

China Retail & E-commerce

Weekly Updates

11 January 2019 – 17 January 2019

 FUNG BUSINESS INTELLIGENCE

Asia Distribution & Retail

Teresa Lam

Vice President

E: teresalam@fung1937.com

T: (852)2300 2466

Fung Business Intelligence

10/F LiFung Tower

888 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: fbicgroup@fung1937.com



Retail in General *p2*

- State Council to further cut taxes for small and micro enterprises
- Beijing Municipal Commerce Bureau supports the development of nighttime economy
- Beijing to launch China's first downtown duty-free shop

E-commerce *p2*

- Blue Book on Internet Economy: cross-border e-commerce becomes development highlight of China's Internet economy
- Alibaba launches Alibaba Operating System; kick-starts A100 strategic partnership program
- Toutiao's e-commerce transactional platform Fangxingou connects to Douyin
- JD.com to make strategic investment in Xinyu Group, forming the largest watch retail alliance in China

E-commerce logistics *p3*

- SPB: China's express delivery aggregate business volume reaches 50.71 billion orders in 2018

Department stores and shopping malls *p4*

- Rainbow Department Store brings corporate shopping service online

Supermarkets and hypermarkets *p4*

- Walmart China's omni-channel sales expect to see triple-digit growth in 2019
- Renrenle Supermarket taps group buying business
- Sun Art Retail Group's unit Shanghai Runhe enters cooperation agreements with Shanghai Hema

Convenience stores *p5*

- Shangou joins hand with Sinopec's EasyJoy Convenience Store to offer on-demand delivery services

Consumer electronics *p5*

- Suning plans to open 15,000 new stores in 2019

Apparel *p5*

- Fast Retailing Group's 1Q19 net profit down 6.45% yoy, while Uniqlo posts double-digit growth in China
- P&G joins hands with Peacebird to launch co-branded product and open vintage fashion pop-up store

Cosmetics *p6*

- China's male color cosmetics sales up 279% yoy in 2018
- CeraVe of L'Oréal Group debuts in China
- Korean cosmetics brand 3CE debuts in China

Luxury sector *p6*

- Secoo releases "Weibo High-End Consumption Influence White Paper 2018"
- Mulberry launches on Tmall's Luxury Pavilion
- Richemont Group's 3Q18 sales up 10% yoy in Asia, mainly driven by double-digit growth in China

Retail in General

State Council to further cut taxes for small and micro enterprises

At the State Council's executive meeting on 9 January, Premier Li Keqiang announced that the government will introduce further measures to reduce taxes for smaller and micro enterprises. The measures include revising the definition of low-profit small and micro enterprises; reducing the corporate income tax rate; expanding the scope of preferential policies for enterprises investing in tech start-ups. The tax reduction policy can be backdated to 1 January, 2019, and the implementation period is tentatively set for three years. Total tax savings for these small and micro enterprises are estimated to be around 200 billion yuan per year¹.

Beijing Municipal Commerce Bureau supports the development of nighttime economy

On 13 January, the Beijing Municipal Commerce Bureau interpreted that “nighttime economy” is going to have an influential power over the Beijing’s economy. The Beijing Municipal Commerce Bureau supports the idea of establishing 24-hour convenience stores in the city, with the hope of having more than half of the convenience stores in Beijing operating around the clock by 2022; at the same time, the Bureau encourages shopping malls, supermarkets, and convenience stores to extend their operating hours. The Bureau commented that building the nighttime economy requires collaboration between different parties in the society, including subways, public transportation and other transportation facilities and many other fields, other than the commerce sector. Additionally, the Bureau also mentioned that it hopes to build at least one “nighttime

economic business district” in each commercial district and will continue to transform and upgrade traditional businesses to cater to the development of the nighttime economy².

Beijing to launch China’s first downtown duty-free shop

On 13 January, Beijing Municipal Culture and Tourism Bureau revealed that Beijing will put forward the launch of the country’s first downtown duty-free shop in local Chaoyang district. Targeting in-bound tourists visiting Beijing, the new duty-free shop aims to extend the duty-free shopping experience from airports to downtown areas; customers can enjoy the same prices as at airport duty-free shops. In the future, downtown duty-free shops in Beijing will have more advantages over airport duty-free shops in terms of store space, layout and product variety, while domestic products will also be offered in downtown duty-free shops. It is expected that the new downtown duty-free shop in Beijing will operate under the “purchase at downtown shop and pick up at airport” business model³.

