

# China Retail & E-commerce

## Weekly Updates

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## Retail in general



**Premier Li Keqiang: Average annual growth of online retail sales in China exceeds 30% in the past five years; focuses on facilitating the development of online shopping and express delivery**

On 5 March, at the first session of the 13th National People's Congress, State Council Premier Li Keqiang delivered the "2018 Government Work Report". He pointed out that, over the past five years, the government has taken proactive measures to increase the income of low and middle-income people and promote the upgrading of traditional consumption. These initiatives, coupled with the emergence of new consumption trends, have led to the rapid growth of online retail sales (increased at an average annual rate of 30%) and total retail sales (increased at an average annual rate of 11.3%). In addition, the report also states that the government will give high priority to the development of online shopping and express delivery<sup>1</sup>.

## E-commerce



**Alibaba to set up its first joint research center in Singapore, focusing on AI**

Alibaba Group announced that it will set up a joint research institute in collaboration with Singapore's Nanyang Technological University (NTU). The institute is dedicated to the development of artificial intelligence (AI) applications in areas such as healthcare, smart home and urban transportation. The Institute is the group's first joint research

center located outside China and is headquartered in the University. The center will start with 50 researchers from Alibaba and Nanyang Polytechnic. AI applications developed by the research institute will be tested on NTU's campus, within Singapore and across the Southeast Asian region<sup>2</sup>.

**Suning to open 461 smart stores in Beijing in 2018**

Suning.com announced to open 461 smart stores in Beijing in 2018, including new retail formats and businesses such as Suning Xiaodian (Suning's community store), Suning Ji Wu (Suning's private label), Suning Cinema, and Suning Supermarket. Together with Suning Life Plaza, Suning Smart Store, and Suning Unmanned stores, Suning targets to build a whole retail network in Beijing focusing on smart retailing. Of which, Suning Xiaodian and Suning Smart Store will be the core for expansion. The number of stores of Suning Xiaodian and Suning Smart Store will reach 200 and 80 respectively. Previously, Suning only operated less than 170 stores in Beijing<sup>3</sup>.

**JD.com's net profit achieves a record high of 5 billion yuan in 2017, up 140% yoy**

JD.com recently released its Q417 and FY17 results. JD.com's net profit of continuing operations in non-GAAP reached a record high of 5 billion yuan in FY17, an increase of 140% yoy; GMV in 2017 successfully exceeded trillion yuan; as of 31 December, 2017, the annual number of active users of JD.com reached 292.5 million<sup>4</sup>.

**JD Research Institute: Growth rate for sales volume of fresh food products on JD.com increases 330% yoy in 2017**

According to the "Report on Consumption of Fresh Food Products, 2018" released by JD Research Institute, sales volume of fresh food

products on JD.com increased by 330% yoy in 2017, while sales value up by over 240% yoy. Currently, the number of registered users on fresh.jd.com in 2017 is 2.6 times the number in 2016<sup>5</sup>.

### VIP.com opens online flagship store on JD.com

On 4 March, VIP.com opened its online flagship store on JD.com. Currently, more than 180,000 SKUs are available in the store, covering womenswear, menswear, bags, shoes, maternity and baby products, underwear, sportswear and watches and accessories. Meanwhile, Tencent will add an entry for VIP.com on the interface of WeChat Pay shortly after the beta testing stage. Previously, on 18 December, 2017, Tencent and JD.com entered into definitive agreements with Vipshop. Under the business cooperation agreements, Tencent will grant Vipshop's website VIP.com an entry on the interface of WeChat Pay, enabling VIP.com to utilize traffic from Tencent's WeChat platform, and JD.com will grant VIP.com entries on both the main page of JD.com's mobile application and the main page of its WeChat Discovery shopping entry, and will assist VIP.com in achieving certain GMV targets through JD.com's platform<sup>6</sup>.

## Retail logistics

### eBay and CITIC Industrial Fund set up a joint venture to establish one-stop logistics service ecosystem

On 6 March, eBay and Orange Holdings Limited, a wholly owned subsidiary of CITIC Investment Fund Management Co., signed a strategic cooperation agreement in Shanghai to establish a joint venture company Orange

Co., Ltd. It is reported that the focuses of the newly established joint venture are to create high-quality, one-stop logistics service ecosystem for China's cross-border e-commerce (CBEC) players, and to significantly enhance the efficiency and quality of CBEC logistics through achieving complete control and management of end-to-end transport delivery and connecting numerous high-quality logistics partners through docking to the logistics information platform, which can enhance buyers' shopping experience and in turn, accelerate the growth of China's CBEC export business<sup>7</sup>.

## Department stores and shopping malls

### Nanjing Xinjiekou Department Store to sell 51% stake of HoF to Wuji Wenhua

On 6 March, Nanjing Xinjiekou Department Store Co. Ltd. announced in a filing to the Shanghai Stock Exchange that it would sell its 51% stake of House of Fraser Group (HoF) to a Chinese tourism group called Wuji Wenhua. The transaction will be paid in cash. HoF and its assets are located mainly in the U.K., and Nanjing and Xuzhou in China<sup>8</sup>.

