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China's appetite for luxury goods remains strong amid COVID-19 – Luxury brands see sales rebound in China

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Semir Garment to sell Kidiliz-owner to parent company to improve financial performance

In brief:

On 20 July, Shenzhen-listed Zhejiang Semir Garment Co., Ltd. (Semir Garment) announced that it intends to sell 100% of the equity of its wholly-owned subsidiary Sofiza SAS, owner of French childrenwear brand Kidiliz, to its mother company Semir Group. Semir Garment stated in a statement that the decision was taken due to steep revenue decline of Kidiliz's main brands, particularly after the COVID-19 outbreak, and the divestment will enable the company to lower its operational risks and avoid bigger losses in its performance[1].

In October 2018, Semir Garment spent 110 million euros in cash to complete the acquisition of Sofiza SAS, thereby taking over its mid-to-high-end children's clothing brand Kidiliz. The move aims to improve Semir's popularity and influence in the European market. Founded in France in 1962, Kidiliz has a portfolio of 15 brands - including ten private labels and five authorized brands - ranging mid-to high-end childrenswear. Semir also aimed to leverage Kidiliz to strengthen its supply chain capability in Europe.

Yet, after the acquisition, Kidiliz suffered serious losses and the loss has been magnified, particularly after the outreak of COVID-19. According to Semir Garment, the net loss of Kidiliz amounted 307 million yuan in 2019, and 121 million yuan in 1Q20. Its business was hit hard by the COVID-19 pandemic, especially in France, Italy and other European markets. Some analysts expect that the loss of Kidiliz in 1H20 to reach 300 million yuan.

Photo source: Yicai[2]

FBIC insights:

The full impact of COVID-19 is yet to be determined, but it is certainly taking a toll on the apparel sector. In China, retail sales of garments, footwear, hats, knitwear decreased by 19.6% yoy in 1H20, and was the second-worst performing product category following gold, silver and jewelry. According to the earning forecasts released by Semir Garment on 14 July, the company expects net profit to drop by 90-100% yoy in 1H20 due to the impacts of COVID-19[3].

Apart from the unsatisfactory performance of Kidiliz, we believe the lack of synergy between Kidiliz and Semir Garment also contributed to the lackluster performance of the company. It is clear that the expansion pace of Kidiliz in China has remained weak and the brand is not very well received in the China market. The poor performance of Kidiliz might turn out to be a hurdle for Semir's future expansion.

We see the selling of Sofiza a positive move for Semir Garment. It enables Semir Garment to reduce operational risks and avoid greater loss from Kidiliz, while redirecting its resources to focus on the childrenswear market in China, where Semir Garment's Balabala is the distinct leader in the market. COVID-19 has made the apparel sector even more competitive as many export-oriented factories have turned to the domestic market to clear their inventory, and many new brands have gained popularity by engaging in livestreaming commerce. In turbulence times, in order to maintain its market leader position, Semir Garment needs to tactfully adopt cost optimization and resource allocation strategies.

The case also shows that the road to "going global", especially through acquiring overseas businesses, is not easy. Semir Garment is one of the many local apparel brands that are keen to expand globally. For some players like Anta, Li Ning, Bosideng and Peacebird, the path to global expansion appeared to be somewhat straightforward, while for others such La Chapelle, the path was quite bumpy. The "going global" journey is certainly a long one – which requires some strategic planning and large investment of time and resources – and efforts may not yield desired results in the near term.

China's appetite for luxury goods remains strong amid COVID-19 – Luxury brands see sales rebound in China

In brief:

Luxury retail has become one of the major forces driving the recovery of China's retail market, according to the "China Luxury Retail Report" published by international real estate service provider Savills on 14 July[4]. China's luxury consumption has registered strong rebound, with international luxury fashion houses, including LVMH, Chanel[5], Prada, Salvatore Ferragamo, Tiffany[6], and Richemont Group all seeing positive sales growth in the China market between March and June[7]. Despite the resurgence of COVID-19 cases in China in late June, some luxury brands still delivered remarkable sales growth in the country. For example, Richemont Group, while recording significant sales decline in Europe, Americas, the Middle East and Africa for 1Q20, still experienced robust sales growth for the three months ended 30 June in China, where the group tripled its online sales, with overall sales jumping 49% yoy, bucking the downtrend of luxury retailing across the globe[8].

A re-shoring of overseas luxury expenditure is fuelling the strong rebound of luxury sales in China. With the continued development of ecommerce platforms, improved after sales service and narrowing of price gaps with overseas markets, more Chinese shoppers have started reshoring their luxury purchases home since 2018. The pandemic-led international travel restrictions have further directed Chinese luxury spending from abroad to home. To reach more Chinese consumers and stay connected with them, many international luxury brands have accelerated their online expansion through launching on major Chinese social media platforms such as Douyin and Xiaohongshu. Both platforms recorded 140% yoy growth in new account openings by luxury brands between March and May[9].

