

China Retail & E-commerce

Weekly Updates

21 April – 27 April 2017



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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



Retail in general



MOFCOM: China's online retail sales over 1.4 trillion yuan in 1Q17, up 32.1% yoy

According to the Ministry of Commerce (MOFCOM), online retail sales were over 1.4 trillion yuan in 1Q17, up 32.1% yoy and more than double the growth rate of total retail sales. Online consumption of services, such as tourism, dining and entertainment, continued to rise, with online retail sales of travel and take-away food rising 64% and 163%, respectively. High-end products, such as upscale clothing, robotics, smart glasses and sensor-controlled vehicles, were popular in 1Q17. Central and western regions posted strong growth in online spending, with yoy growth of online retail sales exceeding 40%. Online shoppers in tier 3 and tier 4 cities and in rural areas outperformed their counterparts in tier 1 and tier 2 cities. Many Internet companies such as Alibaba and JD.com formed strategic partnership with offline companies, with a hope to integrate their resources and complement each other, thereby enhancing the creation of new retail formats¹.

CGCC & CNCIC: 6 trends of China's Retail Sector in 2017

On April 25, China General Chamber of Commerce (CGCC) and China National Commercial Information Center (CNCIC) jointly announced their predictions on the future trends of China's retail sector during the "Chinese Consumer Market Annual Conference 2017". As Chinese consumers become more sophisticated, and the concept of "new consumption, new retail and new ecology" is prevalent in the consumer market,

China's retail sector is expected to see the following six development trends:

- 1) The retail market will response promptly to market changes
- 2) Technology, fashion and lifestyle will be integrated
- 3) High-quality goods, services and culture will be integrated
- 4) Online and offline channels will be further integrated
- 5) A variety of formats will be aggregated, showing ecological development
- 6) Social media will play a more important role in the retail market²

E-commerce



UNCTAD report: Global e-commerce market is worth US\$25 trillion; China ranks first in B2C market

According to the latest report published by the United Nations Conference on Trade and Development (UNCTAD) on 21 April, leading by U.S., Japan and China, the global e-commerce market now is worth around US\$25 trillion. China ranks first in the world's B2C market, with a market size of US\$617 billion, followed by the U.S. (US\$612 trillion) and the U.K. (US\$200 trillion)³.

UN report: Digital payment market reaches nearly US\$30 trillion in China

United Nation-based Better Than Cash Alliance issued a latest report "Social Networks, E-Commerce Platforms and the Growth of Digital Payment Ecosystems in China – What It Means for Other Countries". The report reveals that Alipay and WeChat Pay enabled US\$2.9 trillion in China's digital payment market in 2016, representing a 20-

fold increase in the past four years. The data shows that digital payments, using existing platforms and networks, provide access to a wider range of digital financial services, expanding financial inclusion and economic opportunity throughout China and neighbouring countries⁴.

JD Research Institute: Reading-related spending forms a consumption trend

JD Research Institute released the “2017 Report on China’s National Reading Habit”. The report showed that students, adolescents and young adults have strong demand for books and are key demographic groups for the consumption of this product category (which includes both physical books and e-books) in China. In general, more and more people are reading and spending money on books; content is still the deciding factor for book consumption. In 2016, the number of active users on JD.com’s e-reader app increased 207% yoy, while the total time spent on reading with the app increased 379% yoy. According to the report, consumption upgrade is not only a significant trend in consumption on basic necessities, but also on spending that satisfies the spiritual need of consumers⁵.

WeChat Mini Program launches new function of “Store Mini Program”

WeChat Media Platform announced a new function that allows administrator of WeChat public account to conveniently create their “Store Mini Program”. By providing essential information such as name of the company or the store, brief description, opening hours, contact information, geographical location as well as pictures of the store, store operators can instantly generate a Mini Program for a store without any need for coding. The Store Mini Program can be embedded into various functions of the public account, such as its customisable menu, tweets, and

announcement page. It enables business to quickly create a profile online, and also allows users to search for store information and enjoy services more easily⁶.

JD Fashion receives quality accreditation from AAFA

JD Fashion, the fashion product division on JD.com, received quality accreditation from the American Apparel & Footwear Association (AAFA) and became one of its official members. JD.com said that “quality” is one of the key development strategies of the platform and it upholds a zero-tolerance policy against counterfeits and brushing. The company monitored its supply chain so as to provide customers the highest quality products and best online shopping experience. The six major areas that are monitored in its supply chain include sourcing, quality control, warehousing, express delivery, after-sale services, and technology⁷.

