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COVID-19 outbreak has taken a toll on China's retail sector in 1Q20

The COVID-19 outbreak – which is now a pandemic – is posing a challenge to many brands and retailers operating in China. The impact of the COVID-19 on retail has already been partially reflected in the steep drop in retail sales growth for the January and February period, which is typically a booming period for consumption. Total retail sales of consumer goods fell by 20.5% yoy nominally in the first two months of the year, while catering sales dropped by 43.1% yoy. Most product categories recorded a significant drop in sales, except for grain, oil and food, beverages, and Chinese and western medicines.

Yet, shifts in online consumer spending habits amid the COVID-19 outbreak present exciting opportunities for online shopping and digital marketing. Brands and retailers increasingly turn their focus online; social commerce and livestreaming, in particular, become indispensable for brands and retailers to sustain business during the tough times. Meanwhile, surging demand for fresh food, groceries and consumer staples provides tremendous opportunities for fresh food e-commerce platforms and on-demand delivery providers.

We believe the disease outbreak will linger for another 2-3 months in China. By then, consumption will gradually return to pre-outbreak levels. The government's determined efforts to support companies affected by the COVID-19 outbreak will help shore up business confidence. Certain categories/sectors especially catering, offline entertainment and travel sectors are likely to see a faster growth or rebound as consumers increasingly unleash their pent-up consumption desire. Demand for personal hygiene products, healthcare products and dietary supplements as well as fitness-related products and services such as sportswear, trainers, wearable fitness device, fitness training, etc. is set to increase as good health may become one of the most valuable attributes of life after the epidemic.

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Market overview

In the last quarter, extended Lunar New Year holiday, temporary store closures and reduced business hours, coupled with massive decline in offline purchases as people stay home to reduce the spread of the COVID-19 disease – which is now an pandemic – have posed adverse effects on brands and retailers operating in China.

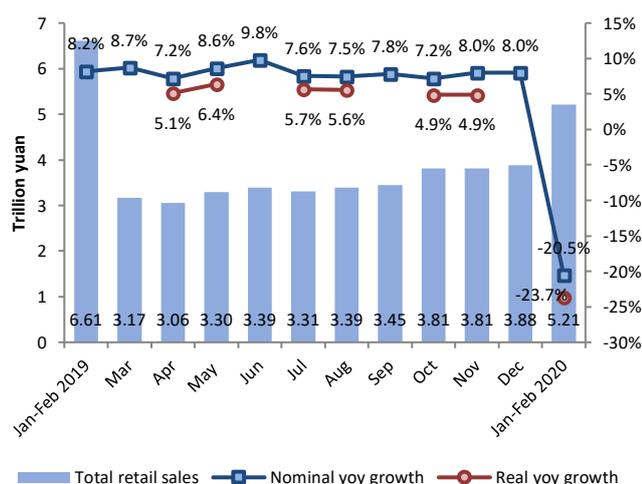
Retail sales tumbled in January – February period; some product categories are more resilient

The impact of the COVID-19 on retail has already been partially reflected in the steep drop in retail sales growth for the January and February period, which is typically a booming period for consumption. Total retail sales of consumer goods fell by 20.5% yoy nominally in the first two months of the year to 5.21 trillion yuan, which is the first decline on record (Exhibit 1). Among which, catering sales amounted to 419.4 billion yuan, dropped by 43.1% yoy, doubling the drop in general.

As shown in Exhibit 2, retail sales of different product categories were impacted to different extents –

- 1) *Severely impacted*: sales of discretionary items such as gold, silver and jewelry, automobile, furniture, clothing, and home appliances were hugely impacted;
- 2) *Moderately impacted*: some product categories such as daily use products, cosmetics and telecommunications were more resilient; and
- 3) *Recorded sales growth*: Grain, oil and food, beverages, and Chinese and western medicines recorded sales growth in the January – February period.

Exhibit 1: Total retail sales of consumer goods, Jan-Feb 2019 – Jan-Feb 2020



Source: National Bureau of Statistics, Fung Business Intelligence

Exhibit 2: Nominal retail sales growth of enterprises above a designated size, by product, Jan-Feb 2019 – Jan-Feb 2020

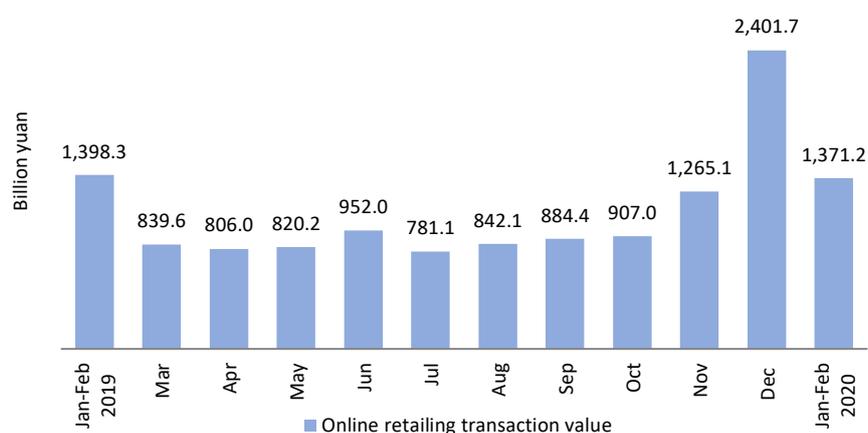
Product Category	yoy growth	yoy difference (ppt)
Grain, oil, food	9.7	-0.4
Beverages	3.1	-4.9
Tobacco and liquor	-15.7	-20.3
Clothing, shoes, hats and textiles	-30.9	-32.7
Cosmetics	-14.1	-23.0
Gold, silver and jewellery	-41.1	-45.5
Daily use products	-6.6	-22.5
Home appliances and video equipment	-30.0	-33.3
Chinese and western medicines	0.2	-10.1
Stationery and office accessories	-8.9	-17.7
Furniture	-33.5	-34.2
Telecommunications equipment	-8.8	-17.0
Petroleum and related products	-26.2	-28.7
Automobiles	-37.0	-34.2

