

China Retail & E-commerce

Weekly Updates

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 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



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E-commerce



iResearch: Total transaction value of China's mobile shopping sector in 2016 amounts to 3.3 trillion yuan

iResearch published the “2017 China’s Mobile-commerce Report”, which revealed that the total transaction value of mobile shopping amounted to around 3.3 trillion yuan in 2016, accounting for 70.2% of the transaction value of total online shopping. Since 2015, purchases made on mobile devices have surpassed that generated on the PC; the trend is set to continue into the future and mobile is now the major channel for online shopping. On the other hand, the growth of the total transaction value of mobile shopping was 57.9% in 2016, going below 100% for the first time. It showed that the sector has entered a phase of steady growth as the pace of expansion slows down¹.

Alibaba forms strategic partnership with Bailian Group

Alibaba Group and Bailian Group formed a strategic partnership. The two companies will cooperate in six major areas, including retail format transformation, new retail technology, supply chain management, CRM system, payment tools and logistics. The partnership aims to create omni-channel shopping experience for consumers. The partnership does not involve capital ties at this stage. Bailian Group is a state-owned retail conglomerate in Shanghai. It operates various retail formats and has more than 5,000 outlets across 200 cities and autonomous regions in China².

For more information, please read our *"New Retail" in action: Alibaba, Bailian Group Announced New Retail Strategic Partnership - Key highlights and takeaways*

https://www.fbicgroup.com/sites/default/files/Alibaba_Bailian.pdf

Alibaba and Amazon open for business in Australia

Alibaba Group set up its regional headquarters in both Australia and New Zealand in February 2017. Besides, the group also built a range of operation facilities in Australia to support the global business development in the country. Currently, Alibaba’s Tmall and Tmall Global have over 1,300 Australian and 400 New Zealand brands. In Alibaba’s 11.11 Global Shopping Festival in 2016, Australian products ranked fourth in the global top-selling list on Alibaba’s platform.

Meanwhile, U.S. e-commerce giant Amazon is reportedly planning to enter Australia in September 2017. It will build distribution centres in the country. According to market report, Amazon will also launch an online grocery store selling fresh food produce in Australia. Local retail companies are set to be affected by Amazon’s market entry³.

Taobao deregisters over 30,000 counterfeit goods sellers on its cross-border business channel

With the aid from Alibaba’s risk control big data analytics, Taobao deregistered over 30,000 counterfeit sellers on its cross-border business channel (<http://global.taobao.com/>) in the period between February 2016 and February 2017, according to the platform management unit of Alibaba. Alibaba said that the group will strengthen its effort in combating cross-border counterfeit products⁴.

Ant Financial to invest US\$200 million in South Korea's Kakao Pay

Alibaba's financial affiliate Ant Financial Services Group announced its plan to invest US\$200 million in Kakao Pay, the mobile payment subsidiary of South Korean messaging platform giant Kakao. The investment is part of a larger strategic partnership to connect Alipay users to Kakao Pay and develop electronic payment services in South Korea. Kakao Pay will also support the 34,000 businesses in South Korea now using Alipay, and help populate both Kakao Pay and Alipay in more mobile payment scenarios. South Koreans and Chinese tourists will be able to use either one of the payment services according to their own preference. Kakao has over 48 million users globally and Kakao Talk is the most popular messaging application in South Korea. Called by media as the "WeChat in South Korea", Kakao Talk has a user penetration rate of 97% in the country's smartphone market⁵.

Italian century-old handcrafted-shoe brand D'Acquasparta opens store on Tmall

Italian high-end handcrafted-shoe brand D'Acquasparta opened a flagship store on Tmall recently. Currently, the flagship store sells 62 types of products with the prices range between 1,425 – 2,252 yuan per pair. D'Acquasparta is a shoe brand with over a century of history. It sells leisure shoes for men, ladies and kids and has over 600 specialty retail stores worldwide⁶.

Sina Weibo monthly active users reach 300 million and 90% access via mobile devices

Sina Weibo announced its 4Q16 and full year financial results. Monthly active users as of December 2016 increased by 77 million to 313 million, 90% of which were mobile users.

Daily active users also grew to 139 million. As the user base grew and the content on its site continued to become more comprehensive, Weibo's financial performance also surged. In 2016, total annual revenue of Weibo amounted to 4.383 billion yuan, up by 45% yoy. In which, advertising revenue increased by 50% yoy to 3.818 billion yuan in 2016⁷.

E-commerce logistics



CFLP: Market size of rural e-commerce logistics in China doubles in 2016

China Federation of Logistics & Purchasing (CFLP) published the "Performance Report of E-commerce Logistics in 2016". According to the report, total e-commerce sales amounted to 26.1 trillion yuan in 2016, up by 19.8% yoy. In which, the growth rate of online sales of physical goods was 25.6% yoy, 15.2 ppts higher than that of the total retails sales of consumer goods. Online sales of physical goods made up 12.6% of the total retail sales of consumer goods, up by 1.8 ppts from that of the previous year. Among different physical goods categories being sold online, sales of food, fashion and daily necessities grew by 28.5%, 18.1% and 28.8% respectively.

