



China Retail & E-commerce

Weekly Updates

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Retail in general

Yaok Institute, JD.com: Small-town youth to catch up with their counterparts in tier-1 cities in lifestyle, consumption habit and entertainment activities

Recently, Yaok Institute and JD.com jointly released the “2019 Report on Small-town Youth’s Consumption of Luxury Goods in China”. According to the report, small-town youth, which refers to young people living in lower-tier cities, are catching up with their counterparts in tier-1 cities in terms of lifestyle, consumption habit and entertainment activities, thanks to consumption upgrade and the availability of sales channels. They have become the typical consumer group that has spare money, time and improved taste. The report identified four categories of luxury goods that are most preferred by small-town youth: fashionable items (including leather products, clothes and handbags) (74.55%), cosmetics (43.64%), watches (34.55%) and high-quality home electronics (30.91%). Statistics from JD.com also showed that the sales of luxury goods in emerging cities grew by 230.12% yoy¹.

E-commerce

Amazon launches overseas shopping festival and offers customized products for Chinese consumers

Amazon recently announced details of its 2019 Black Friday Shopping Festival in Hangzhou. According to the announcement, over 20 million products will be available for its Chinese consumers. China will become the only country that can enjoy discounted products from all Amazon’s four sales nodes. Also, the amount of Chinese customized products will be doubled. Chinese customers

can enjoy the longest shopping festival than their international counterparts. In addition to this Black Friday event, Amazon will launch the “China month” sales event in December 2019².

Meituan-Dianping records net profit of 1.94 billion yuan in 3Q19

On 21 November, Meituan-Dianping released its financial report for 3Q19. For the three months ended on 30 September 2019, the company made a revenue of 27.5 billion yuan, up 44.1% yoy; and adjusted net profit of 1.9 billion yuan. The company has reversed the downward trend and emerged from the net loss of 2.47 billion yuan in 3Q18. This is the second consecutive quarter that Meituan-Dianping has made a profit³.

Pinduoduo launches four “overseas shopping stations” to facilitate cross-border shopping for Black Friday shopping festival

On 22 November, Pinduoduo announced that its cross-border e-commerce unit has set up “overseas shopping stations” in the U.S, the U.K. Germany and Japan to facilitate cross-border shopping for Black Friday shopping festival. It is reported that various renowned overseas brands such as Nintendo, Sony, Philips, Swisse, Lindt, Calvin Klein, Shideido and Kao Laurier will sell products on their dedicated webpage via the overseas shopping stations. Customers are entitled to subsidies and enjoy free delivery and tax-free shopping when buying products from the overseas shopping stations (either through direct mail or bonded warehouse mode)⁴.

Amazon opens pop-up store on Pinduoduo

On 25 November, Amazon.com Inc announced that it has opened a pop-up store

on Chinese e-commerce platform Pinduoduo Inc that will run until the end of December, with an aim to facilitate Chinese consumers to participate in various overseas shopping festivals such as Black Friday. The Amazon Global Store pop-up store on Pinduoduo provides customers with a curated selection of about 1,000 overseas products at competitive prices⁵.

Vip.com seals partnership with SF Express and ceases to operate its delivery business Pinjun Express

On 25 November, Vip.com announced that it has entered into partnership with SF Express. With immediate effect, Vip.com has ceased the operation of its delivery business unit Pinjun Express and appointed SF Express as its delivery service provider. Vip.com has started to shift its focus back to its discount sales business starting from 2H18; the restructuring of its self-operated delivery business is in line with the group's overall business strategy – enhancing logistics efficiency and improving service support to provide quality delivery services for customers; focusing on its core discount sales business; reducing fulfillment expenses; and boosting operation efficiency and profitability⁶.