Source: National Bureau of Statistics, Fung Business Intelligence

New opportunities for online shopping and digital marketing

Total online retail sales of goods and services plummeted 3.0% yoy in January – February period to 1,371.2 billion yuan (Exhibit 3). Among which, online sales of goods amounted to 1,123.3 billion yuan, up 3.0% and accounted for 21.5% of the total retail sales of consumer goods. During the COVID-19 outbreak, online demand for fresh food, groceries (especially health and personal care products) and consumer staples has surged drastically, providing tremendous opportunities for fresh food e-commerce platforms and on-demand delivery providers.

Exhibit 3: Transaction value of online retail sales of goods and services, Jan-Feb 2019 – Jan-Feb 2020



Source: National Bureau of Statistics, Fung Business Intelligence

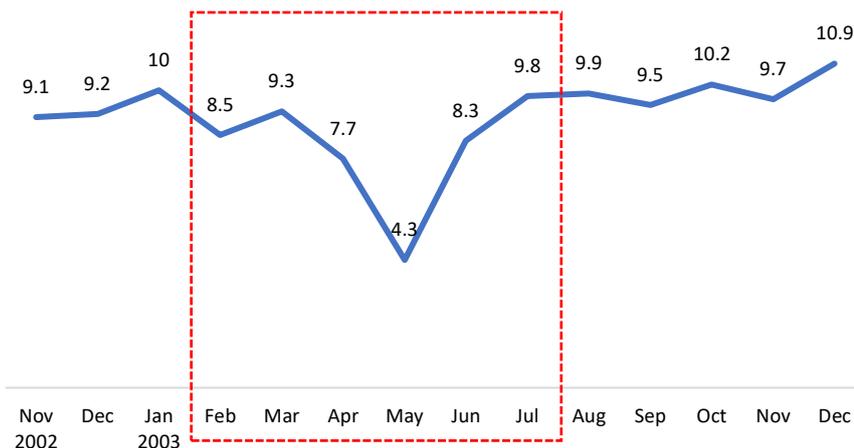
Consumers' online shopping habits have also contributed to the growing popularity of digital marketing initiatives such as livestreaming and WeChat Mini Programs marketing. As face-to-face interaction is limited during the COVID-19 outbreak, more brands and retailers have resorted to livestreaming to connect with customers, or even sell their products. Data from marketing consultancy company O2O Consulting showed that total number of livestreaming sessions hosted across China in February increased 77.7% month-on-month to 805,000, while the number of merchants hosting livestreaming sessions reached 246,000, up 36.4% month-on-month.

When is the retail sector going to bottom out?

On 12 March, the World Health Organization announced that the COVID-19 outbreak has become a pandemic as the virus spreads quickly worldwide. According to Professor Zhong Nanshan, head of China's National Health Commission's team investigating the COVID-19 outbreak, the global pandemic is expected to be under control by June if all the countries mobilize efforts to battle against it. The epidemic situation in China has remained at a lower level in recent times as China had declared the COVID-19 outbreak in the country has passed its peak with new cases in Hubei fell to single digit for the first time on 12 March.

Still, we believe the outbreak will linger for another 2-3 months in China. Retail sales growth for both second and third quarter is set to remain weak. Unlike the impact of the SARS outbreak in 2002-03 had on retail sales in China, which showed a “V-shaped” recovery after the epidemic reached its peak in March 2003, with retail sales growth dropping significantly from 9.3% yoy in March to 4.3% yoy in May, before quickly bouncing back to 8.3% in June (Exhibit 4), the case for the COVID-19 will more likely be a “U-shaped” one for multiple reasons.

Exhibit 4: Nominal growth of total retail sales of consumer goods by month, Nov 2002-Dec 2003



Source: National Bureau of Statistics, Fung Business Intelligence

First, the COVID-19 is now hitting a more vulnerable economy – which is dented by slowing growth and trade tensions with the U.S. – than during the SARS outbreak in 2002-03. China’s GDP grew by 6.1% yoy in 2019, the slowest rate in 29 years. By contrast, in 2002, China’s economy grew by 9.1% yoy, driven in part by rapid economic development. China’s consumer market has also been undergoing a transformation from a high-growth market to a moderate-growth one. Total retail sales growth grew from 11.8% yoy in 2002 to the peak at 22.7% yoy in 2008, and started to gradually slow down to 8.0% yoy in 2019. Second, services and consumption now contribute nearly 60% to China’s economic growth, compared with 46.5% in 2002. The economy is therefore more sensitive to a drop in domestic demand resulting from the COVID-19 outbreak and stringent government control measures. It is harder to recover lost ground in services than it is in manufacturing. Third, the current market landscape is totally different from 2003 – e-commerce was only in its introductory stage back in the SARS period, and it has grown to a relatively mature stage in 2020. To a certain extent, the proliferation of e-commerce and social commerce can compensate people’s offline shopping activities. People can purchase consumer discretionary online from various online channels like e-commerce marketplaces, WeChat, Mini Programs, among others and enjoy efficient O2O delivery services. Therefore, it is unlikely to see a sharp rise in retail sales when the epidemic is under control as people have already been shopping online during the COVID-19 outbreak. The pent-up demand is less apparent today than it was in 2003 as consumer confidence and spending intention is weaker today than in the SARS period.