Photo source: Wwd.com

FBIC insights:

The swift rebound of luxury consumption in China has raised hopes for many global luxury players who have suffered drastic drop in sales worldwide due to the pandemic-led lockdowns and store closures in many countries. Chinese consumers' appetite for luxury goods remains strong even during the time of COVID-19; such raging demand for luxury goods has lured more luxury players, who were previously hesitant to launch on online platforms due to concerns of watering down their brand image and exclusivity, to set up stores on major social commerce platforms. This not only enables luxury players to tailor their marketing strategies to local tastes, but also monetize the trend of "revenge spending" of luxury shoppers following weeks of lockdowns.

Considering China's massive online shopping population and the increasing willingness of Chinese consumers to buy luxury products online, luxury players are likely to enjoy strong sales growth online in coming years. Some industry experts predicted that online retailing will contribute 12% of total luxury sales in China in 2020, and further increase to 18% in 2025[10].

Suning gears up to take on JD.com in upcoming 8.18 shopping festival

In brief:

While the dust of 6.18 (18th June) shopping festival has just settled, e-commerce players could not wait to prepare for another competition – the 8.18 (18th August) shopping festival. Among major players, Suning tried to beat its competitors with cut-throat prices. It announced that the "J-10% plan" – selling products at 10% discount of JD.com's price – implemented during the 6.18 shopping festival will be available again at the 8.18 event[12]. This time it will be extended to cover more product categories, in addition to home appliances, mobile phones, computers and groceries.

In fact, Suning did not just compete with JD.com in pricing but also in other areas, including services, content and channel partnership (see Exhibit 1). Suning recently inked a cooperation agreement with short video platform Douyin[13]. It will supply Douyin with a full range of products during the 8.18 shopping festival so that visitors of Douyin can purchase Suning products directly on the platform. The two companies already signed up popular KOLs and celebrities such as Luo Yonghao to host livestreaming sales shows.

Photo source: Sohu[11]

Exhibit 1: Selected strategies adopted by JD.com and Suning in recent sales promotion activities

	JD.com	Suning
Pricing	Offered ten billion yuan of subsidies and consumption coupons	• Price was set at "J-10%" • Distributed consumption coupons and subsidies
Product services	• For electronic products, JD.com offered pre-, in- and post-sale services • Free-trial • Mobile phones trade-in	• Offered one-on-one customer service • Home appliances trade-in
Delivery services	Dispatched 1 billion pieces of popular goods to 730 storefront houses in advance to provide 24-hr delivery services	Guaranteed delivery time (in minutes)
Content	• Hosted livestreaming events in the Summer Palace • Integrated livestream activities with music festivals and concerts	Signed up popular KOLs and celebrities as livestreaming hosts and turned the programs into variety shows
Channel partner	Short video platform Kuaishou	Short video platform Douyin

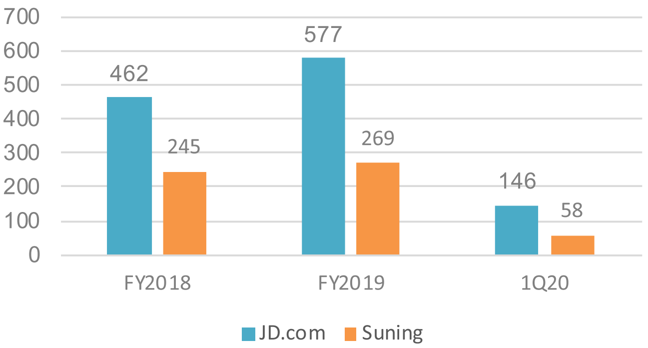
Remark: Multiple sources[14][15][16], FBIC

JD.com reported a record-breaking 269.2 billion yuan of GMV at 6.18 shopping festival, up 33.6% yoy[17]. While Suning did not disclose the actual GMV for the event, it claimed that its omni-channel sales increased by 129% yoy.

The price war between Suning and JD.com can be traced back to 2012 when Richard Liu Qiangdong, founder and CEO of JD.com, declared on his blog that JD.com would sell cheaper than Suning . Eight years went by and Suning struck back with the "J-10%" initiative. It also told consumers that it would extend the sale and offer 20% discounts for home delivery orders .

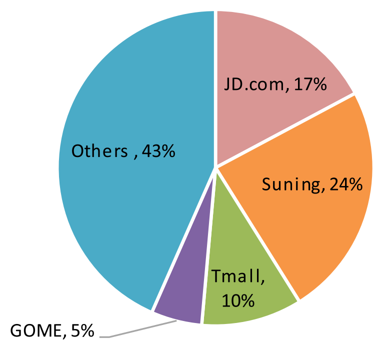
Although Suning lags behind JD.com in terms of operating revenue, Suning has secured the top position in home appliances retailing in 2020. Its market share in this sector went up from 18% in FY2019 to 24% in 1H20, surpassing JD.com (see Exhibits 2 & 3).