JD.com upgrades its cross-border import business to form “JD International”

On 22 November, JD.com announced that the company has upgraded its cross-border import business and combined its JD.hk, the company's cross-border e-commerce (CBEC) platform featuring foreign brands, with its general import trade business to establish “JD International”. Offering upgraded CBEC services to customers, JD International has optimized the consumption scenes by setting up a dedicated channel “JD International”, which enables users to access product page directly by simply clicking the “JD

International” icon on the landing page. In terms of service quality, beyond providing high-quality customer service as usual, the company has further improved its after-sales services, which include providing compensation for late deliveries, full exchange for damaged goods and full refund within seven days of purchase for any reason for the company's PLUS members⁷.

Comparison of financial performance of three major e-commerce players: Pinduoduo rivals Taobao in number of users but falls behind in GMV

Comparing the 3Q19 financial statements recently released by JD.com, Alibaba and Pinduoduo, it was found that Pinduoduo's total number of annual active users reached 536 million, already surpassed JD.com's 334 million and got closer to Taobao's 693 million. For the past 12 months, Pinduoduo's Gross Merchandise Volume (GMV) has hit 840.2 billion yuan. As Alibaba and JD.com have ceased to disclose their GMV figures, analysts could only take the latest available one for benchmarking. Comparing Pinduoduo's GMV in 3Q19 (840.2 billion yuan) with JD.com's GMV in 4Q18 (1,680 billion yuan), Pinduoduo only had half of JD.com's GMV. The 3Q19 financial results suggested that Alibaba maintained the dominant position and JD.com secured stable share in the middle to high-end market. Although Pinduoduo slightly underperforms at this stage, its growth pace should make the two competitors worry⁸.

Alibaba's shares rise 6.25% in Hong Kong debut with HK\$4 trillion market capitalization

On 26 November, Alibaba Group was officially floated on the main board of the Hong Kong Stock Exchange and trades under stock code 9988.hk. Alibaba raised HK\$88 billion in gross proceeds after its offering share was priced at

HK\$176 each. The shares closed at HK\$187 or 6.6% above the offer price on the first trading day, pushing its market value to HK\$3,999.3 billion. Alibaba's Hong Kong IPO has been the largest in the city for the past nine years and the world's second biggest cross-border listing. A number of world renowned financial institutions have become sponsors of the IPO and approximately 200,000 investors subscribed to the offering⁹.

Pinduoduo reportedly to launch live-streaming business

It is reported that Pinduoduo is preparing to launch live-streaming business as it recently conducted a test run of its WeChat Mini Program "Hao Huo Nei Gou". It is further reported that Pinduoduo will upload a live-streaming Mini Program on WeChat by end of this month. The Mini Program will be connected to corresponding online stores at the back-end, which is only accessible by store and platform operators. Some recruitment sites also revealed that Pinduoduo is hiring talents for live-streaming related positions such as "KOL Business Managers" and "Creative Video Managers". However, Pinduoduo denied to media that it is launching live-streaming business¹⁰.

Tmall Global moves its live-streaming studio to bonded warehouse during Black Friday shopping festival

Tmall Global has reportedly adopted a new live-stream shopping model – "Wangzhi + bonded warehouse" live-streaming model – during the Black Friday shopping festival by moving its live-streaming studio to the bonded warehouse in Shayuan district of the integrated bonded zone in Hangzhou such that workers could sort and pack immediately after consumers placed their orders during the live-streaming events. The goods will go through customs and be subjected to import

duties when they are dispatched. "Wangzhi" is a tailor-made program created by Alibaba for Tmall Global. It aims to serve influencers who sell imported goods, and their followers/customers¹¹.

GMV of Youzan reaches 38 billion yuan in 1-3Q19, exceeding its total GMV in FY18

On 27 November, Chinese e-commerce service provider Youzan announced its operating results. In 1-3Q19, its GMV reached 38 billion yuan, exceeding the total GMV in FY18. Of which, the sales of womenswear accounted for 10% of its total sales, up from 6% in 1-3Q18, with a growth rate reaching 201.4% yoy. Livestreaming has been a major growth driver of the increase in sales. In 1H19, Youzan's transaction value from livestreaming amounted to 1 billion yuan. As of 1H19, Youzan served over 4.9 million merchants and retailers, including Wanfujing Department Store, snack brand Bestore and restaurant chain Wu Fang Zhai¹².