Our views

From what we have observed so far, along with SARS experience, it is evident that consumer discretionary will be one of the hardest-hit sectors during the COVID-19 outbreak. We notice that certain consumer-driven sectors, particularly hospitality sector (food and beverages, travel and tourism, hotel and recreation), apparel, cosmetics, luxury and offline entertainment are suffering the most due to massive decline in consumer spending. Travel retail has also taken a huge hit due to travel restrictions to and from China. On the other hand, some product categories such as fresh food and consumer staples especially health and personal hygiene products are seeing a surge in demand amid the disease outbreak.

We expect it will take at least 2-3 months for the epidemic to gradually level off in China. By then, consumption will gradually return to pre-outbreak levels. The government's determined efforts to support companies affected by the COVID-19 outbreak will help shore up consumer and business confidence.

The following categories/sectors are likely to see a faster growth or rebound as consumers increasingly unleash their pent-up consumption desire.

- Catering, offline entertainment and travel sectors have been hit worst by the COVID-19 outbreak as people stay home and maintain social distancing. When the epidemic is under control, we expect the majority of consumers will gradually resume spending on these categories. They will resume their social activities with friends and family members – dining out, watching movies, going to KTV, travelling, etc. However, it may take longer time for outbound tourism to rebound as the COVID-19 is impacting many countries. Overseas travel boom may only occur in the later months of the year.
- Spending in apparel and cosmetics is also likely to pick up fast. These categories are primarily female-driven. Female consumerism is now a major driver of retail sales growth; with the recovery of normal daily life activities and going-out frequency, along with the “lipstick effect”ⁱ, demand for apparel and cosmetics will see gradual increase.
- Health and hygiene related industries are expected to see strong growth, as good health may become one of the most valuable attributes of life after the epidemic. Demand for personal hygiene products, healthcare products and dietary supplements as well as fitness-related products and services such as sportswear, trainers, wearable fitness device, fitness training, etc. will likely increase.

In the post COVID-19 period, Chinese consumers may become more inclined to buy from brands and retailers that have increased corporate social responsibility activities during the crisis period such as making donations and helping people affected by the disease.

Moreover, the supply chain of some foreign brands may be disrupted due to the COVID-19 outbreak. This may provide ample opportunities for domestic brands with flexible supply chains.

On the other hand, the COVID-19 outbreak has also prompted consumers to try new shopping channels, new digital entertainment, or new services such as adopting new online software/apps due to working or learning from home. This will create new opportunities for brands and retailers across different industries.

ⁱ “Lipstick effect” is an economy theory that refers to the situation where consumers stop spending on big-ticket items in tough times; instead, they trade down to cheaper products to cheer themselves up.

Sector review

Retail & E-commerce

1. Brands turn their focus to online shopping during COVID-19 outbreak; social commerce gains traction

Amid the COVID-19 outbreak, many offline brands and retailers have resorted to online shopping to maintain their business. Setting up online stores on leading e-commerce platforms or social commerce platforms is a popular option. Taobao reflected that its social commerce platform “Tao Xiaopu”, which allows individual users or merchants to create their own “stores” on the platform easily, saw around 30,000 new merchants opening stores on the platform every day in the first two weeks of February 2020¹.

2. Livestreaming becomes an indispensable sales and marketing tool for brands and retailers to sustain business during COVID-19 outbreak

During the COVID-19 outbreak, many merchants have turned to livestreaming tools as a way to connect with target customers. Many livestreaming platforms saw a sharp increase in the number of brands and retailers using livestreaming to attract new customers and increase user engagement. Alibaba’s Taobao Live saw a sharp rise in brand activities in February as merchants partially resumed their operations and looked for ways to reach consumers in the midst of the COVID-19 outbreak. The number of newly joined merchants on Taobao Live in February increased by 719% mom. These merchants are mostly from Guangdong, Zhejiang and Jiangsu. Statistics also showed that the number of orders generated from merchants using Taobao Live increased by 20% week-on-week in February, while the transaction amount in February also doubled compared to last year². Meanwhile, Tencent’s live commerce Mini Program Kandian Zhibo paired with a host of selected offline brands and retailers including Watsons, OPPEIN Home Group, Rainbow Department Store, Pagoda and others to hold a range of livestreaming shopping activities around the clock on 14-16 February³.

Eyeing the huge market opportunity, a number of Internet players have also launched new livestreaming features and short-video functions for merchants and brands. For example, WeChat Mini Program is testing its in-app livestreaming function. Merchants can broadcast live videos in the Mini Program without using third-party tools, and viewers can directly interact with merchants and place orders without leaving the app⁴. Xiaohongshu also offered free livestreaming service to selected merchants, and assist them with featured livestreaming content to increase their viewers' traffic⁵. Pinduoduo launched a beta test for its new short-video feature "Duoduo Video" on its Pinduoduo app; viewers can click on a button on the video to search for the same products appeared in the video to facilitate e-commerce⁶.

