China Retail Highlights & Insights

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Superdry, Iconix announce China exit amid COVID-19 pressure

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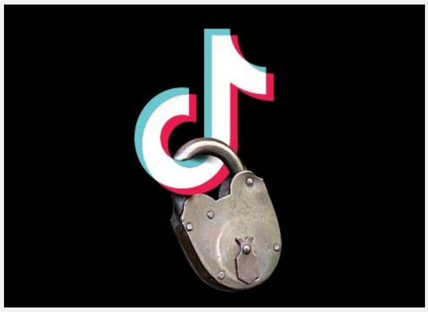

India bans 59 Chinese apps including TikTok, Helo, WeChat

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Jingxi to invest 2 billion yuan worth of resources to help export-oriented factories sell domestically

On 24 June, JD.com's social e-commerce platform Jingxi announced its plan to launch a "Direct-from-factories Campaign" in an effort to help export-oriented factories sell domestically. It will invest 2 billion yuan worth of resources in the campaign. Jingxi also announced 12 measures in six areas to help export-oriented factories sell in the domestic market.

Hainan increases duty free allowance to 100,000 yuan

On 29 June, the Chinese authorities announced that Hainan province will increase its annual tax-free shopping quota for travelers from 30,000 yuan (US$4,252) to 100,000 yuan (US$14,175).

Superdry, Iconix announce China exit amid COVID-19 pressure

In brief:

In June, two more global fashion brands – Superdry from the U.K. and Iconix from the U.S., announced withdrawal from the China market respectively, due to the impact of COVID-19.

On 24 June, Superdry formally announced on its WeChat and Weibo account that the company will exit the China market. Superdry announced earlier on 18 June that it has reached an amicable agreement with its current Chinese partner Trendy International to exit their joint venture in China. The company stated that the decision was made following a review of its long-term business plan for its operations in China and was accelerated by the impact of COVID-19. The joint venture, formed in 2016 and expected to last for 10 years, has 25 owned stores, 41 franchise stores and online stores in China. All of the stores, both online and offline, will be shuttered in the country soon, with all self-owned stores due to close by the end of August and all franchise stores to cease operating by the end of the year[1]. Superdry expects that the termination of the Chinese joint venture and corresponding store closures will cost it 6 million pounds, of which 3 million pounds will be reflected in 1H20[2].

Photo source: Sohu.com

On 23 June, Iconix Brand Group announced that its wholly-owned Chinese subsidiary Iconix China has entered into a share purchase agreement to sell all of the equity interest of Starter China, a sportswear unit under Iconix China, for a consideration of US$16 million. The disposal of Starter China includes the sale of around 20 Starter stores in Mainland China, Hong Kong, Taiwan and Macau. The deal is expected to close by 15 September, 2020. The company plans to use the proceeds from the disposal to repay debt and for general corporate purposes[3]. In fact, the Starter China sale is not the first disposal made by the group in recent months. Earlier in April, Iconix also entered into an agreement to sell its local sportswear business Umbro China to HK Qiaodan Investment for US$62.5 million. The deal is also set to close by 15 September this year[4].

Photo source: starterchina.com

FBIC Insights:

- Under the pressure of COVID-19, a number of global apparel brands have decided to pull out from the China market in a bid to scale down their operations and secure cash flow to survive the unprecedented time. For example, Old Navy[5] and Esprit[6], closed all of their China stores in March and May respectively, while Guess[7] and Earth music & Ecology, also announced their China exit plans in June[8]. As COVID-19 looks like it is here to stay for a while, we believe more struggling apparel players will scale down their operations to minimize spending and preserve cash for future growth initiatives.

- The COVID-19 pandemic has made survival in the China market even more difficult for foreign brands incapable of adapting to the local market. Superdry is a case in point. The brand entered the China market through setting up a joint venture company in 2015; however, it has been stuck in adapting to the local market over the past four years. In FY19, Superdry recorded losses of up to 3.7 million pounds in the China market, while the outbreak of COVID-19 also disrupted the brand's distribution, supply chain, design and marketing plans[9].

- Considering the on-going consumption upgrading trend in China and growing popularity of homegrown fashion brands among Chinese consumers, it is vital for foreign players to keep up with the changing tastes and spending patterns of Chinese consumers, especially the young generations, which are considered the engine of growth at home and abroad.

