands to go global by providing end-to-end solutions including logistics, payment, and localization support catering to each local market’s needs. The priority markets this year were Hong Kong, Taiwan, Singapore and Malaysia. Some of the recent localization initiatives included the launch of Tmall Supermarket in Hong Kong and door-to-door furniture delivery and assembly in Singapore and Malaysia.
- Over 600 million consumers in South East Asia could access “Taobao Collection”, a selection of leading products from Taobao, via Lazada.
- Tmall World supported 100 Chinese brands including HLA, Peacebird, Pechoin, Gree, Haier, Joyoung and Shanghai Jahwa who will offer special promotions to the Chinese consumers in the Asia region.

Sales performance of Alibaba in 2017 Singles' Day

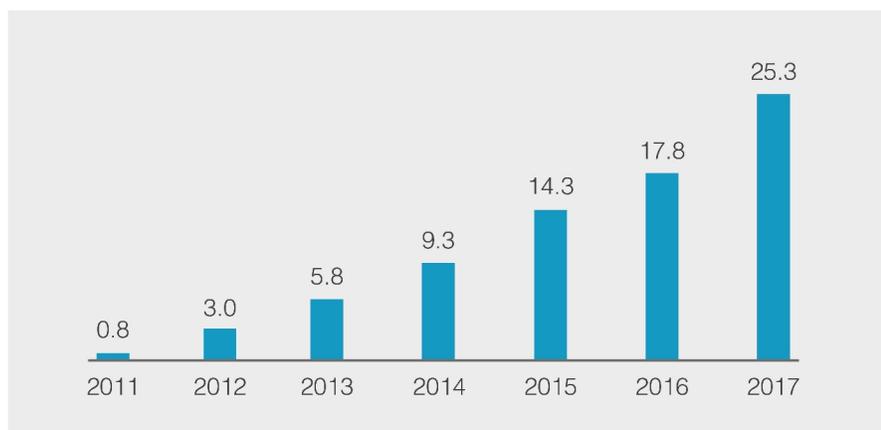
- Alibaba reported 168.27 billion yuan (US\$ 25.3 billion) in GMV, sales growth was 39% yoy.
- 90% of the GMV was generated by mobile users, up from 82% in 2016.
- Alibaba Cloud processed 325,000 orders per second at peak.
- Alipay processed 1.48 billion payment transactions in total, up 41% from 2016, and processed 256,000 transactions per second at peak
- 167 merchants each generated over 100 million yuan (US\$ 15.1 million) in sales, 17 merchants surpassed 500 million yuan (US\$ 75.4 million) and 6 merchants surpassed 1 billion yuan (US\$ 150.9 million).
- The number of delivery orders was 812 million compared with 657 million last year, up 23% yoy.
- More than 140,000 participating brands and merchants
- 225 countries and regions with completed transactions
- Top countries selling to China include: Japan, United States, Australia, Germany, South Korea

Exhibit 12: Alibaba 2017 Singles' Day results

Alibaba 2017 Singles' Day results	2016	2017
Tmall's GMV during the Singles' Day period	120.7 billion yuan (US\$17.8 billion) (+32% yoy)	168.3 billion yuan (US\$25.3 billion) (+39% yoy)
Total mobile GMV during the Singles' Day period	82.0% of total GMV	90.0% of total GMV
Number of countries / regions participated	235	225
Numbers of payment transactions	1.04 billion	1.5 billion (+41% yoy)
Number of logistics orders	657 million in the 24-hour period	812 million in the 24-hour period (+23% yoy)

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

Exhibit 13: Alibaba's GMV on Singles' Day, 2011 – 2017 (US\$ billion)



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

Sales performance of major e-commerce players in 2017 Singles' Day

Many other e-commerce players also joined the shopping festival and reported encouraging sales.

JD.com

- According to the statistics from JD.com, transaction volume on the platform recorded 127.1 billion yuan (US\$19.1 billion), during 1 – 11 November, up more than 50% yoy. Total number of products sold was 735 million pieces.
- Consumers from Guangdong, Beijing, Jiangsu, Shanghai and Sichuan made the most orders from JD.com.
- As of 11:15 on 11 November, the delivery volume of JD.com logistics had exceeded that on the whole day of last year, 85% of the orders were delivered on the same day.

VIP.com

- As of 11 November 24:00, the order volume exceeded 8 million, of which orders made via PC accounted for 5.3% and orders made via mobile devices accounted for 94.7%.
- Consumers from Beijing, Chongqing, Chengdu, Shenzhen, Shanghai, Guangzhou, Wuhan, Xian, Kunming and Changsha made the most orders on VIP.com

Kaola.com

- GMV on 11 November in 2017 were 4 times compared to last year. At 28 minutes into the sale, total GMV surpassed the total for the 24-hour sale last year.
- Consumers from Shanghai, Beijing, Guangdong, Zhejiang, Jiangsu, Sichuan, Hubei, Fujian, Shandong and Chongqing made the most orders on Kaola.com

Suning

- GMV during 1-11 November increased 163% for all channels.
- Logistics orders increased 480% yoy during 1-11 November.

