China Retail Highlights & Insights
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WeChat launches new “WeChat Mini Shop” function
Merchants can set up online stores and do livestreaming and direct selling without a service charge. With the launch of this Mini Shop, traffic can be kept within Tencent’s ecosystem.

Livestreaming seller is now a state-accredited occupation in China
The Chinese government has given official accreditation to occupations related to livestreaming. This will facilitate better regulation and the creation of quality content and jobs in the livestreaming business.

The social commerce boom: Balenciaga the latest to leverage Xiaohongshu, Douyin to boost visibility in China
Balenciaga became the latest luxury brand to open official accounts on the two Chinese social media platforms, joining its peers Chanel, Dior, Louis Vuitton, Gucci and Prada.

Shenzhen unveils 20 measures to boost consumer spending
Measures include building the Shenzhen shopping brand, offering monetary awards or allowance to outstanding retail enterprises, establishing livestreaming business zones, etc.

JD.com to use Augmented Reality (AR) technology to measure foot size
Consumers having been troubled by shopping online for footwear for reasons like uncertain shoe size or unsuitable style will find this function helpful.
WeChat launches new “WeChat Mini Shop” function for merchants

In brief:

On 14 July, WeChat launched a new Mini Program function “WeChat Mini Shop”, or Weixin Xiaoshangdian (微信小商店), for public beta testing. Aiming to target SMEs and individuals, WeChat Mini Shop is an online store (in the form of Mini Program) where merchants can set up online stores and do livestreaming and direct selling without a service charge.

The new shopping function supports the selling of over 1,500 categories of products, including apparel, home products, beauty and healthcare, food and beverages, telecommunication equipment, and pet products. Merchants can also sell products of their own private labels, licensed brands, or non-branded products on WeChat Mini Shop.

Besides, WeChat Mini Shop offers a built-in livestreaming function, allowing merchants to host livestreaming sessions within the Mini Program. It also offers back-end management tools for inventory, orders, marketing, customer service, and after-sales service. Merchants do not need to invest and build the functions themselves. In the future, WeChat said that it will add more functions to WeChat Mini Shop and open up for third-party developers to develop plug-ins.

WeChat Mini Shop is now open for application from SMEs. SMEs need to submit relevant qualification certificates for selling food, beauty and healthcare products.

Photo source: sohu.com, Tencent Technology
FBIC Insights:

- WeChat Mini Shop can leverage WeChat’s high penetration and influence – 1.2 billion MAU as of March 2020 – to reach new customers more easily. Moreover, users of WeChat Mini Shop can complete the entire shopping journey within the Tencent ecosystem without being directed to other platforms. Currently, over 30 million merchants use WeChat Moment to post links and market their products, yet many of them provide links to direct consumers to external platforms such as Taobao, Tmall, JD.com or Pinduoduo. With the launch of WeChat Mini Shop, the traffic can be kept within Tencent’s ecosystem. This greatly increases customer stickiness and enables WeChat Mini Shop to compete more favorably with Alibaba, Pinduoduo and JD.com.

- The cost and threshold for opening a WeChat Mini Shop is low. Going ahead, it will be easier for SMEs and individuals to set up online store themselves. However, this may affect the business of some third-party service providers such as Weimob and Youzan, which help merchants set up online stores, or launch various livestreaming and marketing functions/ tools.
Livestreaming seller is now a state-accredited occupation in China: a more regulated livestreaming market is expected

In brief:

The Chinese government has given official accreditation to livestreaming sellers. On 6 July, the Ministry of Human Resources and Social Security (MOHRSS) announced a batch of nine new accredited occupations. A number of them are related to the Internet industry, including “Internet marketing specialist” (互联网营销师), “blockchain engineering technician” (区块链工程技术人员), “online study service specialist” (在线学习服务师), “city grid management specialist” (城市管理网格员), “information security test controller” (信息安全测试员), and “blockchain application operator” (区块链应用操作员) etc. Livestreaming seller (直播销售员) is recognized as one of the occupational categories under Internet marketing specialist. The MOHRSS will cooperate with relative departments to develop a set of professional standards for these new accredited occupations, including the code of conduct and qualifications.

Meanwhile, the industry regulator has also stepped up efforts to regulate the rapidly booming live commerce sector. On 1 July, China Advertising Association implemented a set of rules which abandons false and misleading advertising and contents on livestreaming sessions, and requires real-name registration for merchants and individual livestreamers.
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• The accreditation of livestreaming sellers as an official occupation reflects the Chinese government’s recognition of the fast-growing social commerce sector, especially livestreaming. A report by China Internet Network Information Center states that the number of online livestreaming service users reached over 559 million as of March 2020. The accreditation of the new occupation will enable the government to better regulate and provide guidance to the booming livestreaming market, where regulations and tax policies are lagging behind. This can improve the quality of online content – which is the bread and butter of livestreaming – and ensure the sound and sustainable development of the market.

