


# China Retail & E-commerce

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## Retail in general



**CNCIC: Retail sales of 100 key large-scale retailers in China increase 2.9% yoy in August 2017**

According to the China National Commercial Information Centre (CNCIC), retail sales of 100 key large-scale retail enterprises increased by 2.9% yoy in August 2017. The growth rate was 3.4 ppts higher than that in August 2016. Of which, sales of grain, oil and food increased 6.3% yoy, growing 12.3 ppts higher than that in the same period in 2016. In the period January-August of 2017, retail sales of 100 key large-scale retail enterprises and retail sales of major categories were higher than that in the same period in 2016<sup>1</sup>.

**Koubei, CBNDData reveal eight trends of offline retailing**

Alibaba's local services platform Koubei and CBNDData released the "Report on the New Landscape of Offline Retailing, 2017". Below are the eight trends in China's retail market.

1. Growth of e-commerce remains rapid; online retailing is expected to account for 25% of the total retail sales of consumer goods by 2020.
2. Physical store is still the major channel of retailing, but performance of different retail formats vary – the market share of hypermarkets drops while the share of convenience stores rises.
3. Expansion pace of convenience stores accelerates; number of convenience store outlets will grow at an average rate of 9%.
4. Traditional hypermarkets shift their

focus to community supermarkets and high-end supermarkets.

5. Potential of consumption upgrade in lower-tier cities is huge.
6. Consumption upgrade for FMCG is a major trend. Consumers are demanding better quality and healthier products.
7. Consumers aged 18-35 are the key consumer group.
8. Online-to-offline (O2O) integration becomes the norm<sup>2</sup>.

**Tencent Research Institute: 84% of Chinese consumers do not carry cash around**

Tencent Research Institute, Renmin University of China and Ipsos released the "Report on Smart Living in China, 2017". The report surveyed a sample of 6,595 respondents in 324 cities and found that non-cash payment methods such as debit cards and mobile payments are more popular and efficient nowadays. 40% of the respondents carry less than 100 yuan cash when they go out; 52% of the respondents use cash to pay for only 20% of their total monthly expenses; over 70% of the respondents said that they only pay in cash when other payment methods are not available; 84% of the respondents feel comfortable to bring just their mobile phone out without carrying cash. In general, over 50% of retailers accept mobile payment, of which, 68% of convenience stores accept mobile payment, which is the highest among all retail formats<sup>3</sup>.

## E-commerce



**MOFCOM: China is now the world's largest online retail market**

The Ministry of Commerce (MOFCOM) said that since the 18th National Congress of the Communist Party of China, China's e-commerce has developed quickly and witnessed rapid growth due to the following reasons: full implementation of the "Internet + distribution" action plan to promote the integration of online and offline development; promote e-commerce into the community and the countryside; support cloud computing, big data, Internet of Things and applications of other technologies in the distribution industry. China is now the world's largest online retail market<sup>4</sup>.

### Chinese tourists can enjoy special rate by using Alipay while shopping overseas during National Day holiday

It is reported that hundreds of thousands of overseas merchants are planning to launch "Alipay Price" for Chinese tourists during the National Day holiday period. Chinese tourists can enjoy this special discount rate by settling the payment via Alipay. Apart from this, Chinese tourists can receive the tax rebates via their Alipay account. Previously, tourists could only get cash refunds or credit card refunds<sup>5</sup>.

### Ant Financial partners with CK Hutchison to operate Alipay in Hong Kong

On 26 September, Ant Financial announced a strategic cooperation agreement with CK Hutchison. Under the agreement, CK Hutchison and Ant Financial will jointly operate "Alipay HK" in Hong Kong; the two companies are committed to developing mobile payment for both online and offline channels. Alipay HK was launched in May this year and has attracted more than 100,000 active users in the first two weeks after its launch. The mobile app is now accepted in

about 4,000 retail outlets in Hong Kong<sup>6</sup>.

### Kaola.com joins hand with Switzerland's largest retailer Migros to launch private label

Recently, Kaola.com signed a strategic partnership agreement with Orange Garden, a private label under Migros, Switzerland's largest retailer. The two sides will collaborate on a few key areas, including marketing and merchandising direct sales; and this partnership also signifies Migros Group tapping into the China market for the first time. Migros Group will launch the online flagship store of Orange Garden on Koala's platform, selling food items, daily necessities and personal care products from Switzerland. With nearly a hundred years of history, Migros is Switzerland's largest retail company, and also one of the world's top 500 companies. Migros Group owns a variety of retail formats in Switzerland, including chained supermarkets, department stores and specialty shops, etc<sup>7</sup>.

