

# China Retail & E-commerce

## Weekly Updates

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 FUNG BUSINESS INTELLIGENCE  
Asia Distribution & Retail

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# Retail in General

## MOFCOM: Sales growth of 5,000 major retail enterprises up 4.5% yoy in October

According to the Ministry of Commerce of the PRC (MOFCOM), sales growth of 5,000 major retail enterprises increased by 4.5% yoy in October 2018. In terms of business format, sales of online shopping platforms increased by 25.1% yoy; sales of convenience stores, shopping malls and supermarkets increased by 7.6% yoy, 6.5% yoy and 4.5% yoy respectively, while sales of specialty stores and department stores increased by 4.3% and 0.7% yoy respectively<sup>1</sup>.

## Euromonitor International: Mainland Chinese to overtake Americans to become largest group of outbound tourists by 2030, reaching 260 million

According to a recent research publication by Euromonitor International, tourists from mainland China are set to overtake Americans to become the biggest group of international travelers by 2030. The number of Chinese people taking trips abroad will reach 260 million in 2030, outweighing the U.S. in second place with 159 million outbound trips. Currently, the U.S. leads the pack with an estimated 115 million trips this year, followed closely by Germany with 110 million trips; while China comes third with 97.5 million trips this year<sup>2</sup>.

# E-commerce

## State Council to expand and improve existing policies on cross-border e-commerce retail imports

China will expand and improve the existing policies on retail imports and exports via

cross-border e-commerce (CBEC) to widen opening-up and unlock the potential of consumption, and plan to develop logistics hub to facilitate trade and foster economic growth, announced by Premier Li Keqiang in the State Council's executive meeting on 21 November. Policies set forth in the meeting include:

1. Starting from 1 January 2019, the government will continue to implement the current policies on CBEC retail imports. No requirements in licensing, registration or record-filing for first-time imports will apply to retail imports through CBEC platforms. Instead, these goods will receive more relaxed regulation as imports for personal use.
2. The implementation of this policy will be extended from the 15 cities such as Hangzhou to another 22 cities such as Beijing, Shenyang, Nanjing, Wuhan, Xian and Xiamen which have just established comprehensive CBEC pilot zones. In other cities, businesses must refer to relevant regulatory policies when handling imported products under the "direct mail" model.
3. Goods included in the CBEC retail imports list currently enjoy zero tariffs within a set quota, and have their import VAT and consumer tax collected at 70% of the statutory taxable amount - such preferential policies will be extended to another 63 tax categories of high-demand goods. The transaction limit per order will be raised from 2,000 yuan to 5,000 yuan, and from 20,000 yuan to 26,000 yuan per head per year. The transaction limit will be further adjusted as needed in view of increases in personal incomes.
4. Export tax rebate policies will be further refined in line with international practices to further boost exports via CBEC.
5. CBEC businesses, online platforms and payment and logistics service providers

must fully discharge their responsibilities required by law. Product quality, safety inspection and risk prevention and control should be strengthened for fair competition in the marketplace and better protection of consumer rights and interests<sup>3</sup>.

### JD.com's net revenue reaches 104.8 billion yuan in 3Q18, up 25.1% yoy

On 19 November, JD.com announced its financial results for 3Q18. In 3Q18, JD.com's net revenue amounted to 104.8 billion yuan, up 25.1% yoy; net service revenue was 10.9 billion yuan, up 49.4% yoy; Net income from continuing operations attributable to ordinary shareholders for the 3Q18 was 3.0 billion yuan, compared to 1.0 billion yuan for the same period last year. JD.com's GMV reached 39.48 billion yuan, up 30%. Annual active customer accounts increased to 305.2 million in the twelve months ended 30 September, 2018 from 266.3 million in the twelve months ended 30 September, 2017<sup>4</sup>.