3. E-commerce players offer financial support to brands and retailers

To relieve the cash flow burden of merchants suffering losses due to the COVID-19 outbreak, major e-commerce platforms have reduced service fees or provided subsidies to merchants, while others have offered interest-free/ low-interest loans to merchants (Exhibit 5, 6).

Exhibit 5: Selected e-commerce platforms which reduce fees for merchants

E-commerce platform	Selected measures to help and support merchants
Alibaba Group	<p>Tmall: Waives service fees for the first half of 2020 and offers free services to eligible merchants registered in Hubei, the epicenter of the coronavirus outbreak.</p> <p>Cainiao: Offers two months of waived fees for warehouse rentals before the end of March.</p> <p>Koubei: Waives commissions for merchants until the end of February, or until the end of March for Wuhan-based businesses.</p> <p>Tmall Global: Offers a six-month waiver on the annual service fees for some merchants, and free use of its online shop setup tool; reduction or exemption of warehouse rent.</p> <p>Taobao Live: Waives entrance (service) fees for all brands and retailers.</p>
JD.com	Launches an expedited channel for SME merchants to open stores on JD.com, enabling enrollment in as fast as six hours.
Pinduoduo	Provides subsidies (2-3 yuan per order) for merchants on its platform who take on the costs for offering logistics services at subsidized prices and keep on operating and delivering orders amid the COVID-19 outbreak. There is no upper limit on the subsidies; Pinduoduo has already set aside the first batch of 1 billion yuan subsidy funds rewarding merchants for maintaining services during the outbreak.
Suning.com	Suning Supermarket waives the annual service fees for merchants who join/renew contract in February.
Meituan	Launches seven measures, including a 350 million yuan fund to support restaurants and commission fee waivers in Wuhan, the center of the outbreak.

Source: Internet sources, Fung Business Intelligence

Exhibit 6: Selected e-commerce platforms which offer low-interest loans for merchants

E-commerce player	Details
Alibaba Group	Ant Financial's online bank brand MYbank offers interest-free and low-interest loans to Taobao and Tmall merchants registered in Hubei. The one-year loans will total 10 billion yuan and be interest-free for three months, after which the rate will be reduced by 20% from current levels. Another 10 billion yuan in one-year loans will be available to merchants outside Hubei with interest rates 20% below current levels. From now until March, payments will also be issued to merchants free of charge as soon as an order has been fulfilled.
JD.com	JD Digits reduces interest rates for loans and allows merchants to delay repayment; it also provides low interest or interest-free loans to merchants.
Meituan	Meituan works with various financial organizations to provide no less than 10 billion yuan low interest loans for merchants.

Source: Internet sources, Fung Business Intelligence

Retail logistics

4. “Contactless delivery” grows in popularity

In the last quarter, some logistics players have joined hands with retailers and ramped up efforts to offer “contactless delivery” and deployed autonomous vehicles or drones to deliver orders in a bid to prevent the spread of the COVID-19 through human-to-human contact. O2O delivery platforms, including Meituan Waimai, Freshippo, Ele.me, Missfresh, Suning Xiaodian and JD Daojia, as well as restaurants which offer takeaway service adopt "contactless delivery" strategy to avoid direct contact between delivery staff and customers. For safety concerns, customers can request delivery staff to put the parcel or food at designated places such as company’s front desk or doorstep for pick up.

Autonomous vehicles and drones have also been widely used across the country. For instance, Meituan autonomous vehicles team joined hands with Meituan Maicai to pilot driverless delivery in Beijing⁷; while Suning Logistics also launched similar autonomous vehicles in Beijing, Nanjing and Suzhou to avoid direct human-to-human contact⁸. Soon after the COVID-19 outbreak, JD Logistics has deployed autonomous shuttles and drones to deliver medical and commercial cargo throughout coronavirus quarantine zones in Wuhan and other cities in Hubei. Since most people in the region order goods online to minimize human contact in offline stores, JD Logistics' autonomous warehouses have reportedly fulfilled nearly double their usual number of daily orders, from 600,000 to 1 million between 24 January and 2 February⁹.

Department stores and shopping malls

5. Previously closed stores are gradually resuming operation

Since 25 January, many businesses across China had been shut down to contain the fast-spreading COVID-19¹⁰. Many provinces, municipalities and autonomous regions, including Beijing and Shanghai, told businesses not to reopen before 10 February at the earliest. Department stores and shopping malls had therefore witnessed significant drop in foot traffic and sales in January and February 2020. A survey conducted by property consultant Colliers International found that 65% of shopping malls suffered a foot traffic loss of 85%; around half of shopping mall operators estimated that business slumped by at least 70% yoy¹¹.

Towards the last week of February, increasing numbers of department stores and shopping malls have resumed normal operation, albeit at a slow pace. Many offered at least 15 days rent free for their tenants. As the epidemic prolonged, income from rent is likely to deteriorate and will put pressure on companies’ liquidity. Department store and shopping mall operators may need to shelf their plans for expansion and put their long-term development or transformation plans on hold.

6. Operators ramp up online initiatives to mitigate the disruption

To sustain their business, department stores and shopping malls have to accelerate the ongoing diversification of sales channels, including going online. Some worked relentlessly to enrich the functions of their Mini Programs, set up more WeChat private groups, produce livestreaming shows more frequently to reach out to customers and pilot contactless delivery services, among other efforts. Exhibits 7 and 8 show the key online initiatives of selected department stores and shopping malls.

