



 FUNG BUSINESS INTELLIGENCE

Asia Distribution and Retail

June 2018

## Background

On 21 June, 2018, Suning and RT-Mart jointly announced the signing of a memorandum of understanding (MoU) to cooperate in the selling of home electronics in RT-Mart's stores in mainland China, including its current 393 stores and the future stores. According to the announcement, the cooperation will be based on a concessionary model – Suning will be responsible to run the home electronic concession in RT-Mart; while RT-Mart will be responsible for the management and operations of the whole hypermarket. All products in the home electronics concession will be sourced by Suning. The two parties will use the same pricing and promotions for home electronics sold in their stores. The cooperation will become effective starting August 2018. The cooperation of the two companies is also expected to expand into other product categories in the future.

## Comments from Fung Business Intelligence

Alibaba Group Holding is a major shareholder in both Suning.com (owned by Suning Holdings Group) and Sun Art Retail (which operates RT-Mart stores in mainland China); it is not surprising to see the tie-up of Suning and RT-Mart. Alibaba is the second-largest shareholder of Suning.com – it has a 19.99% stake in Suning.com since it invested in the company in August 2015. On the other hand, in February 2017 (before Alibaba invested in Sun Art Retail), Sun Art Retail Group announced that it had preliminary discussions with Suning in respect of potential cooperation, showing the interest of Suning in Sun Art Retail despite no further cooperation was made after that. In November 2017, Alibaba announced to acquire a 36.16% stake in Sun Art Retail. Later in January 2018, Taobao China Holdings further purchased shares of Sun Art Retail, making Alibaba holding 71.98% of the total shares of Sun Art Retail. Since then, Alibaba has helped RT-Mart transform its business operations according to Alibaba's "New Retail" strategy. Fung Business Intelligence believes the partnership is in line with Alibaba's "New Retail" initiatives as it involves supply chain integration as well as integration of online and offline resources. The partnership also secures Alibaba's market position in the home electronics sector so as to better compete with JD.com.

As part of its "Smart Retail" strategy, Suning has been actively pursuing omni-channel retailing, while putting more focus on local lifestyle services and entertainment. It has launched various new retail formats to build its ecosystem around smart retailing. In our view, the cooperation with RT-Mart is another move for Suning to pursue its "Smart Retail" strategy by enhancing its distribution channel as well as supply chain efficiency.

For Suning, the cooperation with RT-Mart can extend their reach offline by adding RT-Mart stores as their new distribution channels, which can possibly generate more revenue. RT-Mart has 393 stores nationwide as of June 2018. Moreover, the new distribution channels enable Suning to reach more consumers especially in the lower-tier cities where RT-Mart has extensive presence. We expect that the partnership will help Suning further expand its market share in the 3C (computer, communication and consumer electronics market).

Meanwhile, Suning also mentioned that the cooperation will be based on a concessionary model – Suning will be responsible to run the home electronic concession in RT-Mart; while RT-Mart will be responsible for the management and operations of the whole hypermarket. All products in the home electronics concession will be sourced by Suning. Suning can thus have the control at the sourcing end and expand its sourcing volume. At the same time, Suning can increase its bargaining power when negotiating with manufacturers and suppliers, and hopefully get better pricing and distribution terms for exclusive products and popular products, so as to improve Suning’s profit margin and sales.

For RT-Mart, the cooperation with Suning can help the company improve the sales of its home electronics category. It is reported that RT-Mart has been reducing its home electronics business since 2015 to focus more on fresh food. Indeed, sales generated from the home electronics concession in hypermarkets can be as high as 20% of the total store sales, according to industry practitioners. Thus it is a market segment not to be missed. Also, compared with leading home electronics giants such as Gome or JD.com, RT-Mart has lower bargaining power when it comes to negotiation with manufacturers for lower costs. It would be rather difficult for RT-Mart to run the home electronics concession by itself. By cooperating with Suning, RT-Mart can leverage Suning’s capabilities and expertise in sourcing and selling home electronic products. Moreover, prices and promotions in the home electronics concession in RT-Mart will be the same as other Suning stores. We believe it will be able to draw consumer traffics especially in areas which do not have Suning stores nearby.

Last but not least, RT-Mart has been working with Alibaba’s Hema Xiansheng in fresh food business. On 2 June, 2018, RT-Mart and Hema Xiansheng jointly opened the first store of “Hexiaoma” (盒小马) supermarket in Suzhou. It is not surprising to see RT-Mart cooperating with other companies to work in the area it is not strong at. Cooperating with Suning is certainly a move that can improve RT-Mart’s operation efficiency, gain more consumer traffic, as well as streamline its supply chain by outsourcing the home electronics concession to Suning.

