

# China Retail & E-commerce

## Weekly Updates

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## Retail in general



### MOFCOM: Five characteristics of China's burgeoning online retail market

The Ministry of Commerce (MOFCOM) said that online retail market of China continues to grow in high speed. The market has demonstrated below five characteristics:

- Online retail market in China is growing at high speed. Total online sales of physical goods accounted for 12.6% of the retail sales of consumer goods.
- Online retail market has become more mature. GMV of B2C online retail accounted for over 55% of the total online retail sales. Small-scale e-commerce platforms adopted differentiated marketing strategy to target niche markets, while large-scale players promoted their sales by providing quality services such as entertainment and live streaming instead of focusing on mark-down.
- Supply-side reform helps foster the development of rural e-commerce. Brands adopt e-commerce as a new channel to sell their goods to the younger generations. Big data support the “made-to-order” model and allow companies to react quickly to the changing needs of consumers by producing new products.
- O2O integration continues. Retail giants form strategic partnerships to leverage each other's strength. E-commerce platforms assist traditional businesses in their O2O transformation. Lifestyle service, entertainment and culture, tourism, education and healthcare are examples of consumer services that have recorded huge growth and massive transformation.
- New technologies facilitate consumption upgrade. Cloud computing helps e-

commerce platforms to raise their processing capability, while logistics technologies such as automated warehouses, unmanned vehicles and drones enhance logistics efficiency. Also, virtual reality and augmented reality help enhance shopping experience in the retail environment<sup>1</sup>.

### CNCIC: Sales of 100 key large-scale retail enterprises in China up by 2.8% yoy during the Lunar New Year holidays

According to statistics from the China National Commercial Information Centre (CNCIC), sales of 100 key large-scale retail enterprises in China up by 2.8% yoy in the Lunar New Year holidays (27 January – 2 February 2017), the growth was 9.4 percentage points higher than that of last year. Of the 100 samples of retail enterprises, 54 had positive growth rates for their retail sales in the period, while the other 46 recorded negative growth rates. All product categories recorded increase in sales comparing with last year. Of which sales of food products increased by 4.3% yoy, sales of fashion products increased by 4.1% yoy and sales of cosmetics increased by 5.6% yoy<sup>2</sup>.

### Yicai Financial News: 14 provinces see retail sales crossing trillion-yuan-mark in 2016; 9 provinces have per capita spending over 30,000 yuan

Yicai Financial News consolidated the consumption data for 2016 released by different provinces in China. 14 provinces saw their retail sales of consumer goods exceeding 1 trillion yuan. In terms of retail sales growth, the south-western region saw the faster growth: Chongqing topped the list with a growth rate of 13.2%. Guangdong topped the list with retail sales of consumer goods amounted to 3473.9 billion yuan, followed by Shandong and Jiangsu. Per capita spending of 12 provinces was higher than the

national average at 24,175 yuan, while nine provinces have per capita spending over 30,000 yuan, with Beijing, Shanghai and Zhejiang being the top three. Beijing had the highest per capita spending in China in 2016, amounting to 50,703 yuan<sup>3</sup>.

### Koubei: Shanghai, Hangzhou and Beijing record the highest sales during the Lunar New Year holidays

Lifestyle service platform Koubei announced its offline consumption statistics for the Lunar New Year holidays. Young consumers were the major driving force behind offline consumption across the country, however they spent less per person when compared with consumers aged 50 – 60 who on average spent around 300 yuan per person, doubling that of the spending of consumers aged 20 – 30. Statistics showed that consumers in the age group of 50 – 60 spent mostly on food and groceries, while young consumers spent more on entertainment. In terms of spending in different cities, Shanghai, Hangzhou and Beijing recorded the highest sales during the Lunar New Year holidays. In terms of the most popular commercial districts across the country, the top three were respectively the Shanghai Disney Resort, Hubin Intime In77 in Hangzhou, as well as the Cloud Nine Mall in Shanghai<sup>4</sup>.

### Sales revenue of Shanghai's convenience stores and shopping malls up by 10.5% and 7.5% yoy in 2016 respectively

According to statistics from the Shanghai Municipal Commission of Commerce, the total sales of goods in Shanghai in 2016 amounted to 10.08 trillion yuan, up by 7.9% yoy. Of which, online sales accounted for 11.4% of the retail sales of consumer goods and were up by 15.8% yoy to 125 billion yuan. Sales revenue of convenience stores and shopping malls increased by 10.5% and 7.5% yoy

respectively. As of the end of 2016, the number of shopping malls in Shanghai amounted to 189 and their total construction areas were 19.03 million sqm, up by 26.8% and 18% yoy respectively<sup>5</sup>.

