

China Retail & E-commerce

Weekly Updates

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Retail in general



Credit Suisse Research Institute: China has the most buoyant consumer environment among emerging countries

The Credit Suisse Research Institute published its “2017 Emerging Consumer Survey”, which reported that the metric score of China’s consumer sentiment increased drastically to 64% in 2016 from 49% in the previous year, showing that taking into account various factors such as consumer confidence, retail sales growth, and wage growth, China had the most buoyant consumer environment among emerging countries in the period. Young and wealthy consumers remained the most significant consumer group in China. Lifestyle upgrade and the relaxation of the one-child policy continued to impose positive effects on sectors such as sportswear, childrenswear, home décor and home products, household electronics, education and personal care. The report estimated that by 2025, the total annual online retail sales in emerging countries will amount to over US\$2.5 trillion, in which China will account for around 75% of the share. Also, the report estimated that by 2035, the proportion population aged 65 or above in China will be equal to that in the developed countries such as the U.S. and the U.K. Medical and healthcare expenses will increase from US\$61.1 million in 2015 to US\$2.3 trillion by 2030¹.

BrandZ: Tencent tops the list of the most valuable Chinese brands in 2017; VIP.com enters the list for the first time and ranks 40th

According to the “BrandZ Top 100 Most Valuable Chinese Brands 2017” published by BrandZ, Tencent, Alibaba and China Mobile topped the list as the most valuable Chinese brands for the year with brand value amounted to US\$106.1 billion, US\$58.0 billion and US\$57.8 billion respectively. Aside from Alibaba, other retailers on the list included JD.com, Suning.com, VIP.com, Yonghui Superstores and GOME etc. According to the report, technology and retail were sectors that had the highest growth in dollar terms, up 16% to US\$163.7 billion and 22% to US\$74.2 billion respectively. 94% of the total brand value of the retail sector companies on the list was contributed by e-commerce players. Online discount retailer VIP.com entered the list for the first time and was ranked 40th. The brand was also named as the “Most Valuable Newcomer” by BrandZ².

E-commerce



Mintel: China’s cross-border e-commerce market to reach 1.3 trillion yuan by 2021

Mintel revealed that in China, the total combined online cross-border e-commerce market (including B2B and B2C) is estimated to reach 626 billion yuan in 2016, grew by a factor of 10 from 53 billion yuan in 2011 and represented a CAGR of 64%. From 2016 to 2021, growth is expected to slow to a CAGR of 15%, to reach a total value of close to 1.3 trillion yuan. Today, the majority of Chinese consumers shop for foreign imported products from domestic shopping websites (73%),

compared with 27% who shop from overseas retail websites³.

WeChat announces new function “WeChat Index” to track the popularity of any keyword on WeChat

“WeChat Index”, a new WeChat function that helps users to track the popularity of keywords based on mobile big data from WeChat, is now available in WeChat. The company said that the “WeChat Index” monitors indirectly the interests and focuses of the public along a certain period, allowing brands and companies to plan their marketing strategies and evaluate their campaign efforts with market feedback. WeChat users can access the index data by searching for “Keyword” + “WeChat Index” in WeChat. The index data is available in various time periods, such as at present, in 7 days, 30 days and 90 days⁴.

MAU of WeChat in 2016 amounts to 889 million

In Tencent’s annual report for the 2016 fiscal year, it was revealed that WeChat has 889 million Monthly Active Users (MAU) globally, up by 28% yoy. In December 2016, the number of MAU and daily transaction entries of WeChat Pay both surpassed 600 million. WeChat’s advertising revenue was up by 77% to 5.168 billion yuan. The growth was attributed to the increased contribution by advertisements in WeChat Moments, in WeChat’s mobile news application, as well as in WeChat public account⁵.

Lazada links to Taobao; 400,000 SKUs of Taobao goods to be available on the new website of Lazada

Alibaba and Lazada, a cross-border e-commerce platform in South East Asia that Alibaba acquired last year, jointly created a new website to sell selected goods from

Taobao to consumers in Singapore. The new website will be directly connected to Taobao’s system. Aside from the 5 million SKUs on Lazada, 400,000 SKUs from Taobao will also be available on the new website⁶.