Amazon China

- Sales reached nearly three times as much as the sales last year.
- During the 11.11 Global Shopping Festival period, Amazon China connected with four Amazon website overseas including the U.S., the U.K., Japan and Germany and provided discounts especially for Chinese consumers.
- Apparel, baby and maternity products, cosmetics, shoes and home products were the most popular categories.
- Champion, Similac, Clarks, Foreo, Zojirushi, Tiger, Philips, Braun, De'Longhi, Fissler and Medela were the most popular brands with the highest sales.

This year, Alibaba not only competed on price, but demonstrated its advanced retail technologies together with brands. Alibaba tried to showcase to the world that China is no longer just following, but leading the world in e-commerce and consumer engagement with advanced technologies. Meanwhile, amid the potentially slower growth in e-commerce going forward, Alibaba, as well as other e-commerce players, need to use some other strategies such as engaging offline stores, entertainment, new and exciting technologies, etc. to attract consumers and encourage them to spend.

On the other hand, Alibaba wants to understand their customers' buying habits and lifestyles in order to predict their needs. Alibaba does not serve only to meet customer demand, but to create customer demands. Alibaba is also actively going global to gather global purchasing information and understand global consumer needs for its further expansion internationally. For instance, Alibaba has teamed up with the Malaysia government to create a regional hub in Kuala Lumpur. It has also increased its stake in Lazada to 83% and leveraged the Lazada platform to sell to consumers in the South East Asia.

Indeed, we think that the GMV figure is not the only significant parameter when reviewing the results of the Singles' Day. Many consumers were buying more than they actually need – they can return the unwanted goods conveniently within seven days for most of the products via the improved reverse logistics infrastructure. Reviewing the efficiencies of logistics, the conversion rates and integration of online and offline retailing, and also how the advanced technologies were applied in the retail market would be more meaningful to both Alibaba and brands.

3. E-commerce players expand overseas

In a move to expand their global presence, Chinese e-commerce players are actively investing in overseas markets. In November, JD.com and Thailand's largest retail conglomerate Central Group announced an investment of 17.5 billion baht to establish a joint venture and build a "Digital Ecosystem" together. They will launch an e-commerce platform JD.co.th for Thailand and South East Asia market in April 2018. It is hoped that products listed on JD.co.th

can be listed on JD.com at the same time to sell to Chinese consumers in the future. Central Group forecasts that online sales will account for over 15% of the Group's business within 5 years. It is projected that Thai exports to China will be no less than 100 billion baht within 2 years².

4. Third-party payment companies continue to accelerate overseas expansion

Third-party payment companies continue to accelerate overseas expansion. Alipay was launched in Norway, Finland, Sweden and Denmark in October 2017, enabling its Chinese users to enjoy fast and convenient payment service when they travel to the Nordic country. Alipay was launched in Northern Europe by APay Nordic AS, the marketing partner of Alipay, in cooperation with 2paynow, the technology platform provider of Alipay in Europe³. In November 2017, the Galeries Lafayette Group announced that shoppers at its flagship Galeries Lafayette Haussmann and BHV Marais stores can check out with WeChat Pay. The WeChat Pay in France is backed by Paris-headquartered international banking group BNP Paribas⁴. Currently, Alipay's in-store payment service covers more than 30 countries across the world.

5. E-commerce players open more self-operated offline stores

Apart from joining hands with offline retailers, e-commerce players have started to launch self-operated offline stores. For example, Tmall launched its smart home experiential store "Home Times" in Intime Department Store (West Lake branch) in Hangzhou on 22 September. With an operating size of around 500 sqm, the store has a wide product selection – more than 20,000 SKUs of home products, furniture, kitchenware, home electronics, skincare products and stationery of domestic and foreign brands. Majority of them are sourced from merchants already selling on Tmall. The physical store embraces O2O strategies and applies analytics and technologies widely. By analyzing the behavior and preferences of users within a five-mile radius of the store, Home Times can provide the right products at the right time to shoppers visiting the store. It is expected that three "Home Times" stores will be launched by the end of 2017, and 15 similar stores with 1,000 sqm will be launched in 2018⁵. For details, please refer to our publication ["New Retail" in action \(Issue 11\): Home Times – Alibaba's next step in offline retail](#).

Recently, JD.com is also opening more retail stores under the brand name of JD Home. JD Home sells mainly innovative products with cutting-edge technology and "lifestyle" products designed for smart living – including mobile phones, digital products, computer and other 3C products (computers, consumer electronics and communication), home appliances, books, stationeries and other smart products. As of October 2017, JD.com has already opened 130 JD Home stores; and the store number will go up to 160 by 11 November⁶. For details, please refer to our publication ["New Retail" in action \(Issue 9\): China's e-commerce players go big in brick and mortar – the case of JD Home](#).

