

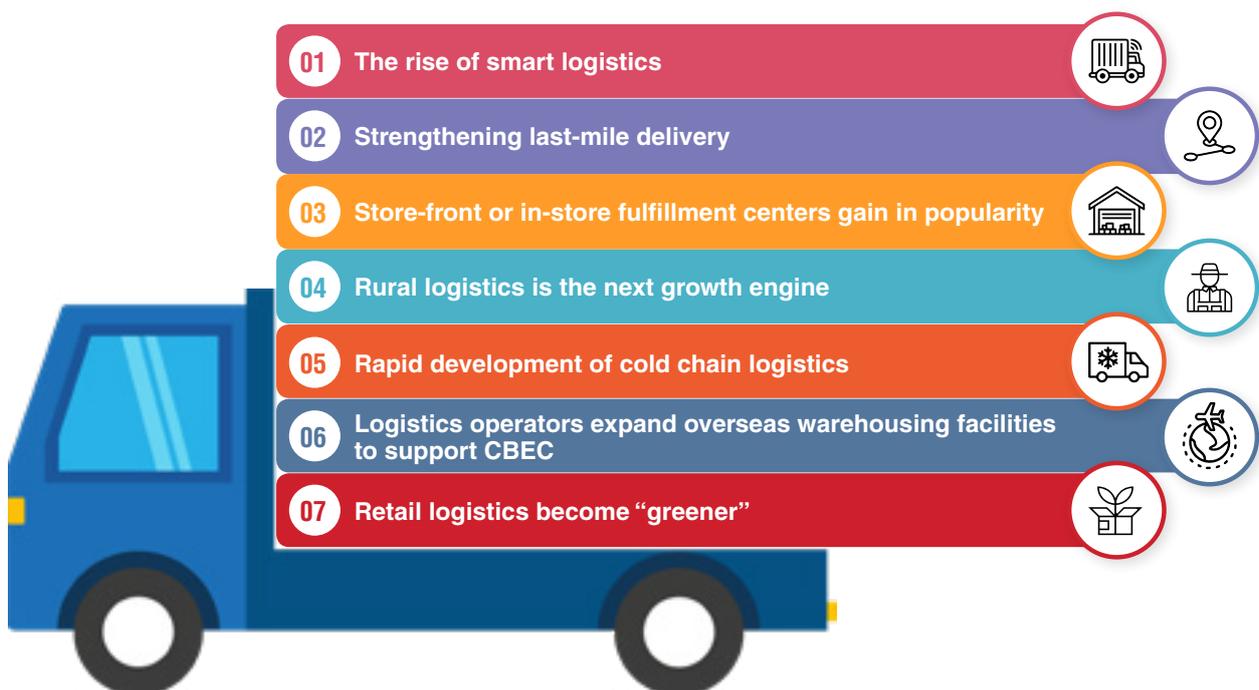


FUNG BUSINESS INTELLIGENCE
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Background

Technological advancement and explosive growth of e-commerce in the country have brought huge development prospects for the retail and e-commerce logistics segment. Smart technologies have empowered logistics transformation – many logistics companies, retailers and e-commerce operations are investing in building smart logistics networks and carrying out digital transformation. Meanwhile, to better cope with the rapid shifts in consumer preferences, both retailers and logistics players are actively exploring innovative ways to improve logistics services and provide quicker delivery for consumers.

This article presents and briefly discusses seven major developments in China's retail and e-commerce logistics market.



This article is an update of an article published earlier in the Blue Book of China's Commercial Sector (2019-2020) ("Blue Book"). Published in October 2019, the Blue Book tracks developments in China's commercial sector to provide a comprehensive and authoritative account of latest trends and issues. Sectors covered include retail and e-commerce, internet finance, logistics and catering. Also included is detailed analysis of China's consumer market and of the changing preferences and behavior of Chinese consumers. It is an essential resource for businesses, analysts, scholars and governments to gain further insight into this fast-evolving sector.