E-commerce

Blue Book on Internet Economy: cross-border e-commerce becomes development highlight of China’s Internet economy

On 13 January, the China Internet Economic Research Institute of the Central University of Finance and Economics (CUFE), the School of Economics of the CUFE, and the Social Sciences Academic Press (China) jointly published the "Blue Book on Internet Economy: China Internet Economy Development Report (2018)". The Blue Book highlighted four major development trends of China's Internet economy.

1. Online and offline integration will further deepen; the trend of growing online services will start to emerge
2. A new round of retail revolution will begin; online retail business models will further diversify
3. Online platforms and sharing economy will enter a new stage of development
4. Cross-border e-commerce (CBEC) becomes the development highlight of China's Internet economy, leverage the Belt and Road initiative.

The Blue Book also pointed out four major challenges of China's Internet economy.

1. Monopoly and unfair competition in the Internet industry
2. Regulatory issues and governance problem regarding online platforms and sharing economy
3. Data accuracy problem of online transactions for Internet enterprises
4. Issues related to information protection on the Internet⁴.

Alibaba launches Alibaba Operating System; kick-starts A100 strategic partnership program

On 11 January, Alibaba Group launched the "Alibaba Operating System" to help global retailers to digitally transform its operation infrastructures in 11 areas, including branding, products, sales, marketing, channels, manufacturing, finance, logistics and supply chain, structural organization and information technology. Also, Alibaba announced the launch of "A100" strategic partnership program, a holistic one-stop solution to accelerate its partners' digital transformation processes⁵.

Toutiao's e-commerce transactional platform Fangxingou connects to Douyin

Recently, Toutiao's e-commerce transactional

platform Fangxingou has connected with short video platform Douyin. Hosts on Douyin can choose to display products from Fangxingou on their homepage for advertising and encourage viewers to click and buy. They can even choose to display various products from different stores on Fangxingou. Previously, Douyin could connect only with Taobao for shopping⁶.

JD.com to make strategic investment in Xinyu Group, forming the largest watch retail alliance in China

JD.com will make a strategic investment in China's largest watch retailer Xinyu Group, aiming to form the largest watch retail alliance in China. In the future, both parties will cooperate on boundaryless retail, introduction of international brands, upgraded after-sales service, etc. In October 2018, Xinyu Group announced that it formed a strategic partnership with JD.com on "Boundaryless Retail". Under the partnership, both parties will deepen their collaboration on product sales, after-sales service, boundaryless retail and business development, as a way to bring together two companies' strengths in terms of online and offline channels, brands and sales services to offer customers seamless online and offline shopping experience and the best timepieces⁷.

E-commerce logistics

SPB: China's express delivery aggregate business volume reaches 50.71 billion orders in 2018

According to the State Post Bureau (SPB), in 2018, revenue of the postal industry (excluding the direct operating income of the Postal Savings Bank of China) reached 790.47 billion yuan, up 19.4% yoy. China's express delivery market saw its aggregate

business volume reaching 50.71 billion orders in 2018, up 26.6% yoy⁸.

Department stores and shopping malls

Rainbow Department Store brings corporate shopping service online

Rainbow Department Store has currently launched a new corporate shopping service online, as a way to drive more companies to adopt digital procurement, enhance corporate sourcing efficiency and increase customized benefit options for employees. The new service enables corporate employees to enjoy discount shopping online on Rainbow Department Store's WeChat Mini Program and have their orders delivered home. In addition, the new service also offers seasonal items for different festivals and occasions, gift baskets and greeting cards, and allows employers to set their budgets for their employee benefit programs⁹.

Supermarkets and hypermarkets

Walmart China's omni-channel sales expect to see triple-digit growth in 2019

Walmart China said the company has undergone rapid transformation and completed many omni-channel attempts and explorations around the world over the past few years; Walmart China's omni-channel sales are expected to see triple-digit growth in 2019. Regarding its future plan, Walmart China will focus on consolidating its upstream resources and further improving product quality. In 2019, Walmart China will invest 700 million yuan to build a perishable food

distribution center in Dongguan serving its stores in Southern China. This is also Walmart's largest single investment in the past 20 years¹⁰.