While large brands and merchants are well prepared to seize new opportunities provided by department stores and malls, small and medium merchants may not have the resources and technological knowhow to set up and manage

their online stores. Therefore, some department stores and malls offered to waive platform fees and provide technological infrastructure and training to help merchants go online.

Exhibit 7: Major online initiatives of selected department stores (as of 28 February 2020)

Department stores	Online channels				Marketing tactics and other O2O initiatives
	E-Commerce platform	App	Mini program	WeChat private group	
Hefei Department Store	-	-	✓	✓	Livestreaming
Intime	(Note: its previous e-commerce portal was migrated to mobile App)	✓ "Miao Street"	✓	✓	Livestreaming
Your Mart	Same as Mini Program	-	✓	-	Group-buying, livestreaming
Rainbow	✓ "tianhong.cn"	✓	✓	-	O2O delivery, livestreaming
Bailian	✓ "bl.com"	✓	✓	-	O2O delivery, flash sale
Nanjing Xinbai	-	-	✓	✓	O2O delivery, livestreaming
Wangfujing	✓ "Wangfujing mall" - access from WeChat official account	-	✓	✓	Livestreaming
New World	(Note: some stores set up mini websites provided by third parties; those sites can be accessed from WeChat official account)	-	✓	✓	-
Parkson	✓ "Parkson mall" - access from WeChat official account	✓	✓	✓	-
Nanjing Central Mall	-	-	✓	✓	-
Eurasia Group	✓ "Ouya Weidian" - access from WeChat official account	-	-	✓	Livestreaming
Liqun Group	✓ "Liqun Web Mall" - access from WeChat official account	✓	-	✓	O2O delivery

Source: Ebrun¹², CCAGM¹³, Fung Business Intelligence

Exhibit 8: Major online initiatives of selected shopping malls (as of 28 February 2020)

Shopping malls	Online channels				Marketing Tactics and other O2O initiatives
	E-Commerce platform	App	Mini program	WeChat private group	
Suning Plaza	-	✓	✓	✓	Group-buying, flash sale
Joy City	Access from its Mini Program	✓	✓	✓	-
CapitaLand	-	✓	✓	-	-
Aegean Commercial Group	✓ "Ai Shan Gou" - access from WeChat official account	-	-	✓	Livestreaming, points redemption

Source: Ebrun¹⁴, Fung Business Intelligence

Supermarkets and hypermarkets

7. COVID-19 outbreak drives huge demand for on-demand delivery platforms

The COVID-19 outbreak has driven larger-than-usual demand for fresh food, groceries and other daily necessities on on-demand delivery platforms such as JD Daojia, Yonghui Daojia and Dmall in the past few months. For retailers that have their own delivery capabilities, many have further expanded their on-demand delivery services. For example, some supermarket chains have significantly increased the frequency of fresh food replenishment; they have also assigned more staff to pick and pack online orders and increased the number of part-time couriers. For instance, Yonghui Superstores recorded 150% yoy increase in order volume for its O2O delivery service Yonghui Daojia during 1-10 February in Fuzhou. To cope with the increase in order volume, Yonghui added over 200 staff from different departments to handle online orders. It also adopted an “employee-sharing scheme” and lined up with several catering enterprise to onboard more staff temporarily¹⁵. Its on-demand delivery platform also launched “contactless delivery” feature to prevent direct contact of couriers and customers. Both customers and couriers can use the app to decide where to drop off the order.

Meanwhile, seeing the huge online demand for fresh food and groceries amid the COVID-19 outbreak, JD Daojia has launched a program to ensure stable supply of fresh food every day during 7-10am. Over 40 supermarket chains including Walmart China, Yonghui, Better Life, Aeon, 7Fresh, CP Lotus, and Lianhua have joined the program and allowed customers to order their food and groceries on JD Daojia’s platform. To streamline the ordering and delivery process, the supermarket chains have added more staff to pick and pack the orders and increased communication with JD Daojia. JD Daojia has also increased the number of couriers to handle the increasing number of orders. During 24-30 January 2020, JD Daojia saw a 470% yoy increase in sales amid the outbreak of COVID-19¹⁶.

8. Supermarket operators enhance smart delivery solutions

To facilitate delivery efficiency and minimize human contact during the COVID-19 outbreak, some operators have launched various smart vending machines and smart lockers. For example, JD.com's 7Fresh supermarket set up five smart vending machines in February, reportedly developed by X Division of JD Logistics, in Tongzhou, Beijing, allowing residents to purchase fresh food offered by 7Fresh without the needs to make human-to-human contacts. To make purchase, customers need to scan the QR code on the screen of the selected cabinet door and order with their mobile phone. The door will then be opened for customers to take out the product. Payment will be made automatically once the door of the cabinet is closed¹⁷. In the same month, Yonghui Superstores set up smart lockers for fresh food delivery in Binjiang District of Hangzhou, Zhejiang. Featuring multiple functions, the smart lockers can keep fresh food parcels warm or chilled. After receiving customers’ orders placed via Yonghui Life app, Yonghui Logistics will deliver the fresh food to designated smart lockers for customers to pick up their online orders, supporting contactless delivery and pickup services¹⁸.