Giorgio Armani S.P.A’s brands launch flagship stores on Tmall and JD.com

Italian luxury brand Giorgio Armani S.P.A Group’s Armani Jeans and EA7 Emporio Armani have recently launched flagship stores on Tmall and JD.com. In addition, Emporio Armani Underwear series has also established a flagship store on JD.com. Giorgio Armani Group is reportedly using these diffusion lines to test the waters; it will launch online flagship stores for its core brands if the model works well⁸.

Three Squirrels submits IPO prospectus

On 21 April, online snack retailer Three Squirrels formally submitted the A-share listing prospectus. Three Squirrels was established in February 2012, and is now the largest snack brand on Taobao and Tmall. According to the prospectus, Three Squirrels

achieved sales revenue of 924 million yuan, 2.04 billion yuan, and 4.42 billion yuan in 2014, 2015 and 2016 respectively. The net profit in 2016 was 237 million yuan with gross margin reaching 30.2%⁹.

Dangdang.com to open up to 1,000 stores in three different retail formats

Online bookstore Dangdang.com said that the advent of e-commerce will not totally replace physical stores. It planned to open up to 1,000 physical bookstores in the coming years so as to create more channels to engage readers. There are three types of physical stores – Dangdang Shuba, Dangdang Yuejie, and Dangdang Chezhan. Dangdang Shuba are stores opened mainly in supermarkets and have a floor space between 100 to 300 sqm per store. Dangdang Yuejie are opened mainly in shopping malls and have a floor space between 1,000 to 2000 sqm per store. Dangdang Chezhan are larger stores with a floor space of around 5,000 sqm per store. Dangdang.com currently partners with supermarkets such as RT-Mart and Renrenle to open 120 Dangdang Shuba stores. 40 Dangdang Yuejie stores have already been confirmed and 20 more stores will be open this year. Also, Dangdang.com planned to open two Dangdang Chezhan in Chongqing and Wuhan respectively this year¹⁰.

E-commerce logistics



JD.com announces establishment of JD Logistics Business Group

JD.com, Inc. announced the establishment of JD Logistics, a wholly-owned subsidiary under JD.com, which will leverage the company's advanced technology and logistics expertise

to provide smart supply chain and logistics services to businesses across a wide range of industries. JD Logistics will provide business partners with comprehensive supply chain solutions, including warehousing, transportation, delivery, after-sales service, as well as intelligence logistics services (drones, unmanned vehicles, automated warehouses, automated delivery, etc.), business data services (sales forecast, inventory management), cross-border logistics, express delivery and related products and services. Also, JD Logistics will partner with JD.com to share online and offline resources and launch innovative supply-chain financial and insurance products jointly with JD Finance¹¹.

JD.com pilots expedited return and refund services for large size products

JD.com piloted expedited return and refund policy for delivery orders of large size goods in seven cities, including Beijing, Chengdu, Guangzhou, Wuhan, Xian and Shenyang, allowing online shoppers to return goods and receive refund in as little as 2 hours. In contrast, major market competitors of JD.com on average need around three to seven days to finish the return and refund process. According to JD.com, its logistics team will make use of technological innovation to implement the expedited return and refund policy. The policy will be rolled out nationwide by end of April 2017¹².

Supermarkets and hypermarkets



Carrefour to launch online platform in Shenzhen in May

Carrefour announced to launch an online platform in Shenzhen in May. Earlier, RT-Mart,

BBG, Wal-mart, Vanguard, and Watsons have already tapped into the e-commerce business. With Carrefour's e-commerce attempts, competition of the online channels among supermarkets, hypermarkets, convenience stores is set to become more intense. Carrefour's online orders will be distributed by the physical stores to solve the last mile delivery issue¹³.

