

China Retail & E-commerce

Weekly Updates

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 FUNG BUSINESS INTELLIGENCE

Asia Distribution & Retail

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Retail in General

Bloomberg: China retail market to see further consolidation

Bloomberg has recently published a report on Asia-Pacific consumer goods market named “China Takes the Lead in Smart Retail”. Bloomberg stated that both Internet platforms and offline retailers can complement each other and benefit from cooperation to strengthen their strategic position, adding that China's retail industry will undergo further consolidation in the future. The report highlighted that food retail will become the next hotspot for e-commerce in China and the entire food retail industry is expected to go through a stage of resource consolidation over the next ten years, considering the online food market is still small and the offline food market remains fragmented¹.

MOFCOM: Sales growth of 5,000 major retail enterprises up 4.5% yoy in October

According to the Ministry of Commerce of the PRC (MOFCOM), sales growth of 5,000 major retail enterprises increased by 4.5% yoy in October 2018. In terms of business format, sales of online shopping platforms increased by 25.1% yoy; sales of convenience stores, shopping malls and supermarkets increased by 7.6% yoy, 6.5% yoy and 4.5% yoy respectively, while sales of specialty stores and department stores increased by 4.3% and 0.7% yoy respectively².

E-commerce

Taobao: Post-90s generation becomes the main consumption force for overseas online purchase

Recently, Taobao released a White Paper titled “Taobao’s overseas online purchase 2018”. The white paper reveals the trends of overseas online purchase in 2018:

1. Post-80s generation spends the most on overseas online purchase in terms of per capita consumption; post-90s generation has become the main consumption force; post-95s generation has become the largest group of potential online shoppers, shown by its strong growth in consumption.
2. Eight out of ten online shoppers are females; female consumers’ status in family and freedom to spend have significantly improved.
3. U.S., Japan, and South Korea are the most popular destinations for overseas online purchase.
4. Guangdong, Jiangsu and Zhejiang are the top three cities in terms of spending on overseas online purchase, while Hebei, Shanxi and Henan have experienced the fastest growth³.

WeChat Pay dominates mobile payment market, with 600 million users worldwide

According to Merchant Machine’s report, WeChat Pay is the world’s largest mobile payment tool in terms of users, with 600 million users worldwide. Alipay came second with 400 million users, followed by Paypal with 210 million users and Apply Pay with 87 million users⁴.

Tencent partners with Line on mobile payment in Japan

Tencent will cooperate with Japanese messaging app operator Line to provide mobile payment services for small-scale retailers in Japan, as well as Chinese tourists who use WeChat Pay; the service will be

available starting from next year. Customers can either pay with Line Pay or with WeChat Pay at designated merchants. To promote the new services, no handling fee will be charged until July 2021. It is reported that the new mobile payment services will compete with the payment services provided by Yahoo Japan and Softbank, which have recently announced a partnership with Alibaba to provide mobile payment services in Japan⁵.

Department stores and shopping malls

CCFA's 3Q18 Shopping Center Development Index releases; the overall market continues growth momentum

China Chain Store & Franchise Association (CCFA) has released the China's Shopping Center Development index, which mainly evaluates the performance of major shopping malls. Companies participating in the index include Wanda Group, Suning Estate, SZITIC Commercial Property Group, Joy City Property, China Resources Land, Aeon China, Aegean Commercial Group, BBK Electronics, Injoy Plaza, Florentia Village, etc.. The index covers various sub-indices as follows:

1. The Overall Shopping mall index for 3Q18 was 67.1, up 1.0 qoq and 0.3 yoy, and 17.1 higher than the 50-point threshold that separate the expansion and contraction status, showing that the overall market continues growth momentum.
2. The sub-indices for different city tiers show mixed performance in 3Q18. The First-tier City Composite Index was 69.1, down 0.4 qoq but up 1.4 yoy. In tier-2 cities, 94% of the shopping malls recorded a qoq growth in foot traffic. The Third-tier City Composite Index

3. was 69.1, up 3.9 qoq and 2.7 yoy. The Urban Property Index for 3Q18 was 68.6, up 2.2 qoq and 3.5 yoy, while the Community Property Index was 65.7, down 2.1 qoq⁶.

Rainbow Department Store and WeChat Pay jointly open a smart store in Shenzhen

Recently, Rainbow Department Store has upgraded its 3019sp@ce supermarket in its Shenzhen headquarters to a smart retail store, together with WeChat Pay – the first benchmark store jointly built by WeChat Pay and Rainbow. The store showcases the latest technological achievements of Rainbow and Tencent's smart laboratory. By leveraging the first series of smart tools from WeChat Pay, the store offers services such as on-demand delivery, "scan and go" payment and payment by facial recognition technology, with an aim to create a totally digitalized retail experience for customers⁷.