## Latest transformation initiatives of Suning and RT-Mart

### Suning – transforming itself from a traditional retailer to a smart retailer

In December 2017, Suning introduced its “Smart Retail” strategy to cater to the ever-changing consumer needs in the new retail environment. Since then, Suning has been introducing various new retail formats, which include “Suning.com Plaza” (苏宁易购广场) to provide a one-stop solution for shopping and entertainment; “Suning Xiaodian” (苏宁小店) in urban areas and “Suning.com Direct-sales Store” (苏宁易购直营店) in rural areas to provide convenient and accessible shopping experience for customers; as well as specialty stores covering different product categories such as home electronics, baby and maternity, fresh produces, and even automobile. Exhibit 1 highlights selected major retail formats operated by Suning.

#### Exhibit 1: Selected retail formats of Suning

Retail format	Opening date	Features
Suning.com Plaza (苏宁易购广场)	TBC	<ul style="list-style-type: none"> <li>A shopping mall project jointly developed by Suning Commercial Management Co. and Evergrande Group.</li> <li>Target to locate at new towns in tier-1 and tier-2 cities, and CBD of tier-3 cities.</li> </ul>
Suning.com Direct-sales Store (苏宁易购直营店) 	2H 2013	<ul style="list-style-type: none"> <li>Self-operated stores opened in rural areas. All products are sourced by Suning’s own buyer team; this can greatly enhance consumers’ confidence towards the products sold in the stores.</li> <li>As of 31 March, 2018, Suning has 2,281 Suning.com Direct-sales Stores nationwide.</li> </ul>
Suning Xiaodian (苏宁小店) 	January 2018	<ul style="list-style-type: none"> <li>Suning launched Suning Xiaodian in Shanghai in January 2018. Suning Xiaodian sells around 2,000 SKUs of products, of which around 30% are fresh food.</li> <li>Customers can scan QR code on the shelves for self-checkout; or order via Suning Xiaodian’s app and have the goods delivered to their home or pick-up in-store.</li> <li>It is reported that Suning Xiaodian will operate in five different formats – community store, CBD store with a special focus on catering, store in high footfall locations, unmanned shelves, as well as vending machines.</li> <li>As of May 2018, Suning has 500 Suning Xiaodian stores nationwide. It targets to open 1,500 new Suning Xiaodian in 2018 and 3,000 stores in 2020.</li> </ul>

Source: Various Internet sources; compiled by Fung Business Intelligence

Retail format	Opening date	Features
SuFresh (苏鲜生) 	May 2017	<ul style="list-style-type: none"> <li>• Suning opened its first supermarket “SuFresh” in Xuzhou in May 2017.</li> <li>• In SuFresh, customers can purchase food in-store, or order via mobile app. Goods ordered will be delivered within half an hour within 3 km radius of the store.</li> <li>• Over 10,000 SKUs of products are offered online and offline including household cleaning products, daily necessities, imported food, food and beverages, dairy products, wine, color cosmetics and healthcare products.</li> <li>• As of 31 March, 2018, Suning has opened 9 SuFresh in China; and targets to open a total of 50 SuFresh stores in 2018, and 306 stores in 2020.</li> </ul>
Suning Automobile Supermarket (苏宁汽车超市) 	July 2017	<ul style="list-style-type: none"> <li>• Suning opened an automobile supermarket in Nanjing in July 2017. The supermarket offers various products and services including automobiles from global brands, and other related products and services such as electronic bikes, car electronic devices, car interior decoration, car accessories, car seats, car care shampoos and car rental.</li> <li>• Suning plans to set up over 100 automobile supermarkets in the CBD areas in cities across China.</li> </ul>
RedBaby (苏宁红孩子) 	September 2017	<ul style="list-style-type: none"> <li>• RedBaby was founded in 2004 and sells mainly baby and maternity products.</li> <li>• In August 2017, RedBaby made an announcement that the company will launch its new second-generation store to provide a consumption scene with more experiential elements for families. The size of the upgraded store will be over 5,000 sqm, which is five times that of a traditional store. Also, RedBaby signed a strategic cooperation agreement with more than 10 renowned baby-and-mother brands from both local and overseas to expand its portfolio.</li> <li>• As of 31 March, 2018, RedBaby has 60 stores nationwide; it plans to open a total of 2,345 stores by 2020.</li> </ul>
Suning Jiwu (苏宁极物) 	March 2018	<ul style="list-style-type: none"> <li>• Suning launched the first store of Suning Jiwu in Nanjing in March 2018. Suning Jiwu is a multi-format store selling both smart home and unique home products; it also includes restaurants that offer seafood cooked by chefs on the spot.</li> <li>• Products available in-store include mobile phone, computer, home electronics, cosmetics, home products and beverages; all products sold in-store are sourced by Suning's own buyer team.</li> <li>• Suning targets to open 300 Suning Jiwu stores in tier-1 and tier-2 cities in the next three years.</li> </ul>