### JD Worldwide rebrands as "JD.hk"

On 17 November, JD Worldwide announced to rebrand as "JD.hk". It will focus on its direct sourcing model, strengthen its self-operated platform and emphasize its strength in last mile delivery. In the past year, JD Worldwide has been focusing on enhancing procurement and sales, quality control, logistics and after-sales service. Since 2018, JD.com has opened sourcing offices in Japan and South Korea; it also plans to open sourcing offices in North America, Europe, Australia and New Zealand<sup>5</sup>.

### China Duty Free Group seals partnership with Alibaba

On 20 November, China Duty Free Group (CDFG) and Alibaba Group signed a

memorandum of strategic partnership at Alibaba's headquarters in Hangzhou. According to the agreement, CDF will cooperate with Alibaba Group's subsidiaries, including online travel platform Feizhu, cloud computing subsidiary Alibaba Cloud, Alipay and Cainiao. To establish a long-term strategic partnership with mutual benefits, the two companies will fully utilize the resources and strengths of both parties and work together to create a new travelling retail ecosystem<sup>6</sup>.

### Taobao World becomes new launch platform for Dongdaemun's Queen's Square in China

According to Taobao, on 16 November, Taobao World officially kick-started the strategic cooperation with Queen's Square, a wholesale market in Dongdaemun, South Korea. Under this cooperation, Queen's Square's sellers will launch new products through Taobao World in China. Moving forward, Taobao World plans to create a live streaming area in Dongdaemun and Chinese consumers can make their purchase while watching the live streaming video. Taobao said that their expansion in Dongdaemun only marks the beginning of Taobao World to build up its live streaming capabilities worldwide. In the future, Taobao will provide tailor-made personnel training, customized programs, and event venues based on the needs and preferences of each overseas markets<sup>7</sup>.

## Department stores and shopping malls

### Intime Department Store opens first new retail department store in Xiamen

On 19 November, the first Intime Department

Store in Fujian was opened in Merry Season Wonderland in Xiamen. From now on, Merry Season Commercial Investment Management (MSCIM), a subsidiary of Xiamen ITG Holding Group, and Intime Department Store will set up a joint venture company responsible for operating Xiamen ITG Holding's commercial projects in Fujian and accelerating expansion in the market. The move marks a major step for Intime Department Store's national new retail strategy. In the future, Intime Department Store and MSCIM will jointly work on digital membership, digitalization of products and store upgrade. MSCIM is an innovative retailer in China and its Merry Season duty-free mall, which is well-received among consumers, has made the company one of the pioneers in the market<sup>8</sup>.

### Rainbow Department Store and WeChat Pay jointly open a smart store in Shenzhen

Recently, Rainbow Department Store has upgraded its 3019sqm supermarket in its Shenzhen headquarters to a smart retail store, together with WeChat Pay – the first benchmark store jointly built by WeChat Pay and Rainbow. The store showcases the latest technological achievements of Rainbow and Tencent's smart laboratory. By leveraging the first series of smart tools from WeChat Pay, the store offers services such as on-demand delivery, "scan and go" payment and payment by facial recognition technology, with an aim to create a totally digitalized retail experience for customers<sup>9</sup>.

## Supermarkets and hypermarkets

### Walmart releases Q3 financial report for FY2019: Total sales in China up 4.3% yoy

On 15 November, Walmart released its financial report for the quarter ended 31 October, 2018. Walmart's total operating income for the first three quarters amounted to US\$375.612 billion, up 3.17% yoy; profit was US\$2.983 billion, down 61.19% yoy. In the third quarter, the operating income was US\$124.894 billion, up 1.39% yoy; profit was US\$1.71 billion, down 2.23% yoy. Walmart's total sales for China in the third quarter increased by 4.3% yoy, and comparable store sales grew by 2.2% yoy. Growth of fresh produce remained strong and performance of Sam's Club was strong in the quarter – achieved a 12% yoy increase in comparable store sales during the Mid-Autumn Festival<sup>10</sup>.