6. Internet players further R&D push

Alibaba announced in October 2017 to establish the Damo Academy research institute under Alibaba and will invest 100 billion yuan in the Damo Academy's research and development of new technologies over the next three years to attract world-class talent, build partnerships and open research laboratories in seven cities around the globe. Damo stands for Discovery, Adventure, Momentum, and Outlook. Its research areas cover data intelligence,

the Internet of Things, fintech, quantum computing and human-machine interaction. Within those areas, it will focus on real-world applications like machine learning, network security, visual computing and Natural Language Processing⁷.

Earlier in June 2017, Tencent released its "AI Cloud" platform. The Tencent Cloud is built based on the existing cloud computing structure with available techniques, e.g. computer vision, speech recognition, and natural language processing. In November, Baidu's Raven Technology officially released its first smart home speaker – raven H. As Baidu's first benchmarked artificial intelligence product, raven H positions itself as a new high-end smart speaker that integrates technology and arts. The speaker is small and has colorful design, which is a breakthrough from existing products – usually black and white in color – in the market. Powered by DuerOS 2.0 which will be released soon, Raven also invented "Ruyi Shuo", a voice interaction system which can help automatically adjust the volume and style of speaking, etc. in the speaker⁸.

Retail logistics

7. E-commerce players investing in smart logistics to optimize logistics efficiency

Nowadays, efficient logistics is one of the key factors for consumers to choose where to buy the products. E-commerce players are actively expanding their investment in logistics, especially in rural areas. Suning Logistics announced in October 2017 that it will connect the towns and villages in Jiangsu and Zhejiang province by opening up a number of aviation routes for drones. Suning also revealed that it plans to build a smart logistics hub with 5,000 delivery drones, covering the country's unmanned aviation, research and development, production and after-sales ground service network⁹.

JD Logistics is also investing more in unmanned devices for deliveries and warehouse operations. In September, JD.com and SAIC Maxus Automotive Co., Ltd. launched the first unmanned light truck for e-commerce logistics, and started the road test on designated roads. JD's unmanned light truck can automatically complete route planning, change lanes, avoid obstacles, identify parking lot, and park itself¹⁰. In October 2017, JD.com announced the world's first fully automated unmanned warehouse has been built in Shanghai. It can handle all processes including parcel stocking, storing, packaging and sorting with smart and automated systems. With a construction area of 40,000 sqm, the unmanned warehouse is part of JD.com's "Asia No.1" project. It is expected that the warehouse could be able to handle more than 200,000 orders daily after commencing operation¹¹.

Also, in October, Cainiao Logistics released its robotic flagship warehouse to prepare for the 11.11 Global Shopping Festival. Hundreds of robots can be found in the warehouse, and the robots can help deliver more than one million parcels on one single day. The warehouse mainly provides logistics services for consumers in the South China region and Hong Kong¹².

Supermarkets and hypermarkets

8. New retail in action: Alibaba acquires stake in Sun Art Retail Group to explore new retail opportunities

On 20 November, 2017, Alibaba Group announced that it will acquire a 36.16% stake in Sun Art Retail Group for HKD\$22.4 billion (US\$2.88 billion) to expand further in the offline retail market. Alibaba will form a strategic alliance with Auchan Retail and Ruentex Group. The transaction involves Alibaba acquiring Sun Art shares from Ruentex. At the same time, Auchan is also increasing its stake in Sun Art. Upon completion of the transactions, Auchan Retail, Alibaba Group and Ruentex will approximately hold a 36.18%, 36.16%, and 4.67% economic interest in Sun Art, respectively. Auchan Retail will continue to consolidate Sun Art in its financials following the transaction.

The investment is the latest illustration of Alibaba's efforts to bet on the evolution of brick-and-mortar retail. The new strategic alliance will integrate resources of Alibaba and Sun Art Retail – Sun Art Retail can leverage Alibaba's digital ecosystem and undergo digital transformation in online-to-offline (O2O) retailing, and logistics infrastructure, etc. to provide better consumer shopping experience; while Alibaba can share Sun Art Retail's data and gain access to Sun Art Retail's offline shoppers via its over 400 retail store network. Sun Art Retail operates hypermarkets and supermarkets mainly under the brand names of "Auchan" and "RT-Mart" in China. As of December 2016, it operates 446 hypermarkets in 29 provinces, municipalities and autonomous regions across China. The nationwide store network is unique among its peers in the grocery sector, which are mostly regional operators; this provides Alibaba a fast route to gain access to the offline grocery market.