### Kaola.com and Japanese electronic beauty equipment brand Ya-man sign cooperative agreement

Kaola.com and Ya-man, a Japanese electronic beauty equipment brand, signed cooperative agreement in Hangzhou recently to deepen the cooperation on sourcing and marketing. The two companies said that the cooperation allows the two companies to bring in more high-tech beauty products to China. Founded in 1978, Ya-man is the first and the only listed company listed on the Tokyo Stock Exchange in electronic beauty equipment category<sup>8</sup>.

## E-commerce logistics



Alibaba to make an additional investment of 5.3 billion yuan to increase its stake in Cainiao

On 26 September, Alibaba Group announced that as a further step to implement its “New Retail” strategy, the company has agreed to make an additional investment of 5.3 billion yuan to increase its stake in Cainiao Smart Logistics Network Limited. Alibaba will hold a majority stake of 51% in Cainiao after the investment. Alibaba will gain one additional seat on Cainiao’s board, increasing its board representation to four out of seven seats. Meanwhile, Alibaba also announced its intention to invest 100 billion yuan over the next five years to further strengthen its global logistics network. Cainiao and various logistic partners will further increase investment in logistics data technology, smart warehousing, smart delivery and global logistics infrastructure<sup>9</sup>.

JD.com cooperates with Nvidia in smart logistics, to deploy one million drones in China over the next five years

JD.com will cooperate with U.S. technology firm Nvidia to bring AI to logistics and delivery using autonomous machines. Currently, JD X, JD.com’s innovation lab, has already formed partnerships with the local governments of Beijing, Sichuan, Shaanxi, and Jiangsu to launch pilot programs to test the usage of drones in delivery, agriculture, and search and rescue. JD X expects to deploy one million logistics drones in China over the next five years<sup>10</sup>.

## Department stores and shopping malls



Wangfujing Group and Shou Hang set up supermarket brand "Wangfujing Shou Hang"; expects to open 50 stores in Beijing over the next five years

On 26 September, department store operator Wangfujing Group and supermarket chain operator Shou Hang Supermarket announced that the two companies will jointly set up a joint venture to create a new supermarket brand "Wangfujing Shou Hang". The new supermarket brand will focus on the fresh produce market and target mainly the communities. According to Wangfujing Group, the new supermarket brand will open 50 stores in Beijing over the next five years, and will gradually extend to Tianjin and Hebei region<sup>11</sup>.

## Supermarkets and hypermarkets



New Huadu Supercenter to sell 10% stake of the company to Alibaba and set up JV with Alibaba

New Huadu Supercenter signed an equity transfer agreement to sell 10% stake of the company to Alibaba (Chengdu) Software Technology and affiliate Hangzhou Hanyun Xinling Equity Investment, both of which are companies under Alibaba Group. After the transaction, each entity will hold a 5% stake of New Huadu Supercenter and will collectively become the second largest stakeholder. At the same time, New Huadu will also partner with Hangzhou-based Alibaba Zetai Information Technology to invest 100 million

yuan each for a 50% stake in a newly formed JV Fujian Xinhe Network Technology, which will combine each company's resources to invest in the creation and operation of new retail stores in Fujian<sup>12</sup>.

### German supermarket chain Lidl launches in JD Worldwide

German-based supermarket chain Lidl launched its online flagship store in JD Worldwide on 28 September. This is the first time for Lidl to introduce its retail business to the China market through cross-border e-commerce channel. The flagship store will reportedly sell mainly healthcare products and personal care and beauty products. In the near future, Lidl will introduce its private label products from Europe. At present, Lidl has more than 10,000 stores in 30 countries, and more than 150 distribution centers in 28 countries<sup>13</sup>.

### Carrefour launches mobile wallet Carrefour Pay

Carrefour launched its own mobile wallet Carrefour Pay on 28 September, which signifies Carrefour's strong commitment to embrace mobile payments. On the same day, Carrefour and China UnionPay officially signed a cooperation agreement in Shanghai; the two sides will jointly build a credible mobile payment ecosystem through sharing of resources and complementing mutual strengths. By leveraging China UnionPay's platform, Carrefour can better understand consumers' needs and their shopping habits through big data analytic. As such, they can further optimize their product structure, enhance consumer satisfaction, and increase customer stickiness<sup>14</sup>.

## Convenience stores



### Lawson plans to open 50 stores in Beijing next year

Convenience store chain Lawson said it will open 50 new stores in Beijing in 2018, and will extend its network to Beijing's Tongzhou, Fangshan, Daxing, etc. Data show that Lawson has 780 stores in Shanghai, 145 stores in Chongqing, 96 stores in Dalian, and 64 stores in Beijing. Lawson plans to add over 500 stores in China in 2017<sup>15</sup>.

