



Issue 1 | General Retail

Executive Summary

China's retail sector sees modest growth in 2017; yet China-U.S. trade war is set to dampen consumer sentiment and drive down retail sales growth.

China has been the world's second-largest retail and consumer market after the U.S. since 2014. Total retail sales of consumer goods reached 36.6 trillion yuan in 2017, up nominally by 10.2% yoy. In 1H18, total retail sales of consumer goods increased nominally by 9.4% yoy to reach 18.0 trillion yuan. However, the escalating China-U.S. trade war is set to hinder economic growth, which in turn will affect consumer sentiment and consumer spending. China's retail sector as a whole will be adversely affected and is expected to see single-digit sales growth in the coming year.

Millennials and generation Z reshape the retail landscape. Middle class consumers in China, particularly the millennials and post-millennials (or generation Z), are becoming increasingly influential in the retail sector. China will have the world's largest middle class population by 2027, a segment whose strong spending power will reshape consumption domestically and internationally over the next decade. Local and international retailers are ramping up efforts to engage more effectively with these influential consumers. To lure young shoppers, brands are increasingly turning to young celebrities and influencers to market their products, and are launching new product lines with younger tastes.

Retailers strive to diversify their product and service offerings and deliver enriched lifestyle shopping experiences.

To entice shoppers, many retailers have expanded into new sectors and collaborated with other market players to expand service offerings and generate new revenue streams. Meanwhile, to meet the higher expectations of today's consumers, more and more retailers -- especially department stores and shopping mall operators -- have upgraded by introducing new and innovative concept stores and more lifestyle services.

O2O continues to dominate the retail scene. Pursuit of online-to-offline (O2O) strategies has become a preoccupation for most brands and retailers. Many traditional retailers in China have actively pursued digital expansion and deployed O2O strategies to ensure seamless integration of all channels -- physical, online, mobile and social. At the same time, some leading e-commerce companies and "pure-clicks" enterprises have tiptoed into bricks-and-mortar in the hope of providing a better shopping experience.

Use of smart technologies gains steam. China's retail sector is being redefined by a new wave of technologies to facilitate O2O integration while significantly enhancing customer experience. A multitude of technology-driven business models and business formats has emerged recently. Digitized experiential stores and AI-driven pop-up stores, unmanned stores are examples.

Pop-up retailing comes on the scene. Pop-up retailing has gained popularity in recent years, with brands and retailers opening pop-up stores backed by innovative marketing content to promote products and raise awareness. Some also use the pop-up format to test new technologies, concepts and collections, and to gain market insights. One of the major advantages of pop-up retailing is that the set-up costs are far lower than for permanent stores with long-term leases.

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