For Sun Art Retail, digital transformation is an unavoidable move to keep up with the market trend. It has been putting a lot of efforts in exploring ways to go online – in January 2014, Sun Art Retail launched its own e-commerce platform Feiniu.com (www.feiniu.com); it acquired online grocery store Fields (www.fieldschina.com) in April 2015, and Xiaohehe, a mobile O2O platform targeting university campuses, in September 2015; in December 2015, Sun Art Retail launched an online wine platform Auchan Wines (www.auchanwines.com). However, facing the increasingly intensive competition in O2O fresh supermarkets with prominent players including Hema Xiansheng, Yonghui Superstores, and many others, Sun Art Retail needs to innovate and catch up with the changing consumer demand. Partnering with Alibaba can allow it to transform quickly by leveraging Alibaba's big data capabilities to streamline its fresh food supply chain.

Going forward, we believe large-scale Internet and e-commerce players such as Alibaba will continue to expand offline for better online and offline integration in the "New Retail" regime. One of the key challenges for the companies is to work collaboratively with their integration partners and make the most out of the partnerships. In Alibaba and Sun Art Retail's partnership, the two companies need to work on a mutually agreed business plan to avoid internal competition of their existing businesses – for instance, to ensure Alibaba's Hema Xiansheng will not compete head-to-head with Auchan and RT-Mart in the supermarket segment and Alibaba's B2B platform 1688.com and Feiniu.com's B2B online business will not rival against each other.

For details, please refer to our publication ["New Retail" in action \(Issue 12\): Alibaba acquires stake in Sun Art Retail Group to explore new retail opportunities](#).

Department stores and shopping malls

9. Self-owned multi-labels stores continue to thrive

To enhance uniqueness and differentiate themselves from their peers, increasing numbers of department store operators have set up multi-label stores selling directly-sourced products. Recently, the first "Wanda Select" shop of Wanda Department Store opened on the third floor in Tongzhou branch in Beijing. As a buyer shop, "Wanda Select" operates in "shop-in-shop" and "pop-up shop" models. "Wanda Select" hopes to leverage Wanda Department Store's massive product categories, brands and commodity resources on Wanda's unique and standardized commercial platform. The company hopes to shorten the lead time between upstream and downstream players in the supply chain, reduce the operating cost, and ultimately provide a better shopping experience for consumers¹³.

Also in September, Bailian Group launched a multi-brand shop "the balancing" inside Bailian's Orient Shopping Center in Xujiahui in Shanghai. With an operating area of 1,200 sqm, the shop houses 89 womenswear brands including designer brands Jil Sander, Masion Margiela, Nina Ricci, Victoria Beckham, and 62 menswear brands including Brunello Cucinelli, Paul Smith, and 3.1 Philip Lim¹⁴.

10. Forming partnerships with other sectors to diversity retail formats

Recently, increasing numbers of department store operators are actively expanding their scope of business and diversify their retail business through forming strategic partnerships with players in other sectors. In September, department store operator Wangfujing Group and supermarket chain operator Shou Hang Supermarket announced that the two companies will jointly set up a joint venture to create a new supermarket brand "Wangfujing Shou Hang". The new supermarket brand will focus on the fresh produce market and target mainly the communities. According to Wangfujing Group, the new supermarket brand will open 50 stores in Beijing over the next five years, and will gradually extend to Tianjin and Hebei region¹⁵.

In October, Oriental Group Quzhou Zhejiang Co. Ltd. announced to issue 27.53 million shares at 5.14 yuan per share to raise 141 million yuan for the repayment of corporate bank loans. According to the announcement, the objects of this issue were Alibaba and Intime Department Store. Among them, Alibaba will subscribe 16.518 million shares, Intime Department Store will subscribe for the remaining 11.012 million shares. According to the half year report of 2017, Alibaba and Intime Department Store will be among the top five shareholders after such shares subscription. Listed on the National Equities Exchange and Quotation (NEEQ) in August 2015, Oriental Group Quzhou Zhejiang' core businesses include department stores, hotel chains, etc¹⁶.

Convenience stores

11. Convenience store operators continue to expand

Convenience store practitioners are still maintaining strong confidence in the market, but they are also getting more rational. According to "China's Convenience Store Prosperity Index Report" for 3Q17 released by the MOFCOM, the overall prosperity index reached 69.25 in 3Q17, slightly lower than the previous two quarters due to seasonal factors. The report shows that the growth of China's convenience store sector remains healthy¹⁷. Lawson, one of the biggest players in the convenience store sector, aims to have 1,400 stores in China by the end of this year, and 2,000 stores by end-2018¹⁸. FamilyMart announced in October 2017 that it has opened more than 300 new stores in China since the beginning of the year¹⁹.

12. Unmanned/cashier-less convenience stores come on the scene

Apart from unmanned convenience stores, unmanned shelves are getting popular too, particularly in some office areas. JD Daojia has launched its unmanned shelf "Daojia Go" in tier 1 and 2 cities including Beijing, Shanghai, Guangzhou and Shenzhen since October 2017. "Daojia Go" shelves are mostly located in office areas. Each "Daojia Go" is a refrigerator-like box, which is equipped with facial recognition technology. After scanning their faces, customers need to scan a QR code on the "Daojia Go" app. They can then open the door of the shelf, take the products, and close the door when they finish choosing the products. The "Daojia Go" app can be connected with WeChat Pay or JD Pay. Payments will be automatically made after closing the door. It is hoped that this new innovation can better serve offices in the remote areas where workers cannot buy daily snacks and drinks nearby²⁰.

