

China Retail & E-commerce

Weekly Updates

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Asia Distribution & Retail

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Retail in General

CNCIC: Total retail sales of China's 100 key large-scale retail enterprises drop by 2.0% yoy in July 2018

According to the statistics from the China National Commerce Information Center (CNCIC), the retail sales of the 100 key large-scale retail enterprises decreased by 2.0% yoy in July 2018; the growth rate was 5.7 ppts lower than in the same period of last year. Of which, retail sales of apparel fell by 4.3% yoy in July 2018, 9.6 ppts lower than in July 2017; retail sales of cosmetics increased by 7.5% yoy in July 2018, 2.9 ppts lower than in July 2017; retail sales of daily necessities fell by 2.1% yoy in July 2018, 1.5 ppts lower than in July 2017¹.

E-commerce

CNNIC: Number of Internet users in China reaches 802 million

China Internet Network Information Center (CNNIC) released the "42nd Statistical Report on Internet Development in China". As of 30 June, 2018, there were 802 million Internet users in China, with a penetration rate of 57.7%. 788 million people used mobile phones to access the Internet; proportion of Internet users accessing the Internet through mobile phones was as high as 98.3%. The number of online shoppers in China reached 569 million, an increase of 6.7% compared with end-2017, accounting for 71.0% of total Internet population. The number of mobile shoppers reached 557 million, an increase of 10.2% compared with end-2017².

Alibaba's revenue up 61.0% yoy to reach 80.92 billion yuan in the quarter ended 30 June, 2018

On 23 August, Alibaba Group announced its financial results for the quarter ended 30 June, 2018. In the quarter, Alibaba's revenue was 80.92 billion yuan, up 61% yoy, keeping a growth above 55% yoy for six consecutive quarters. Revenue from core commerce also increased 61% yoy to 69.188 billion yuan. Income from operations was 8.02 billion yuan, a decrease of 54% yoy due to a one-time increase in share-based compensation expense related to Ant Financial's awards to employees. Annual active consumers on Alibaba's China retail marketplaces reached 576 million as of 30 June, 2018. GMV of physical goods of Tmall grew 34% yoy in this quarter³.

Shanghai government signs strategic cooperation agreement with Alibaba Group and Ant Financial Services Group

On 16 August, Shanghai government signed a strategic cooperation agreement with Alibaba Group and Ant Financial Services Group, Alibaba's financial affiliate. According to the agreement, Shanghai government and Alibaba will carry out cooperation in the integrated development of the Yangtze River Delta region, innovations in social management, technologies, and manufacturing industries' upgrade, new retail industries' development, cultural industries, and talent cultivation. Jack Ma, Executive Chairman of Alibaba, said that Alibaba values Shanghai's development potential, and the group will deploy more of its business, technologies, products and business models in Shanghai. Alibaba's Hema Xiansheng and Ele.me are also headquartered in Shanghai⁴.

Zhejiang Free Trade Zone and Alibaba Group sign cooperative agreement to shorten certification process for non-special-use cosmetics to three months

On 18 August, Alibaba Group signed a deal with Zhejiang Free Trade Zone that speeds up the certification process for Tmall brands who want to import non-special-use cosmetics into China for the first time. According to Alibaba, the approval time will be reduced to about three months, compared to the typical six to eight months⁵.

JD.com reports quarterly loss of 2,212.5 million yuan

On 16 August, JD.com released the financial results for 2Q18. Net revenues were 122.3 billion yuan, up 31.2% yoy. Net service revenues for the quarter were 11.8 billion yuan, up 51.0% yoy. Net loss from continuing operations attributable to ordinary shareholders for the quarter was 2,212.5 million yuan. Annual active accounts increased by 21.5% yoy to 313.8 million as of 30 June. Meanwhile, JD.com announced the three key drivers of business growth in the future, including: 1) 3C and home appliances; 2) Clients with big business volume or from emerging businesses such as fresh food; and 3) Development of retail infrastructure such as smart supply chain, and retail technologies used in-store⁶.

Taobao Xinxuan opens first store at Intime Retail in Wenzhou and third store in China

Recently, Taobao Xinxuan collaborated with Intime Retail in Wenzhou to open a new store inside Intime Retail's overseas direct sales and upscale supermarket, Choice West. This is the third store of Taobao Xinxuan following the debut store in Hangzhou ("Qinchengli" store) and the second one in Shanghai Rt-mart Yangpu store. The store spans an area

of 580 sqm, selling a wide range of products including kitchen utensils, home textiles, cleaning supplies, suitcases and stationery. It is reported that each Taobao Xinxuan store applies consumer big data analysis to curate and select products; it also adopts a customized strategy called "customization around the point of sale"⁷.

