IN DEPTH – CHINA’S APPAREL MARKET

PART 1: MARKET UPDATES AND REVIEW OF DISTRIBUTION CHANNELS
IN THIS ISSUE

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The apparel market in China has experienced slower growth over recent years. Sales of apparel in China are expected to reach 1,788.2 billion yuan in 2016, increasing at a slower rate of 4.2% yoy.

For sales channels, specialist retailers and department stores have long been the two major distribution channels for apparel and footwear in China, taking up over a half of the apparel distribution in the country.

By category, sportswear posted the strongest sales growth in 2015, outperforming the growth of womenswear, which remained the largest sub-sector of China’s apparel market in terms of sales in 2015.

Nevertheless, department stores have seen rapid sales share decline over the years. They have lost share to the fast growing Internet retailing, which has become one of the most popular and influential sales channels for apparel in China.

Multi-brand stores, featuring unique and contemporary fashions and bringing together talented designers locally and internationally, have also garnered increasing attention in China over recent years.
MARKET OVERVIEW
- CHINA’S APPAREL MARKET TO SEE SLOWER SALES GROWTH

China’s apparel sales are expected to reach 1,788.2 billion yuan in 2016, increasing at a slower rate of 4.2% yoy.

We believe the slower sales growth is attributable to:

• Economic slowdown in China
• Weak consumer sentiment
• Increasingly saturated womenswear and menswear markets

Despite the slowdown, the growth momentum of China’s apparel market is expected to be sustained by increasing household income and the fast-growing middle class. The apparel market is projected to deliver steady growth over the next couple of years and reach 2,119.2 billion yuan by 2020.

Source: Euromonitor International; compiled by Fung Business Intelligence

Photo source: www.gegugu.com
By category, **womenswear** remained the largest sub-sector of China’s apparel market in terms of sales in 2015. Nevertheless, the sector registered **slowest sales growth** compared with other key sectors.

It is noteworthy that **sportswear** continued to deliver **strongest sales growth** in 2015 compared with other key sectors, indicating the **vast growth potential** of the sportswear sector.
In 2015, womenswear made up 48.6% of total apparel sales in China

Women'swear remained the major contributor to total apparel sales in China, with sales taking up 48.6% of the total apparel sales in 2015. The sector is expected to grow 4.9% yoy to 875.8 billion yuan in 2016.

However, the womenswear sector has witnessed continued sales slowdown over the past few years due to increasing market saturation and stiffer competition.

Since 2013, the womenswear sector has been experiencing single-digit growth, with sales growth slowing from 7.8% yoy in 2013 to 6.5% yoy in 2015.

That said, some womenswear brands are still able to stand out in the competitive market and capture a larger market share through different strategic approaches, such as jumping onto the fast-fashion bandwagon and getting an accurate gauge on market positioning.
La Chapelle

Offering fast-fashion items appealing to local tastes

Local apparel brand La Chapelle has jumped on the fast-fashion bandwagon, rolling out new fashion items every week.

With its deep understanding and knowledge about the taste and preference of Chinese consumers, La Chapelle is able to offer fast fashion products at low-enough prices yet acceptable quality.

La Chapelle’s market share, 2011-2015*

<table>
<thead>
<tr>
<th>Year</th>
<th>Market share (%)</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1.18</td>
<td>12</td>
</tr>
<tr>
<td>2012</td>
<td>1.18</td>
<td>12</td>
</tr>
<tr>
<td>2013</td>
<td>1.44</td>
<td>6</td>
</tr>
<tr>
<td>2014</td>
<td>1.44</td>
<td>6</td>
</tr>
<tr>
<td>2015</td>
<td>1.32</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: China National Commercial Information Center (CNCIC)

*Note: CNCIC data only cover sales in major department stores in China. The actual overall market share of the brand mentioned may deviate from the CNCIC data.
La Chapelle

Selling products via both physical and online stores
The company sells its products directly to end-customers through both online and offline stores.

Bricks and Mortar
As of 30 June, 2015, La Chapelle run approximately 7,147 self-managed retail stores, covering about 2,230 department stores and shopping malls across 31 provinces, autonomous regions and municipalities in China.

Online storefronts on Tmall and JD.com
Tmall - https://lachapelle.world.tmall.com/
JD.com - http://lachapelle.jd.com/

Source: http://www.lachapelle.cn/
JNBY

Accurate marketing position, catering to target customers

JNBY, a local womenswear designer brand targeting 25-30 aged women fond of nature and healthy lifestyle, has won over its target customers through quality and pragmatic design. The use of quality natural fabric, such as cotton and flax fabric, combined with pragmatic fashion style have made JNBY stand out in the market.

Selling products via both physical and online stores

Well-received by its target customers, JNBY has set up about 1,300 self-managed and franchise stores in China and 12 other overseas markets, including North America, Russia, Europe and Southeast Asia.