India bans 59 Chinese apps including TikTok, Helo, WeChat

In brief:

On 29 June, Indian government banned 59 Chinese apps including TikTok and WeChat, stating that they were prejudicial to sovereignty, integrity and security of the country. According to India's Ministry of Electronics and IT (MeitY), it had received complaints from various sources, including several reports about the misuse of some mobile apps for stealing and surreptitiously transmitting users' data in an unauthorized manner to servers outside India[10].

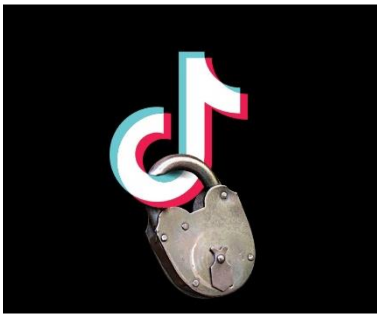

Photo source: moneycontrol.com

The list of apps that have been banned by Indian Government can be found below.

1. TikTok	11. YouCam makeup	21. UC News	31. Mi Video Call – Xiaomi	41. DU Cleaner	51. Baidu Translate
2. Shareit	12. Mi Community	22. QQ Mail	32. WeSync	42. DU Browser	52. Vmate
3. Kwai	13. CM Browers	23. Weibo	33. ES File Explorer	43. Hago Play With New Friends	53. QQ International
4. UC Browser	14. Virus Cleaner	24. Xender	34. Viva Video – QU Video Inc	44. Cam Scanner	54. QQ Security Center
5. Baidu map	15. APUS Browser	25. QQ Music	35. Meitu	45. Clean Master – Cheetah Mobile	55. QQ Launcher
6. Shein	16. ROMWE	26. QQ Newsfeed	36. Vigo Video	46. Wonder Camera	56. U Video
7. Clash of Kings	17. Club Factory	27. Bigo Live	37. New Video Status	47. Photo Wonder	57. V fly Status Video
8. DU battery saver	18. Newsdog	28. SelfieCity	38. DU Recorder	48. QQ Player	58. Mobile Legends
9. Helo	19. Beutry Plus	29. Mail Mast	39. Vault- Hide	49. We Meet	59. DU Privacy
10. Likee	20. WeChat	30. Parallel Space	40. Cache Cleaner DU App studio	50. Sweet Selfie	

Source: https://theprint.in/india/full-list-of-59-chinese-apps-banned-by-indian-govt/451254/

The move comes after a deadly border clash between the two nuclear-armed neighbors in a disputed Himalayan region earlier this month that resulted in the death of 20 Indian soldiers[11].

FBIC Insights:

- This is not the first time Chinese apps have been banned in India. In April 2019, TikTok was banned in India for a week by a state high court, which stated that the app was spreading pornographic content[12]. And in 2017, Alibaba's UC Browser came under scrutiny for allegedly leaking mobile data of Indian users[13]. India's defence ministry asked all armed personnel and officers to uninstall 42 Chinese apps it classified as "spyware". However, it is widely believed that the timing of the ban – amid escalating tensions – is not coincidental, but rather a response to the tension at the border.

- The ban marks the largest sweep against Chinese technology companies[14]. If some other countries follow suit, this could lead to a strong rejection of Chinese apps or technology companies across the world.

- The ban affects millions of app users across India. Some of these apps are highly popular among Indians, the combined user base of these apps may reach half a billion[15]. TikTok, for instance, has more than 100 million active users in India. India is the largest market for TikTok with more than 611 million downloads in April 2020, representing nearly a third of the video-platform’s base, followed by China and the U.S[16].

- Anti-China sentiment remains high in the country. If this continues, the resentment of Chinese products among Indian consumers will pose a threat to Chinese brands that have gained traction in the Indian market.

Hainan increases duty free allowance to 100,000 yuan

(Photo source: People.cn[17])

In brief:

On 29 June, the Chinese authorities announced that Hainan province will increase its annual tax-free shopping quota for travelers from 30,000 yuan (US$4,252) to 100,000 yuan (US$14,175)[18]. The categories of duty-free goods will be expanded from 38 to 45, while mobile phones, tablets, liquor, tea etc. will be added to the list. In addition, the current tax-free limit of 8,000 yuan (US$1,135) for a single product will be lifted, and the number of categories with a single-purchase quantity limit will be significantly reduced. Under the new duty-free shopping policy, implemented on 1 July, each traveler can buy up to 30 cosmetic items (up from currently 12) or four pieces of mobile phones at designated duty-free shops in Hainan.

