


China Retail & E-commerce

Weekly Updates

17 March – 23 March 2017



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Asia Distribution & Retail

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Retail in general



CNCIC: Retail sales of 100 key large-scale retailers in China increase 2.2% yoy in January - February 2017

According to the China National Commercial Information Centre (CNCIC), retail sales of 100 key large-scale retail enterprises increased by 2.2% yoy in January - February of 2017. The growth rate was 7.8 percentage points (ppts) higher than that in 2016 and is the second-highest growth rate just behind that of December 2016. By category, sales of apparel were down by 1.3% yoy, which was 4.2 ppts smaller than the drop in the same period last year. Menswear and kidswear had relatively larger decline in sales, dropping 4.7% and 7.8% respectively. Retail sales of womenswear dropped by 0.2% yoy¹.

MOFCOM issues project plan to promote the “Innovation and Transformation of Physical Retail”

In an announcement calling for the implementation of the requirements in the Opinions on Facilitating Innovation and Transformation of Physical Retail, the Ministry of Commerce (MOFCOM) highlighted five major work areas – strengthening the implementation of policies, facilitating innovation and transformation of companies, optimizing the distribution of resources, promoting technologies that are advanced and applicable, and facilitating synergies development. The announcement laid out a project plan to carry out the implementation work, including the creation of a contact list of key retail enterprises in China. Also, MOFCOM will commission the China Chain Store & Franchise Association to produce the “China Shopping Mall Development Index”

and the “China Convenience Store Prosperity Index”, which use data from sampled retail enterprises in selected key cities in China².

E-commerce



The State Council calls for strengthening of market supervision against counterfeits sold online

The State Council issued the “The Opinions on Strengthening the Fight against IPR Infringement and Counterfeiting under the New Conditions” (The Opinions), in which it called for the further strengthening of market supervision against IPR infringement and counterfeits. The Opinions set the goal of effectively curbing counterfeits by 2020, which will be achieved through law enforcement and market supervision. The Opinions encourage government authorities to adopt new technologies such as big data and cloud computing, improve coordination as well as promote information sharing between departments so as to enhance the government’s ability in combating counterfeits³.

JD Finance publishes big data report on online consumption for February 2017; online sales up 53% yoy

JD Finance released a big data report on online consumption for February 2017. The report showed that online sales in the period was up by 53% yoy and down by 34% month-on-month. Most sub-sectors have shown signs of recovery after the dip earlier this year from the fast growth in 4Q16. Among the 12 product categories surveyed in the report, online sales of food & beverages recorded the fastest growth in the last three months, while cosmetics & personal care, wine, home

electronics, office equipment and computer equipment also recorded above-average growth. Sports & outdoor equipment, home products, mobiles & electronic devices, maternity & infants products, clothes, shoes & bags recorded lower than average growth, while jewellery & accessories recorded negative growth⁴.

Tencent announces 2016 full year and 4Q16 financial results: total revenue up 48% yoy to 151.938 billion yuan

Tencent announced its 2016 full year and 4Q16 financial results. Total revenue of FY16 amounted to 151.938 billion yuan, up by 48% yoy. Profit of the year amounted to 41.44 billion yuan, up by 43% yoy. Specifically, profit in 4Q16 increased 47% yoy to 10.5 billion yuan. Tencent said that in order to increase stickiness of WeChat users, the Group increased investment in videos and mobile payment in 4Q16. Hence, cost increased by 60% to 20.2 billion yuan, while sales revenue increased by 44% to 43.9 billion yuan. Besides, Tencent announced its plan to spin-off its e-book business China Reading, which might seek IPO in Hong Kong. According to media report, the prospective IPO will raise around US\$500 million. Aside from electronic book publishing, China Reading also has music and media streaming businesses⁵.

Alibaba buys out online ticketing platform Damai.cn to expand its entertainment business

Alibaba Group fully acquired Damai.cn, the largest online ticketing platform in China. Alibaba Culture Entertainment Group said the acquisition enables the Group to further enhance its media and entertainment business. Damai.cn will be a platform to distribute the Group's media content and service to the consumers, expanding the Group's user reach and engagement. For

example, the music division of Alibaba Group will reportedly integrate its business with Damai.cn. Both teams will share users' data and work on an interactive O2O marketing model selling music products. Founded in 2004, Damai.cn is a leading online ticketing platform in China that sells over 10,000 types of online tickets for various performances and events such as concerts, musicals, plays, sports events, etc. It holds around 70% market share of the ticketing industry in China⁶.

