

China Retail & E-commerce

Weekly Updates

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 FUNG BUSINESS INTELLIGENCE

Asia Distribution & Retail

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Retail in general

NBS: Total retail sales of consumer goods up by 8.2% yoy in 1-3Q19

According to the National Bureau of Statistics of the PRC (NBS), total retail sales of consumer goods reached 29,667.4 billion yuan in 1-3Q19, up nominally by 8.2% yoy. By retail format, retail sales of supermarkets, department stores, professional stores and specialty stores above designated size were up by 7.0%, 1.5%, 3.8%, and 1.4% yoy respectively in 1-3Q19. Online retail sales of physical goods increased 16.8% yoy to 7,323.7 billion yuan in 1-3Q19. Of which, the online retail sales of physical goods were 5,777.7 billion yuan, up 20.5% yoy, accounting for 19.5% of total retail sales¹.

Domestic brands surge in popularity; consumers no longer show overwhelming preference for foreign brands

U.S. marketing consultancy Prophet has recently released a report on “Top 50 Most Popular Brands in China”. According to the report, foreign brands, once perceived by Chinese shoppers to be more superior, lost their market share to domestic brands over the past year. Apple’s brand ranking in China has dropped out of the top 10 from the 5th in 2017; Nike has slipped from the 6th to the 44th place. By contrast, domestic brands are gaining popularity; among the top 50 most popular brands, 30 of them belong to domestic brands, up from merely 18 two years ago².

E-commerce

ICIECC: China’s rural online retail sales total 777.1 billion yuan in 1H19

On 17 October, the Institute of China International Electronic Commerce Centre (ICIECC) released the “China’s Rural E-commerce Development Report (2018-2019)”. According to the report, as of June 2019, China’s Internet population reached 854 million, of which the number of Internet users in rural areas accounted for 26.3% of the total Internet population, representing 225 million people, an increase of 3.05 million people from the end of 2018. For 1H19, China’s rural online retail sales totaled 777.1 billion yuan, up 21% yoy, 3.2 ppts ahead of the national average growth rate and contributing 16.1% of the country’s total online retail sales. The report also highlighted five major development opportunities for rural e-commerce, namely digital economy, rural revitalization, new business models and retail formats, consumption upgrading, and the country’s Belt and Road Initiative³.

NetEase Yanxuan opens a “Plus” store in Shanghai to offer customized products and pave way for offline expansion

On 18 October, NetEase Yanxuan opened the first “Plus” store in Shanghai to offer over 1,000 customized products from online, including homeware, personal care, food, outdoor products etc. Visitors can find specific product tags showing users’ online comments. Spanning across 350sqm, the shop adopts the same style and offers similar smart retail experience as NetEase’s offline store in Hangzhou. It will also launch new IP goods from NetEase and other popular products. NetEase is planning to expand its offline presence and open new offline stores in Hangzhou, Beijing, Shenzhen and Chengdu⁴.

Tmall, JD.com, Suning and Vipshop unveil game plans for 11.11 Global Shopping Festival

Tmall: To create the most money-saving

festival. Tmall started pre-sales for the 11.11 Global Shopping Festival on 21 October. After paying deposits, customers are entitled to discounts, subsidies, coupons and red packets. On 11 November, Tmall will offer 11 million discounted goods, of which one million will appear on the platform for the first time. Tmall will also coordinate with other business formats in the Alibaba Group and offer more benefits to boost traffic.

JD.com: To implement “three grand strategies and nine arrangements”. The three strategies include creating a mega shopping fest, consolidating and innovating the supply chain as well as cultivating markets in lower-tier cities. JD.com will also leverage 5G technologies, direct purchase platform Haitun Global, group-buying platform “Jingxi” and a series of offerings such as lifestyle services, flash sales, interactive games, membership, new product launch, pre-sales, etc. during the festival.

Suning: To create differences in various retail scenes and forge one-hour scene-based living circle. Suning will strive to address pain points faced by consumers in their daily lives and enable consumers to save time, efforts and money. It will offer 30 minutes “flash delivery” services for all products sent within a mile, price guarantee and services related to home electronics, daily life and parcels.