## E-commerce

### JD.com to transform into a “digital enterprise” in the next 12 years

JD.com's CEO Liu Qiangdong announced the strategic focus of the group in the next 12 years. He said JD.com will focus on transforming itself and its previous business models with technology. JD.com aspires to become a world-leading “digital enterprise”, whose business areas include digital commerce, digital finance, as well as digital insurance. Liu said that JD.com aims to enter the top ten in the Fortune 500 by the end of the next 12 years.

In the past 12 years, the CAGR of the transaction value on JD.com increased by over 150%. The coverage of its bulk cargo logistics, small package logistics, and cold chain logistics reaches over 98% of the population in China. In 2016, the transaction value of JD Finance achieved over 1 trillion yuan. It is expected that JD finance will be serving over 1,000 financial institutes and over 1 million enterprises by 2020. Meanwhile, insurance business for JD.com will be launched soon<sup>6</sup>.

### JD Supermarket targets a transaction value of over 100 billion yuan in 2017

According to JD.com, its supermarket division JD Supermarket targets a transaction value of over 100 billion yuan in 2017. The company

identified four major trends of the online supermarkets sector – more sophisticated use of Big Data; the emergence of new product categories such as color cosmetics, dental-related products, imported red wine, toys, eco-friendly cleaning products and pets services; consumers' deepened brand awareness will provide more opportunities for regional and lesser-known brands; the shift of focus towards tier 3 and tier 4 cities.

The six directions of JD Supermarket in 2017 include: applying AI technologies and Big Data in smart supply chain and marketing; cooperating with Nielsen on Big Data strategies; focusing on key categories as well as new strategic categories (e.g. selected international brands); leveraging the nearly 200 million annual active customer accounts on JD.com for marketing; establishing seven regional sourcing bases nationally to strengthen regional operation; and supporting third-party enterprises on JD Supermarket by offering help in system upgrade and other training<sup>7</sup>.

### Alibaba partners with toy manufacturer Mattel

Alibaba partners with world's largest toy manufacturer Mattel on a range of strategic collaborations. Mattel said that Alibaba's consumer insights in the China market can help Mattel formulate targeted market and product strategies. Aside from selling its product on Tmall, Mattel will also work with the media companies under Alibaba to develop and promote learning and educational materials. Also, Mattel and Alibaba will work together to conduct AI experiments and develop innovative toys; the first batch of which is expected to be launched middle of this year<sup>8</sup>.

### WeChat Pay's fingerprint security feature to launch in Xiaomi mobile phones

Xiaomi announced on its MIUI official weibo account that the phone manufacturer reached agreement with WeChat Pay on the fingerprint security feature. This showed that Xiaomi's upcoming flagship mobile phones may be able to support this new feature. Prior to the announcement, various Xiaomi mobile phone models already support Alipay's built-in fingerprint security feature. Currently, Alipay's fingerprint security payment is more common than that of WeChat Pay, covering different models of iOS and Android phones<sup>9</sup>.

### Starbucks China launches gifting feature on WeChat

WeChat and Starbucks China jointly launched a new social gifting feature, "Say it with Starbucks" on WeChat. Users can send Starbucks beverage or digital gift card to family and friends alongside with customized messages in the form of text, photo or video. During the initial launch period, WeChat opened a convenient access for "Say it with Starbucks" users in its WeChat Pay function. The function will be permanently available on Starbucks' public WeChat account. Starbucks is the first retail brand to offer an O2O social gifting experience in China<sup>10</sup>.

### TAG Heuer opens store on Tmall

TAG Heuer, a Swiss luxury watch and fashion accessories brand under the LVMH Group, opened a flagship store on Tmall. The brand's new Valentine's day edition watch will be exclusively available in the Tmall store. TAG Heuer is not the first luxury brand under the LVMH Group to enter Tmall – Guerlain, the Group's high-end cosmetics brand opened a store on Tmall in September 2016. LVMH Group is a global luxury conglomerate, owning over 60 brands such as Christian Dior, Louis

Vuitton, Bulgari and Hennessy<sup>11</sup>.

### Spanish handcrafted shoe brand Lottusse to open flagship store on Tmall

Spanish handcrafted-shoe brand Lottusse will launch its flagship store on Tmall in February 2017. Currently, the brand's overseas flagship store on Tmall Global sells 32 types of products with the prices range between 1,950 – 5,700 yuan per pair. Lottusse was founded in 1877 and is known for its 139-year long of experience in making handcrafted shoes<sup>12</sup>.