Demand for logistics services continued to increase steadily in 2016. The report estimated that total logistics value reached 230 trillion yuan in 2016, up by around 6% yoy. Total logistics cost was up by around 3%, the increase was roughly the same as in the previous year. The logistics cost as percentage of GDP will likely lower to below 15%, showing that the quality and efficiency of logistics services have been improved.

The report also highlighted the explosive growth of rural e-commerce. “E-commerce Logistics Performance Index” for the rural areas hit an average of 191.5 points in 2016, 35.4 points higher than that of the whole industry, reflecting that rural logistics had a higher growth rate - at around 30% - than the industry as logistics volume in the rural areas nearly doubled in the year. The report forecasted that e-commerce logistics will continue to grow in high-speed in 2017. Rural e-commerce logistics will continue to have the largest growth among different sectors within the industry, while cold-chain logistics has huge development potential and will likely be one of the highlights in the coming year as fresh produce e-commerce continues to flourish⁸.

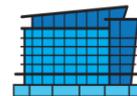
Retail logistics



SF Express completes listing on Shenzhen Stock Exchange

SF Express, one of China's largest courier firms, is set to complete its back-door listing on the Shenzhen Stock Exchange on 24 Maanshan Dintai Rare Earth & New Materials Co will be officially renamed as SF Express. The listing will make SF Express the biggest Chinese courier company by market cap⁹. February, 2017. After an asset swap that valued the company at an estimated 44.8 billion yuan, its reverse merger partner

Department stores and shopping malls



Parkson Retail Group sees its revenue dropped for three consecutive years and announces plans to invest more on cosmetics and catering businesses

Parkson Retail Group announced its financial results for 2016. Its revenue for the period amounted to 4.606 billion yuan, down by 2.8% yoy. Revenue from core operations amounted to 154 million yuan, down by 15.8% yoy, and same-store sales were down by 6.7%. Revenue of Parkson Retail Group has dropped for three consecutive years. The Group said that it will diversify its retail operation with different retail formats through the opening of new stores and the revamp of the old. Also, the Group will create more self-operated catering brands and invest more on its online retail business. The Group will open two new stores in 2017, including “Parkson Beauty” new retail concept store selling cosmetics and skincare products to appeal to young consumers who enjoy the offline shopping experience¹⁰.

New World Department Store China interim profit up by 54.6% yoy

New World Department Store China Limited announced the interim results for the six months ended 31 December 2016. Net profit for the period increased by 54.6% yoy to HK\$93 million. Operating profit was up by 13.5% yoy to HK\$156 million. During the period, the company put the “One Store, One Strategy” into practice when managing its stores, whereby operations strategies for each store were customized according to the operating conditions and other factors. The company also made efforts to introduce more

projects relating to experiential consumption such as food & beverage, entertainments and services. It also launched more private labels. During the period, the company increased the total number of LOL Concept Shop which sells its private labels to 11. Currently, New World Department Store has 42 retail points, including 40 department stores and two shopping malls¹¹.

Supermarkets and hypermarkets



Sun Art Retail records growth in revenue and net profit for 2016 as a result of store network expansion

Sun Art Retail Group announced its financial results for the year ended 31 December 2016. Revenue amounted to 100.441 billion yuan, up by 4.2% yoy. Revenue from the sales of goods amounted to 97.096 billion yuan, up by 4.1% yoy. Same-store sales growth was -0.34%, up from -3.6% in the previous year. Improvement in same-store sales growth was attributed to the efforts made by the Group in promoting fresh products, differentiating the business and integrating online and offline operation. GMV of RT-Mart's Feiniu.com for the period was 2.1 billion yuan, doubled that of the previous year. As of 31 December 2016, the Group had a total of 446 hypermarket complexes in China¹².

Wal-mart China records 5.4% sales growth in 4QFY17

Wal-mart China announced that it recorded a 5.4% yoy sales growth in 4QFY17 (November 2016 – January 2017). Comparable store sales increased by 2.3% yoy and comparable average ticket size grew by 5.2% yoy. The growth in sales was contributed mainly by its

hypermarkets and Sam's Club stores. In terms of product categories, fresh produce and dried food performed the best in the period. In 2016, Wal-mart China opened 24 new stores, including 21 hypermarkets and three Sam's Club stores. In 2017, the retailer said it will open 30-40 new stores, including three to five Sam's Club stores, invest in its logistics distribution centres, enhance its private labels and direct import products portfolio, as well as speed up the implementation of its e-commerce integration plan. For e-commerce, Wal-mart China will strengthen its collaboration with JD.com. Both companies will work closely both online and offline in the provision of products and services as well as the extent of its coverage. To facilitate the expansion its physical stores, Sam's Club will also promote its self-operated e-commerce platform and strengthen its fresh produce express delivery capability¹³.

