

China Retail & E-commerce

Weekly Updates

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 FUNG BUSINESS INTELLIGENCE

Asia Distribution & Retail

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Retail in general

MOFCOM: Growth of consumer market remains steady in the first two months of 2019

According to the Department of Market Operation of the Ministry of Commerce (MOFCOM), the growth of China's consumer market remained steady in the first two months of 2019. Four main features of the market are highlighted:

1. Service consumption showed a strong growth momentum. Catering sales amounted to 725.1 billion yuan, increased by 9.7% yoy, 1.7 ppts higher than the growth of retail sales of commodities. During the lunar new year holidays, the total number of tourists exceeded 400 million, up 7.6% yoy. Tourist income reached 513.9 billion yuan, up 8.3% yoy. In addition, entertainment consumption and information consumption also grew rapidly.
2. Online retail sales of physical goods reached 1,090.1 billion yuan, up 19.5% yoy, 11.3 ppts higher than the total retail sales of consumer goods.
3. Retail sales growth of stationery and office accessories (up 8.8% yoy), telecommunication equipment (up 8.2% yoy), cosmetics (up 8.9% yoy), and gold, silver and jewelry (up 4.4% yoy) were faster than in the same period in 2018. Meanwhile, retail sales growth of daily use products (up 15.9% yoy) and grain, oil, food (up 10.1% yoy) were faster than the total retail sales of consumer goods.
4. Consumer price grew 1.6% yoy in January – February 2019, 0.6 ppts slower than that in the same period in 2018¹.

CNCIC: Sales of top 100 major retailers down 0.5% yoy in January and February

According to China National Commercial

Information Center (CNCIC), sales of the top 100 major retailers in China decreased by 0.5% yoy in January and February, with the growth rate slowing down by 3.8 percentage points yoy. By category, retail sales of cosmetics rose 8.3% yoy, followed by grocery items (up 4.3% yoy) and daily necessities (up 1.5% yoy), while sales of home electronic appliances, apparel and jewelry items fell 10.3% yoy, 8.8% yoy and 1.9% yoy respectively².

CCFA: Top 100 franchise operations generate total sales of 430 billion yuan in 2018

On 20 March, China Chain Store and Franchise Association (CCFA) released the "Top 100 franchise operations in China". In 2018, the top 100 franchise operations generated total sales of 430 billion yuan, up 14.8% yoy, 1.8 ppts higher than in 2017. The total number of stores of the top 100 franchise operations reached 177,000, up 15.1% yoy, 4.1 ppts higher than in 2017. CCFA also highlighted the below characteristics of the franchise industry in 2018:

1. The top 100 franchise operations showed strong growth momentum
2. Development of franchise operation in automobile industry and convenience store industry outpaced other industries
3. The Belt and Road Initiative has provided new market expansion opportunities for companies. By the end of 2018, 19 out of the top 100 franchise operations in China have expanded their franchise business overseas
4. Franchise business became an important means for the supply-side reform of the service industry³.

E-commerce

Internet Retailer: JD.com, Suning, Vipshop and Gome Electrical Appliances rank among the top 10 global e-commerce retailers in 2019

On 18 March, e-commerce research agency Internet Retailer released its new report on “2019 Top Performers in Global Ecommerce”. According to the report, the top 10 e-commerce retailers last year accounted for 15.1% of total e-commerce sales globally. Amazon brought in more than 4.5 times the online sales of its closest competitor in the U.S. and nearly 2.5 times the e-commerce revenue of Chinese e-commerce giant JD.com Inc., which holds the second spot in global e-commerce sales. Suning, Vipshop and Gome Electrical Appliances take the third, seventh and ninth places respectively. In China, online retailing sales took up over 18% of the total retail sales in 2018, the highest e-commerce penetration among any major economy⁴.

Xiaohongshu launches new “official brand account”

On 20 March, Xiaohongshu (aka “Red” or “Little Red Book”) launched a new “official brand account” function. According to Xiaohongshu, brand accounts can gain official authentication. On the brand account interface, it shows all articles related to the brand written by their partners or consumers; it also serves as a communication channel between a brand and its consumers. Besides, it displays statistics related to the brand account with just one click. The brand account page directly links to the official flagship store of the brand on Xiaohongshu to drive sales⁵.