• Recently, various local governments including Guangzhou and Chengdu have announced a series of measures to facilitate the development of livestreaming e-commerce, in the hope of attracting talents and capital, and boosting local economy. For instance, Guangzhou Municipal Commerce Bureau released a development plan to promote the development of livestreaming e-commerce. The city aims to set up 10 livestreaming institutes and incubate 100 influential MNC (multi-channel network) service provider, 1,000 KOL/online celebrity brands and 10,000 livestreaming sellers by 2022.

• We expect the accreditation of livestreaming sellers as an official occupation will increase job vacancies in the Internet marketing market. It will also attract more young people to work in the sector. According to the Ministry of Education, in 1H20, the number of recruitments in the livestreaming sector increased by 134.5% yoy, and the average salary also went up by 137% yoy. Going forward, we believe more institutes will offer proper training and courses on Internet marketing to help livestreamers improve their livestreaming quality. This may also reduce the likelihood of vulgar content being seen on livestreaming platforms, a common challenge faced by many e-commerce operators.
The social commerce boom: Balenciaga the latest to leverage Xiaohongshu, Douyin to boost visibility in China

In brief:

Kering-owned luxury fashion brand Balenciaga has opened its official accounts on major Chinese social media platforms Xiaohongshu and Douyin respectively, with the brand’s first three short video posts on Douyin garnering around 98,000 followers. With China becoming an increasingly important market for international brands, Balenciaga also entered Tmall on 15 May, marking a significant step of the brand accelerating its expansion in China and joining its peers including Chanel, Dior, Louis Vuitton, Gucci and Prada to boost their profiles in the country.
Selected examples of global luxury fashion houses launching on Douyin, WeChat Channels and Xiaohongshu, 2019-2020

<table>
<thead>
<tr>
<th>Brand</th>
<th>Douyin</th>
<th>WeChat Channels</th>
<th>Xiaohongshu</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chanel</td>
<td>Has not yet opened an official account on the platform, but advertised its J12 watch collection on Douyin's officialarty lifestyle content channel named “The Good Life Image” in July 2018\textsuperscript{10}</td>
<td>Opened an official account in June 2020</td>
<td>N/A</td>
</tr>
<tr>
<td>Dior</td>
<td>Opened an official account on the Douyin in August 2018, the first international luxury brand to launch on the platform</td>
<td>Opened an official account in March 2020</td>
<td>Opened an official account in September 2019</td>
</tr>
<tr>
<td>Louis Vuitton</td>
<td>Has not yet opened an official account on Douyin, but placed advertisements and launched a Christmas campaign on the platform in December 2018\textsuperscript{11}</td>
<td>Opened an official account in March 2020, the first international luxury brand to launch on the platform</td>
<td>Opened an official account in May 2019, the first international luxury brand to launch on the platform</td>
</tr>
<tr>
<td>Gucci</td>
<td>Opened an official account on the platform in April 2020</td>
<td>Opened an official account in April 2020</td>
<td>Opened an official account in January 2020</td>
</tr>
<tr>
<td>Prada</td>
<td>Opened an official account on the platform in May 2019</td>
<td>Opened an official account in March 2020</td>
<td>N/A</td>
</tr>
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Source: http://www.mztouiao.com/index.php?m=Article&a=show&id=7805, Fung Business Intelligence

FBIC Insights:

- As in other countries, social media plays a crucial role in digital marketing and social selling in China, especially during the time of COVID-19. To offset the sales falloff caused by the enforced store closures and monetize the pandemic-spurred online shopping spree, many global luxury players have reacted quickly by setting up official accounts on major Chinese social media platforms, such as Douyin, WeChat Channels and Xiaohongshu, to keep home-bounded customers engaged and interested in their products, and continue to generate revenue during the unprecedented time.

- China’s social media penetration hit 97%, with social media platforms taking up over 60% of consumer touchpoints along the purchasing journey, according to a report by Boston Consulting Group and Tencent. Considering the extensive use of social media platforms and the rising buying power of young consumers in the country, where 48% of luxury shoppers are under 30\textsuperscript{12}, many international luxury retailers are making every endeavor to connect with the young generation of shoppers through major Chinese social media platforms.

