

# China Retail & E-commerce

## Weekly Updates

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## Retail in general



Fung Business Intelligence, ECCGCC: “New Retail Regime” to transform China’s commercial landscape

Fung Business Intelligence and the Secretariat of the Expert Committee of the China General Chamber of Commerce (ECCGCC) jointly published a report, “Ten Highlights of China’s Commercial Sector 2017”. The report identified ten key trends of China’s commercial sector and provided insights into its developments. According to the report, 2017 is set to be another transformative year for China’s commercial sector as even wider adoption by Chinese consumers of mobile Internet and other digital technologies powers faster growth within the “New Retail Regime”, as well as more innovative business models and practices. The ten highlights identified are:

1. Consumer market continues steady growth; strengthening role of consumption to drive economic growth
2. Government issues multiple policies to support circulation industry development and facilitate supply-side reform
3. Online retail sales growth decelerates; e-commerce players aim for new growth paths
4. Smart business models emerge; social networks become new marketplace for commerce
5. “New Retail Regime” sees emergence of new retail formats and business models
6. Lifestyle service sector proliferates; growth engine for the commercial sector
7. Building a trustworthy business credit system
8. Strengthening agricultural produce circulation; contract farming gains attention

9. New forms of business collaboration; outbound M&A activities prevalent
10. Financing through public listing; smart logistics bring new opportunities to logistics sector<sup>1</sup>

**Full report:**

[https://www.fbicgroup.com/sites/default/files/10HL\\_2017\\_FullReport.pdf](https://www.fbicgroup.com/sites/default/files/10HL_2017_FullReport.pdf)

**CNCIC: Retail sales of 100 key large-scale retailers in China down by 0.5% yoy in 2016**

According to the China National Commercial Information Center (CNCIC), retail sales of 100 key large-scale retail enterprises decreased by 0.5% yoy in 2016. The decline was 0.4 percentage points (ppt) higher than that in 2015<sup>2</sup>.

## E-commerce



**NDRC publishes “Guiding Opinions on Fully Enhancing the Credit Construction in the E-commerce Sector”**

Nine departments including the National Development and Reform Commission (NDRC) have issued “Guiding Opinions on Fully Enhancing the Credit Construction in the E-commerce Sector (“the Opinions”). The Opinions specified the need to enhance the construction of an end-to-end e-commerce credit system in support of e-commerce and suggested to establish a real-name registration and authentication system, improve the online transaction credit rating system, strengthen the management of online payment, build a credit system for posting and delivery logistics, and strengthen measures that safeguard consumers’ rights and interests.

The Opinions also required e-commerce platforms to put in place user identification and real-name registration systems, check the identities of business entities and individuals opening online stores, particularly those selling products such as foods, drugs and daily consumer goods. E-commerce platforms should also display their business licenses or verified identifications on their websites for public's view.

Moreover, the Opinions proposed the establishment of an appropriate reward and penalty mechanism to encourage honest and credit-abiding behaviour. A system issuing graded-level of warning in the form of "red list and black list" should be set up for the e-commerce sector, while law enforcement officials should crack down and rectify illegal and dishonest acts to maintain market integrity<sup>3</sup>.

### State Council publishes "Opinions on Facilitating the Heathy and Orderly Development of Mobile Internet"

General Office of the Communist Party of China and the General Office of the State Council published the "Opinions on Facilitating the Heathy and Orderly Development of Mobile Internet" ("The Opinions"). "The Opinions" mentioned the needs to facilitate innovative development of mobile Internet, to further utilize mobile Internet as a catalyst in the development of various sectors, to monitor and safeguard against the risk arising from the advent of mobile Internet, and to deepen International collaboration and knowledge exchange on this topic. "The Opinions" laid out several areas of focus such as enhancing R&D in 5G mobile communication technology and related standard setting; implementing policies to grant deductibles to companies for their R&D expenses on core technologies development such as AI, VR and AR;

improving Internet service quality and lowering the fees of Internet services; expanding broadband and wireless Internet coverage to cover public areas and commercial service areas and offering such services to the public for free. Also, "the Opinions" mentioned that the construction of modern infrastructure such as content distribution networks, cloud computing and big data platforms needs to be expedited and improved. Private funding will be introduced to the telecommunication sector to bring about market competition and further development of this sector<sup>4</sup>.

### 21st Century Business Herald & JD.com: E-commerce spending in tier 1 cities of China already surpasses that of other developed countries

Research institute under 21st Century Business Herald published a report jointly with JD.com, titled "Report on China's E-commerce Spending in 2016". The report said that China's e-commerce sector has maintained fast development over the years. E-commerce spending in tier 1 cities has surpassed that of some developed countries and many unique e-commerce models have emerged. In tier 2 cities, consumers are becoming more mature and a group of "new consumers" is developing in mid-western China. The report estimated that the total e-commerce transaction size in China amounted to over 25 trillion yuan in 2016 and remained the largest e-commerce market in the world. Online retail transaction size is estimated to reach over 5 trillion yuan in 2016, accounting for over 10% of the total retail sales of consumer goods<sup>5</sup>.