For online sales network, JNBY has opened online stores on 3rd party platforms:

Tmall - https://jnby.world.tmall.com/

JNBY’s market share, 2013-2015*

<table>
<thead>
<tr>
<th>Year</th>
<th>Market share (%)</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>0.2%</td>
<td>81</td>
</tr>
<tr>
<td>2014</td>
<td>0.29%</td>
<td>54</td>
</tr>
<tr>
<td>2015</td>
<td>0.38%</td>
<td>36</td>
</tr>
</tbody>
</table>

Source: CNCIC

*Note: CNCIC data only cover sales in major department stores in China. The actual overall market share of the brand mentioned may deviate from the CNCIC data.
Menswear has the second largest market share in China’s apparel market, just behind womenswear. In 2015, sales of menswear represented 28.7% of the total apparel sales in China. The sector is expected to grow 2.8% yoy to 505.5 billion yuan in 2016.

However, akin to the womenswear sector, the menswear sector has been getting increasingly saturated and mature and witnessed continued sales slowdown over the past few years.

Since 2012, the menswear sector has been experiencing single-digit growth, with sales growth slowing from 8.4% yoy in 2012 to 4.6% yoy in 2015.
Although childrenswear took up merely 8% share in China’s apparel market, stronger growth momentum is expected for the sector following the full implementation of two-child policy starting January 2016.

Some industry experts said upon the rollout of the two-child policy, China is expected to have an extra 1.5 million new-born babies per annum over the next couple of years. Considering the expected baby boom, we believe baby and toddler wear will be the main powerhouse for the childrenswear sector.

Furthermore, rising household income in China is also expected to drive the growth of childrenswear sector. According to CNCIC, the average retail price of children’s clothing has posted a CAGR of 19.4% between 2011-2015, representing an average yoy growth rate of 4.5%.
Sportswear registered sales growth of 11.3% yoy in 2015, well above the total apparel sales growth of 5.4% yoy. Sportswear also posted the highest sales growth among all other key apparel sectors.

The propelling growth in the sportswear sector is mainly driven by the following factors:

- Participation in exercises and sports surges as Chinese consumers are shifting toward leisure and healthy recreation instead of basic living necessities.
- Greater attention to health-conscious lifestyle along with continued enhancement of people living standards
- Government policies to promote national health and sports participation serve a boost to the sports industry. Recent policies include the “2016-2020 National Fitness Plan” released in June 2016, the “13th Five Year Plan for the Development of Sports Industry” in July 2016.
Market share (retail sales) by distribution channel for apparel and footwear in China, 2011-15

<table>
<thead>
<tr>
<th>Distribution Channel</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Store-based retailing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I. Grocery retailers</td>
<td>6.1</td>
<td>6.0</td>
<td>5.6</td>
<td>5.2</td>
<td>4.9</td>
</tr>
<tr>
<td>• Non-grocery retailers</td>
<td>52.9</td>
<td>49.6</td>
<td>47.1</td>
<td>45.6</td>
<td>44.7</td>
</tr>
<tr>
<td>- Clothing and footwear specialist retailers</td>
<td>22.0</td>
<td>23.4</td>
<td>24.4</td>
<td>24.2</td>
<td>24.0</td>
</tr>
<tr>
<td>- Leisure and personal goods specialist retailers</td>
<td>18.1</td>
<td>17.5</td>
<td>17.4</td>
<td>17.4</td>
<td>17.9</td>
</tr>
<tr>
<td>• Other non-grocery retailers</td>
<td>12.8</td>
<td>8.6</td>
<td>5.4</td>
<td>4.0</td>
<td>2.8</td>
</tr>
<tr>
<td>• Mixed retailers</td>
<td>37.5</td>
<td>36.8</td>
<td>36.3</td>
<td>33.5</td>
<td>29.5</td>
</tr>
<tr>
<td>- Department stores</td>
<td>37.5</td>
<td>36.8</td>
<td>36.3</td>
<td>33.5</td>
<td>29.5</td>
</tr>
<tr>
<td><strong>Non-store retailing</strong></td>
<td>3.5</td>
<td>7.6</td>
<td>11.0</td>
<td>15.7</td>
<td>21.0</td>
</tr>
<tr>
<td>II. Home shopping</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>III. Internet retailing</td>
<td>3.4</td>
<td>7.5</td>
<td>10.9</td>
<td>15.6</td>
<td>20.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Euromonitor International; compiled by Fung Business Intelligence

Specialist retailers and department stores took up over a half of apparel and footwear distribution nationwide.

Specialist retailers and department stores have been the two major distribution channels for apparel and footwear in China, taking up over a half of the apparel distribution in the country.

Clothing and footwear specialist retailers and department stores had a share of 24.0% and 29.5% respectively in 2015.