Renrenle Supermarket taps group buying business

Renrenle Supermarket has reportedly launched its group buying business for more than two months. The business is growing fast, and Renrenle has already recruited more than 1,000 "group buying initiators". Renrenle leverages on its offline store network and its supply chain for effective delivery of the products. Currently, Renrenle's group buying business is expanding rapidly in Southern China, Southwest China, Northwest China, as well as Northern China. Renrenle launches 10-20 group buying deals at a time, with around 50% of them are regional popular fresh food, while 50% of them are daily necessities specially chosen for different communities in different regions¹¹.

Sun Art Retail Group's unit Shanghai Runhe enters cooperation agreements with Shanghai Hema

On 16 January, Sun Art Retail announced that Shanghai Runhe (a non-wholly owned subsidiary of Sun Art Retail) entered into the Hainan Hema Business Cooperation Agreement and the Northeast China Hema Business Cooperation Agreement with Shanghai Hema (an indirect wholly-owned subsidiary of Alibaba Holding) in respect of the relevant business cooperation between the parties within Hainan, Heilongjiang, Jilin and Liaoning provinces. According to the agreement, Shanghai Runhe agreed to cooperate with Shanghai Hema to adopt the "Hema Fresh" (Hema Xiansheng) business model across Hema Stores. Shanghai Runhe is jointly held by RT-Mart China with 51% interest and Alibaba Holding with 49%

interest¹².

Convenience stores

Shangou joins hand with Sinopec's EasyJoy Convenience Store to offer on-demand delivery services

Recently, e-commerce platform Shangou and Sinopec's EasyJoy Convenience Store reached a cooperation agreement. Easyjoy will connect with online O2O delivery platforms such as Meituan Waimai, Ele.me and JD Daojia via Shangou, in order to expand their online business and service area. Shangou will provide a full-range of digital solutions for EasyJoy by connecting their membership and merchandise systems, and help EasyJoy to transform and upgrade. A batch of 200 Easyjoy stores in Zhejiang province will first join this event¹³.

Consumer electronics

Suning plans to open 15,000 new stores in 2019

The chairman of Suning Holding Group announced on 15 January that Suning has significantly increased its store opening target in 2019 to 15,000. In 2018, Suning opened more than 8,000 stores, much more than the set target of 5,000. According to Suning, in 2019, the company will continue to expand its store network nationwide, based on the philosophy of "two big, two small, and more specialized stores", optimize and improve the store layout, and speed up its store opening process through "renting, building, acquiring and merging, and forming partnerships" to achieve the newly set target¹⁴.

Apparel

Fast Retailing Group's 1Q19 net profit down 6.45% yoy, while Uniqlo posts double-digit growth in China

On 10 January, Fast Retailing Group, the parent company of Uniqlo, announced its financial results for the first quarter of its fiscal year 2019. For the three months ended November 2018, Fast Retailing Group generated sales of 644.4 billion yen, up 4.45% yoy, with gross profit up 2.44% yoy to 324.8 billion yen and net profit down 6.45% yoy to 73.5 billion yen. The company stated that despite the sluggish sales led by the unseasonal warm winter, international markets including the Greater China region recorded significant profit gains; overseas revenue surged 12.8% yoy to 291.3 billion yen and operating profit also jumped 12.6% yoy to 52.5 billion yen, continuing a double-digit growth. Among the overseas markets, Uniqlo China reported the most notable growth, with revenue and profit both posting double-digit growth, thanks to the company's omni-channel efforts in the country¹⁵.

P&G joins hands with Peacebird to launch co-branded product and open vintage fashion pop-up store

On 15 January, P&G joined hands with Peacebird to launch a variety of co-branded products and opened a vintage fashion pop-up store. According to P&G, the pop-up store would open for just three days and would only give away products for free (would not sell the products). Co-branded products cover P&G's owned brands including Vidal Sassoon, Tide, Oral-B, Head & Shoulders, Pantene and Whisper. Meanwhile, some co-branded products are also available at Peacebird's 114 retail stores nationwide¹⁶.

Cosmetics

China's male color cosmetics sales up 279% yoy in 2018

Alibaba's Taobao.com recently released its latest annual consumption data for 2018, showing that the sales of male color cosmetics in China increased by 279% yoy, and the sales of male face cream/ lotion increased by 114% yoy. Male consumers' most favorite makeup and skincare products are BB cream, eyebrow pencil, liquid foundation, face essence, sunscreen and mask. Since 2018, many beauty brands have shifted their focus to launch male cosmetics products. In April, Kiehl's carried out the first nationwide promotion activities for its skincare products for men after entering China for nine years. In May, Nature Hall launched its new products for men on JD.com; while in August, CHANEL announced that it would launch the brand's first makeup line for men "BOY DE CHANEL"¹⁷.