Source: Various Internet sources; compiled by Fung Business Intelligence

Retail format	Opening date	Features
Suning Cloud Store (苏宁云店)	February 2018	<ul style="list-style-type: none"> <li>• Suning opened its smart store version 3.0 at Xinjiekou, Nanjing in February 2018.</li> <li>• Fully utilizing advanced technologies and big data for its operation, customers can put the goods chosen in a designated shopping bag, and walk through the self-check-out channel equipped with RFID technology and machine vision which can automatically settle payment, without using mobile phone before leaving the store.</li> <li>• The store attracted more than 10 million customers on its first day of operation, and its sales figure was 62% higher than that when its smart store version 2.0 was opened in April 2017.</li> </ul>
Suning Biu	August 2017	<ul style="list-style-type: none"> <li>• Suning opened the first unmanned store "Suning Sports Biu" in Nanjing which sells mainly sportswear and sporting goods.</li> <li>• Suning Biu is big-data driven and powered by facial recognition and RFID. Consumers can access Suning Biu via facial recognition; and settle the payment by self-check-out, the system will deduct the payment by automatically identify the user's profile.</li> <li>• Suning opened a total of 6 such unmanned stores as of February 2018.</li> </ul>

Source: Various Internet sources; compiled by Fung Business Intelligence

To better integrate the online and offline consumption scenes, Suning revealed that it aims to establish more than 20,000 stores of different formats by 2020, up from around 4,000 today.

Meanwhile, to accelerate the adoption of "Smart Retail" strategy, Suning has formed several strategic partnerships or investments with different enterprises over the past two years. Exhibit 2 shows some of the strategic partnerships or investments of Suning.

## Exhibit 2: Selected strategic partnerships or investments of Suning in 2017 and 2018

Strategic partner(enterprise)	Date	Partnership details
Evergrande Group	June 2018	<ul style="list-style-type: none"> <li>In June 2018, Suning announced that its subsidiary Suning Plaza Commercial Property Management Company and Evergrande Group will jointly set up a new company Shenzhen Hengning Commercial Development Co. Ltd. with a total investment of 20 billion yuan.</li> <li>The newly set-up company will be responsible for developing and operating the Suning.com Plaza project, and will not be involved in any other real estate projects.</li> </ul>
Jinke Property Group	May 2018	<ul style="list-style-type: none"> <li>In May 2018, Suning signed a strategic cooperation agreement with Jinke Property Group Co., Ltd.</li> <li>According to the agreement, Suning's physical stores will appear in more than 200 Jinke's commercial properties.</li> <li>At the same time, both parties will also cooperate in other areas such as investment, finance, procurement, etc.</li> </ul>
China Unicom	March 2018	<ul style="list-style-type: none"> <li>In March 2018, Suning and China Unicom announced to form a strategic partnership to continue to jointly upgrade their smart retail businesses in the future.</li> <li>In the first phase of the partnership, the two companies plan to transform and upgrade a number of Unicom offices into new smart retail stores.</li> <li>The two parties will also work together in big data cooperation, particularly in credit information products and precision marketing. In terms of financial cooperation, they will accelerate third-party payments integration and provide supply chain finance, corporate deposits, and extended warranty services.</li> <li>In addition, the two parties will jointly establish a technology laboratory to study the application of 5G technology in smart homes, car networking and other areas.</li> </ul>
Wanda	January 2018	<ul style="list-style-type: none"> <li>In January 2018, Tencent, Suning, JD.com, and Sunac, signed strategic investment agreements with Dalian Wanda Commercial in Beijing.</li> <li>The investor group plans to invest approximately 34 billion yuan (US\$5.4 billion) to acquire Wanda Commercial's approximately 14% equity interest held by investors who purchased the stake upon the company's delisting from the Hong Kong Stock Exchange.</li> <li>Tencent's investment of 10 billion yuan will give it a 4.12% stake, while Suning and Sunac's outlay of 9.5 billion yuan respectively will give them a 3.91% stake each, and JD.com's 5 billion yuan investment will fetch a 2% stake in Wanda Commercial.</li> </ul>