Apparel market

13. Smart/unmanned stores are trending in the apparel sector

Previously, unmanned stores are found mainly in the convenience store sector. However, a number of players are applying the concept of unmanned stores in the apparel sector in 3Q17 too. For example, in August 2017, Suning trialed its first unmanned retail store "Suning Biu" in Nanjing selling sportswear. Consumers can access Suning Biu via facial recognition instead of scanning QR codes. To use the facial recognition function, consumers need to download the mobile app of Suning Financial and "scan" their faces via the mobile app to set up their account. Consumers can complete self-check-out without lining up, and the system will deduct the payment by automatically identify the user's profile²¹. The second "Suning Biu" store was opened in November 2017 in Shanghai to sell more products.

Furthermore, local apparel brand HODO Group debuted a smart apparel retail store in Wuxi's World Internet of Things Exposition (WIOT) in September 2017. The smart retail store uses RFID technology. The store displays HODO's homewear, underwear, menswear, etc. Customers can enter the store after real name verification through scanning the QR codes in WeChat, Alipay or HODO mobile app²². In October 2017, Tmall opened its first smart apparel store in Hangzhou's Zhongda Intime mall. This is a flash pop-up store and "Tmall's Jeans Carnival" was the

first theme it featured. Four selected brands, namely GAP, Levi's, Lee and Calvin Klein were offered in-store. Consumers can download discount coupons by scanning the QR code via Taobao mobile app at the entrance of the store. All items in the store are equipped with RFID tags, and customers can read the corresponding product information on the smart monitor and purchase the items by scanning the QR code. Tmall said it will roll out the store concept in other China cities²³.

On 8 November, two smart stores jointly operated by Nike and Tmall open in Shanghai Daning Plaza and Hangzhou Binjiang Avenue. Consumers can make their purchases by scanning the QR code of the products with the Taobao app. Transaction information will be collected in Nike's database, and Nike can offer personalized services by analyzing the data²⁴.

Luxury market

14. Global luxury market gradually recovers as Chinese resume buying both at home and abroad

The global luxury market gradually recovers. According to a report "2017 Worldwide Luxury Market Monitor" by Bain & Company and Fondazione Altagamma, the overall luxury market is estimated to grow by 5% to 1.2 trillion euros globally in 2017. The core market for personal luxury goods is expected to reach a record high of 262 billion euros, boosted by Chinese consumers buying both at home and abroad. The share of global personal luxury purchases by Chinese nationals will reach 32%²⁵. Tax-refund firm Global Blue also revealed that Chinese tourists helped drive an 11% rise in tax-free shopping in Europe during the first nine months of 2017, reversing a fall last year. Many Chinese tourists bought high-end shoes, clothes and handbags when travelling²⁶.

15. More international fashion brands set up self-operated transactional websites and WeChat stores to tap the online market

Apart from selling on e-commerce platforms, increasing numbers of international luxury brands are jumping into China's e-commerce market by setting up self-operated transactional websites and WeChat stores. LVMH Group's high-end fashion brand Marc Jacobs announced to launch its first online flagship store on VIPLUX in October 2017, the flagship luxury channel for international luxury and premium brands on vip.com. From now on, the 300 million members of VIP.com will have the exclusive opportunity to buy Marc Jacobs' new 2017 autumn collection, synchronously released around the world on the VIPLUX channel. Prior to this, Armani Group, Salvatore Ferragamo, Roberto Cavalli, Versace, Sergio Rossi, Trussardi, Diesel have also set up online flagship stores on VIPLUX²⁷.

Also in October 2017, French luxury brand Hermès launched its first WeChat pop up store, selling Apple Watch Hermès Series 3, the crossover product between Hermès and Apple. There are six models in the series, with prices ranging from 8,988 yuan to 10,988 yuan. The pop-up store lasted for two weeks, till 5 November²⁸.

16. E-commerce players are eyeing the luxury market by launching platforms for luxury products

E-commerce players are eyeing the luxury market. Following the launch of Luxury Pavillion by Tmall in August which we have mentioned in the last issue, JD.com launched its first-ever luxury e-commerce platform "Toplife" in

October. Toplife is JD.com's independent shopping platform where foreign and domestic brands can set up their official flagship stores on the platform and sell directly to consumers. Apart from displaying and selling products, the platform also shares the brand's design concepts with users. Product delivery will be handled by JD.com's specialized logistics team for luxury products, and air freight shipment will be provided. With all the dedicated services including dedicated warehouse and aircraft, as well as dedicated personnel and vehicle, JD.com will be able to offer personalized one-stop logistics services to customers. Six luxury brands including La Perla, Emporio Armani, Rimowa, B&O Play, Ports 1961 and Trussardi have joined the platform²⁹.