Vipshop: To setup trap-free order procedures and offer limited subsidies to shoppers for two hours. Vipshop will align with thousands of brands to streamline the ordering procedure. The platform will show the lowest product prices directly and offer limited shopping subsidies for two hours from 8pm on 10 November. Consumers will not need to meet minimum spending, redeem red packets or discount coupons.

Pinduoduo: To subsidize users. Although Pinduoduo has yet to announce a detail plan for 11.11 Global Shopping Festival, its usual practice suggests that it will continue to offer subsidies up to 10 billion to users⁵.

Linkshop Retail Research Center: Social commerce market to exceed 2 trillion yuan in 2019

Linkshop Retail Research Center has recently announced a report on the development of China’s social commerce market in 2019. It states that China’s social commerce platforms embarked on rapid development in 2015 and reached the peak in 2017. The market size is estimated to reach 2.06 trillion yuan in 2019, representing an increase of 63.2% yoy; approximately 512 million people have shopped on social commerce platforms in 2019. As these platforms are still evolving, they face challenges in the areas of supply chain, credibility and compliance⁶.

Retail logistics

JD Digits forms joint venture with CMST Development to develop smart supply chain business

Recently Jingdong Digits Technology Holding Co., Ltd and CMST Development Co., Ltd. jointly announced that they will form a joint venture (JV) known as Zhongchu Jingke Supply Chain Management Co., Ltd to boost supply chain management efficiency and create synergy in bulk commodity trading. With a registered capital of 50 million yuan, the JV aims to provide smart supply chain management services for bulk commodities and develop related platforms. Leveraging digital technologies, the JV will strive to drive innovation in warehousing business model and boost standardization in warehouse operation and transportation. This JV project

has been the first initiative since the two companies signed the strategic agreement in January 2019⁷.

Department stores and shopping malls

Guangzhou GrandBuy and Guangzhou Friendship Group restructure their businesses to set up Guangzhou Trading Investment Holding Group

Guangzhou GrandBuy and Guangzhou Friendship Group have reportedly restructured their businesses to set up Guangzhou Trading Investment Holding Group. The restructuring and merger of the two largest local retail companies in Guangzhou marks an important initiative for them to complement each other's strengths and weaknesses and attain coordinated development. Upon completion of the restructuring and merger, Guangzhou GrandBuy and Guangzhou Friendship Group will retain their current trademarks; the operation scale of the newly formed group will reach 35 billion yuan, with the operating revenue expected to hit 15 billion yuan⁸.

Linkshop Retail Research Center: 120 shopping malls open in 3Q19

According to the statistics of Linkshop Retail Research Center, 120 new commercial properties (excluding specialized markets, playgrounds, hotels and offices; commercial space of 20,000sqm or above) were opened in 3Q19 in China, up 15% yoy, offering an additional gross floor area (GFA) of 11.78 million sqm, with an average GFA of 93,140sqm. These newly built commercial properties include mostly medium to large sized shopping malls that offer comprehensive services including retailing, catering, supermarket, cinema, children facilities and

other lifestyle services. By region, eastern China led the growth by opening a total of 56 new shopping malls during the period. Shanghai topped the list (12 new malls) and Shenzhen was ranked the second place (7 new malls)⁹.

Supermarkets and hypermarkets

Freshippo's private label accounts for over 10% of its total product offerings

Freshippo has developed its private label product lines with currently over 1,000 SKUs in 10 categories, accounting for over 10% of its total product offerings. Freshippo targets to have its private labels to reach global standard within three years, and become the industry standard and promote agricultural upgrade¹⁰.

New Huadu to sell 9.5% stake of Xinhe Technology to Hema for 19 million yuan

On 21 October, New Huadu announced to sell 9.5% stake of Xinhe Technology to Alibaba's Hema (China) Co., Ltd. for 19 million yuan. In December 2017, New Huadu and Alibaba Zetai jointly established Xinhe Technology to explore new retail, with a capital injection of 200 million yuan and each company holding 50% stake. In September 2018, New Huadu sold 40.5% stake of Xinhe Technology to Alibaba Zetai. After the completion of this deal, New Huadu will no longer hold any stake in Xinhe Technology¹¹.