JD.com launches self-developed blockchain open platform

On 17 August, JD.com officially launched its self-developed Blockchain Open Platform – "JD Blockchain Open Platform" – to help enterprise customers build, host and use their own blockchain applications for operations management. The new platform features a "one-click deployment" function, which allows businesses to make decisions in seconds with the use of blockchain technology. Also, the new platform offers its customers multiple blockchain bottom layers, tools and software that are intended to allow easy customization to suit the needs of businesses⁸.

Six government departments jointly issue the "Notice on Strengthening the Management of Online Live Streaming"

On 20 August, six government departments including the Anti-Pornographic and Anti-Illegal Publications Working Office, the Ministry of Industry and Information Technology, the Ministry of Public Security, the Ministry of Culture and Tourism, the State Administration of Radio and Television, and Office of the Central Cyberspace Affairs Commission jointly issued the "Notice on Strengthening the Management of Online Live Streaming". According to the Notice, local governments and relevant departments should further strengthen the supervisory of the issuing of online live streaming licenses, filing system as well as the management of online live streaming platforms and services.

The Notice also urged local authorities to implement real-name registration system for users, strengthen the management of live streaming hosts, and launch a 24/7 emergency response mechanism⁹.

WeChat launches digital wallet in Malaysia

On 21 August, Tencent's WeChat launched its digital payments platform in Malaysia, its first market in Asia beyond China and Hong Kong. Malaysia's WeChat users can transfer money among themselves and make payments to offline merchants in ringgit. Tencent is building a local payments service, rather than taking the more common route of overseas expansion used by Chinese mobile-app providers that caters to Chinese tourists or nationals living abroad¹⁰.

JD.com launches eight private labels

On 22 August, JD.com launched eight private labels, namely, Favor8time, Original Care, Hommy, Jiabai, INTERIGHT, LATIT, Jingxuan and JDME, covering various product categories including food, mother and baby, home products, apparels, suitcases, home electronics and fresh produce. It is reported that products of Favor8time, Original Care and Jingxuan will be printed with the words "JD.com's private label" and "Made by JD.com"¹¹.

Pinduoduo removes nearly 4.3 million listings in eight days following concerns over fake goods

On 22 August, Pinduoduo issued an open letter stating that between 2 August and 9 August, the company has closed 1,128 online stores and removed nearly 4.3 million listings from its platform in response to concerns over the sale of counterfeit goods. According to the letter, Pinduoduo has already reported 36

businesses that infringe on copyrights to the Changning District Market Supervision Administration in Shanghai. Pinduoduo said it would continue to report suspected illegal companies to the relevant local market supervisor. Pinduoduo will also upgrade its merchant verification system in the future¹².

Alibaba launches an upgraded version of AI-assisted customer service robot "Dian Xiaomi"

On 22 August, Alibaba officially released an updated version of its AI-assisted customer service robot "Dian Xiaomi". The new Dian Xiaomi will have two updated service modes: 1) it will be on 7/24 fully automatic mode during night time and peak hours; 2) newly added smart services for forecasting, initiative marketing, reminder, etc. which make the robot a smart helper in handling customer service enquiries¹³.

Retail logistics

JD.com forms a drone inspection center

On 20 August, JD.com signed a strategic cooperation agreement with the research institute under the Aviation Industry Corporation of China. The two entities will jointly work on four aspects including building up drone inspection and testing capabilities, industry standard research, quality engineering, airworthiness and safety. JD.com and the research institute will jointly establish a drone inspection center and a big data center. Through setting up the drone inspection center, JD.com can establish inspection standards for all types of drones and provide inspection services both internally and externally. The big data center will design, manufacture and sell drones based on big

data processing and analytics. JD.com and the research institute have the vision to form industry standards, both in China and internationally through conducting industry standard research¹⁴.

Cainiao Network forms strategic partnership with Singapore Airlines

On 21 August, Cainiao Network and Singapore Airlines (SIA) announced to form a strategic cooperation to work closely to enhance international air cargo services. According to the cooperation agreement, four business lines of Alibaba namely Alitrip, Cainiao, Aliyun and Alipay will participate in the cooperation, covering air ticket sales, membership integration, innovative marketing, international cargo services, cloud computing services, and on-board payment. SIA will support the global procurement transportation capacity for products from China to Singapore or use Singapore as a transit to the world. Upon the cooperation with SIA, Cainiao hopes to further enhance its global smart logistics capabilities and achieve the goal of 72-hour delivery of global parcels¹⁵.