Please visit <https://www.fbicgroup.com/?q=book/blue-book-china%E2%80%99s-commercial-sector-2019-20> for more information about the Blue Book.

1. The rise of smart logistics

In today's rapidly evolving digital era, developing smart logistics is a top priority for many logistics companies, retailers and e-commerce operators. Some are stepping up investments in smart logistics. Many recent investment projects in the retail and e-commerce logistics sector are related to the building of smart logistics network and adoption of advanced technologies such as artificial intelligence (AI), the Internet of Things (IoT), cloud computing, big data analytics, machine learning, automation and robotics to digitalize and streamline operations. For example, in October 2018, Alibaba's logistics arm Cainiao Smart Logistics Network announced the opening of its first IoT "Future Park" in Wuxi city, Jiangsu province. With an area of 160,000 sqm, the Future Park is China's largest automated smart warehouse. Covering Beijing, Tianjin, Hebei, Shandong, Liaoning and other areas, the park uses various advanced technologies including the IoT, AI, edge computing and robotics to achieve smart management and automated production. In March 2019, Cainiao completed the IoT upgrading of the Future Park. It has further enhanced operational efficiency and stability through technological upgrading, with a hope to provide same-day and next-day delivery services for customers.



Photo source: Xinhua

Similarly, Cainiao's rival JD Logistics announced in July 2019 that it will set up China's first 5G-supported smart logistics demonstration zone in Jiading city, Shanghai by the end of 2019. The zone will utilize 5G network communication technology, AI, the IoT, automatic vehicles and robotics to create an integrated, intelligent demonstration zone with high degree of decision-making power.

2. Strengthening last-mile delivery

To provide better services and cater to consumers' heightened expectation for fast delivery, increasing numbers of logistics players and retailers are launching various types of last-mile delivery solutions. For instance, some companies are setting up self-pickup stations/ towers and smart lockers for shoppers to pick up their online orders at their convenient time. Some players are even trialing biometric identification at pickup locations. As an example, Cainiao has installed high-resolution cameras and cloud-based monitoring system for better parcel management and speedy pick-up. Starting from March 2019, all of the smart lockers at Cainiao Courier Stations are equipped with facial recognition function and QR code scanning technology.



Smart lockers in all Cainiao Courier Stations are equipped with facial recognition technology

Photo source: iwshang.com

Meanwhile, some e-commerce players and traditional retailers are using crowdsourced delivery – a web or mobile-based courier service that utilizes the idle team of part-time couriers – to handle specific orders. They often partner with third-party crowdsourced delivery companies such as Renren Kuaisong (formerly known as Renren Kuaidi) to deliver products to customers. Online-to-offline (O2O) delivery platforms such as Meituan Dianping and Ele.me are the major users of crowdsourced delivery platforms, although many of them do have their own delivery teams.

Other innovative last-mile delivery solutions include the use of drones and autonomous vehicles/ delivery robots for product delivery. JD.com is a case in point. JD Logistics received a drone-operating license from the government and became the first company to operate drones for logistics in certain areas such as Xi'an city, Shaanxi province. Another example is Suning.com. The retailer and Plus AI, an unmanned vehicle startup, jointly developed and completed testing of "Strolling Dragon", a heavy-duty autonomous truck in May 2018. Also, its logistics arm Suning Logistics partnered with Baidu to develop autonomous vehicles for last-mile delivery.



"Strolling Dragon", Suning Logistics' heavy-duty autonomous truck

Photo source: Suning.com

3. Store-front and in-store fulfillment centers gain in popularity

Traditionally, retailers usually set up central or regional warehouses at optimal locations that are able to serve their stores in various cities or even provinces. Very often, these warehouses are located in remote areas that could provide more spaces. Once the warehouses receive the replenishment orders from the stores, the warehouse operators would pick and pack and send the goods to the stores. They also handle online order fulfillment. A major disadvantage of these remote warehouses is that they could not handle fresh produce or fast-moving consumer goods that are in high demand as the shipping time is relatively long.