Alibaba launches eWTP base in Malaysia to help establish the "Digital Free Trade Zone"

Alibaba announced the setup of the first overseas e-hub of the Electronic World Trade Platform (eWTP) in Malaysia through a partnership with Malaysia's digital development agency Malaysia Digital Economy Corp. (MDEC). The partnership aims to use the Internet to bring small businesses in South East Asia into the global economy. Besides, Cainiao and Lazada Group, the leading Southeast Asian e-commerce company owned by Alibaba, plan to set up an e-fulfilment hub at Kuala Lumpur International Airport to provide SMEs in Malaysia with supply chain related services such as logistics, warehousing, customs clearance, trade and finance. Alibaba said this can help Malaysia establish a "Digital Free Trade Zone"⁷.

Aldi enters the China market by opening flagship store on Tmall Global

Aldi, the largest discounted goods retail chain in Germany, opened its Tmall Global flagship store and entered the China market for the first time. The flagship store features five major product categories, namely wine, breakfast products, snacks, organic food, and

cooking condiments. The products are mainly sourced and imported through Aldi's sourcing branch in Australia. Aldi said that all purchases made in the period of 20 – 24 March will enjoy free delivery to celebrate the store-opening⁸.

Metersbonwe stores in Shanghai partner with Fanli.com

Online rebate sales platform Fanli.com announced strategic partnership with fashion retail brand Metersbonwe, whose stores in Shanghai will offer discounts offline in the physical stores while Fanli.com will offer sales rebates online for its customers. By showing the QR code generated by Fanli.com's App, Metersbonwe customers can obtain a 5% rebate on the purchase they make in the Shanghai physical stores. Meanwhile, Metersbonwe is offering exclusive discounted products to Fanli.com's users. As of February 2017, Fanli.com's aggregated offline sales were over 10 billion yuan. Metersbonwe was founded in 1995 and it owned two major adults brands and two major kids brands, namely Metersbonwe, ME&CITY and Moomoo, ME&CITY Kids⁹.

Mogujie.com continues to develop "e-commerce + live streaming"; sales to increase by 100%

Fashion e-commerce platform Mogujie.com said it will continue to develop its "e-commerce + live streaming" model. According to Mogujie.com's statistics, the platform currently has over 20,000 web broadcasters and features over 600 live streaming sessions every day. The highest per day income per broadcaster on record is over 300,000 yuan. The GMV of Mogujie.com during its live streaming sessions in December 2016 increased by 60% from that of November 2016. The platform expected that the GMV during live streaming sessions can go up by

100% by March 2017 from that of December 2016¹⁰.

Supermarkets and hypermarkets



Sales revenue of Chengdu Hongqi Chain amounts to 6.3 billion yuan in FY16; net profit drops by around 20%

Chengdu Hongqi Chain released its financial report for the 2016 fiscal year. The report showed that sales revenue in 2016 reached 6.3 billion yuan, up by 15.23% yoy. Profit attributable to shareholders amounted to 144 million yuan, down by 19.47% yoy. The company said that the drop in net profit was attributable to several factors: the company expedited its expansion in 2016 and opened 538 stores, resulting in an increase in capital expenditure; furthermore, there has been a drastic increase in the number of stores after three acquisitions made by the company in 2015, resulting in an increase in operating expenses such as manpower, rental, maintenance, and amortization of intangible assets¹¹.

Department stores and shopping malls



All Swire Properties' high-end shopping malls in mainland China record positive sales growth in 2016

Swire Properties announced its 2016 financial results. Retail sales for all of its high-end shopping malls recorded positive growth in the year. Gross rental income from its mainland China retail properties increased by 2.9% yoy to HK\$1,688 million despite a 6% depreciation of the Renminbi against the Hong Kong dollar.

In 2016, the yoy retail sales growth of Taikoo Li Sanlitun in Beijing, Taikoo Hui in Guangzhou, INDIGO in Beijing and Sino-Ocean Takoo Li in Chengdu were 6%, 10%, 20% and 78% respectively. Taikoo Hui in Guangzhou has already recorded positive sales growth in 20 consecutive quarters. Between September and December 2016, the shopping mall recorded double-digit growth in total sales and traffic footfall every month in the period¹².