Apparel

9. Apparel brands turns to WeChat Mini Programs to drive sales during COVID-19 outbreak

The COVID-19 outbreak has stimulated demand for online shopping services in China. A number of apparel retailers have turned to WeChat Mini Programs to drive sales during the outbreak. For example, Chinese apparel brand d'zzit and its sub-brand DAZZLE have added a new distribution function to their WeChat Mini Programs amid the outbreak of COVID-19. The new function enables the brands to leverage product marketing events, WeChat Private Groups, WeChat Moments, forwarded Mini Program codes, livestreaming broadcasts, etc., to sell their products directly on their WeChat Mini Programs. Data shows that sales of DAZZLE and d'zzit topped 4 million yuan on the day the new function was launched¹⁹.

Another domestic apparel brand JNBY has also announced that through capitalizing on the existing online traffic on its WeChat Mini Program, the brand has hit a new daily GMV record of 1 million yuan. In February, the brand released the GMV and traffic data of its online clothing subscription services Mini Program “Buzhihezi”. The data on 10 February showed that the Mini Program had over 36,000 users, while average daily GMV for three days exceeded 1 million yuan, up 500% yoy²⁰.

Bestseller Fashion Group China, one of the largest fashion retailers in China operating over 7,000 stores under 20-plus fashion brands including Jack & Jones, Only, Vero Moda and others, also revealed that the company has shifted sales to its WeChat Mini Programs amid the COVID-19 outbreak; its WeChat Mini Program sales increased by 300% from 6.2 million yuan on 1 February to 18.9 million yuan on 5 February²¹.

Going forward, we expect more apparel brands to leverage Mini Programs and other social commerce platforms to connect with customers and boost sales.

10. Apparel companies switch to produce protective clothing

As the COVID-19 disease continues to spread, a number of domestic apparel companies including Hodo, Threegun, Saint Angelo, LILANZ and Mercury Home Textile, have switched to manufacture protective medical clothing to ease the current medical supplies shortage amid the COVID-19 outbreak. The news gave a boost to their share prices. From 4 to 6 February, the closing prices of Hodo and Mercury Home Textile had accumulated 20% and 22% increments respectively. The share price of Saint Angelo surged 9.86% upon opening on 10 February. Meanwhile, the local government rolled out policy measures and provided tax incentive to support these enterprises²².

Luxury market

11. Luxury brands scrap fashion shows in China owing to COVID-19 fears; some move online via livestreaming fashion shows/ launching on major e-commerce platforms

Amid the COVID-19 fears, luxury brands such as Chanel and Burberry have called a halt to their fashion shows in China. Following the instructions of Chinese authorities, Chanel has postponed its fashion show – Métiers d'art 2019/20 Paris – 31 rue Cambon show – scheduled for May in Beijing to a later and more appropriate time. Meanwhile, British luxury brand Burberry has confirmed to cancel its Burberry Autumn/Winter 2020 fashion show scheduled to be held in Shanghai on 23 April²³.

In February, Ontimeshow, one of the largest by-invitation only fashion trade shows in China, also announced that it would postpone its Autumn/Winter 2020 show and launch an online ordering system for all merchants. To help brands digest their inventory and free up cash, it has designated Secoo as its exclusive ecommerce platform. Meanwhile,

Secoo offers 2-hour guaranteed delivery services to all Ontimeshow’s business partners located in Beijing, including merchants, designer brands and multi-brand stores²⁴.

Despite postponing its fashion show in Beijing, Chanel also joined hands with Tencent Video to livestream its Chanel Fall-Winter 2020/21 Collection fashion show on 3 March, marking the brand’s first-ever livestreaming show, which has drawn great attention of many in the fashion industry. Another French luxury fashion house Lanvin, broadcasted its Fall/Winter 2020 runway show at Paris Fashion Week with virtual reality technology backed by Chinese video platform iQiyi. Moreover, the show was also livestreamed on the luxury e-commerce platform Secco with a “see now, buy now” function²⁵.

To offset revenue loss caused by the outbreak, some luxury retailers have moved online by joining major e-commerce platforms. For example, on 24 February, Italian luxury brand Prada officially launched its online flagship store on Tmall, offering around 75 products on the platform. Tmall is the authorized operator of the store. According to the company, new products available online may be different from those at physical stores, implying that the brand may offer exclusive products for its online store²⁶. On 5 March, Belgian luxury brand Delvaux officially launched its online store on JD.com. It is the first time that the Belgian brand opens its online flagship store in partnership with a Chinese e-commerce platform²⁷.

12. Luxury brands donate to combat COVID-19 outbreak

During the outbreak, many luxury players have made donations to China and people who are affected by the COVID-19 outbreak. We summarize in Exhibits 9 selected initiatives taken by luxury retailers to support China during the COVID-19 outbreak.