To speed up delivery and enhance consumer convenience, some retailers are starting to set aside designated spaces inside their stores to act as warehouses or in-store fulfillment centers to stock their best-selling items, while others are building fulfillment centers near the stores, or so-called store-front fulfillment centers. Freshippo supermarket is one of the first supermarket operators to adopt the in-store fulfillment center model in China. Apart from selling products, each of Freshippo store also acts as warehouse or fulfillment center for online orders. Consumers who live within a 3-km distance from the store will receive their online orders within 30 minutes. With the aid of technologies and big data analytics, Freshippo is able to stock all the best-selling items in its stores.

Other supermarket operators have also followed suit by launching store-front warehouses or building warehouses near retail stores. In September 2019, Rainbow supermarket opened its first store-front warehouse in Shenzhen. Over 3,000 types of products including fresh food, beverages and liquor and daily utilities will be delivered to this warehouse before dispatching to end customers. Customers can place orders via Rainbow Department Store's mobile app and its WeChat Mini Program "Tianhong Daojia"; those who live within 3km from the warehouse can receive their orders in less than one hour. In October 2019, Carrefour China also announced the launch of in-store fulfillment centers in selected stores in Nanjing and Shanghai to enhance its store-front warehousing service. The fulfillment centers will be connected to Carrefour's WeChat Mini Program, Suning Xiaodian's app as well as other third-party platforms. It is expected that 210 fulfillment centers in the country will be in operation by end-2019.



Rainbow Supermarket's store-front warehouse



Tianhong Daojia WeChat Mini Program

Photo source: Linkshop

4. Rural logistics is the next growth engine

China's rural e-commerce has continued its robust growth momentum over recent years. According to the Ministry of Agriculture and Rural Affairs of the PRC, online retail sales in rural areas increased by 30.4% yoy to 1.37 trillion yuan in 2018, accounting for 15.2% of the country's total online retail sales of goods and services.

The promising outlook for rural e-commerce has prompted many leading Internet and e-commerce players to further roll out their "going rural" initiatives. For instance, in April 2018, Alibaba invested 4.5 billion yuan in Huitongda Network Co., a Chinese rural online services platform and a subsidiary of Jiangsu Five Star Appliances Co. as part of its continued push to expand in the rural areas. The two companies would work together on supply chain development, warehousing and technology to improve e-commerce infrastructure in rural areas. Indeed, Alibaba first launched its Rural Taobao Initiatives in late 2014, providing an e-commerce platform and logistics infrastructure for rural residents to buy and sell items online via Taobao. Since then, it has set up thousands of service centers in the countryside to provide e-commerce delivery in rural areas. In 2016, Alibaba followed up with a three-year plan to invest 10 billion yuan in rural e-commerce, with a continued focus on boosting infrastructure and building more service centers. As of October 2018, Alibaba has set up 363 "Taobao Towns", 3,202 "Taobao Villages" and over 660,000 active "Taobao Shops" across 24 provinces and cities nationwide.

Another example is JD.com. In January 2018, JD.com announced the launch of drones in China's northeastern region, including Heilongjiang, Jilin and Liaoning province, to help improve efficiency in farming and logistics. It also stated that it would invest more than 20 billion yuan in the three provinces over the next three years to help the region "upgrade its industries, create jobs, inject innovation and upgrade retail services".



Alibaba's initiatives to go rural
Photo source: Alibabaneews.com

5. Rapid development of cold chain logistics

Today, Chinese customers have higher aspirations for a better life and they are more willing to spend on fresh products. This offers great development prospects for cold chain logistics. According to market research institute Forward (Qianzhan) Intelligence Co., China's cold chain logistics sector is estimated to reach 500 billion yuan by 2020, growing at a compound annual growth rate of over 20% over the four years from 2016. In recent years, increasing numbers of logistics players and retailers have scaled up investments in cold chain logistics – both cold storage operation and cold chain transportation. For instance, in May 2018, Cainiao unveiled a new cold chain logistics system co-developed with one-stop-shop cold chain logistics operators CC Fresh and ExFresh to provide both last-mile cold chain delivery and line-haul cold chain transportation services. In January 2019, baby and maternal product online retailer Mia announced to launch its first fresh food warehouse in Chengdu city, Chongqing province to stock and deliver fresh products to 30-plus cities in the southwestern region.