Department stores and shopping malls

Rainbow's revenue in 1H18 up 6.0% yoy to reach 9.523 billion yuan

On 17 August, Rainbow Department Stores released its 1H18 report. According to the report, Rainbow's operating income in 1H18 reached 9.523 billion yuan, up 6.02% yoy; net profit attributable to listed shareholders increased 29.52% yoy to 485 million yuan; online transaction volume totaled 818 million yuan. In terms of business enhancement, Rainbow's Well Go unmanned store has entered the high-end residential area in

Shenzhen during the report period¹⁶.

Supermarkets and hypermarkets

Walmart China's total sales in 2Q18 up by 4.3%

Walmart released its 2Q18 earnings report (for the period of 1 May – 30 July, 2018), with revenues of US\$128 billion, up 3.8% yoy. Excluding exchange rate effects, revenues were US\$127.8 billion, up 3.6% yoy. For the China's market, Walmart's total sales in 2Q18 increased by 4.3% yoy, while comparable sales increased by 1.5% yoy. Comparable traffic flow and per customer transaction continued to grow steadily¹⁷.

Yonghui Superstores partners with Horizon Robotics for smart retail

On 15 August, Beijing Horizon Robotics Technology Co. Ltd. announced a strategic cooperation with Yonghui Superstores. By combining the artificial intelligence technology of Horizon Robotics and Yonghui's retail business, the two sides will explore in-depth cooperation in "customers, merchandise, stores", and help Yonghui to implement smart retail technologies. It is reported that the partnership between Yonghui and Horizon Robotics will go beyond exploring passenger flow statistics and facial recognition, and will encompass business operations and management and user experience¹⁸.

Yonghui Superstores records revenue of 34.4 billion yuan in 1H18; net profit drops 11.54% yoy

On 18 August, Yonghui Superstores released the financial results for 1H18. Operating

income was 34.397 billion yuan, up 21.47% yoy; net profit attributable to shareholders of the company was 933 million yuan, down 11.54% yoy. This is the first time in the past 7 years that Yonghui Superstores showed a decline in net profit in the first half of the financial year. Among all the company's expenses, those saw the most rapid increase include employee salaries (up 40.04% yoy); rental costs (up 31.26% yoy); storage and warehousing costs (up 80.93% yoy) and marketing costs (up 137.61% yoy). The high costs were partially attributable to the rapid store openings amid the rather weak retail environment. Yonghui Superstores opened 146 new stores in 1H18; it has a total of 952 stores in 22 provinces by the end of June 2018¹⁹.

Carrefour China launches on JD Daojia

Recently, Carrefour China have connected with JD Daojia, which is the third O2O channel of Carrefour in addition to Meituan and Ele.me. Carrefour offers a full range of products on JD Daojia, including fruits and vegetables, egg meat, dairy products and health foods. There are four to five thousand SKUs²⁰.

Convenience stores

All 7-Eleven stores in Beijing connect with Meituan Waimai

On 20 August, Beijing 7-Eleven announced that all of its stores in Beijing have connected with Meituan Waimai for O2O delivery service to customers. Most of the SKUs in 7-Eleven will be available on Meituan Waimai. For hot meals, customers can request the store to re-heat for them before delivery. The store will provide ice packs for delivery of cold food to ensure the food are delivered at the right temperature. It is reported that 7-Eleven will

further cooperate with other delivery platforms in the future²¹.

Apparel and footwear

JD.com and Hongdou launch first "Hongdou-JD.com Experiential Store"

On 15 August, JD.com and Jiangsu Hongdou Industrial Co., Ltd. together launched the first "Hongdou-JD.com Experiential Store" following the signing of a boundaryless retail strategic agreement in April 2018. This is also the first smart store of JD.com in the apparel sector. The store features JD.com's latest black technologies including smart mirror with styling recommendation and personal guide function; "Being in the mirror" technology which allows shoppers to take pictures and movie and share with friends by just a click; and big data analytics. In the future, the store will also utilize technologies such as drone delivery and explore the incubation and application of new technologies in offline scenes²².

HLA's revenue exceeds 10 billion yuan in 1H18

On 16 August, HLA announced its 1H18 financial results. According to the announcement, HLA's total revenue reached 100.14 billion yuan in 1H18, up 8.23% yoy; the operating profit was 2.735 billion yuan, up 10.89% yoy, and the total profit was 2.752 billion yuan. Net profit attributable to shareholders of the listed company amounted to 2.066 billion yuan, up 10.20% yoy²³.