Supermarkets and hypermarkets

Jiajiayue acquires 75% stakes in Lexin Trading for 210 million yuan; accelerates expansion pace

Multi-format retailing enterprise Jiajiayue Group recently announced its intention to use 210 million yuan of its fund to acquire 75% stakes in Huaibei Lexin Trading Co., Ltd via share transfer and capital injection. The acquisition aims to accelerate its regional expansion. Lexin Trading was founded by Happy Mart (Zhenbang Group) in Huaibei city, Anhui Province. Happy Mart is the leading retail chain enterprise in the region and has been operating supermarket business for nearly 20 years. It now owns 31 self-operated

chain stores in Huaibei city¹³.

Community fresh food e-commerce platform "Dailuobo" accelerates stores closure plans

Recently, community fresh food e-commerce platform "Dailuobo" has accelerated store closure plans. The company explained that the capital it raised is insufficient to fund the rapid expansion of the platform and there is asymmetric information in the market. The company confirmed that it is facing a shortage of funds and has difficulties in maintaining normal operation. Founded in 2016, Dailuobo employs a pre-ordering model and specializes in next-day grocery delivery and pick-up. It is estimated to have opened nearly 1,000 stores around densely-populated areas. Ever since it has secured a 634-million-yuan Series A financing round, no news on new financing has been reported¹⁴.

Convenience Stores

Lawson Beijing's take-away business accounts for over 7% of the total sales

Recently, Lawson China Beijing revealed that all Lawson stores in Beijing are fully installed with self-checkout machines; and have launched 24-hours take-away service. It also announced for the first time that its take-away business accounted for over 7% of the total sales on average. By year-end, Lawson will have 150-160 stores in Beijing, and it plans to open another 60-100 stores in Beijing and Tianjin in 2020¹⁵.

Apparel

Old Navy to quit China market in early 2020

U.S. fashion group Gap announced on 21 November that its sub-brand Old Navy will withdraw from the China market starting 2020 following the spit-off of the brand. In the future, Old Navy will focus on its business in the North America market in a bid to boost its sales and profit. For the third quarter ended 2 November, Old Navy's same-store-sales fell 4% yoy as compared to a 4% growth from the same period last year, while total sales of its parent company Gap also declined by 2.2% yoy to US\$4 billion, with net profit sharply down by 47% to US\$140 million¹⁶.

Luxury sector

Luxury e-commerce platform Yoox to close Chinese website in February 2020

Recently, luxury e-commerce platform Yoox SpA, part of Yoox Net-a-Porter (YNAP), the Richemont-owned luxury e-commerce platform, announced to close its Chinese website (Yoox.cn) in February 2020. It is reported that Yoox.cn was launched in October 2012. Yoox SpA has not commented on the reason for the exit. The company announced on Monday that the launch a pop-up store on Pinduoduo to offer 1,000 types of products at competitive prices. The pop-up store will be available until the end of December¹⁷.

LVMH acquires Tiffany for US\$16.2 billion

On 26 November, the world's largest luxury group LVMH officially announced that it will acquire U.S. luxury jeweler Tiffany for US\$135 per share, or for a total cash value of approximately US\$16.2 billion. Both parties have entered into a definitive agreement, while the deal is expected to close in mid-2020 the earliest. This is LVMH's biggest-ever acquisition, with the deal amount well above

its purchase of Dior for US\$7 billion in 2017. Industry analysts said the acquisition of Tiffany will further consolidate LVMH's leading position in the luxury industry as jewelry is one of the fastest-growing categories in the industry nowadays¹⁸.

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