In response to the food safety concerns, some logistics players are launching cold chain tracking systems to improve traceability of food products. For example, in November 2018, Freshippo supermarket established an “organic vegetable IoT-based tracking system” for customers to verify the origin of perishable food and track the delivery status of selected items from farm to stores.



SF Express's truck for cold chain delivery

Photo source: qq.com

6. Logistics operators expand overseas warehousing facilities to support CBEC

Cross-border e-commerce (CBEC) has been expanding rapidly over recent years. With the trend towards consumption upgrading gathering pace, more Chinese online shoppers buy overseas products via CBEC platforms. According to iResearch, the transaction value of the CBEC (import) retail market is estimated to reach over 350 billion yuan in 2021, up from 161.33 billion yuan in 2018.

China's government has been supportive towards the development of the CBEC market. It has started to establish pilot zones/ cities across the country for CBEC import business since 2012. In January 2020, the Ministry of Commerce, the General Administration of Customs and four other departments jointly announced the *Notice on Expanding the Pilot Cities for Cross-border E-commerce Retail Goods Imports*¹, which added another batch of 51 pilot zones/ cities, taking the total number of pilot cities for CBEC import business to 86 cities. Also, the State Council has urged relevant government departments to support the development in the pilot zones, including streamlining logistics processes and customs clearance procedures.

To tap the huge potential in the CBEC logistics segment, some logistics players are expanding their cross-border logistics network. As a case in point, JD Logistics' trading firm signed a strategic cooperation agreement with CTS International Logistics Corporation Limited in June 2018. The two companies will focus on cross-border logistics and carry out all-round cooperation in the fields of warehousing, transportation capacity, logistics technology and e-commerce.

At the same time, some CBEC players are striving to expand overseas warehousing facilities to support their CBEC business. For example, NetEase Kaola, the largest CBEC player in China, has set up warehouses in several overseas locations. It has also partnered with major logistics operators including SF Express, YTO Express, EMS, Sinotrans and Maersk to provide reliable transportation and delivery services for CBEC shoppers. Another example is VIP International, the CBEC arm of VIP.com. In May 2018, VIP International announced that it will cooperate with JD.hk (formerly known as JD Worldwide), JD.com's CBEC platform, in operating CBEC supply chain and overseas warehouses. In particular, VIP International will provide overseas warehousing and logistics services to JD.hk via its 12 overseas warehouses.

7. Retail logistics become “greener”

Today, some logistics activities such as parcel delivery have become a major source of pollution that affects the environment; green logistics is becoming a hot topic. To attain sustainable development, many logistics players are exploring more environmentally friendly and sustainable ways to pack, transport and distribute parcels. Exhibit 1 shows selected green logistics initiatives and campaigns launched by Cainiao and JD Logistics in recent years.



Cainiao and JD Logistics’ recycling boxes

Photo source: www.maijia.com, Sohu.com

Comments from Fung Business Intelligence

Going forward, China's ever-evolving retail and e-commerce market, together with the changing needs of consumers, particularly the requirements for immediacy and fast services, will continue to provide huge development opportunities for the logistics sector. To keep pace with the rapidly changing environment, retailers and logistics players must enhance their logistics capabilities and expand their networks with the aid of innovative technologies. They should continue to "go smart" and adopt smart technologies in their operations. Equally important is for retailers and logistics players to be more environmental-friendly and to attain sustainable development. They should step up green efforts to explore more environmentally sustainable ways to pack, transport, store and distribute products.

References

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