Suning and Peacebird form strategic partnership

On 23 August, Peacebird Group Co., Ltd and Suning Group reached a strategic cooperation

agreement to build an O2O omni-channel retail ecosystem. The two parties reached a consensus that by 2020, Suning Group will contribute 5% of sales of Peacebird. Peacebird said that its flagship store in Hangzhou will be opened on 28 August. In the future, the flagship store will feature a Peacebird+ trends platform²⁴.

Belle acquires affordable luxury women's shoes brand 73Hours

Belle International Holdings Limited and affordable luxury women's shoe brand 73Hours jointly announced that the two parties have signed an acquisition agreement and Belle International will become the controlling shareholder of 73Hours. Upon completion of the acquisition, 73Hours will still maintain the brand operation independently. For Belle International, the inclusion of the 73Hours brand can enrich its brand portfolio and complement its luxury business line; for 73Hours, it can leverage Belle's well-established industry chain platform and rich experience in fashion operation to accelerate its business expansion²⁵.

Kids products

Annil's net profit increases by 24.62% yoy in 1H18

On 21 August, Annil released the financial report for 1H18. The report shows that as of 30 June, the company's revenue reached 568 million yuan, up 17.51% yoy; net profit attributable to shareholders of listed companies was 55.396 million yuan, up 24.62% yoy; net profit was 55.396 million, up 24.62% yoy. Annil said that it will accelerate the adjustment of the distribution of its directly operated stores, increase the number of stores in shopping malls, continue to develop

its e-commerce business, and explore a new profitable model for its franchise model. As of 30 June, Annil has established 1,387 physical stores in 31 provinces, autonomous regions and municipalities across the country, including 943 self-operated stores and 444 franchise stores²⁶.

FMCG

Unilever looks to JD.com for product delivery in China

JD.com has signed a deal with Unilever to move products like Lipton's tea and Lux soap between warehouses across China as Unilever looks to expand sales in more remote parts of China. Unilever previously worked with logistics firms such as Deutsche Post's DHL for its China distribution²⁷.

Consumer electronics

Xiaomi announces its first financial report after listing: revenue up 68% yoy to reach 45.2 billion yuan in 2Q18

On 22 August, Xiaomi Group released its first financial report after listing. Total revenue in 2Q18 increased 68.3% yoy to 45.236 billion yuan. The adjusted net profit grew 25.1% yoy to 2.17 billion yuan. In 1H18, total revenue of Xiaomi was 79.648 billion yuan, an increase of 75.4% yoy; the adjusted profit soared 62.2% yoy to 3.816 billion yuan²⁸.

Home products

IKEA China to launch e-commerce service in 2018

On 16 August, IKEA China announced that it will launch e-commerce service in 2018 and expects to cover 149 cities by the end of the year. At the same time, IKEA has also cooperated with WeChat to establish the "IKEA pop-up shop" Mini Program, which will be officially launched on 27 August. The Mini Program will sell limited number of different packages in the form of a pop-up shop in the next 9 months. IKEA had the pilot run of its e-commerce business in Shanghai back in September 2016²⁹.

Cosmetics

Sasa International partners with Taobao Global to enhance customer shopping experience

On 23 August, Sasa International announced to team up with Taobao Global to jointly create an online and offline ecosystem and nurture local buyers to enhance the shopping experience of Chinese consumers. It is reported that with Alibaba's new technologies and marketing tools, Sasa will have a better understanding of consumer trends; it will have a group of experienced in-house buyers to recommend the right products to consumers; Sasa can also leverage Taobao Global's livestreaming function and content marketing tools to lure consumers with overseas shopping guides, product selection tips, etc. Meanwhile, Taobao's buyers will also promote Sasa's products on Taobao Global platform³⁰.

Luxury sector

Tapestry to focus on expanding Kate Spade's China business

Tapestry, parent company of Coach recently released its 2018 annual report in which the Group's annual sales increased by 31% yoy to US\$5.88 billion. The Group said it will focus on expanding Kate Spade's business in the China market. Meanwhile, it will also increase advertising spending for Coach in China. Coach will launch its first fashion show in China in Shanghai in December this year³¹.

U.K. luxury online marketplace Farfetch files for IPO

U.K. luxury online marketplace Farfetch filed for an initial public offering (IPO) on 20 August and plans to list on the New York Stock Exchange. In June 2017, JD.com invested US\$397 million in Farfetch and became one of the largest shareholders of Farfetch. It is reported that JD.com has agreed to buy more shares to maintain its stake after the listing. In FY17, Farfetch generated revenue of US\$385 million, up 59% yoy. According to Farfetch, proceeds from the IPO will be used for working capital, including possible acquisitions³².

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