Retail logistics

JD Logistics builds China’s first 5G smart logistics demonstration zone in Shanghai

Recently, JD Logistics announced that it will set up China’s first 5G smart logistics demonstration zone in Jiading, Shanghai. JD Logistics will utilize 5G network communication technology, and the applications of smart logistics technologies such as AI, IoT, automatic vehicles and robotics to create an integrated, intelligent demonstration zone with high degree of decision-making power⁶.

Cainiao launches first smart logistics park in Northern China

On 21 March, Cainiao Network announced that its smart logistics park in Wuxi, Tianjin has completed IoT upgrading and already kick-started operations. It is reported that the warehouse has been equipped with lots of advanced technologies, including IoT, AI, edge computing, robotics, etc., as a way to achieving smart management and automated production. Covering Beijing, Tianjin, Hebei, Shandong, Liaoning and other areas, the park has further enhanced its efficiency and stability through technological upgrading, striving to provide same-day and next-day delivery services for customers⁷.

Spain Post, Cainiao and AliExpress sign strategic agreement to accelerate cross-border logistics between China and Europe

On 19 March, Cainiao, AliExpress and Spain Post signed a strategic cooperation agreement to accelerate cross-border logistics between China and Europe, in the hope that SMEs in China and Europe can participate in global cross-border trade in an easier way. According to the agreement, Cainiao and

Spain Post will jointly enhance the cross-border logistics service capabilities between China and Europe, and provide services such as warehousing, cargo sorting, trunk transportation and last-mile delivery for AliExpress to shorten the time for European consumers to buy/receive goods bought in China – parcels from China can be delivered to Spain in about 10 days. Currently, in Cainiao's overseas warehouse in Madrid, more than 90% of the best-selling items can be delivered to consumers within 72 hours. In addition, customized logistics solutions will be introduced to help Spanish SMEs to sell their products to the world on AliExpress⁸.

Department stores and shopping malls

Rainbow Department Store's total revenue reaches 19.138 billion yuan in 2018, up 3.25% yoy

On 14 March, Rainbow Department Store released its FY18 financial results. In 2018, Rainbow achieved total revenue of 19.138 billion yuan, up 3.25% yoy; net profit attributable to shareholders of listed companies was 904 million yuan, an increase of 25.92% yoy. In 2018, Rainbow Department Store reaped the benefits from its themed display and marketing strategies – the contribution of related brand sales increased by 18.8% yoy. While for shopping mall, Rainbow continued to invest more resources on YES! Street (street of delicacies) and themed areas for kids – its shopping centers' comparable store revenue increased by 5.55% yoy, and total profit increased by 64.41% yoy in 2018. As of the end of the reporting period, Rainbow operated a total of 13 shopping malls, 68 department stores, 81 supermarkets and 159 convenience stores⁹.

Chongqing Department Store's net profit increases 37.28% yoy in 2018

On 16 March, Chongqing Department Store released its FY18 financial report. In 2018, the company achieved sales revenue of 34.084 billion yuan, an increase of 3.55% yoy; the net profit attributable to listed companies was 831 million yuan, up 37.28% yoy. In 2018, for its department store operations, Chongqing Department Store strengthened the brand portfolio by introducing a variety of new brands and delisting some old and unpopular ones. While for its supermarket operations, the company focused on establishing factories for fresh produce, sourcing directly from the origins of the food ingredients, introducing food and beverage elements, and also upgrading the consumption scenes in some of its stores. It also launched the company's first 24-hour community convenience store in the hope of enhancing operational capabilities and achieving growth in both sales revenue and net profit¹⁰.

Golden Eagle's operating profit reaches 2.326 billion yuan in 2018, up 41.0% yoy

On 19 March, Golden Eagle Retail Group released its FY18 financial results. As of 31 December, 2018, Golden Eagle's total sales proceeds were approximately 18.995 billion yuan, an increase of 10.2% yoy; revenue reached 6.569 billion yuan, up 32.7% yoy. According to the announcement, the Group's customer traffic grew by 33.9% yoy to 178.0 million visits in 2018, while operating profit reached 2.326 billion yuan, up 41.0% yoy. In 2018, Golden Eagle introduced a number of trendy fashion brands and catering brands; the company will continue to introduce new innovative retail formats, such as "G•Zoo Park", a large-scale indoor interactive science park in the summer of 2019¹¹.