Exhibits 9: Selected examples of initiatives taken by luxury retailers amid the COVID-19 outbreak

Making donation to the coronavirus hardship	
LVMH Group	Announced a donation of around 16 million yuan to the Red Cross Society of China to help with a medical supplies shortage in Wuhan
Kering	Announced a donation of 7.5 million yuan to the Red Cross Society of China Hubei Branch; the donation will be used for front-line prevention and control work as well as training and public health education
Hermès	Announced a donation of 5 million yuan to the China Soong Ching Ling Foundation, honoring the medical professionals who are fighting on front line amid the outbreak
Richemont	Announced a donation of 10 million yuan to China
PVH	Announced a donation of 2 million yuan to China
Versace	Announced a donation of 1 million yuan to China
Coach	Announced a donation of 1 million yuan to China
Expressing their caring messages	
Louis Vuitton	Posted a heartfelt message on WeChat – “Every paused journey will eventually restart. Louis Vuitton hopes you and your beloved ones stay safe and healthy.”
Versace	Expressed that the company are working with fashion media and other brands to initiate a new campaign called ‘I believe’ which aims to spread messages of positivity amid the COVID-19 outbreak
Updating customers about changes	
Dior	Created a stand-alone page on its local website that clearly states delivery times and available customer service times for both its fashion and beauty lines
Prada	Launched a reservation spot on its website for customers to book in-store appointments; also sent out a notification on WeChat about postponed customer service and deliveries to Hubei province

Source: Companies’ Weibo posts, Jing Daily, SCMP, Bjnews, Fung Business Intelligence

Others

13. Ongoing challenges in China's commercial sector but opportunities remain

In January 2020, the Secretariat of the Expert Committee of the China General Chamber of Commerce (CGCC) and Fung Business Intelligence jointly released the "Ten Highlights of China's Commercial Sector, 2020". Overall, China's commercial sector is likely to soften further because of ongoing internal and external economic pressures, especially when COVID-19 erupted worldwide. However, persistent efforts by the Chinese government to boost consumption and optimize the domestic business environment are expected to temper these challenges. Services consumption, night-time shopping, catering industry, innovative retail formats, digital transformation, renovation of pedestrian streets, community retailing, rural e-commerce etc., will deliver ample opportunities to China's commercial sector.

For details, please refer to our publication [Ten Highlights Of China's Commercial Sector 2020](#).

Regulation updates

Fight COVID-19

1. Government departments release policies to support SMEs amid COVID-19 outbreak

To cushion the economic hit caused by the COVID-19 outbreak, China's central and local governments have rolled out a series of supporting policies to shore up business confidence and ease companies' burden. Various government departments have released circulars, notices, guidelines, and multiple measures related to work resumption, SME support, tax and fee reduction, financial support, social security support, energy cost reduction, etc. Exhibit 10 shows some of the policies and measures launched by the government to support SMEs.

Exhibit 10: Government policies to support SMEs (as of 9 March, 2020)

Announced date	Department	Details	Link (in Chinese only)
1 March	China Banking and Insurance Regulatory Commission (CBIRC)	Circular on Implementing Provisional Postponement in Principal and Interest Repayment for Loans to SMEs and Micro Enterprises	http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=892278&itemId=926
28 February	Ministry of Finance (MOF), State Taxation Administration (STA)	Announcement on Value-added Tax (VAT) Policies to Support Resumption of Production and Operation of Individual Household Businesses	http://szs.mof.gov.cn/zhengcefabu/202002/t20200228_3475718.htm
28 February	Ministry of Commerce (MOFCOM)	Guidelines on Increasing Support to Individual Household Businesses	http://www.mofcom.gov.cn/article/h/redht/202003/20200302940639.shtml
25 February	State Council	Measures to Help Smaller Firms Resume Production and Operation	http://www.gov.cn/premier/2020-02/25/content_5483215.htm
9 February	Ministry of Industry and Information Technology (MIIT)	Notice on 20 Non-Financial Measures to Assist SMEs' Work Resumption during Epidemic	http://www.gov.cn/zhengce/zhengceku/2020-02/10/content_5476684.htm
1 February	MOF	Increase Credit Support to Manufacturing Sector and Small and Micro Firms	http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/202002/t20200201_370465.html

Source: China Briefing²⁸

Below are some measures launched by selected local governments to support businesses during the tough times:

Beijing

On 5 February, Beijing Municipal Bureau of Commerce released the "Measures to Promote the Development of Small and Micro-enterprises amid the COVID-19 outbreak", which included 16 measures to reduce the burden of SMEs. Major initiatives include waiving rents, offering financial support and extending government procurement to support SMEs²⁹. On 4 March, it further released the "Notice on Application for Projects in Lifestyle Services Industry, 2020", corresponding to the promulgation of the "Measures to Promote the Development of Small and Micro-enterprises amid the COVID-19 outbreak". As specified in the Notice, the government will increase rental subsidies for breakfast shops, fresh food stores and convenience stores from 50% to 70% of total rental fees. Individual branch of fresh food supermarkets can enjoy a maximum subsidy of 1.5 million yuan, while individual branch of community fresh food stores can enjoy a maximum subsidy of 700,000 yuan³⁰.

Shanghai

On 9 February, Shanghai Municipal Commission of Commerce unveiled 28 measures to support SMEs, including offering financial support, reducing rental, tax or fee burden on businesses, stabilizing employment, and enhancing the general business environment³¹. It further released 20 measures to support the development of science and technology enterprises on 10 February³².

Shenzhen

On 8 February, Shenzhen government unveiled 16 measures to support SMEs, including waiving rental fees for two months, reducing electricity fees and wastewater treatment fees, offering loans at low-interest rate for SMEs, etc.³³

Chongqing

On 4 February, Chongqing government released 20 measures to support SMEs in response to the COVID-19 outbreak, including offering tax reduction to eligible SMEs, deferring tax payment and social insurance, waiving rental fee for 1-3 months and offering financial support to SMEs. In addition, Chongqing government has established a "green channel" for new project approval; manufacturers of products that can help prevent the spread of the COVID-19 disease can get their project approval within 48 hours. This new project approval mechanism will last until end of June³⁴.