III. Competitive landscape

Financial and operating performance of selected listed retailers, Internet and e-commerce companies:

1. Department stores and grocery players

Company	Parkson	Sun Art	Wangfujing	Bailian Group	Dashang
Financial period	1H17*	1H17*	1H17*	3Q17**	3Q17**
Total gross sales proceeds (million yuan)	8,128.0 (-4.3%yoy)	54,080 (+2.1% yoy)	12,805.8 (+12.6%yoy)	35,089.4 (-1.2% yoy)	20,311.3 (-6.0% yoy)
Net profit attributable to shareholders of the company (million yuan)	0.2	1,757 (+22.7% yoy)	508.7 (+23.1% yoy)	679.7 (-8.9% yoy)	629.6 (+1.3% yoy)
Total operating revenues (million yuan)	2,369.4 (+1.9% yoy)	2,925 (+33.0% yoy)	735 (+17.6% yoy)	NA	1,004.0 (+7.8% yoy)
SSS growth	2.4%	-0.9%	6.8%	NA	NA
Merchandise gross margin	21.6% (+0.1 ppt yoy)	23.3% (+0.5 ppt yoy)	15.9%	NA	NA
Current operating stores in China (Approx.)	45	446 hypermarkets	54 department stores and outlets Approx. 120 convenience stores	6,000	300

* For the quarter ended 31 March, 2017

** For the six months ended 30 June, 2017

Source: Company data; compiled by Fung Business Intelligence

2. Internet and e-commerce companies

Alibaba Group Holding Ltd. – Financial results for the quarter ended 30 September, 2017

- Revenue was 55,122 million yuan (US\$8,285 million), an increase of 61% yoy.
 - Revenue from core commerce increased 63% yoy to 46,462 million yuan (US\$6,983 million).
 - Revenue from cloud computing increased 99% yoy to 2,975 million yuan (US\$447 million).
 - Revenue from digital media and entertainment increased 33% yoy to 4,798 million yuan (US\$721 million).
 - Revenue from innovation initiatives and others increased 27% yoy to 887 million yuan (US\$134 million).
- Annual active consumers reached 488 million, an increase of 22 million over June 2017.
- Mobile MAUs reached 549 million in September 2017, an increase of 20 million over June 2017.
- Net income was 17,408 million yuan (US\$2,616 million), income from operations was 16,584 million yuan (US\$2,493 million).
- Operating margin was 30%, adjusted EBITDA margin was 45% and adjusted EBITA margin for core commerce was 57%.

Tencent Holdings Ltd. – Financial results for the quarter ended 30 September, 2017

- Total revenues were 65,210 million yuan (US\$9,825 million), an increase of 61% yoy.
- Operating profit was 22,746 million yuan (US\$3,427 million), an increase of 57% yoy.
- Operating margin was 35%, down from 36% last year.
- Profit for the period was 18,047 million yuan (US\$2,719 million), an increase of 67% yoy. Net margin was 28%, increased from 27% last year.
- Profit attributable to equity holders of the company for the period was 18,006 million yuan (US\$2,713 million), an increase of 69% yoy.
- Combined MAU of Weixin and WeChat were 980 million, an increase of 15.8% yoy.
- Monthly active user accounts of QQ reached 843 million, a decrease of 3.8% yoy.

JD.com, Inc. – Financial results for the quarter ended 30 September, 2017

- Net revenues were 83.7 billion yuan (US\$212.6 billion), an increase of 39.2% yoy.
- Gross profit was 13.0 billion yuan (US\$2.0 billion), an increase of 50.3% yoy.
- Net income from continuing operations attributable to ordinary shareholders was 1.0 billion yuan (US\$0.2 billion), compared to a net loss from continuing operations attributable to ordinary shareholders of 0.5 billion yuan for the same period last year.
- Annual active customer accounts increased by 34% to 266.3 million from 198.7 million over September 2016.

Source: Company data, compiled by Fung Business Intelligence

IV. Regulation updates

Market supervision

1. State Council releases the “Guiding Opinions on Promoting Supply Chain Innovation and Application”; the first time the idea of “supply chain” is prioritized in a state-level policy guidance

On 13 October 2017, the State Council released the **Guiding Opinions on Promoting Supply Chain Innovation and Application** <关于积极推进供应链创新与应用的指导意见>. The Opinions aims at establishing a smart supply chain system that covers major industries in China by 2020, with the introduction of a batch of new supply chain technologies and models, and the cultivation of about 100 leading Chinese enterprises in the global supply chain sector. Major tasks include:

- To promote the integrated development of the primary, secondary and tertiary industries in rural areas.
- To speed up the modernization and digitalization of the supply chain.
- To raise the standard of the distribution sector and the service level along the supply chain and to speed up innovation and transformation of the supply chain.
- To promote the development of supply chain finance.
- To promote the development of green supply chain.
- To encourage the establishment of global supply chain and to participate in drafting the global standard of supply chain systems³⁰.