Convenience stores



Carrefour China sets up new company to manage its convenience store business

Carrefour China set up a new company dedicated to the management of its convenience store business, aiming to better facilitate the brand's expansion plan in this sector. Carrefour China said that all current convenience stores are grouped under the newly registered company, which will be the major vehicle going forward in the management and investment related to the convenience store sector. Carrefour China opened its first convenience store "Carrefour Easy" in Shanghai in late 2014. Currently, there are 26 "Carrefour Easy" stores in Shanghai. Most of them are located in communities; each store not only offers daily

necessities but also other services such as dining and rest areas, ATM services, free wifi, QR code to support online order at Carrefour's website, etc. Carrefour China expected to open new stores in other cities in 2017¹⁴.



Kantar: China's FMCG sector grows at slowest rate in 2016

According to market research company Kantar, sales growth for China's fast moving consumer goods (FMCG) sector in 2016 was 2.9%, 0.6 percentage point (ppt) lower than that in 2015 and was the slowest growth in the last decade. International retailers experienced slower sales growth at 11.9% in 2016, down by 0.2 ppt from that of 2015. Domestic retailers continued to outperform their international counterparts. Sun Art Retail saw an increase in market share, up from 7.5% to 7.8%, further strengthening its leading position. Yonghui Superstore was the fastest growing retailer in 2016. It opened 79 new stores in the year. Kantar predicted three retail trends in 2017: online and offline integration will continue under the "New Retail" regime; the hypermarket retail format will undergo transformation; customer-oriented strategy and operation will be critical for retailers to win in the market¹⁵.



CBNData, iFashion: Eight trends to watch for in 2017 for online fashion consumption

CBNData and Alibaba's Taobao fashion platform iFashion jointly released the "Trend Report for Online Fashion Consumption in 2017". Based on Alibaba's big data from various fashion product categories, the report identified eight trends to watch out for in 2017 for China's online fashion sector. The trends include: personalized fashion styles become the norm; non-standardized fashion items become they key growth drivers; increasing crossover with wearable technology and sports; KOLs become a stronger factor affecting buying decision; content marketing becomes the major driver of Internet traffic; digitization strategy being more widely adopted and applied; customer-centric business models becomes more popular; lastly, new technologies and new models to transform the fashion retail operation¹⁶.

Anta Sports 2016 sales revenue up by 20.0% yoy, to form JV with South Korean brand Kolon Sport

Anta Sports released its 2016 annual report. Sales revenue for 2016 reached 13.346 billion yuan, up by 20.0% yoy. Currently, Anta Sports has 8,860 retail stores under the Anta brand, up from 8,510 at the 2016 Interim. Meanwhile, Anta Sports announced a JV between Anko, its wholly-owned subsidiary and Kolon Industries and one of its subsidiary. The JV will be the exclusive distributor of certain products that carry Kolon Sport's intellectual property and trademark. According to the announcement, Anko and the Kolon group of companies will each own 50% of the equity in

the JV. Kolon Sport is a South Korean outdoor brand founded in 1973. It entered the China market in 2006. The collaboration with Kolon Sport underscores Anta Sports' move in pursuing multi-brand strategy. The company acquired Italian sports fashion brand FILA and Japanese Descente earlier¹⁷.

Luxury products

VIP.com's total revenue for 2016 up 40.8% yoy

VIP.com's total revenue for 2016 was up by 40.8% yoy to reach 56.59 billion yuan. Net profit for the period was 13.6 billion yuan, up by 37.4% yoy. The growth was mainly attributed to the increase in the number of new active members, total active members, as well as total order numbers. In 2016, the number of active users on VIP.com grew by 42% yoy, from 36.6 million in the previous year to 52.1 million, while the total order numbers increased by 40% yoy, from 193.1 million in the previous year to 269.8 million. VIP.com said it built five new distribution centres in 2016 to expand its logistics and warehouse network, which has improved both operation efficiency and customer experience. The retailer has also introduced more hit products from popular brands to their websites¹⁸.

Cosmetics

South Korean coloured cosmetics brand Luna to open store on Tmall Global

South Korean professional coloured cosmetics brand Luna, a brand under the country's household chemical group Aekyung, opens its flagship store on Tmall Global. 28 types of products will be made available, including coloured cosmetics for face, eye and lip, with prices ranging from 80-325 yuan. Aekyung is a major player in the South Korean household chemical sector. Some of its brands include AGE20s, LUNA, A-solution, D-solution, Point and Comas. The company also produces daily necessities such as household products, pets products, healthy food and other groceries¹⁹.

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