Five U.S. innovative product brands partners with Tmall to enter China

Tmall announced that five innovative product brands from the U.S., namely neato, marpc, BlueSmart, Misfit, and udis, partnered with the platform to enter the China market. Currently, more than 20 kinds of innovative tech products are available on Tmall. The partnerships demonstrated how SMEs in the U.S. can enter the China market. To facilitate the market entry of foreign innovative companies into China, Tmall said that it will provide support in various areas, such as market research, product development, product licensing and registration, as well as marketing and promotion. Tmall also planned to introduce more top tech brands around the world to China, including those from Europe, Japan and Australia⁷.

Retail logistics



SPB: China’s express delivery industry contributes over 40% of global market volume, ranking first globally

The State Post Bureau published the “Report of 2016 China Express Delivery Development Index”. According to the report, the market volume of China’s express delivery industry continued to rank first globally, accounting for over 40% of the global market volume and contributing 60% of the growth of the global express delivery industry. According to the report, prevalence of express delivery

continued to increase in China. Number of express delivery points per every 100,000 people increased from 4.8 in 2010 to 15 in 2016. Consumers satisfactory rating of express delivery services increased continuously and effective complaint cases have dropped for four consecutive years. The 72-hour on-time rate in key cities has also improved for two consecutive years⁸.

CATS, Cainiao Network, Ali Research Institute: The Index of China's Smart Logistics Big Data Development amounts to 40.9 in 2016; infrastructure construction for smart logistics still at initial stage

The China Academy of Transportation Science (CATS), Cainiao Network and Ali Research Institute jointly published the "Big Data Development Report of China's Smart Logistics Industry", in which the "Index of China's Smart Logistics Big Data Development" (the Smart Logistics Index) was created and published for the first time. The Smart Logistics Index for 2016 was 40.9, indicating the infrastructure construction for smart logistics was still at its initial stage. Comparing different regions across China, data showed that the Yangtze River Delta region led the other areas in terms of time-efficiency of logistics services. Shanghai, Zhejiang province and Jiangsu province topped the list in terms of efficiency and together accounted for 13% of the national total logistics volume. This demonstrated a positive correlation between time-efficiency and volume of logistics services⁹.

Supermarkets and hypermarkets



South Korea's Lotte Shopping to inject US\$192 million into China business

South Korea's Lotte Shopping Co., Ltd. said it will inject US\$192 million into a Hong Kong affiliate via a rights issue, so as to infuse funds into its China operations. The retailer said that the injection is to raise funds for its hypermarket and supermarket business in China to ensure "smooth business"¹⁰.

Department stores and shopping malls



Rainbow Department Store's revenue for FY16 amounts to 17.273 billion yuan; e-commerce revenue increases by 60% yoy

Rainbow Department Store Co., Ltd. announced its financial results for FY16. Revenue in the period amounted to 17.273 billion yuan, down by 0.71%. Revenue from e-commerce was up by 60% yoy. In 2016, two branches turned profitable and another 13 branches suffered smaller losses. The company said that shopping malls will be one of the key development areas of the group in 2017. It will renovate some of the older branches to improve shopping experience. Also, the company planned to open 50-80 new convenience stores and will increase the expansion rate of the convenience store franchise¹¹.

Joy City sees revenue for FY16 increases by 29.8% yoy

Joy City Property Ltd announced its financial results for FY16. In the period, total revenue of Joy City amounted to around 6.987 billion yuan, up by 29.8% yoy. Gross profit ratio remained flat with that of FY15 at around 53.8%¹².

Golden Eagle's gross sales proceeds up by 0.7% yoy in FY16

Golden Eagle Retail Group Ltd. announced its financial results for FY16. In 2016, gross sales proceeds increased by 0.7% yoy to 16,400 million yuan, same-store sales growth decreased by 4.1% yoy, operating profit from operations increased by 22.1% yoy to 1,476 million yuan. Six new businesses of G.LIFE series will be introduced, namely G.MART, G.TAKAYA, G.BABY, G.BEAUTY, G.HEALTH and G.QUOTE, covering businesses including supermarket, bookstore, maternity and children's area, beauty hub, health center, and pet service center¹³.

Apparel

HLA's revenue for FY16 up by 7.39% yoy; growth disproportionate to its extensive store expansion

Heilan Home (HLA), a fashion retailer in China, announced its financial results for FY16. Revenue in FY16 amounted to 17 billion yuan, up by 7.39% yoy. As of end of December 2016, the brands of the Group, including Heilan Home, Eichitoo and Hieiika, have a total of 5,243 stores, up by 31.4% from 3,990 stores in 2015. The growth in revenue was disproportionate to its extensive store

expansion, while average sales per store dropped significantly. According to opinions in the industry, HLA needs to focus more on improving its branding and product designs¹⁴.