CeraVe of L'Oréal Group debuts in China

On 10 January, U.S. skin care brand CeraVe of L'Oréal Group made its debut in the China market and opened an immersive experiential zone in Shanghai HKRI Taikoo Hui to promote its healthy skincare products. Targeting mainly the mass market, CeraVe products will be sold at the lowest price points, among other cosmeceutical brands of L'Oréal Group, including La Roche-Posay, Vichy and SkinCeuticals. CeraVe has already opened a flagship store on Tmall. It will also launch in other offline retail channels in China in the future¹⁸.

Korean cosmetics brand 3CE debuts in China

On 11 January, 3CE, a popular Korean cosmetics brand of Nanda announced to enter

the China market by launching its Tmall flagship store and its membership club "Nanda Club". 3CE will expectedly open its first offline store in Beijing in 1H19 to offer consumers online and offline shopping experience¹⁹.

Luxury sector

Secoo releases "Weibo High-End Consumption Influence White Paper 2018"

On 9 January, online luxury fashion retailer Secoo, Wrd.cn and Fashion.sina.com jointly released a white paper on high-end consumers and social media high-end consumption influence. According to the white paper, among Secoo luxury consumers who are using Weibo, the post-90s, post-95s, and post-00s generations occupied the largest proportion, accounting for almost 70% of all consumers. In addition, the white paper also revealed that mainstream celebrities and KOL received plenty of attention from the post-00s consumers. With younger generations making up an increasing proportion of luxury spending, Weibo has become an essential tool for luxury brands to engage with younger customers and market their products in China²⁰.

Mulberry launches on Tmall's Luxury Pavilion

Recently, British luxury brand Mulberry launched on Luxury Pavilion, Tmall's exclusive platform for luxury goods. At the same time, Mulberry rolled out its Chinese New Year series, which were sold exclusively on Luxury Pavilion for one week, starting from 16 January. The brand has also designed a special game related to Chinese Lunar New Year on its WeChat account, hoping to attract and engage with more Chinese consumers²¹.

Richemont Group's 3Q18 sales up 10% yoy in Asia, mainly driven by double-digit growth in China

According to Richemont Group's 3Q18 financial results, Richemont Group's sales in the Asia-Pacific region increased by 10% yoy to 3.9 billion euro, mainly driven by the double-digit sales growth in China. Sales in Hong Kong have slowed down, owing to the strong HKD and RMB that negatively impacted tourist consumption in Hong Kong. To expand its reach into the Chinese market, the group has accelerated its e-commerce push in the country through deepening its partnership with local e-commerce giant Alibaba Group. In October 2018, Richemont Group formed a joint venture (JV) company with Alibaba to bring the retail offerings of the group's e-commerce units Net-A-Porte and Mr Porter to China. Under the deal, Alibaba will provide technology infrastructure, payment, logistics, marketing and other technology support to the JV company. Apart from bringing luxury menswear e-tailer Mr Porter to China, the JV company has also launched a Chinese version app for Net-A-Porter. Last year, Richemont Group also joined Alibaba's anti-counterfeit alliance²².