- More than helping businesses to boost their brand awareness in China, local social media platforms also enable global luxury players to test the waters for social selling in the country. For example, both Douyin and WeChat Channels have added e-commerce functions on their platforms to help brands and retailers further capitalize on their social media traffic and increase their sales opportunities in the country.
Shenzhen unveils 20 measures to boost consumer spending

In brief:

On 6 July 2020, the Shenzhen municipal government unveiled 20 measures to unleash consumption demand and support retail businesses. Some of these measures include:

• Build the Shenzhen shopping brand by organizing a series of themed activities. Events that are endorsed by the government will receive up to two-million-yuan sponsorship;
• Identify a batch of demonstrative retail enterprises and give them monetary awards equivalent to 0.5% of their incremental retail sales generated by the adoption of new retail marketing initiatives – particularly the use of the combination of e-commerce platform, livestream commerce and short videos to market and sale products – for a maximum of 10 million yuan;
• Provide up to 100-million-yuan allowance to large retail enterprises (with annual sales exceeding 500 million yuan) that have set up corporate enterprises in Shenzhen;
• Establish 10 “livestreaming business zones”, recruit multi-channel network (MCN) and e-commerce companies to set up operation in the zones, and nurture 1,000 Internet celebrities and program hosts such that Shenzhen will form local clusters of livestream commerce-related enterprises;
• Promote night-time shopping, cultural and entertainment activities;
• Align with enterprises and provide up to 1,000-yuan subsidies to each resident for trading-in old consumer electronic products and home appliances and acquiring new ones;
• Provide a maximum of one million yuan to each export-oriented enterprise for launching online stores and selling their products to domestic customers.

According to the Statistics Bureau of Shenzhen, between January and May 2020, the total retail sales of consumer products suffered a cumulative drop of 16.5% yoy, which slightly improved from the reduction of 20.1% for January and April. With consumption boosting measures in place and the pandemic under control, retail sales in Shenzhen are set to gain stronger growth momentum in upcoming months.
FBIC Insights:

• Measures proposed by the Shenzhen government are quite similar to the stimulus packages pledged by other municipal administrations. They all aim to spur the sales of consumer electronics, automobiles and home appliances as well as services consumption in travel, cultural and entertainment sectors, while boosting night-time consumption and facilitating consumption upgrade.

• We expect the short-term business performance of the above sectors will be positive. However, consumers are unlikely to go on a shopping spree if people are concerned about job security or if the government re-impose lockdown measures. On the other hand, government allowances may increase the risks of overcapacity and subsidy fraud, as we learned during the implementation of consumption boosting measures between 2008 and 2013.

• Competition over domestic business investments between cities, especially related to livestreaming e-commerce, will get more intense. For instance, Guangzhou, another tier-1 city in Guangdong province, also announced similar measures to beef up its livestreaming e-commerce industry in March 2020. A city will have to provide supplementary infrastructure, such as 5G information network, as well as favorable talent development environment to attract investments from key players.

• The Shenzhen government’s incentives and subsidies will make retail enterprises more inclined to launch their own livestreaming channels or MCN businesses to tap government resources. However, a sustainable growth of livestream commerce will depend on the recovery of the retail and consumer sector and that of the whole economy.
JD.com to use Augmented Reality (AR) technology to measure foot size

In brief:

Consumers have long been troubled by shopping online for fashion products for reasons like uncertain shoe size or unsuitable style. JD.com may help simplify the shopping process by launching an app function that uses Augmented Reality (AR) technology to measure foot size.

This upcoming function will leverage Sony Semiconductor Solutions Corporation’s Time-of-Flight (ToF) distance measurement technology so that customers can simply use their mobile phones (need to be equipped with a ToF camera) to measure their foot size by scanning the front and side angles of their feet.

JD.com has already launched the AR Shoes Try-on feature on its app for online customers to virtually try-on shoes. The feature is now available for over 1,000 sneaker SKUs on the app.

Like many other AR applications offered by JD.com such as AR Fitting Room, AR Styling Station, and AR Shopping, the new feature is also open to external partners through a Platform-as-a-Service (PaaS) solution that allows companies to develop, run and manage applications without the complexity of building the associated infrastructure. JD.com said that it will further develop its AR offerings in more scenarios such as AR skin evaluation and AR livestreaming.
FBIC Insights:

• JD.com has been exploring AR applications in the e-commerce arena since 2016 and collaborated with hundreds of brands in developing application scenes. It has therefore accumulated a lot of knowledge and experience in various aspects including facial recognition, image tracking and rendering engine. JD.com revealed that AR technology has helped increase sales conversion by 9.6%, while reducing product return rate by 7.5%.

• This AR-powered foot size measurement tool, if successfully launched, will further solidify JD.com’s leadership in AR applications among e-commerce players. By solving one of the major problems of buying footwear online, we believe the new tool can increase the frequency of impulse buying. It also responds to consumers’ desire to eliminate physical contact while also allowing them to interact with products. Such contactless retail is safer, more hygienic and massively trending in the post-COVID-19 world.

• The application of AR technology from pure product display to virtual try-on and then to size measurement suggests that it has been put on practical use. Retailers have learned to deploy the technology not just to provide immersive experience but also to offer solutions to real life problems. In May 2019, Nike unveiled a new AR-powered Nike Fit tool for its Nike app. The tool enables users to can scan and measure foot size with accuracy within 2 millimeters. As technology advances, the accuracy and precision of AR technology are set to further improve and more usage breakthrough is expected in the retail realm.
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Fung Business Intelligence

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

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

Fung Group

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