Hainan had a booming offshore duty-free shopping market with total sales hitting 53.8 billion yuan (US$7.65 billion) and the number of shoppers reaching 16.31 million by the end of 2019[19]. The market also saw a strong rebound after the COVOD-19 outbreak. Total sales of duty-free goods in May 2020 went up by 148% yoy to 1.98 billion yuan (US$281 million).

FBIC Insights:

- The implementation of new tax-free shopping quota is part of a master plan from the central government to develop Hainan into a free trade port[20]. Other policies include lower income tax for selected individuals and companies, as well as relaxed visa requirements for tourists and business travelers. The Commerce Ministry noted that, for the next stage, Hainan will open up certain service sectors to foreign investors[21].

- The increase of duty-free shopping limit is expected to give a boost to the sales of luxury goods, consumer electronics, high-end cosmetics and liquor in Hainan province. It will attract consumers from several segments, including middle-aged to the elderly, male, young people and female with high spending power.

- As the COVID-19 pandemic has discouraged outbound travel, the expanded offshore duty-free offer will provide a big incentive for Mainlanders to visit Hainan. The island's status as the new epicenter of domestic and possible regional travel retail will be further highlighted. Morgan Stanley estimated that the contribution of Hainan's non-airport duty-free business to China's overall duty-free market will climb from 24% in 2019 to 49% in 2025[22].

- Currently China Duty Free Group is the only duty-free shop operator in Hainan. As the market grows, the authority may grand more license to businesses and introduce healthy competition to the sector. Consumers may see new schemes and home delivery services launched by duty-free shops to lure repeated visits and purchases.

Jingxi to invest 2 billion yuan worth of resources to help export-oriented factories sell domestically

In brief:

On 24 June, JD.com's social e-commerce platform Jingxi announced its plan to launch a "Direct-from-factories Campaign" in an effort to help export-oriented factories sell domestically. It will invest 2 billion yuan worth of resources in the campaign. Jingxi also announced 12 measures in six areas to help export-oriented factories sell to the domestic market:

1. Launching strategic cooperation with local governments to expand retail channels for export-oriented factories to sell domestically.
2. Offering "green channels" for export-oriented factories to join Jingxi more easily and providing 1:1 consulting service and training for factories selling in the domestic market.
3. Providing consumer insights from JD.com's big data analysis, and generating consumer traffic through various entry points such as WeChat, QQ, and Jingxi app.
4. Launching special sections on the Jingxi app for export-oriented factories and helping them organize marketing campaigns; offering subsidies worth 10 billion yuan for consumers buying products from export-oriented factories; and offering livestreaming tools and various social-commerce campaigns to lure consumers.
5. Providing financial support such as interest-free loans to export-oriented factories.
6. Offering logistics support through JD Logistics, the logistics network of JD.com.

Jingxi targets to attract 100,000 factories to join its platform by end-2020[23].

FBIC Insights:

- COVID-19 is taking a heavy toll on export-oriented factories in China. Reduced or cancelled overseas orders have forced these factories to look for ways to sell to the domestic market. Some leading e-commerce platforms such as Alibaba, JD.com and Pinduoduo are very supportive in assisting factories to reach Chinese consumers. For example, Alibaba launched Taobao Deals, a dedicated app which offers shoppers direct-from-factory goods at highly competitive prices. So far, more than 500,000 factories and 1.2 million production-capable suppliers in China have signed up to the platform[24].

- Launching on Jingxi is one of the most effective ways for export-oriented factories to connect with Chinese consumers due to strategic partnership between JD.com and Tencent. Tencent is the largest shareholder of JD.com with a 17.1% stake and it provides multiple resources for JD.com. For example, it puts Jingxi on WeChat's "Discovery" tab, giving Jingxi direct access to the app's whopping online traffic of 1.2 billion monthly active users. Consumers can access Jingxi through a number of entry points such as QQ, Jingxi app, Jingxi WeChat Mini Program and Jingxi website.

- In the past, it was difficult for export-oriented factories to sell domestically due to lack of consumer insights. By joining these leading e-commerce platforms, factories can now gain relevant consumer insights from the big data provided by Alibaba and JD.com. For example, they can know what the best-selling items are, which color and size have higher demand, etc. Another advantage of selling on these platforms is that export-oriented factories can reach more consumers at a lower cost.

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