



Executive summary

To cope with China's ever-changing retail environment, increasing numbers of department store operators have reinvented and upgraded their businesses by pursuing innovation and transformation initiatives. In 2018, China's department store sector showed some signs of bottoming out with plenty of department store operators saw their sales and profits rebound.

Key innovation and transformation initiatives adopted by department store operators include:

- **Actively pursuing omni-channel and digital transformation**

- As O2O integration and digital transformation have become mainstream, department store operators increasingly leverage big data and other breakthrough technologies to bring online and offline experiences seamlessly together and improve operational efficiencies.
- Many operators use big data analytics and other algorithms to better predict and understand customers' needs, review and fine-tune product portfolio and provide personalized products and services. This enables department store operators to accelerate digitalization and carry out targeted marketing strategies. Meanwhile, some operators leverage technologies to revamp consumption scenes, enhance customers' in-store experience and better engage with customers.
- It is worth noting that some operators have chosen to partner with leading Internet companies or large-scale e-commerce players to implement digital transformation – by leveraging their business partners' huge traffic flows, big data as well as logistics capabilities.

- **Strengthening direct sales business to enhance brand equity and increase profits**

- Recognizing the drawbacks of the concessionary model, many department store operators have expanded their direct sales business through increasing the scale of direct product procurement, launching self-operated buyer/multi-brand stores and actively developing private labels. They hope to enhance product and services uniqueness and provide better shopping experience for customers.

- **Introducing innovative business models and diversifying retail formats**

- To stay relevant in the increasingly competitive marketplace, many operators have branched out into different retailing businesses and engaged in multi-format operation. This not only enables them to better meet the diversified needs of consumers, but also increase revenue streams. Our survey shows that supermarket/hypermarket format and shopping mall format are the two most popular retail formats that the department store operators have tapped into.

- Department store operators have been eager to explore new business models and introduce new retail concepts, such as tapping into catering business and rolling out on-demand delivery services.

- However, due in part to the economic uncertainty, two-thirds of surveyed department store operators showed reservations in expanding further into other businesses in the next 12 months.

- **Focusing more on experiential consumption**

- To adapt to consumers' growing desire for experiential shopping, many department store operators are endeavoring to provide more experiential elements such as family and child-related services and shops, art and culture exhibitions, IP contents and entertainment to lure customers.

Despite facing increasing challenges from e-commerce players, department store is still one of the major and most influential distribution channels in China and an indispensable part of consumers' lives. Department store operators' relentless efforts to transform and upgrade their businesses by pursuing digitalization, engaging in direct sales business to enrich product offerings and incorporating experiential elements to enhance shopping ambience will help drive the consumption upgrading trend in the country. Going forward, China's department store sector is set to maintain an overall stable growth with the continuation of the consumption upgrading trend as well as the government's determined efforts to boost consumption.

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