2. MOFCOM voices support for new business formats and models that could help combat COVID-19 outbreak

On 26 February, the General Office of the Ministry of Commerce (MOFCOM) released the "Notice of the Typical Measures Ensuring the Supply of Daily Necessities for COVID-19 Prevention". The Notice encouraged traditional supermarkets to launch online shopping business, coordinate with suppliers to provide group buying and delivery services for communities that were locked down during the COVID-19 outbreak and offer "contactless delivery" services, etc. In addition, it backed the idea of employee sharing to protect the job market and the circulation industry. It encouraged understaffed big supermarkets and delivery centers to set up employee sharing mechanism with enterprises in the catering and cinema business³⁵.

Meanwhile, the MOFCOM was aware that new business formats and models have emerged and grew amid the COVID-19 outbreak. It will also keep an eye on their development and provide necessary administrative facilitation for enterprises. Also, according to the MOFCOM, the first batch of pilot pedestrian streets launched in 2019 had drawn over 900 million visitor traffic. It aimed to roll out the second batch of the project once the epidemic is mitigated³⁶.

3. Government aims to improve consumption environment and boost domestic market

On 13 March, National Development and Reform Commission (NDRC) and 22 other departments jointly released the “Opinions on Promoting Consumption Expansion, Improving Consumption Quality and Accelerating the Development of a Strong Domestic Market”. It revealed 19 measures covering six areas to improve consumption environment and boost domestic market. Key initiatives include:

1. Optimize domestic market supply – to enhance competitiveness of domestic brands, goods and services; to strengthen the development of Chinese brands; to improve the supply of imported goods; to optimize policies of the duty-free industry.
2. Promote the upgrading of cultural, tourism, and leisure consumption – to enrich the variety of cultural and leisure-related experiential events; to improve shopping environment in tourist spots; to encourage innovations for tourism promotion.
3. Construct an integrated urban-rural consumption network – to establish “consumption centers” according to regional development plans; to optimize urban and rural commercial network; to strengthen the construction of logistics infrastructure.
4. Accelerate the construction of a “smart” ecosystem in consumption sector – to accelerate the development of infrastructure for information technology; to encourage the development of new online and offline consumption business models; to encourage the use of green and smart products; to develop the "Internet + service" consumption model.
5. Improve consumption power of residents – to increase the income of major consumer groups to stimulate consumption; to stabilize and increase property income of residents.
6. Create a safe consumption environment – to strengthen market supervision; to promote credit system in the consumer sector; to enhance consumer rights protection³⁷.

Market supervision

4. China adjusts import tariffs for selected products from 1 January, 2020

On 23 December, the Customs Tariff Commission of the State Council released a circular on the adjustments of import tariffs. From 1 January, 2020, China will implement provisional import tax rates that are lower than the most-favored-nation (MFN) tariff rates for over 850 commodities. Of which, China will introduce or reduce the provisional import tax rates on products including frozen pork, frozen avocados and non-frozen orange juice, and increase the import of daily consumer goods that are relatively scarce in the country. Meanwhile, from 1 July, 2020, China will implement the fifth MFN tariff concession on 176 information technology products and adjust the provisional import tariff rates of some information technology products³⁸.

E-commerce

5. China further approves 24 CBEC comprehensive pilot zones and 51 pilot cities for CBEC retail goods import

The State Council approved the establishment of cross-border e-commerce (CBEC) comprehensive pilot zones in 24 cities on 24 December, 2019, including Shijiazhuang, Taiyuan, Chifeng, Fushun, Hunchun, Suifenhe, Xuzhou, Nantong, Wenzhou, Shaoxing, Wuhu, Fuzhou, Quanzhou, Ganzhou, Jinan, Yantai, Luoyang, Huangshi, Yueyang, Shantou, Foshan, Luzhou, Haidong, and Yinchuan. As of today, there are 59 CBEC comprehensive pilot zones in China. The government will encourage innovation in CBEC business, promote industrial transformation and upgrading, strengthen brand

building, support international trade liberalization and facilitation, and accelerate retail format innovation in these CBEC comprehensive pilot zones³⁹.

Following the approval of the establishment of 24 additional CBEC comprehensive pilot zones, the Ministry of Commerce, the General Administration of Customs and four other departments jointly announced the “Notice on Expanding the Pilot Cities for Cross-border E-commerce Retail Goods Imports” on 17 January. Another batch of 51 cities including Shijiazhuang, Jinan, Beihai, Lhasa, Xining, Yinchuan, Urumqi and the whole Hainan Island were approved as pilot cities for cross-border e-commerce (CBEC) retail goods imports. CBEC business via bonded import model can be carried out in these approved cities and regions. Currently, pilot cities for CBEC retail goods imports in China have extended to the whole Hainan Island and covered 86 other cities and regions in 31 provinces, autonomous regions and municipalities⁴⁰.

Convenience stores

6. Government promotes the development of convenience stores

In January 2020, the MOFCOM and 12 other government departments jointly issued the “Guiding Opinions on Promoting the Development of Branded Chain Convenience Stores”. The opinions proposed 18 measures in five areas: strengthening political guidance and planning; streamlining administration, delegating more powers to lower-level governments and society, improving regulation and optimizing services; supporting the development of convenience store brands; facilitating innovation and intelligent operation; and enhancing overall standard of chain stores⁴¹.

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