Source: Various Internet sources; compiled by Fung Business Intelligence

Strategic partner(enterprise)	Date	Partnership details
Daling	November 2017	<ul style="list-style-type: none"> <li>In November 2017, Suning announced to invest in Daling, an “online+offline” shopping platform and said the two sides will conduct all-round cooperation to explore the sharing of online and offline supply chains and distribution channels for global beauty and creative home décor products.</li> <li>It is reported that Suning.com and Daling’s cooperation would focus on Suning’s supermarkets and some overseas shopping categories.</li> </ul>
Hengda Real Estate	November 2017	<ul style="list-style-type: none"> <li>According to a latest stock exchange filing on 6 November 2017, Suning Commerce Group has invested 20 billion yuan in Hengda Real Estate, a subsidiary of Evergrande Group, through its wholly-owned unit Nanjing Runheng Enterprise Management. Runheng will hold a 4.7% stake in Hengda Real Estate after the investment.</li> <li>Suning and Hengda Real Estate have also signed a strategic deal to collaborate in various areas including commercial property development, infrastructure supply chain, financial services, smart home devices and O2O property sales.</li> </ul>

Source: Various Internet sources; compiled by Fung Business Intelligence

## RT-Mart revamps business operations after being acquired by Alibaba

RT-Mart has also been actively reforming its business operations after being acquired by Alibaba in 2017. To recap, on 20 November, 2017, Alibaba Group announced to acquire a 36.16% stake in Sun Art Retail Group (which runs RT-Mart in the mainland China) for US\$2.88 billion to expand in offline retail market. On 12 January, 2018, Sun Art Retail issued a public announcement stating that Taobao China Holdings and its concert parties had obtained 303,560 offer shares of Sun Art. Including the shares previously held, Alibaba is holding a total of 6.867 billion shares, representing approximately 71.98% of the total issued shares of Sun Art Retail. With the completion of the deal, RT-Mart and Auchan are now part of the Alibaba Group.

On 11 June, 2018, RT-Mart announced that 100 of its stores have been revamped and upgraded under Alibaba’s “New Retail” initiatives. According to RT-Mart, its store operating efficiency has increased by 15% after the store revamp. The revamp and upgrading of other stores would be completed by the end of 2018.

Also, RT-Mart has been working with Alibaba’s Hema Xiansheng in fresh food business. On 2 June, 2018, RT-Mart and Hema Xiansheng jointly opened the first store of “Hexiaoma” (盒小马) supermarket in Suzhou.

## Company snapshots

### Suning Holdings Group

- Suning Holdings Group was founded in 1990 as a household electric appliance retail chain.
- Suning Holdings Group now operates various businesses across a number of industries. Its key businesses include Suning.com, Logistics, Financial Services, Technology, Real Estate, Media & Entertainment, Sports, and Investment.
- In 2017, the company ranked 2nd in the top 500 privately-owned enterprises list in China, with annual revenue reaching US\$65.7 billion (412.95 billion yuan).
- The company was in the Fortune Global 500 List in 2017.
- In August 2015, Alibaba Group Holding invested 28.3 billion yuan (US\$4.63 billion) for a 19.99% stake in Suning.com (formerly Suning Commerce Group Co., Ltd.) and becomes its second largest shareholder.

### RT-Mart

- RT-Mart is a hypermarket brand under Sun Art Retail Group.
- Sun Art Retail Group ranked the 4th in the latest list of “Top 100 Retail Chain Operators in China in 2017” released by the China Chain Store and Franchise Association
- Sales revenue amounted to 102,320 million yuan in 2017, with gross profit of 24,674 million yuan.
- Currently, RT-Mart operates 393 branches in the mainland China.

## Contacts

### Asia Distribution and Retail

Teresa Lam  
Vice President  
E: [teresalam@fung1937.com](mailto:teresalam@fung1937.com)

Christy Li  
Senior Research Manager  
Email: [christyli@fung1937.com](mailto:christyli@fung1937.com)

Renne Chan  
Research Manager  
Email: [rennechan@fung1937.com](mailto:rennechan@fung1937.com)

### Fung Business Intelligence

10/F LiFung Tower  
888 Cheung Sha Wan Road  
Kowloon, Hong Kong  
T: (852) 2300 2470  
F: (852) 2635 1598  
E: [fbicgroup@fung1937.com](mailto:fbicgroup@fung1937.com)



© Copyright 2018 The Fung Business Intelligence. All rights reserved. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Though the Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of the Fung Business Intelligence is prohibited.