### AliResearch & Southwestern University of Finance and Economics: e-commerce raises rural incomes and improves infrastructure and people's lives

AliResearch and the Centre for Research and

China Household Finance Survey of the Southwestern University of Finance and Economics jointly published the "Report on the Development of Rural E-commerce in 2016". According to the report, in 1H16, total rural online retail sales in China reached over 316 billion yuan; of which, total sales in 2Q16 grew by 13.48% quarter-on-quarter, four percentage points higher than that of urban e-commerce. Rural online retail sales accounted for 14.14% of total online retail sales in 1H16; the proportion is expected to continue to increase. According to the report, e-commerce can help raise the annual income of rural families, improve logistics and transport infrastructure of rural areas and increase the satisfaction rate of people living in the rural regions. AliResearch estimated that by 2018 the number of rural Internet users in China will reach 240 million, over 60% of which will be engaging in online retailing<sup>6</sup>.

### JD.com opens analytics and marketing services to third parties; furthers its transition into a pan-retail-service provider

JD.com started to offer data analytics and marketing services to other retailers, saying that the services could help traditional brands to rebuild their relationships with consumers. In late 2016, JD.com has opened its logistics services to its merchants. The offering of new services to third parties signified that the company is transitioning further from an e-commerce platform into a pan-retail-service provider. While it continues to build the pan-retail ecosystem, JD.com is exploring more new growth opportunities<sup>7</sup>.

### JD.com and Midea Group sign a 20 billion worth strategic partnership agreement

JD.com and Midea Group signed a comprehensive partnership agreement which could be valued at 20 billion yuan per annum. According to the agreement, both sides will

work together to deepen development in areas such as smart home-appliances, smart household, channel expansion, customized order and big data analytics. JD.com can provide Internet technology applications, big data analytics and cloud platform services etc. to Midea; while Midea's offline sales distribution channel can help JD.com expand their physical reach, especially in counties and villages<sup>8</sup>.

### Alibaba launches "Big Data Anti-Counterfeiting Alliance" in Hangzhou

Initiated by Alibaba Group, the world's first "Big Data Anti-Counterfeiting Alliance" was established in Hangzhou on 16 January. Alibaba and about 20 founding members of the alliance jointly issued the "Common Action Plan" in commitment to leverage big data and Internet technology to identify counterfeit online goods in a more effective, efficient and transparent way. The first batch of around 20 members of the alliance include globally renowned brands such as Louis Vuitton, Swarovski, Trendy Group, Sony, Samsung and Shiseido<sup>9</sup>.

### Baidu sets up AR Lab in Beijing

Baidu established an Augmented Reality (AR) Lab in Beijing with a hope to increase margin via the use of AR marketing. The Baidu AR Lab will initially focus on using the technology in marketing campaigns to increase sales. Thereafter the Lab will gradually expand into sectors such as healthcare and education. Baidu commenced its R&D in AR technology two years ago and had committed US\$200 million on the R&D of AR and Artificial Intelligence (AI) in September 2016. The company is now working to combine the use of AR and AI to create advanced visual effects that interact can with surrounding environment in real time<sup>10</sup>.

## O2O platform service provider Feifan targets to get listed in 2020

According to Wang Jianlin, Chairman of Wanda Group, Feifan ([ffan.com](http://ffan.com)), an O2O platform under Wanda, plans to start its A-round financing this year. It also targets to generate overall profitability in 2018, and get listed on the stock exchange once the company achieves over 10 billion profit in 2020. Feifan has been established for one year; it has reportedly 150 million active users and 82.84 million members<sup>11</sup>.

## Lazada in Malaysia launches sales channel dedicated to brands from China

Lazada launched a sales channel dedicated to well-known brands from China on its Malaysia website. Lazada Malaysia has signed exclusive sales agreement with 16 Chinese brands, including Semir (fashion), Bluedio (mainstream Bluetooth headphone), Puppyoo (electrical appliance) and QCY (Bluetooth tech gadget). Lazada said these 16 brands have recorded over 2 million yuan of sales on the platform since they entered in August 2016<sup>12</sup>.

## DHGate and Serpost sign strategic cooperation agreement to promote DHGate's brand

Recently, DHGate and Serpost signed an annual strategic cooperation agreement in Beijing. Under this agreement, Serpost will provide resources to support and promote DHGate's brand. After the establishment of cooperation, DHGate's logo will be printed on more than 500,000 postal parcels which transact through cross-border e-commerce platforms in China. At the same time, Serpost will promote DHGate's brand in more than 100 Serpost's outlets in Peru, so as to enhance the brand awareness of DHGate in the country<sup>13</sup>.