Supermarkets and hypermarkets

Hema Xiansheng to launch first Hunan store in December; plans to open a total of 30 stores in Changsha over the next three years

According to the news on 23 November, Hema Xiansheng will launch its first Hunan store at Changsha's Fun City on 28 December. According to the data provided by Hema Xiansheng, its first Hunan store will cover about 110 communities, with 200,000 residents living in the area. The supermarket chain mentioned that it will open at least 10 stores in Changsha by end of next year, and a total of 30 stores in Changsha over the next three years. It is reported that the number of

Hema Xiansheng store will exceed 100 in the nation by December this year⁸.

CSF Market launches reading corner for cross-sector collaboration

Recently, CSF Market launched a 24-hour reading corner at its outlet at Sidaokou Road, Beijing. Jointly operated by the supermarket chain and the Haidian District Library in Beijing, the reading corner occupies a floor space of 150 sqm with 4,000 books, covering various subjects including philosophy, art, and science and technology. This is also the first 24-hour reading room in the district connecting to a 24-hour convenience store, which creates convenience for readers and can promote the sales of the convenience store at the same time⁹.

Jiajiayue plans to acquire 67% stake in local supermarket chain Fu Yue Xiang

On 25 November, Jiajiayue announced that the company and its major shareholder Chen Guocheng, Zhangjiakou Wanquan District Fuxiang Mall Co., Ltd, and Zhangjiakou Fuxiang Investment Group have signed an agreement concerning investment in Zhangjiakou Fu Yue Xiang Supermarket Chain Co., Ltd. According to the agreement, Jiajiayue will acquire 67% stake in Zhangjiakou Fu Yue Xiang Supermarket Chain for 156 million yuan; Chen Guocheng will invest 32.14 million for 20.34% in the supermarket chain; and Zhangjiakou Wanquan District Fuxiang Mall will take 12.66% for 20 million yuan. Jiajiayue stated that the acquisition aligns with the company's national strategic development plan, considering that Zhangjiakou, which is in the northwest of Hebei province, together with Beijing, are selected as host cities of the 2022 Winter Olympics, possessing geographic and location advantages. Currently, Jiajiayue is mainly engaged in the operation of

supermarket chains, which started trading on the Shanghai Stock Exchange Main Board since November 2006. As of the end of 3Q18, Jiajiayue owned 719 stores in total, with most of them in Jiaodong district. For 1Q-3Q18, Jiajiayue generated 9.56 billion yuan in revenue, up 13.95% yoy, while net income attributable to shareholders was 301 million yuan, up 34.03% yoy. Zhangjiakou Fu Yue Xiang Supermarket Chain Co., Ltd. was established on 30 August 2018¹⁰.

Convenience Stores

Huatian Restaurant Group and Tmall jointly launch convenience store

Tongxingcheng Convenience Store, which is jointly operated by Beijing Huatian Restaurant Group and Tmall was opened on 22 November. Other than offering products available in a typical convenience store such as fresh fruit, beverages and snacks, the new store also offers hot-prepared foods such as buns. In terms of payment, the store accepts both automatic and manual payment methods. Self-check-out counters are available – customers can complete the payment process by scanning product bar codes via Alipay after taking the products they wish to buy. It is reported that Huatian and Tmall New Retail Platform formed a strategic partnership earlier this year, and they opened four Tongxingcheng Convenience Stores in October. Huatian is a large-scale catering company; it also engages in other businesses including food processing, jewelry, supermarkets, department store, and property management¹¹.

Apparel

La Chapelle to buy the remaining 60% stake in Naf Naf SAS for 278 million yuan

On 26 November, La Chapelle announced that it will through its wholly-owned subsidiary indirectly acquire the remaining 60% stake in Naf Naf SAS for 35.3 million euros (approximately 278 million yuan). If successful, La Chapelle will hold 100% stake in Naf Naf SAS. Naf Naf SAS was established by LaCha Apparel II Sàrl in France in 1973, mainly selling womenswear and accessories. As of 30 September 2018, Naf Naf SAS owned a total of 488 retail stores, including 179 specialty stores, 116 concession stores, 77 jointly operated stores and 116 franchise stores. The company had 218 stores in France and 270 stores abroad, covering Spain, Belgium and Italy¹².