### Maoye Commercial acquires Chongqing Maoye Department Store for 403 million yuan to tap Chongqing market

On March 2018, Maoye Commercial Co., Ltd. issued an announcement saying that Maoye Commercial acquired Chongqing Maoye Department Store for 403 million yuan, which is jointly held by Maoye Department Store (China) Co., Ltd. and Zhongzhao Investment Management Co., Ltd., with 65% and 35% stake respectively. After a series of mergers and acquisitions, Maoye Commercial now owns a number of department stores such as

“Maoye Department Store”, “Renmin Shopping Mall”, and “Renhe Spring Department Store”. Its store networks mainly covered the core areas in key cities of Sichuan province, including Chengdu, Mianyang and Nanchong<sup>9</sup>.

## Supermarkets and hypermarkets



### Carrefour's profit in Greater China up 500 million yuan in 2017

On 28 February, Carrefour Group released its annual results for the financial year 2017. Carrefour Group's total revenue for FY17 reached 78 billion euros; its Greater China business saw an increase in profit of nearly 500 million yuan compared to the previous year. Carrefour said that this was mainly due to its implementation of the transformation program in China, and the satisfactory results of its "multi-format, multi-channel" initiative. At the same time, sales in Taiwan maintained strong growth and operating profit further expanded<sup>10</sup>.

### Hema Xiansheng partners with Future Land Holdings Ltd. to speed up store expansion

On 1 March, Future Land Holdings Ltd. signed a strategic cooperation agreement with Hema Xiansheng. Future Land Holdings will provide store resources to Hema Xiansheng. Together, they will push forward the “New Retail” business model nationally and offer consumers a seamless shopping experience. Currently, Hema Xiansheng has already signed contract with Future Land Holding's Injoy Plaza in Kunshan and a new store will be opened in 2H18. Other projects in Jiangsu, Sichuan, Fujian and Shaanxi are under negotiation<sup>11</sup>.

### Sun Art Retail Group's first premium supermarket “Hi!Auchan” achieves sales growth of 30% yoy in 2017

According to Sun Art Retail Group's 2017 financial report, under the new retail business landscape, the company's primary task is to transform their existing hypermarkets and supermarkets, explore and deploy new formats and become a multi-channel, multi-format new retail enterprise. As of 31 December, 2017, sales of Hi!Auchan, the first premium supermarket of the group, increased by more than 30% yoy. Of which, fresh and fast-food products accounted for 90% of the total sales, while fresh food products alone accounted for nearly 60%. At the same time, Sun Art Retail Group is also exploring the feasibility of developing the medium-sized supermarket model<sup>12</sup>.

### Wal-Mart announces to add 30-40 new stores and upgrade 50 existing stores

On 7 March, Wal-Mart announced its omni-channel retail strategy for 2018. The company plans to launch a new supermarket format, create smart technology stores, speed up the development of Sam's Club, develop a new generation of Sam's Club stores and continue to add 30 -40 new stores, and upgrade 50 of its existing stores. The company also plans to establish its first self-operated fresh food distribution center; speed up the integration with e-commerce players, strengthen the applications on artificial intelligence, and increase investments in its 1-hour delivery service to cover more cities and communities<sup>13</sup>.

### JD.com's unmanned supermarket “X” to open 100 stores this year and speed up expansion in China

JD.com's unmanned supermarket “X”

announced that, in 2018, it will open 100 stores nationwide, mainly located in key cities including Shenyang, Zhengzhou, Changchun, Chengdu, Chongqing, Shanghai, and Wuhan. The new stores will be opened in commercial centers, office buildings and local communities. At present, the average size of JD.com's unmanned supermarket X is about 100-300 sqm and each store has about 500 SKUs. Each store will differ in terms of location and product offerings, as well as store format. Community-based stores will offer more fresh food products while stores in commercial office buildings will offer more fast-moving consumer goods<sup>14</sup>.

## Convenience stores



### Three convenience store brands under New Gaoqiao connect with Meituan

On 5 March, Hunan New Gaoqiao E-business Co., Ltd. (Sgoods), a domestic retail chain and FMCG B2B platform, announced to cooperate with O2O catering platform Meituan. Three convenience store brands under Sgoods including "Kuailehui", "Xingaoqiao" and "Koala Store" have already connected with Meituan. Meituan will be responsible to maintain the online operations of the three brands and manage their online activities and marketing campaigns. Currently a few hundreds of convenience stores under Sgoods have already connected to Meituan<sup>15</sup>.