### 21st Century Business Herald, JD.com: Imported fresh produce sees explosive growth; tier 1 cities and their peripheral markets are growth engines

Research institute under 21st Century Business Herald and JD.com jointly published a consumer trends report on online fresh produce market during the Lunar New Year, revealing the latest development trends in the online fresh produce sector. According to the report, the majority of e-commerce consumers (particularly the post-70s and post-80s generations) are now spending more on home grocery. Also, the growing middle class also contributes to the rapid growth of the sector. Over 70% of the surveyed consumers said they are willing to purchase fresh produce online. Growing at an annual average compound growth rate of around 50%, the transaction value of the fresh produce market will likely be over 150 billion yuan by 2017. The report predicted four major development trends for the sector, namely the upgrade of shopping experience, supply chain quality assurance, consolidation of upstream and downstream businesses, as well as marketing innovation and socialization<sup>13</sup>.

### COFCO launches membership fresh produce e-commerce channel Elite

China National Cereals, Oils and Foodstuffs Corporation (COFCO) launched Elite, a membership fresh produce e-commerce channel, on its online platform womai.com. Elite adopts a unique C2B membership model and targets a niche market demanding high-end fresh produce. Currently, the channel is only available to registered members of Elite who have bought its shopping credits. Member's orders will be home-delivered every Tuesday and Friday<sup>14</sup>.

## Department stores and shopping malls

### New World Department Store in Beijing adopts "Cats theme" to attract feline lovers

New World Department Store's Chongwenmen branch in Beijing has recently refurbished part of the store with cat-themed design and decorations to attract consumers who like cats. Named as "Cat Street", the revamped store area used rare cat breeds as the central theme. The Cat Street consisted of three major areas, namely an area with live cats, an area for kids, as well as a modern catering area with rare cats as the major theme. Currently, the store has put in 40 famous cats from around the world in the live cats area<sup>15</sup>.

### Italian premium multi-brand store 10 Corso Como closes its Beijing store

Italian premium multi-brand store 10 Corso Como closed its store in Beijing SKP Mall on 14 February 2017 due to heavy loss suffered by the retailer's China business. The first 10 Corso Como in China opened in Shanghai in

2013 by the Trendy International Group and the second store was opened in Beijing in 2014. According to media report, top management team of the brand changes 1-2 times a year on average. The frequent changes in leadership might be one of the reasons for the company's poor performance in China. Ineffective marketing strategy and campaign implementation are also to blame for the bad performance<sup>16</sup>.

## Apparel

### Anzheng Fashion Group lists on Shanghai Stock Exchange

Zhejiang-based Anzheng Fashion Group has been successfully listed on the Shanghai Stock Exchange. Anzheng Fashion Group raised a total of 1.115 billion yuan at 16.78 yuan per share from the public offering. The capital raised from the listing will be used to expand the company's supply chain management centers and distribution channels, as well as to serve as operating capital for activities related to its core operations. Anzheng Fashion Group was founded in 2008. It has a number of men's or ladies' fashion brands, such as JZ, IMM, Anzheng menswear, MOISSAC, as well as FIONACHEN. According to the Group's IPO prospectus, the Group's sales revenue in 2015 and 1H16 were 1.22 billion yuan and 0.52 billion yuan respectively. Its net profit in 2015 and 1H16 were 243 million yuan and 117 million yuan respectively<sup>17</sup>.

### Bosideng pulls out of the U.K. market and closes its only overseas retail store

Chinese down apparel retailer Bosideng pulled out of the U.K. market, citing post-

Brexit market uncertainty as the reason for its exit. The retailer's first overseas flagship store on South Molton Street in London closed last month, while its U.K. website (bosidenglondon.com) has also ceased operation. Bosideng opened its first and only overseas store in London in July 2012<sup>18</sup>.

## Cosmetics

### Victoria Beckham Estée Lauder makeup collection to enter China

Victoria Beckham and Estée Lauder makeup collection will be officially launched in China. The collection will be available in designated department store counters, Estée Lauder's official website, as well as the brand's Tmall flagship store. According to media report, the collection consists of product categories such as facial emulsion, highlighter powder, makeup foundation, eyeshadow, double eyeliner and lipstick. Retail price of these items have not been announced yet. Meanwhile, Estée Lauder will also introduce to the market a limited edition deluxe make-up kit, which will include eight selected limited edition color cosmetics products jointly produced by Victoria Beckham and Estée Lauder<sup>19</sup>.

### LG China opens its first integrated store

LG Household & Healthcare opened its first brand integrated store Nature Collection in China in Shanghai's Ruihong World, selling products under LG's various brands including The Face Shop. The store will include more LG brands after obtaining necessary licenses. Brand integrated store is reportedly a preferred store format by LG and the company will promote this retail format globally. In

February 2016, LG opened its first Nature Collection store in Seoul, South Korea<sup>20</sup>.

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