References

- ¹ "State Council to further cut taxes for small and micro enterprises", 9 January 2019. Chinanews.com. <http://www.chinanews.com/gn/2019/01-09/8724621.shtml> (in Chinese only)
- ² "Beijing Municipal Commerce Bureau supports the development of nighttime economy", 13 January 2019. Beijing Business Today. <http://www.bbtnews.com.cn/2019/0113/282442.shtml> (in Chinese only)
- ³ "Beijing to launch China's first downtown duty-free shop", 13 January 2019. Beijing Business Today. <http://www.bbtnews.com.cn/2019/0113/282443.shtml> (in Chinese only)
- ⁴ "Blue Book on Internet Economy: cross-border e-commerce becomes development highlight of China's Internet economy", 14 January 2019. Ebrun. <http://www.ebrun.com/20190114/316723.shtml> (in Chinese only)
- ⁵ "Alibaba launches Alibaba Operating System; kick-starts A100 strategic partnership program", 11 January 2019. Alibaba News. <https://alibabanews.com/article/alibabafabualishangyecaozuoxitong-quanqiupinpaikaiqishuzihuashidai> (in Chinese only)
- ⁶ "Toutiao's e-commerce transactional platform Fangxingou connects to Douyin", 16 January 2019. Ebrun. <http://www.ebrun.com/20190116/317185.shtml> (in Chinese only)
- ⁷ "JD.com to make strategic investment in Xinyu Group, forming the largest watch retail alliance in China", 16 January 2019. Ebrun. <http://www.ebrun.com/20190116/317168.shtml> (in Chinese only)
- ⁸ "SPB: China's express delivery aggregate business volume reaches 50.71 billion orders in 2018", 17 January 2019. Ebrun. <http://www.ebrun.com/20190117/317333.shtml> (in Chinese only)
- ⁹ "Rainbow Department Store brings corporate shopping service online", 17 January 2019. Linkshop. <http://www.linkshop.com.cn/web/archives/2019/417832.shtml> (in Chinese only)
- ¹⁰ "Walmart China's omni-channel sales expect to see triple-digit growth in 2019", 11 January 2019. Winshang. <http://news.winshang.com/html/065/2292.html> (in Chinese only)
- ¹¹ "Renrenle Supermarket taps group buying business", 7 January 2019. Linkshop. <http://www.linkshop.com.cn/web/archives/2019/417110.shtml> (in Chinese only)
- ¹² "Sun Art Retail Group's unit Shanghai Runhe enters cooperation agreements with Shanghai Hema", 16 January 2019. Longsok. <https://www.longsok.com/dt/2019/0116/48991.html> (in Chinese only)
- ¹³ "Shangou joins hand with Sinopec's EasyJoy Convenience Store to offer on-demand delivery services", 10 January 2019. Ebrun. <http://www.ebrun.com/20190110/316297.shtml> (in Chinese only)
- ¹⁴ "Suning plans to open 15,000 new stores in 2019", 16 January 2019. Beijing Business Times. <http://www.bbtnews.com.cn/2019/0115/282745.shtml> (in Chinese only)
- ¹⁵ "Fast Retailing Group's 1Q19 net profit down 6.45% yoy, while Uniqlo posts double-digit growth in China", 11 January 2019. Winshang. <http://news.winshang.com/html/065/2295.html> (in Chinese only)
- ¹⁶ "P&G joins hands with Peacebird to launch co-branded product and open vintage fashion pop-up store", 16 January 2019. Linkshop. <http://www.linkshop.com.cn/web/archives/2019/417719.shtml> (in Chinese only)
- ¹⁷ "China's male color cosmetics sales up 279% yoy in 2018", 16 January 2019. Fashion Network. <https://cn.fashionnetwork.com/news/2018-nian-zhong-guo-nan-shi-cai-zhuang-xin-pin-xiao,1056727.html#.XEAaDhx0x1A> (in Chinese only)
- ¹⁸ "CeraVe of L'Oréal Group makes its debut in China", 16 January 2019. Fashion Network. <https://cn.fashionnetwork.com/news/ou-lai-ya-zhong-guo-yin-ru-xin-pin-pai-ce,1056732.html#.XEAaCBx0x1A> (in Chinese only)
- ¹⁹ "Korean cosmetics brand 3CE debuts in China", 15 January 2019. Fashion Network. <https://cn.fashionnetwork.com/news/han-guo-mei-zhuang-pin-pai-3ce-zheng-shi-jin-ru,1055600.html#.XEAaJRx0x1A> (in Chinese only)
- ²⁰ "Secoo releases "Weibo High-End Consumption Influence White Paper 2018"", 16 January 2019. Fashion Network. <https://cn.fashionnetwork.com/news/si-ku-fa-bu--2018-wei-bo-gao-duan-xiao-fei-ying-xiang,1056722.html#.XECBR1wzaUI> (in Chinese only)
- ²¹ "Mulberry launches on Tmall's Luxury Pavilion", 16 January 2019. Fashion Network. <https://cn.fashionnetwork.com/news/mulberry-jin-zhu-tian-mao-luxury-pavilion-she-chi-pin-ping-tai---jie-zhu,1056398.html#.XEAaBBx0x1A> (in Chinese only)
- ²² "Richemont Group's 3Q18 sales up 10% yoy in Asia, mainly driven by double-digit growth in China", 13 January 2019. Beijing Business Today. <http://www.bbtnews.com.cn/2019/0113/282412.shtml> (in Chinese only)

Fung Business Intelligence

Fung Business Intelligence collects, analyzes and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