## Home products

### B&Q China opens five smart stores "B&T home"; partners with Dmall for self-shopping services

Home improvement retailer B&Q China opens five smart stores "B&T home" on 3 March. It partners with Dmall for self-shopping services. The self-shopping and m-commerce services are now available in four "B&T home" stores including Beijing Golden Season store, Beijing Laiguangying store, Shanghai Longyang store and Shanghai Putuo store. Membership data of B&Q China and Dmall has been integrated – members can complete their payment and get their discounts and reward directly on Dmall app. B&Q has entered China market since 1999. It now operates around 100 stores in China, 39 of which are home furnishing stores and the rest are B&Q Mini Shop. Wumart acquired a 70% stake in B&Q China in December 2014<sup>16</sup>.

### Baidu and Haier form strategic cooperation to explore the smart home electronics market

On 7 March, Baidu and Haier formed an alliance at the 2018 Haier Smart Home Strategy Release and Achievement Sharing Session. By leveraging Baidu's leading ABC technologies (Artificial Intelligence, Big Data, and Cloud Computing) and Internet of things (IoT) technology, as well as Haier's competitive advantages in the field of smart home electronics, the two companies will have in-depth cooperation in technological and product development and will further promote Baitian Yuntian and Haier U+, with an aim to explore the new business model of smart home electronics<sup>17</sup>.

## Kids products



**JD.com sources 1.5 billion worth diaper from Fitti in next three years; to accelerate its development in the maternity market**

JD.com signed a strategic agreement with domestic diaper brand Fitti, announcing that JD.com will source 1.5 billion yuan worth of diapers from Fitti over the next three years. Under the agreement, the two parties will have in-depth cooperation in areas such as seamless O2O marketing and brand valuation exercise, etc. According to the introduction, JD.com will utilize its big data, vast distribution network and also different channels to attract customer traffic, and to carry out more in-depth and forward-looking cooperation with Fitti. Big data from JD.com shows that Fitti accumulated total sales of about 300 million yuan on JD.com platform in 2017, and customers' ratings maintained at above 98%<sup>18</sup>.

## Apparel



**Semir's revenue for FY17 reaches 12 billion yuan, setting a new high**

On 28 February, Semir released its annual results for the financial year 2017. The results show that the company achieved a record-breaking level of operating income of 12.228 billion yuan during the period, an increase of 12.76% yoy; and net profit of 11.12 billion yuan, down 21.63% yoy. Semir said the main reasons for the improvement in operating income are due to the strengthening of R&D efforts, optimizing sales system, accelerating

the revolution of sales channels, and the continuous development of e-commerce and childrenswear businesses. The decline in net profit was attributable to increased investments in R&D, rising staff salary and compensation, and rapid development of e-commerce business which led to a huge increase in costs. Additionally, the increase in support for franchisees, and out-of-season inventory since 2H17 also led to the increased impairment losses on assets<sup>19</sup>.

**Nike to launch customized womenswear specialty store**

Nike announced to launch a womenswear specialty store called Nike Unlaced, providing exclusive services to female consumers. The service will be piloted on Nike's official website by the end of March. According to Nike, Nike Unlaced will provide customized and tailored services, same day delivery and exclusive delivery time services to customers. Nike Unlaced is a global digital retail concept; its products will be curated by influential innovators and fashion stylists in New York, Paris, London and Shanghai<sup>20</sup>.

## Luxury sector



**Fosun acquires luxury lingerie brand Wolford**

According to the latest announcement from Fosun International, the Group recently proposed a total offer of 55 million euros (about 430 million yuan) to Austrian luxury lingerie brand Wolford, agreeing to acquire 2,543,700 shares at a price of 12.8 euros per share, which is equivalent to the total share capital of about 50.87% at a cost of about 32.56 million euros and provide up to 22

million euros as part of a capital increase. Fosun has also issued a compulsory tender offer to other shareholders of Woford at the same time, at an average price over the past six months at a price of 13.67 euros per offer. Woford said the deal will be completed in May this year. Founded in 1950, Woford was listed on the Vienna Stock Exchange in 1995, and mainly produces and sells high-end underwear, jumpsuits, women's clothing and accessories<sup>21</sup>.

### Canali launches its first online flagship store on JD.com's luxury goods platform Toplife

Recently, Italian menswear brand Canali has officially opened its first official online flagship store on Toplife, the first online flagship platform for luxury goods in China. It is reported that all of the products sold at Canali's flagship store on Toplife are authentic products directly sourced from Italy<sup>22</sup>.



### High-end beauty brand Yves Saint Laurent launches on Tmall

Recently, L'Oreal Group's high-end beauty brand Yves Saint Laurent (YSL) has launched its official online flagship store on Tmall. YSL said it hopes to leverage the Tmall flagship store to enhance customer experience in the "New Retail" era. Currently, there are only five products available in the store. Industry experts believe that the brand can accelerate its sales performance in China, and create a hard hit on counterfeits and daigou businesses by setting up the online store<sup>23</sup>.

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