AEON's China operations record loss for two consecutive years

On 20 March 20, AEON released its FY18 financial results. In 2018, AEON's total revenue increased to a new high of HK\$9,675.9 million. However, AEON still recorded a loss of HK\$59.8 million in China during the year, compared to a loss of HK\$41.5 million in 2017. Given that its China operations have recorded loss for two consecutive years, AEON came up with new transformation directions – introducing new business models, exploring the cloud warehouse business, and increasing the proportion of private labels¹².

Supermarkets and hypermarkets

Freshippo teams up with commercial property developers to build community-based service centers

On 18 March, Freshippo (aka Hema Xiansheng) signed cooperation agreements with several commercial property developers including CR Property Technology and Cushman & Wakefield to build community-based service centers together. This is the second time for Freshippo to team up with commercial property developers after partnering with 13 of them in March 2018. Freshippo targets to have full delivery coverage in major districts in selected cities¹³.

RT-Mart's O2O delivery platform Taoxianda expands coverage to customers within 5-km spectrum; delivery completes in 1.5 hours

Taoxianda, RT-Mart's O2O delivery service, has expanded its delivery coverage recently. It now provides 1-hour delivery service to

customers who live within 3 km distance from the store; and 1.5-hour delivery service to those who live within 5 km from the store. Currently RT-Mart operates more than 400 stores in 160 cities in China¹⁴.

Consumer electronics

Suning to open 342 smart retail stores in Beijing's Tongzhou district in three years

On 18 March, Suning Holding Group announced that it has signed a strategic cooperation agreement with the Beijing's Tongzhou District Government. In the future, the two parties will conduct in-depth cooperation in retail, logistics, technology, investment and in other fields. According to the agreement, Suning will build 342 smart retail stores in Tongzhou in three years, including two Suning Plazas, 263 Suning Xiaodian, 26 store-front warehouses and 31 Suning Retail Cloud Stores. In addition, Suning will also open other retail formats such as Suning Cloud Store and Suning Cinemas in the district¹⁵.

Xiaomi records revenue of 174.9 billion yuan in 2018, up 52.6% yoy

On 19 March, Xiaomi Corporation announced the results for the year ended 31 December, 2018. Its revenue reached 174.9 billion yuan in 2018, up 52.6% yoy. Adjusted net profit grew by 59.5% yoy to reach 8.6 billion yuan. In 2019, Xiaomi launched the "smartphones + AIoT" dual-engine strategy. Xiaomi will continue to invest in the development of its open AIoT platform. It expects to invest over 10 billion yuan in the development in AIoT in the next 5 years¹⁶.

Kids products

Baby Tree invests in Indian maternity and child e-commerce platform Healofy

On 20 March, Baby Tree announced the completion of Series A financing for India's maternity and child e-commerce platform Healofy. Healofy stated that the new round of financing can help accelerate the development of its content systems, marketing and use of big data technology. Additionally, Baby Tree will help Healofy further raise its market share by sharing its knowledge and experience in running the online business, and also its mature and profit-making business model. Established in 2016, Healofy has reportedly grown into the number one online mother-infant community in India in terms of number of mobile Internet users and number of active online users. Healofy's major customers include pregnant women and mothers whose kids are aged between 0-5¹⁷.

changes, aiming to address millennials' need for newness. Bain & Company stated that millennials are more heavily influenced by what they consider to be cool than by brand names or product pricing and they value newness more than discounts¹⁸.

Luxury

Bain & Company: China's luxury market grows 20% yoy in 2018

On 19 March, Bain & Company published its latest report on China's luxury market. According to the report, China's luxury market grew 20% yoy in 2018, with Chinese spending representing 33% of the global luxury market. Millennials, repatriation of spending, increased digitalization and a rapidly expanding middle class are four major engines powering the luxury sales in China. Luxury brands that are more successful than others are adept in attracting millennials with younger and more casual collections and using WeChat to identify and target consumers for online and offline sales; they also strive to accelerate product launches and visual merchandising

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Fung Business Intelligence

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

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