Meanwhile, the government will also seek to promote a healthy policy environment and launch supportive policies for the innovation and transformation of supply chain; urge the setup of demonstration enterprises with innovative applications along the supply chain; strengthen the supply chain credit systems; accelerate the training of supply chain talents; and set up more industry associations in the supply chain industry.

It is the first time for the State Council to issue a programmatic guideline on the development of supply chain innovation. It is believed that the Opinions will comprehensively enhance the development of China's supply chain with specific and concrete directions. Meanwhile, a more developed supply chain business system will help match demand and supply in the market. This not only can help business better manage inventory level and reduce operation costs, but also better meet the changing needs of customers.

Details can be accessed at http://www.gov.cn/zhengce/content/2017-10/13/content_5231524.htm (in Chinese only) (Source: 13 October 2017. The State Council)

2. MOFCOM to reduce import tariffs on some consumer products to boost imports

On 2 November 2017, Wang Bingnan, Vice Minister of the Ministry of Commerce (MOFCOM) announced that the MOFCOM is going to boost imports in three ways – (1) to improve and refine the fiscal and financial policies for expanding imports, including lowering import tariffs on some consumer products, expanding the product category for imported technologies and products, and encouraging banks to expand import financing; and to increase imports of advanced technological equipment and key components; (2) to improve the supply and demand relationship as well as streamline trade procedures; to facilitate the integration of customs clearance procedures; and to improve the inspection and quarantine system; (3) to reform and encourage innovative supervisions for imports; and to develop innovative trade models for imports³¹.

Details can be accessed at <http://www.mofcom.gov.cn/article/i/jyj/l/201711/20171102664319.shtml> (in Chinese only) (Source: 2 November 2017. Ministry of Commerce)

3. Government shows support to the development of unmanned stores for the first time; CCAGM seeks public comments on the “Guidance on the Operation of Unmanned Stores (Draft)”

During a regular press conference on 21 September 2017, MOFCOM spokesman Gao Feng revealed that unmanned store is an innovative trial for the transformation of China’s retail market to better satisfy the more diverse consumer needs. The MOFCOM will release the “Framework for Retail Technology Innovations” and cases on new technologies application at some suitable time in future to serve as a guidance for retailers. This is the first time the Chinese government shows support towards the development of unmanned stores³².

Details can be accessed at <http://www.bbtnews.com.cn/2017/0921/211819.shtml> (in Chinese only) (Source: 21 September 2017. Bbtnews.)

A month later in October, China Commerce Association for General Merchandise (CCAGM) started to seek public comments on the “Guidance on the Operation of Unmanned Stores (Draft)”, particularly from major unmanned store operators in China. The Draft stipulates that operators of unmanned stores should strictly follow China’s laws and regulations including Food Safety Law of the PRC, and Law of the PRC on the Protection of Consumer Rights and Interests, etc. The Draft also proposes specific requirements on the set up, operation, warehousing, and the logistics of unmanned stores, showing that the unmanned store sector would be more regulated in the future³³.

Details can be accessed at <http://www.ccagm.org.cn/zqbhsyxh/article/id/3118> (in Chinese only) (Source: 26 October 2017. CCAGM.)

4. First-time amendments to the Anti-Unfair Competition Law issued

The revised **Anti-Unfair Competition Law of the PRC** <《中华人民共和国反不正当竞争法》> has been adopted at the 30th session of the Standing Committee of the 12th National People's Congress and will enter into force from 1 January 2018. The amendments focus on the regulation of unfair competition in the Internet sector, specifying that business operators shall not give false or misleading publicity such as sales performance and user reviews for commercial purpose; also, they shall not make fake deals. Offenders will be fined up to 2 million yuan³⁴.

Details can be accessed at http://www.npc.gov.cn/npc/xinwen/2017-11/04/content_2031432.htm (in Chinese only)
(Source: 4 November 2017. The National People's Congress of the PRC)

5. Second draft of the E-commerce Law published; better regulates duties of platform operators

The **E-commerce Law of the PRC (Draft for Second Review)** <《中华人民共和国电子商务法（草案二次审议稿）》> (Second Draft) has been published on the National People's Congress website for public consultation until 26 November 2017. The Second Draft specifies that e-commerce operators shall not infringe on consumers' right to know by giving false publicity, making false deals and user reviews, etc. Also, the Second Draft states that enterprises operating e-commerce platforms should display search results through taking consideration of various factors, such as prices, sales volumes, credit ratings of commodities or services; the word "advertisement" should be displayed clearly next to paid searches. The Second Draft also emphasizes that e-commerce platform operators should not impose unreasonable transaction requirements on operators, or charge business operators on their platforms unreasonable fees. Moreover, the Second Draft introduces amendments to industrial and commercial registration, protection of intellectual property rights, standardization of contracts, and dispute resolution, etc³⁵.