Semir's revenue for FY16 amounts to 10.667 billion yuan, surpassing the 10-billion-mark for the first time

Zhejiang Semir Garment Co. Ltd announced its financial results for FY16. In the period, Semir Garment's total revenue amounted to around 10.667 billion yuan, up by 12.83% yoy. Operating profit amounted to 1.866 billion yuan, up by 3.93% yoy. In the period, revenue of its kidswear brands amounted to 5.001 billion yuan, accounting for 46.88% of the company's total topline. Semir Garment's e-commerce division had over 3.2 billion yuan of revenue in the period. Inventory increased to 2.203 billion yuan in FY16 from 1.596 billion yuan in FY15. Inventory turnover rate dropped to 3.43 from 4.42 in the previous year. Semir Garment was founded in 2002 and it owns a portfolio of fashion brands, among which adult's fashion brand Semir and kidswear brand BalaBala are two of its largest¹⁵.

Bosideng announces 660 million yuan plan to acquire parent company of ladies' wear brand KOREANO

Bosideng announced that it entered into agreements to fully acquire Joy Smile Development and You Nuo (Tianjin) Clothing Limited, at considerations of 660 million yuan and 20 million yuan respectively. Joy Smile Group is principally engaged in sourcing and distribution of ladies' wear with brands including KOREANO and KLOVA. You Nuo is principally engaged in the manufacturing, processing and wholesale of high-end ladies' wear. It is currently the sole production agent of Joy Smile Group for ladies' wear brands KOREANO and KLOVA¹⁶.

Profit of parent company of Inman for FY16 up by 21.28% yoy to 21.37 million yuan

Huimei Group, the parent company of online fashion brand Inman, reported revenue of 1.198 billion yuan in FY16, up 5.00% yoy from 1.141 billion in the previous year. Net profit for FY16 amounted to 21.37 million yuan, up by 21.28% yoy from 17.62 million yuan in the previous year. In 2016, Huimei Group opened more than 370 physical stores and achieved sales of 200 million yuan offline¹⁷.

DAPHNE reports net loss of HK\$800 million for FY16

Shoe retailer DAPHNE International announced its financial results for FY16. For the year ended 31 December 2016, revenue of the company dropped 22.4% yoy to HK\$6.502 billion. Net loss for the period increased to HK\$819 million from HK\$379 million in the same period last year. DAPHNE said that the drop in revenue was mainly attributable to the drastic cut in retail stores and the negative growth in same-store-sales that led to a drop in the core operating revenue of the brand. In FY16, DAPHNE closed 1,039 stores, which included a net decrease of 810 directly operated stores and 189 franchised stores. As of 31 December 2016, the group had 4,900 stores. Also, as a result of the increased proportion of off-season discounted products in the sales, gross profit ratio in FY16 dropped to 50.9% from 56.4% in FY15. DAPHNE was founded in 1987 in Hong Kong and has a number of brands including DAPHNE, Shoe Box, AEE, dulala, AMEI, ALDO, AEROSOLEs and Step higher¹⁸.

Cosmetics

Maison Francis Kurkdjian plans to enter China after acquisition by LVMH

French luxury goods group LVMH announced it has acquired a majority stake in French perfume brand Maison Francis Kurkdjian (MFK). According to media report, MFK will mildly expand its product lines and further expand internationally, especially in China and Russia. MFK was founded in 2009 and its perfumes are priced between 130-180 Euro. It also sells custom-made perfume targeting high-spending customers. Currently MFK has seven and four physical stores in Hong Kong and Taiwan respectively¹⁹.

Nudestix's products to be available to Chinese consumers online and in Sephora's physical stores

Nudestix, a U.S.-based color cosmetics brand, partnered with manufacturers that have production facilities in China to establish a local supply chain for the brand in China, and planned to start selling in the China market. Prior to this, the brand failed to enter the China market because it refused to do animal testing for its imported cosmetics products as required by Chinese regulation. Now, it manufactured the product locally so it can avoid this requirement. The brand's locally manufactured products will be available for sale in 70 physical stores of Sephora, as well as online via Sephora.cn, Tmall and Sina's weibo.com. The brand plans to expand its physical distribution network by end of this year to include 100 branches of Sephora²⁰.

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