### Bingo Box releases new AI solution for its stores

Bingo Box released an artificial intelligence (AI) solution "Fan AI" in Beijing recently. "Fan AI" integrates technologies of image recognition, artificial intelligence and machine learning. The image recognition technology will replace the RFID tags used previously in the Bingo Box stores. The new checkout counters can recognize the products by image recognition technology, ultrasonic technology and sensors with an accuracy rate of over 99.9%. Besides, the new dynamic racks can capture more customer information. With the electronic shelf labels, Bingo Box can also change prices easily and quickly<sup>16</sup>.

## Apparel



### Champion opens pop-up store in Hangzhou

On 23 September, sportswear brand

Champion opened a pop-up store at Hangzhou Tower for a month. This is the first time for Champion to set up a pop-up store in China, after opening the first physical store earlier this month. Apart from selling basic items, the pop-up store also displays products from the classic collection and retro collection<sup>17</sup>.

## Kids products

Hundreds of well-known brands such as Huawei and Netease launch in Kidswant app

Recently, more than 100 middle-to-high-end domestic and foreign well-known brands such as Huawei and Netease launched in Kidswant app, selling mother-infant, beauty, childrenswear, digital and other categories of goods. These brands either set up official flagship stores or brand franchise stores on Kidswant app, and products are directly sold from brands to consumers. Kidswant revealed that the flagship stores of the brands are just the beginning of mutual cooperation. There will be more in-depth omni-channel cooperation with different brands in the future<sup>18</sup>.

## Cosmetics

China's medical beauty market reaches 500 billion yuan and grows at 20% or more

According to a report "Chinese Skin Status Survey" released by Chinese Physicians Association of Dermatology, up to 72.08% of the population is having sub-healthy skin

status. In this context, China's medical beauty industry has entered a period of rapid development. The market size of China's medical beauty industry was close to 50 billion yuan in 2016, an increase of nearly 4 times over 2009. The industry is expected to grow at 20% or more over the next few years<sup>19</sup>.

## Luxury products

Deloitte: Chinese luxury goods prices start to close gap with Europe, driving luxury spending back to Mainland China

According to Deloitte's analysis on the prices of nearly 2,000 luxury goods in China and France, the premiums have eroded over the past year. Luxury goods on average are now 32% more expensive in China than identical items in France, compared with 41% a year ago. The price harmonization has shifted the dynamics of China's luxury market by prompting Chinese consumers to purchase luxury products in China<sup>20</sup>.

Bain & Co.: Chinese luxury consumers' purchasing power account for nearly one-third of the world

Bain & Company recently issued a new report "China and Chinese Customers in the Global Luxury Goods Market" jointly with luxury e-commerce platform Mei.com. The report highlights that Chinese consumers are becoming more mature and autonomous. Key highlights of the report include:

- Although China's luxury goods market accounts for only 7% of the global luxury goods market, Chinese luxury consumers' purchasing power accounts for nearly one-third of the world.

- Consumers are deeply influenced by traditional luxury brands for many years. Nonetheless, they become more and more interested in emerging luxury goods with more fashionable and visible design elements.
- This appetite for newness is not only being instigated by an overexposure to traditional luxury brands, but by the evolution of social media and the digitization of luxury industry.
- While millennials will make up the largest portion of Chinese luxury consumers, the growing urban middle class and working class women will increasingly account for a larger portion. Their purchasing decisions will be affected by shrinking disposable income and will turn to accessible luxury, outlet shopping, and entry-priced products<sup>21</sup>.

### AllianceBernstein: China has the largest number of luxury brands store closure in the past year

U.S. asset management company AllianceBernstein L.P. published a report titled "Store Wars". The report analyzed the statistics of 36 luxury brands with more than 7,000 stores and pointed out that China was the region with the largest number of luxury brands store closure in the past year. Many luxury brands have aggressively expanded their retail network over the years, but sales failed to meet the original expectations. Therefore, substantial adjustment should be made, which included the net closure of 62 stores in China from July 2016 to July 2017<sup>22</sup>.

### Luxury e-commerce company Secco debuts on Nasdaq

Luxury e-commerce company Secco officially

listed on the Nasdaq Stock Market (stock code: "SECO") on 22 September for a total offering size of approximately US\$110.5 million. As of to date, the market value of Secco reached over US\$600 million. The listing signified the first Chinese luxury goods company to be listed by far<sup>23</sup>.

### Armani Exchange launches in VIP.com

On 24 September, Italian luxury brand Giorgio Armani's Armani Exchange announced that it will launch its products in VIP.com's sub-channel "VIPLUX", and will release the 2017 early autumn collection at the same time. VIPLUX is VIP.com's channel for international brands, and has already partnered with more than 200 renowned international brands so far<sup>24</sup>.

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