Details can be accessed at http://www.npc.gov.cn/npc/flcazqyj/2017-11/06/content_2032086.htm (in Chinese only)
(Source: 7 November 2017. The National People's Congress of the PRC)

Cross-border e-commerce

6. Transition period for the implementation of new supervision regulations on CBEC imports extends to end-2018; to set up new CBEC Comprehensive Pilot Zones

According to a State Council executive meeting chaired by Premier Li Keqiang on 20 September 2017, the transition period for the implementation of new supervision regulations on cross-border e-commerce (CBEC) imports will further be extended to the end of 2018, from its scheduled ending date of end-2017. In the meeting, Premier Li also commented on the success of the CBEC Comprehensive Pilot Zones since its establishment in 2015 to experiment new technologies, new processes, and new monitoring schemes as trials for CBEC businesses. In the future, the government will:

- Promote nationwide the experience of the CBEC Comprehensive Pilot Zones, particularly the services offered to CBEC businesses both on online platforms and in offline facilities. These include information sharing, financial services, smart logistics, risk management, etc.

- Develop new CBEC Comprehensive Pilot Zones in other potential cities.
- Build new CBEC facilities and overseas warehouses, and strengthen the logistics network in countries that are strategic for the development of the Belt and Road Initiative.
- Encourage the integration of CBEC platforms in the pilot zones to provide better services in terms of real time information sharing, regulation and law enforcement. The government will also push forward the development of a credit system to safeguard transactions, better protect consumers and intellectual property rights, and crack down on counterfeits and other illegal activities.

Details can be accessed at http://news.xinhuanet.com/finance/2017-09/23/c_1121711428.htm (in Chinese only)
(Source: 23 September 2017. Xinhuanet.)

Catering

7. Measures for the Supervision and Administration of the Safety of Food Offered through Online Catering Services

The China Food and Drug Administration (CFDA) recently issued the **Measures for the Supervision and Administration of the Safety of Food Offered through Online Catering Services** <网络餐饮服务食品安全监督管理办法>, effective from 1 January 2018. The Measures point out that catering service providers on any online catering platforms are required to operate physical stores and obtain relevant food operation license. The Measures specify that third-party platform providers of online catering services should file business information in relative departments and make the information open for public access. Third-party platforms should inspect and monitor catering service providers on the platform. The Measures also emphasize the importance of safeguarding food safety during the delivery process and monitoring food safety of online catering services³⁶.

Details can be accessed at <http://www.sda.gov.cn/WS01/CL0053/216687.html> (in Chinese only) (Source: 10 November 2017. China Food and Drug Administration)

V. Outlook

1. “New Retail” is being recognized as a major development trajectory

On 11 September 2017, the Ministry of Commerce (MOFCOM) released a report ***A New Retail Era – deep interpretations*** <走进零售新时代——深度解读新零售>. The report stated the background of “New Retail”, explained its connotation, characteristics, and implications. It also put forward the countermeasures and suggestions to promote the healthy development of “New Retail”. In short, the report summarized five key new features of “New Retail”:

- Key role of retailers changes from distributors to organizers and service providers of the supply chain;
- Retailers enhance multi-scene shopping experience and collect consumer data for data analysis;
- New retail formats evolve, such as shopping complex and multi-brand shops;
- The relationship between retailers, suppliers and consumers strengthens;
- “Consumer-centric” becomes the core of retail businesses.

Going forward, the MOFCOM expects “New Retail” will continue to impact the society in the following aspects: to drive the transformation of traditional retailers by big data analysis; to better share information among parties along the supply chain; to improve supply chain for rural produce; and to help Chinese enterprises to go global.

2. Retail sector shows positive signs in 1-3Q17; strong growth momentum continues into 4Q17

Market statistics this year so far are showing good signs of stable growth. Total retail sales growth has stayed above 10% yoy since March 2017. According to the National Bureau of Statistics (NBS), in 1-3Q17, total retail sales of consumer goods reached 26.3 trillion yuan, up nominally by 10.4% yoy. Urban retail sales increased nominally by 10.1% yoy to 22.6 trillion yuan; while rural retail sales rose 12.1% yoy to 3.8 trillion yuan in 1-3Q17. Consumption upgrade, increasing urban and rural income, and improved regulatory environment all contributed to the upward trend in the retail market³⁷. According to the NBS, the final consumption expenditure contributed 64.5% to China’s economic growth in 1-3Q17, indicating that the consumption-driven economic growth model further consolidated³⁸. China’s retail sector has gained momentum since the beginning of the year amid the moderate growth of both physical retail and online retail sales. We expect to see stronger growth momentum in 4Q17, driven primarily by the sharp jump in e-commerce sales recorded during the 11.11 Global Shopping Festival.

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