Exhibit 2: Operating revenue (JD.com vs Suning), billion yuan



Source: Financial reports of JD.com[21] and Suning[22]

Exhibit 3: Market share of home appliances sector in China, 1H20



Source: China Home Electronic Appliances Research Institute[23]

FBIC insights:

Amid the flood of information on discounts and subsidies, Suning's "J-10%" price guarantee is straightforward and easy to understand. The strategy has successfully captured consumers' attention as it became a popular search keyword on the Internet and triggered a 426% surge in sales on the first day of the 6.18 shopping festival . Suning concluded after the event that its discounts fell between 10% and 17%. Some consumers were surprised to find that genuine AirPods were sold at a lower price on Suning than on Pinduoduo, a low price group-buying platform[25].

Under the "J-10%" guarantee, Suning pledged to refund over-priced items. Sophisticated consumers would wonder how the report and refund mechanisms actually worked. Some complained that it was uneasy to make direct price comparison as Suning and JD.com sometimes labeled the same product differently (see the example of Hisense TV below). At the same time, the two e-commerce platforms offered other types of discounts and subsidies. Consumers may not be certain about the final price until they proceeded to checkout. They may end up investing hours researching a purchase and lost sight of the best price. The "J-10%" initiative designed to help consumers has, in some instances, failed to clear the confusion.

"Hisense TV – model H65E3A" on Suning, listed price 2,499 yuan

"Hisense TV – model H65E3A" on JD.com, listed price 2,399 yuan

Source: 36kr[26]

In view of fierce competition in the e-commerce space, Suning announced that it will extend the “J-10%” initiative and distribute other subsidies. However, consumers may start to perceive “sale” prices as “regular” prices if discounts are offered continuously on a lot of products. Retailers should be alerted that the effectiveness of a prolonged sales promotion will wear off.

From a positive side, “J-10%” can be seen as a lever and part of Suning’s grand strategy to improve supply chain capabilities and distribution network, as well as transformation from a retailer into a retail services provider:

- Upstream: To gain the upper hand in the price war, Suning requires an agile supply chain that supports rapid stock replenishment. This can be achieved by eliminating intermediary links between the retailer and suppliers/manufactures. Suning had therefore adopted a direct procurement strategy and signed contracts to acquire the full capacity and outputs of 200 production lines, 1,000 factories and 50 farms prior to the 6.18 event. In this way, Suning could make instant adjustments to procurement orders and monitor the production progress[27].

- Midstream: Suning stepped up to recruit more merchants for its platform and provide them with sourcing, technological, logistics and customer services support.

- Downstream: Suning’s 20,000 brick-and-mortar stores and multiple retail formats (Carrefour, Suning Xiaodian, Suning Retail Cloud Store, Suning department store, etc.) give it an advantage to reach out to consumers in lower-tier cities, counties and towns. Consumers who were less tech-savvy could participate in the 6.18 event in the physical stores. Suning has recently adopted the franchise model for Suning Xiaodian and Suning Retail Cloud Store and will make rapid stride in store expansion in 2H20.

Other news we are reading:

- Li & Fung announced a strategic investment of US$100 million from JD.com, with newly issued capital to further develop its digital supply chain and private label initiatives for the China domestic market. The Fung Family will continue to retain control of the Company with 60% of the voting shares. [Read more]

- Rising consumption level in China's tier 2 and 3 cities has brought more opportunities for the convenience store sector, a recent report by China Chain Store & Franchise Association found. The number of convenience stores in Xi'an, Xiamen, Fuzhou and Wuhan grew by more than 15% in 2019. [Read more]

- Tmall Global and Hangzhou Comprehensive Bonded Zone kick-started a new initiative to build production facilities inside the bonded zone. The new facilities will enable the last stage of the production process to be completed inside the zone, bringing consumers fresher and more customized goods. [Read more]

- Xiaohongshu announced in July that it will reduce its platform commission from approx. 20% to 5%, identical to the commission charged by Tmall in the fashion and cosmetics industries. The new charging scheme is expected to attract more merchants to promote their products on the platform. [Read more]

- In response to accusations of GMV inflation in 1Q20, Pinduoduo Strategy Vice President Jiu Ding stressed that the data was properly disclosed and the calculation basis of the GMV aligned with those of Alibaba and JD.com. [Read more]

- Victoria Beckham Beauty debuted in China by launching a flagship store on Tmall Global. The online store features a wide range of skincare and makeup products, including the brand's exclusive skincare line Power Glow Set. The brand has partnered with Viya, one of China's top influencers, to livestream on the platform. [Read more]

- Pinduoduo recently launched a new service dubbed Duoduo Pifa, or Duoduo Wholesale, for merchants that procure goods for resale. The feature is still under development but has been opened for merchant applications. The launch reveals Pinduoduo's ambition to expand into the B2B arena and rival Alibaba. [Read more]

- A.S. Watson planned to introduce Marionnaud Paris, its perfumeries and cosmetics retail brand, to the Mainland market and open the first flagship store in Shanghai. Marionnaud Paris mainly sells mid-price to high-end products to differentiate from other Watsons affiliates. [Read more]

- Alibaba's fifth Taobao Maker Festival will be held on 10-14 Aug. The event will ramp up its online effort this yar, with enhanced in-app interactions and content, such as short videos and livestreaming. [Read more]

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Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

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