Yonghui Superstores achieves 63.5 billion yuan in revenue in 3Q19, up 20.59% yoy

On 22 October, Yonghui Superstores announced their preliminary report for 3Q19. During the period, the company achieved

revenue of 63.5 billion yuan, up 20.59% yoy; operating profit was 1.66 billion yuan, up 84.11%; net profit attributable to shareholders was 1.5 billion yuan, up 51.14% yoy. Yonghui Supermarket commented that the increase in revenue was resulted from the increase in store number and the revenue increase of existing stores¹².

Coca-Cola and JD.com's JD Chaoshi ink strategic partnership pact

On 24 October, Coca-Cola and JD.com's online grocery platform JD supermarket (JD Chaoshi) held a ceremony to sign a memorandum of strategic partnership 2020. Under the partnership, both parties will work in close collaboration on various areas including big data technologies, channel integration, new product development, marketing innovation, smart supply chain, etc., and combine each other's resources to jointly promote the development of beverage category on JD Chaoshi¹³.

Convenience stores

Hunan Youa signs regional franchise contract with Seven Eleven China; first Hunan store to be opened in Spring 2020

On 17 October, Hunan Friendship & Apollo Supermarket Management Co., Ltd. (Youa), subsidiary of Hunan Friendship & Apollo Commercial Co., Ltd.'s, signed a regional franchise contract with Seven Eleven China. Youa will be responsible for opening and managing 7-Eleven stores in Hunan; Seven Eleven China will provide continual business support to Youa in the operation of 7-Eleven stores. Youa can also offer sub-franchise in Hunan with the approval of Seven Eleven China. The first 7-Eleven store in Hunan will be opened in Spring 2020 in Changsha¹⁴.

Apparel and shoes

La Chapelle proposes to liquidate its menswear subsidiary

La Chapelle recently released an announcement informing that its board of directors approved the proposed application for insolvent liquidation of its menswear subsidiary Jack Walk (Shanghai) Fashion Limited. Due to continued operating losses and insolvency, Jack Walk has applied to the People's Court as debtor for its insolvent liquidation and is still pending for acceptance and ruling of the court. There are still uncertainties in respect of the proposed liquidation. Acquired by La Chapelle in 2015, Jack Walk mainly operates the fashion brand O.T.R. The company tried many restructuring resolutions but still cannot solve the current financial and operational difficulties. La Chapelle stated that it has implemented strategic contraction of its business scope and will focus on the development of womenswear business¹⁵.

Skechers to add 900-1,000 new stores in China next year, accelerating expansion in lower tier cities

Recently, Skechers China's spokesperson projected that the company will continue to post robust growth in China. In the future, the company will add 900-1,000 new stores in China and accelerate its expansion in tier 3 and 4 cities by opening mega stores there. Skechers' financial statements reveal that in 2018, the company's global sales reached US\$4.64 billion (approximately 32.8 billion yuan), of which sales from the China market accounted for 14.1 billion yuan, up 36% yoy. Currently, Skechers owns 2,600 stores in China¹⁶.

Government-backed Jining Chengjian Investment acquires 26% stake of Ruyi Technology

On 18 October, Shandong Ruyi Technology Group Co., Ltd. announced that government-backed Jining Chengjian Investment Co., Ltd. has acquired 26% stake of Ruyi for 3.5 billion yuan. Jining Chengjian Investment will become the second-largest shareholder of Ruyi Technology upon completion of the transaction. Jining Chengjian Investment has also agreed to provide a full and irrevocable guarantee for the 1.9 billion domestic corporate bonds of Ruyi Technology that will be expired in October. It is hoped that these measures would solve Ruyi's challenge of paying back the debt in short-term¹⁷.

Consumer electronics

Gome Retail unveils game plan for 11.11 Global Shopping Festival; encourages "shop and stroll" before order

On 23 October, Gome Retail announced the theme and activities for the 11.11 Global Shopping Festival in 2019. It will give away red packets worth of 1 billion yuan with no redemption threshold and thousands of free products. In addition to the traditional home appliances business, Gome has accelerated the rollout of other business initiatives surrounding "Home & Life" in 2019, including providing holistic home solutions and house-keeping services, developing social commerce, tapping lower-tier cities and offering other non-traditional home appliances services. Gome's performance in the upcoming 11.11 Global Shopping Festival will be a key indicator of its progress in making strategic transformation¹⁸.

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