Esprit expects to add 220 new stores in China by 2023

On 26 November, Esprit's parent company Esprit Holdings Limited announced the company's strategic plan for the next five years, stating the company will introduce new products that can better cater to customer tastes and align with its brand positioning; simplify business workflows; set up a more streamlined business structure; and gradually eliminate money-losing businesses. Esprit also expects to add 220 new stores in China by 2023. Previously, Esprit shut down many of its stores in China. In 2017, Esprit closed 57 of its retail and wholesale stores in China and closed at least three self-managed stores in Hong Kong¹³.

Home products

IKEA China to lay off 160 staff over the next two years; to build new shopping centers

It is reported that IKEA will launch its largest restructuring exercise to cope with the rapidly changing consume behavior and its impact on physical retail. According to IKEA, the company will cut some 7,500 jobs within the next two years, with 160 jobs in China. Meanwhile, IKEA will increase investments in megamalls in China market over the next three years by doubling the number of malls and implementing online and offline operation model. IKEA's megamall – Livat Centers – will house various brands as well as an IKEA store. At present, IKEA operates three Livat Centers in Beijing, Wuxi and Wuhan, with a total investment of over 10 billion yuan. Going forward, the company will build three more Livat Centers in Changsha, Shanghai and Xi'an¹⁴.

IKEA and Xiaomi form strategic cooperation on smart home living

On 28 November, IKEA formed a strategic cooperation with Xiaomi. IKEA will launch its Smart Lighting system in December 2018; the system will be compatible with the configuration of Xiaomi platform. This is the first time IKEA has collaborated with an Internet company in China, and IKEA believes that cross-sector collaboration can make smart home technology widely accepted in the market. This smart lighting project is the starting point to introduce smart home living in China¹⁵.

Home electronics

Suning partners with BAIC Group on “new retail automotive”

On 26 November, Suning Holdings Group’s subsidiary Suning.com announced that the company will team up with Beijing Automotive Group (BAIC Group) affiliated brands including BGAC, Beijing Hyundai BBAC, Foton and BJEV to develop smart automotive retailing. For online retailing, BAIC Group will open an online flagship store on Suning.com; for offline retailing, BAIC Group will form retail partnership with Suning’s car supermarkets, Suning Retail Cloud Store and Suning Convenience Store¹⁶.

Cosmetics

Tom Ford launches first China beauty store in New World Shanghai

Tom Ford has opened its first beauty store for China in New World Shanghai. It is the brand’s third beauty store in the world. The new store in Shanghai reportedly has two private make-up service areas, with Tom Ford’s beauty specialists offering customized makeup services and private blend as well as signature fragrance services. There are also VIP rooms providing one-on-one makeup services and customized private blend fragrance services¹⁷.

Luxury Goods

Valentino launches on Tmall Luxury Pavilion

On 27 November, Italian luxury brand Valentino opened its official flagship store on Tmall Luxury Pavilion – Tmall’s exclusive

platform for luxury goods. Valentino’s online flagship store offers a full range of products including menswear, womenswear, shoes, bags, accessories and more. In view of the partnership with Tmall, the brand launched five limited edition items including printed sweatshirts, beaded embroidered shorts and bounce sneakers which are exclusively available on the e-commerce platform¹⁸.

Hemei Group sells Armani’s distribution rights in China

On 28 November, Hemei Group issued a statement announcing that Shanghai Oulan International Trade, and Zhenqiao Fashion, its second-level wholly-owned subsidiary, and Oulan’s second-level holding subsidiary intended to sign the Asset Acquisition Agreement with Giorgio Armani (Shanghai) Trading Co., Ltd. According to the agreement, Shanghai Oulan and Zhenqiao Fashion intend to sell part of the Armani’s inventory and related fixed assets to Giorgio Armani (Shanghai) at a transaction price of no more than 210 million yuan. Upon completion of the deal, Shanghai Oulan and Zhenqiao Fashion will no longer carry out any new business operations or sales activities related to Armani, except during the transition period agreed by both parties and selling of the remaining inventory. It is expected that Hemei Group will generate a loss of approximately 25 million yuan on book. Shanghai Oulan is Armani’s first distributor in China. It is reported that Shanghai Oulan operates more than 80 specialty stores in high-end department stores and shopping malls in Shanghai, Suzhou, Hangzhou, Nanjing, Xiamen, selling mainly branded goods. It has also launched its own private label – O’blu, a denim brand. Zhenqiao Fashion is responsible for the operation and sales of Armani’s six apparel series in tier-1 cities including Shenzhen, Chongqing, and Guangzhou¹⁹.

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