Wangfujing Group partners with convenience store chain I Believe to open franchise convenience stores in Beijing

Wangfujing Group and Henan convenience store chain I Believe formed a chain convenience store franchise under a joint venture arrangement. It will invite mom-and-pop stores in Beijing to be franchisees. Wangfujing Group said that I Believe has track record and experience in managing the supply chain of groceries and fresh produce, allowing convenience stores to lower their procurement cost. Currently, the Henan convenience store brand has over 500 stores in Zhengzhou¹³.

Wangfujing Group net profit drops 13.07% yoy in FY16

Wangfujing Group announced its annual report for its 2016 fiscal year. In FY16, sales revenue amounted to 17.795 billion yuan, up by 2.70% yoy, while same-store-sales dropped by 1.57% yoy. Net profit amounted to 849 million yuan, down by 9.32% yoy. Net profit attributable to shareholders amounted to 575 million yuan, down by 13.07%. Core operating profit ratio was 17.92%, down by 0.6 percentage points (ppts) from that of last year. Wangfujing Group said that the increase in sales was due to the opening of new stores, while the drop in same-store-sales was mainly attributable to weak market sentiment and government regulatory policies. Also, the

advent of Internet retail and cross-border e-commerce also impacted the company's sales growth¹⁴.

Intime Retail sales up by 2.7% yoy in FY16

Intime Retail Group announced its financial results for FY16. As of the year ended 31 December 2016, total sales of Intime Retail Group amounted to 17.214 billion yuan, up by 2.7% yoy from 16.761 billion yuan in FY15. The increase in sales was mainly attributable to the 0.3% growth in same-store-sales, as well as the sales contributed by stores newly opened in 2015 and 2016. In the period, Intime Retail opened three new shopping malls in Jingmen, Wenzhou and Bengbu. As of 31 December 2016, Intime Retail Group's portfolio included 29 department stores and 20 shopping malls, which have a total floor area of around 3.301 million sqm¹⁵.

AEON Stores' China revenue increases 3.7 times in FY16

AEON Stores (H.K.) Co. announced its financial results for FY16. As of the year ended 31 December 2016, total revenue of the company was up by 0.7% yoy to 8.012 billion yuan. The increase was mainly attributable to the positive performance of its China business and its newly opened stores. AEON said that the company will seek to further improve the profitability of its China business. It will open new stores prudently to enhance its foothold in China. AEON opened a store in Panyu in 2016; it plans to invest 355 million yuan to open four new stores in China in 2017. As at 31 December 2016, AEON had 31 stores in Southern China¹⁶.

Lotte Group shut down around 20 retail stores in China

According to media report by South Korean

media on 20 March, of the 99 large-scale retail stores operated by South Korean company Lotte Group in China, 67 were suspended from operation due to fire-safety issues and 20 were closed down by Lotte itself, making the closure/suspension rate of Lotte's stores in China to be close to 90%. According to the media, Lotte Group is taking a monthly loss of up to 116 billion won in its recent operations in China¹⁷.

Cosmetics



L'Oréal: Chinese millennials spend 530 yuan per person per year on cosmetics

French cosmetics brand L'Oréal Group published a comprehensive study of the global cosmetics market in its 2016 annual report. The study presented insights and statistics of the cosmetics market in areas such as macro industry development, color cosmetics product categories, most popular cosmetics products, young consumers' impact on the development of cosmetics products, as well as the performance of L'Oréal's brands in major markets in the world. The report also said that China millennials have an annual budget of US\$77 (around 530 yuan) per person for cosmetics products¹⁸.

Boston Consulting Group and BNP Paribas to conduct a survey on the global luxury market, which collected data of 12,000 luxury goods consumers from over ten countries around the world. The report stated that more Chinese consumers are buying luxury goods locally in China than abroad and the proportion of luxury consumption in China increased from 39% in 2014 to 65% in 2016. 16% of luxury goods consumers in China are buying locally in China through e-commerce. Also, the report created 12 consumer portraits of luxury goods consumers and the dominant types in the China market are: the "Rich Upstarter" who have big spending power (22%), the "Megacitizen" who live in cosmopolitans (16%) and the "Fashionista" who possess fashion knowledge (12%)¹⁹.

Luxury products



Altgamma Foundation: "Rich Upstarter" is the major consumer group in China's luxury market

Altgamma Foundation, an Italian luxury industry organization, commissioned the

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