Wumart to open three new "New Retail" concept stores in Beijing and Hangzhou in June

Wumart will open three new "New Retail" concept stores in June, two in Beijing and one in Hangzhou. The new stores will utilize advanced retail technologies such as inventory management that allows for real-time visibility and analytics, joint online and offline membership schemes, as well as self-checkout counters with scanned payment. The stores will no longer adopt the conventional enclosed store designs, shoppers will no longer need to shop along restricted shopping routes. Furthermore, the Wumart stores will take out product categories such as home electronics and general merchandize, while fresh produce and FMCG categories will be reinforced. As such, the number of SKUs in the new stores will be half of Wumart's normal stores¹⁴.

Jiajiayue to setup 200-million-yuan fund for "New Retail" related innovation

Jiajiayue announced that the company will set aside 200 million yuan of self-financed fund for investment related to "New Retail" innovation, so as to facilitate the upgrade strategy of the company and allow the company to gain an edge in the retail market by investing in retail innovation. Jiajiayue said that with the fund the company will be able to explore new investment opportunities, improve strategic position in the "New Retail"

regime, as well as promote the use of advanced Internet technologies to upgrade the systems of its traditional physical stores and improve efficiency. The company aims to further improve its sales performance which is mainly affected by its retail chain¹⁵.

Department stores and shopping malls



Hefei Department Store accomplishes a 16.58% increase in net profit for 1Q17, driven primarily by private label business

In 2016, Hefei Department Store started to invest more on product development and its private label business became new growth area for the company. According to its 1Q17 financial results, sales revenue amounted to 3.091 billion yuan, up by 4.50% yoy, while net profit attributable to shareholders amounted to 112 million yuan, up by 16.58% yoy. Hefei Department Store's jewellery private label, which has introduced new mounted jewellery products, performed particularly well in the previous year. The company's womenswear brand also recorded massive sales growth of 228.79% yoy in 2016. In its supermarket business, sales contributed by its private labels increased 15.98% yoy and self-operated private label fresh produce recorded a sales increment of 13.56% in the year¹⁶.

Ito Yokado to open its first shopping center in Chengdu next year

The Southwest Division of Greenland Holdings Group revealed that the commercial cluster of Greenland Group will be established in Chengdu in 2019. At the same time, as the anchor store of the commercial cluster, Ito Yokado's Asia flagship store "Ito Yokado Greenland 468 store" will be open in early

2018. The total floor area of Ito Yokado Greenland 468 store will reach 80,000 sqm, which is not only the largest store of Ito Yokado in China, but also its first shopping mall in Chengdu¹⁷.

Cosmetics

L'Occitane net sales up 3.2% to EUR 1.32 billion in FY17; China market remains double-digit growth

L'Occitane International S.A. announced its full year results for the financial year ended 31 March 2017. The Group's net sales at reported rates were EUR 1.32 billion, grew by 3.2% over the same period last year, thanks to positive foreign currencies impact. At constant exchange rates, sales growth was 1.7%. The Group's same store sales for 2017 decreased by 1.3%, yet still improved from -1.7% for the first nine months ended 31 December 2016. In terms of geographical areas, Brazil, China and Japan were among countries with highest sales growth in local currencies. China sales had an increase of 11% in local currency, mainly driven by the accelerated growth in retail, B2C marketplaces and B2B in the last quarter of 2017¹⁸.

Luxury products

French luxury brand Longchamp launches two WeChat Mini Programs

French luxury handbag brand Longchamp launched two WeChat Mini Programs

providing brand communication (“Longchamp 巴黎进行时”) and product customization services respectively (“Longchamp 个性定制工坊”). The first Mini Program on brand communication serves traditional and social media marketing purposes. With this Mini Program, consumers can search for information such as the locations of the brand's stores in Shanghai, as well as information of the various events organized by the brand, such as photo exhibition, handicraft embroidery workshop. Consumers can also upload pictures and text status of these events using the Mini Program and to interact with other fans of the brand. The second Mini Program on product customization allows consumers to tailor-made their handbag by choosing personalized patterns on the bag. Currently, only one type of its handbag product is available to be customized through this Mini Program¹⁹.

Consumer electronics

Brookstone to enter Wuhan; officially extends to tier-2 cities

Brookstone announced to officially enter the Wuhan market. Since 2016, Brookstone's more than 10 retail stores have mainly been located in the most developed region in the eastern coastal area. The opening of a new store in Wuhan signifies Brookstone's attempt to extend from the eastern developed region to the central region of China; and continue to extend from tier 1 cities to tier 2 cities²⁰.

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