### JD.com announces strategy for its supermarket business for the first time

Recently, JD.com's FMCG Business Unit announced the strategy for its supermarket business. Its new strategy "L.E.A.D" – "leverage boundary-less retail", "empower partners", "accelerate growth", and "drive traffic" – covers every aspect of JD's supermarket business. JD.com will accelerate its integration with leading physical hypermarket and supermarket operators, cooperate with brand owners along the supply chain, enhance logistics efficiencies by leveraging boundary-less factories, expand product categories, and drive traffic<sup>11</sup>.

### Wumart launches 11 upgraded New Mart supermarkets

On 21 November, Wumart launched 11 upgraded New Mart supermarkets in Beijing. Established by Wumart in 2015, New Mart supermarket aims to provide customers a comfortable shopping environment, with a focus on taste and lifestyle. As one of Wumart's lifestyle supermarkets, the upgraded New Mart mainly sells fresh food, personal care and household products,

offering local customers high quality products at low prices. New Mart's customers can also place orders online and enjoy home delivery services<sup>12</sup>.

## Apparel

### German luxury skiwear brand Bogner enters the China market

On 10 November, German luxury skiwear brand Bogner opened its first store in China. With a floor space of 164 sqm, the store is designed based on the concept of "Modern Natural" and will operate seven days a week. The store is located at Thaiwoo Ski Town at Chongli County, Zhangjiakou City, Hebei Province – Chongli County is said to be the best skiing destination in China and Thaiwoo Ski Town will be the main stadium for skiing in the Winter Olympic Games in 2022. Currently, Bogner has 19 self-operated stores, 33 partner stores and more than 6,500 sales outlets in more than 50 countries, and it has more than 100 partners in the Asia-Pacific region (China, Japan, South Korea, Taiwan, Mongolia and Australia)<sup>13</sup>.

## Home products

### IKEA plans to invest 2 billion euro to open new stores in China over the next three years

IKEA plans to invest 5.8 billion euro to open new stores worldwide over the next three years. In addition to opening more IKEA retail stores, the company will spend 3 billion euro to develop mixed-use city-centre projects around the world in the next three years; each city-centre project will comprise a shopping center, IKEA office building, IKEA creative

apartment and hotel. In China, IKEA will earmark 2 billion euro for mixed-use city centre projects in Shanghai, Changsha and Xian and to renovate its existing stores in the three cities<sup>14</sup>.

## Toys

### Fung Retailing becomes the largest shareholder of Toys "R" Us Asia; plans to accelerate expansion in China market

ON 16 November, Toys "R" Us Asia announced that the approximate 85% interest in Toys (Labuan) Holding Limited will be acquired by the holders of its parent company TRU Taj LLC's Senior Secured Notes (the "Taj Noteholders"). The Taj Noteholders and Fung Retailing Limited ("Fung Retailing"), the owner of approximately 15% of Toys (Labuan) reached a new partnership agreement. Fung Retailing will acquire an incremental 6% of Toys (Labuan) from the Taj Noteholders, thereby increasing Fung Retailing's ownership to approximately 21%, making it the largest individual shareholder of Toys "R" Us Asia. In addition, Toys "R" Us Asia plans to expand at a rate of 45 to 50 stores per year in mainland China. This transaction facilitates the separation of the Asian business from its ultimate parent Toys "R" Us, Inc<sup>15</sup>.

## Kids products

### Babytree seeks up to HK\$2.2 million in HK IPO; expects to begin trading on 27 November

On 13 November, Chinese parenting website Babytree seeks to list on the Hong Kong Stock Exchange on 27 November, raising approximately HK\$1.702 -2.203 billion

(approximately 1.508 – 1.952 billion yuan). According to the company, sales growth of Babytree has been decelerating recently. The company's sales revenue in 2016 and 2017 was 509 million yuan and 729 million, with a yoy growth 154.5% and 43.2% yoy respectively. In 1H18, total sales revenue of Babytree reached 408 million yuan, up 12.65% yoy<sup>16</sup>.

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## Fung Business Intelligence

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