It is noteworthy that department stores have seen rapid sales share decline over the years. They have lost share to the fast growing Internet retailing.
**Selected examples of foreign apparel brands entering China via both online and offline channels, 2015-3Q16**

<table>
<thead>
<tr>
<th>Selected examples of foreign apparel brands</th>
<th>Ways of entering the China market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Physical stores/ counters</td>
</tr>
<tr>
<td>Superdry</td>
<td>√</td>
</tr>
<tr>
<td>Topman</td>
<td>√</td>
</tr>
<tr>
<td>G-Cut</td>
<td>√</td>
</tr>
<tr>
<td>Monte Milano</td>
<td>√</td>
</tr>
<tr>
<td>Alice McCALL</td>
<td>√</td>
</tr>
<tr>
<td>Naning9</td>
<td>√</td>
</tr>
<tr>
<td>Chaps</td>
<td>√</td>
</tr>
<tr>
<td>Tom Tailor</td>
<td>√</td>
</tr>
<tr>
<td>Topshop</td>
<td>√</td>
</tr>
<tr>
<td>Roots</td>
<td>√</td>
</tr>
<tr>
<td>8seconds</td>
<td></td>
</tr>
</tbody>
</table>

Source: News, Companies’ websites; compiled by Fung Business Intelligence

**Online retailing** has become one of the **most popular and influential** sales channels for apparel.

Online retailing accounted for 20.8% of the total retail sales of apparel and footwear in 2015, up by 5.2 ppts from 2014, and spiked from only 3.4% in 2011.

Increasing number of **foreign brands** have forayed into the China market via establishing **online and offline presence** at the same time.
To ride on China’s e-commerce boom, a number of fashion players have established online presence to exert influence and reach out to more consumers. Fast fashion retailers – Uniqlo, GAP, Forever 21, Mango, Zara, C&A, H&M, Hollister and New Look provide good illustrations of how foreign fast fashion brands use the online channel to tap the China market.

Fast fashion brands’ foray into China’s e-commerce market, 2008-2014

Source: Companies’ websites, Insite; compiled by Fung Business Intelligence
**Top five best-selling apparel brands by category on Tmall during the Singles' Day shopping festival, 2016**

<table>
<thead>
<tr>
<th>Category</th>
<th>Top 1</th>
<th>Top 2</th>
<th>Top 3</th>
<th>Top 4</th>
<th>Top 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Womenswear</td>
<td>Uniqlo</td>
<td>ONLY® Only</td>
<td>Bosideng</td>
<td>Handu</td>
<td>Ledin</td>
</tr>
<tr>
<td>Menswear</td>
<td>GXG</td>
<td>Semir</td>
<td>Peacebird</td>
<td>Jack Jones</td>
<td>Uniqlo</td>
</tr>
<tr>
<td>Childrenswear</td>
<td>Balabala</td>
<td>PurCotton</td>
<td>Yeehoo</td>
<td>Goodbaby</td>
<td>GAP</td>
</tr>
<tr>
<td>Sportswear</td>
<td>Nike</td>
<td>Adidas</td>
<td>New Balance</td>
<td>Li Ning</td>
<td>Anta</td>
</tr>
</tbody>
</table>

During the Singles' Day, the largest online shopping festival which falls on 11 November in China, thousands of local and international apparel brands participated in this year's Singles' Day shopping festival. They offered customers better deals with a hope to capture more customer traffic and generate more sales revenue.

Source: Companies’ websites, Ebrun; compiled by Fung Business Intelligence
Multi-brand stores, an emerging retail format in China, have also garnered increasing attention over recent years.

Featuring unique and contemporary fashions and bringing together talented designers locally and internationally, multi-brand boutiques appeal to the increasingly sophisticated Chinese customers, especially the fast-growing middle class, who are turning from high-profile luxury brands to affordable luxury brands and designer products with quality and personal style.

Targeting the rising middle-class and more affluent consumers, multi-brand stores are mainly located in key cities in China.

Source: Companies’ announcements, CMS; compiled by Fung Business Intelligence
• The increasing number of internationally recognized fashion design and fashion buying courses in the country helps train up designers and fashion buyers; this also supports the rise of multi-brand stores.

Photo: Beijing Institute of Fashion Technology Park (BIFT PARK)
It is one of the Zhongguancun Science City construction projects jointly developed by the People’s Government of Beijing Municipality and Beijing Institute of Fashion Technology in 2012. Regarded as a fashion hub in Beijing, it provides a knowledge-based and campus-like environment of 10,000 m² to accommodate China’s emerging independent designers. It serves as a platform to promote fashion culture interaction and encourage innovation in the fashion industry.
Coming soon...

Please stay tuned for our upcoming issues featuring the latest trends of China’s apparel market and market share analysis of key apparel brands.

- **Part 1: Market updates and review of distribution channels**
- **Part 2: Eight trends shaping the future growth of China’s apparel market**
- **Part 3: Performance of top apparel brands by category**
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