## Newegg to open online retail platform in China

Newegg, a US-based online retailer of consumer electronics, plans to open e-commerce platforms in over 20 countries, including China, in 2017. Newegg already has a Chinese e-commerce website (Newegg.cn), on which Newegg sells its private label products. The new Chinese e-commerce platform will sell goods from third-party sellers in the U.S. and Europe, and might include goods from retailers in China. Newegg said that it has established relationships with sellers in the U.S. and Europe and can provide them with cross-border e-commerce solution and sell to China. According to Newegg, the new platform will adopt payment methods that are most common in China, including mobile and social app payments. Newegg will also introduce a mobile shopping app<sup>14</sup>.

## Supermarkets and hypermarkets



## RT-Mart enters O2O delivery platform Meituan

Supermarket chain RT-Mart has officially joined Meituan, an O2O delivery platform. Consumers can order RT-Mart's merchandise at home via Meituan's mobile app, which provides access to the 200 outlets of RT-Mart's in five regions of East China, North China, Northeast China, Central China and South China online. Users can either search for "RT-Mart" or click on "Supermarket" to enter RT-Mart online after opening Meituan's app via their mobile devices<sup>15</sup>.

## Seven & I Holdings plans to further expand in China

Seven & I Holdings plans to triple its network of supermarkets and general merchandise stores in China's inland areas to 20 by 2020. The mass retailer's local subsidiary will increase the number of Ito Yokado general merchandise stores to 10 in Sichuan Province. In the supermarket business, Ito Yokado will open one store in southern Chengdu in 2018, and launch as many as 10 stores at new locations in the city by 2020. Additionally, Ito Yokado will set up a company to sell imported Japanese products online. It aims for sales of JPY10 billion (US\$85.7million) by 2020. Ito Yokado opened its first general merchandise store in China in Chengdu in 1997<sup>16</sup>.

### Yonghui buys US\$165 million of stakes of Daymon Worldwide to strengthen private label business

Yonghui Superstore announced that it will join hands with BC Eagle Holdings, L.P. to acquire American company Daymon Worldwide Inc. Yonghui invested US\$165 million in the deal for 40% stakes of Daymon Worldwide. Prior to the acquisition, Yonghui Superstore announced in 2016 its partnership with Daymon Worldwide to develop private label business.

Also, Yonghui Superstore announced a preview of its key figures for the financial year of 2016. It was estimated that Yonghui had a total sales of 49.2 billion yuan, up by 16.79% yoy. Its net profit was 1.24 billion yuan, up by 105.23% yoy. The sharp rise in its net profit in the financial year of 2016 was due to the non-operating profit contributed by Yonghui's sale of its stakes of Lianhua Supermarket Holdings<sup>17</sup>.



### The Economist: Sales of sportswear to reach 254 billion yuan by 2020

The Economist Corporate Network and Anta Sports jointly published a report "China gets its game on: The emerging power of China's sports and fitness industry". The report forecasted that China's sportswear market to see strong growth in coming years and total sales are estimated to reach 254 billion yuan in 2020, up by 54% from that in 2015. Approximately one-third of Chinese people exercise frequently (at least once a week). Sport activities such as running, fitness activities, basketball, soccer and winter sports will be further promoted and continue to bring huge demand for sportswear; functional, unique and high-end sportswear will be in greater demand in the near future<sup>18</sup>.



### Fortune Character Institute: Luxury brands spend over 1.6 billion yuan in China in 2016 for marketing

Fortune Character Institute, a research institute studying luxury brands, published a report on the figures collected related to luxury brands in the world. The report said that official websites are playing a less significant role in attracting visitor traffic when compared to third-party applications such as Facebook, Instagram, Weixin and Weibo. In 2016, luxury brands spent no less than 10 million yuan to advertise on WeChat Moments (the social networking function), close to 100 million marketing fees to operate various public accounts on media, as well as around 1.5 billion yuan on advertising fee to promote products on other website portals in China. However, the challenge remains to be how to turn the click-rate into sales.<sup>19</sup>

## Hugo Boss' business in mainland China rebounds

Hugo Boss AG, a German luxury brand, announced its figures for 4Q16. According to the announcement, Hugo Boss recorded total sales of 725 million Euro in 4Q16, down by around 3% yoy. Sales growth in Asia and mainland China was 5% and 20% respectively. Previously, Hugo Boss encountered difficulties in creating sales in mainland China. The brand said that it remains confident of the margin growth potential in the China market<sup>20</sup>.

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