



# Issue 3 | Department Stores

## Executive Summary

**Department store sector maintains stable sales growth; new store openings continue.** China's department store sector witnessed positive and stable growth in the past year. According to the NBS, retail sales of department stores above a designated size (enterprises with annual sales of 5 million yuan or above and with employee strength of 60 or more) increased by 4.6% yoy in 1H18. MOFCOM statistics also show that the yoy growth of 5,000 key retailers reached 4.6% in 1H18, with department stores accounting for 4.5% yoy. In terms of new store openings, over the past two years, the number of newly opened department stores was still slightly more than that of department stores which were closed or revamped, resulting in a net rise.

**Transformation efforts have started to pay off.** Recently, the department store sector has made every effort to transform and adjust to keep pace with changing consumer needs, whether through the upgrade of hardware and stores, the refinement of merchandise and services, supply chain integration, or the restructuring of business models and operating systems. The sector as a whole has started to reap the benefits. According to a survey by the China Commerce Association for General Merchandise, nearly 65% of 85 department stores surveyed enjoyed positive yoy sales growth in 2017.

**Leveraging technologies to pursue O2O integration; forming partnerships with Internet companies and e-commerce players is common practice.** Many department store operators have adopted advanced technologies such as mobile Internet, big data, the IoT (Internet of Things) and even AI to achieve O2O integration -- namely, a seamless integration across physical stores, online platforms and mobile terminals -- along with digital transformation. Meanwhile, increasing numbers of department store operators have formed strategic alliances with Internet or large-scale e-commerce companies to roll out O2O initiatives that leverage the latter's huge traffic resources, big data as well as logistics capabilities.

**Diversifying retail formats and tapping into other business sectors.** To adapt to the changing needs of consumers, more and more department stores have sought to expand their scope of business and engage in multi-format, multi-sector operations. For example, in recent years Golden Eagle Retail Group has launched boutique supermarkets, bookstores, pet stores and beauty stores, to meet the discerning needs of middle class consumers. Recognizing the fast growth potential of convenience stores, players such as Wangfujing Group, Rainbow Department Store and New World Department Store have tapped into the convenience store segment, launching their own convenience store brands.

**Offering additional sales channels to enhance product uniqueness and gross profit margins.** To enhance product and service uniqueness and provide customers with a differentiated shopping experience, many department store operators have expedited the expansion of direct sales business. Some operators such as the Bailian Group, Wangfujing Group, Wanda Department Store and New World Department Store have taken even bolder steps by developing their own private labels and set up buyer (multi-brand) shops to sell exclusive brands and private labels.

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