



Issue 6 | Convenience Stores

Executive Summary

Convenience stores (CVS) have been the fastest-growing retail format in recent years. Total sales revenue for the CVS sector (including forecourt stores) reached 190.5 trillion yuan in 2017, up 23% yoy, and the growth momentum is expected to continue as the small retail format continues to gain in popularity in China. According to the MOFCOM, the yoy growth of 5,000 key retailers reached 4.6% yoy in 1H18, with CVS recording the fastest growth among all retail formats: 7.6% yoy, compared with 4.5% yoy for supermarkets and 1.6% yoy for department stores. In 2017, the total number of CVS in China topped 100,000.

O2O initiatives remain crucial. To stay competitive, many CVS operators have drawn up seamless O2O strategies to attract and retain customers. Providing pick-up services and partnering with O2O local lifestyle service platforms are among common practices.

CVS players make greater efforts to launch private labels. Nowadays, Chinese consumers look for products that are personalized or even unique. To cater to this demand, CVS operators such as FamilyMart, 7-Eleven and Anda Convenience Store have stepped up efforts to launch their own private labels and to offer such products. That being said, private label development in China's CVS sector still lags far behind that of equivalent chains in developed countries such as Japan. Over 80% of sampled CVS operators in China said that sales of their private labels accounted for less than 10% of total sales.

Emergence of technology-driven business models. Technology advancement is a significant factor driving the growth of the CVS sector. Since the second half of 2017, there have been significant CVS initiatives involving the adoption of technologies that can transform retail operations. This had led to the emergence of technology-driven business models including those featuring unmanned/cashierless CVS, smart shelves and smart vending machines.

Launching fresh food community stores is a growing trend. CVS is one of the most relevant formats for serving local communities. Recently, some CVS chains have upgraded and transformed their stores into fresh food community stores, catering to the growing appetite of Chinese consumers for fresh, healthy, quality products.

Many mom-and-pop stores connect with Alibaba's LST and JD Convenience Store. E-commerce giants Alibaba and JD.com have sought to extend their offline footprints by connecting with tens of thousands of mom-and-pop stores to help them digitalize their operations and increase their gross merchandise volume. Under its New Retail initiative, and to advance its O2O strategy, Alibaba has launched the LST "Ling Shou Tong" system to help mom-and-pop stores embark on digital transformation. JD.com has rolled out the JD Convenience Store initiative, partnering with owners of CVS across the country, particularly in rural areas, to help them revamp their stores.

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