

China Retail & E-commerce

Weekly Updates

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Retail in general



Nielsen: Consumers' confidence level in China in 4Q16 hit 4-year high

According to the Nielsen Global Survey of Consumer Confidence and Spending Intentions for 4Q16, the consumer confidence level in China was 108, up significantly from 106 in the previous quarter. It was the highest level recorded in the last four years. The boost in consumer confidence was a result of the positive employment outlook perceived by the surveyed respondents. Statistics from 2016 showed that demand for high quality products are increasing. Meanwhile, the report also pointed out that fresh produce was the fastest growing product category in online retailing in 2016¹.

E-commerce



Alibaba urges tougher counterfeiting laws, enforcement and penalties

Alibaba Group called for tougher laws, stricter enforcement and stiffer penalties to crack down on purveyors of counterfeit goods in China. Alibaba said in a public appeal that China's ambiguous counterfeiting laws have hampered authorities' ability to build legal cases against counterfeiters, resulting in a less than 1% conviction rate related to counterfeiting cases reported by Alibaba's platform. Alibaba said that criminals should not be able to escape legal consequence if the society wants to efficiently combat counterfeiting².

Alibaba buys 25.25% equity of Haier Multimedia with 656 million yuan

Qingdao Haier Multimedia Co. announced its equity transfer and capital boost plans, in which the transferees involved were Alibaba Group and Qingdao Haier Co. Haier Electronics, the current shareholder of Haier Multimedia Co., will transfer 88,755,981 yuan worth of registered capital of Haier Multimedia to Qingdao Haier and Alibaba. Also, the two companies will finance an increase of 123,947,369 yuan in Qingdao Multimedia's registered capital. After the transaction is completed, Haier Electronics will remain Haier Multimedia's major shareholder with 50.51% of shares, while Alibaba and Qingdao Haier will hold 25.25% and 20.2% of the company respectively. According to the announcement, Alibaba will invest 656 million yuan in the transaction. Alibaba and Haier will work together in the development of smart television sets and other related business areas³.

Tmall debuts AR shopping in its home products shopping festival

Tmall debuted its proprietary AR shopping technology "AR-GO" in its home products shopping festival. By using "AR-GO", consumers can view the 3D model of the product recreated in AR mode in approximate proportion through users' phone camera, thus improving shopping experience. After the home products shopping festival ends, "AR-GO" will continue to be adopted on Tmall and will be gradually applied in other product categories. Goods that support AR viewing feature will be indicated by a specific icon⁴.

Alipay launches new QR code function that supports payment transfer

Alipay launched its new QR code function for users to receive payment transfer. Prior to the official launch, Alipay received a daily average of close to 200,000 user applications to participate in the two-week beta testing of the new function. The company hoped that China can become a cashless society in five years' time and it believed this new QR code function will be an initial step towards achieving the end goal. Meanwhile, non-Alipay users can also access the fund transfer function by entering the relevant information after scanning the unique Alipay QR code of the fund recipient⁵.

JD.com net revenue reaches 260.2 billion yuan in FY2016, up 44% yoy

On 2 March, JD.com announced its unaudited financial results for FY2016 ended December 31, 2016. Below are some key highlights of the financial results:

- Net revenue for FY2016 reached 260.2 billion yuan, up 44% yoy. Revenue from services and others increased by 66% in 2016. Gross profit for the full year of 2016 was 39.5 billion yuan, while non-GAAP gross profit was 38.6 billion yuan, an increase of 62% yoy.
- Loss from operations for FY2016 was 2.1 billion yuan; non-GAAP income from operations was RMB1.0 billion, up 0.6% yoy.
- GMV for FY2016 was RMB658.2 billion, an increase of 47% yoy.
- No. of annual active customer amounted to 226.6 million in the twelve months ended December 31, 2016, up 46% yoy from 2015, excluding unique customers from Paipai.com.

- Fulfilled orders excluding virtual items for FY2016 were 1.6 billion, an increase of 55% yoy. Fulfilled orders placed through mobile devices accounted for 78.3% of total orders fulfilled in FY2016, an increase of more than 110% compared to the previous year⁶.

JD.com to open 10,000 home appliances physical stores across China in 2017

JD.com plans to expand its offline presence by opening 10,000 home appliance physical stores across China this year to support its goal to expand its presence in tier 3 and tier 4 cities. Third-party partners are invited to enter into franchise agreement to set up offline experiential store with JD.com. JD.com said it will provide support to its franchisees in areas such as stock procurement, marketing, logistics and product installation. As of the end of 2016, JD.com has opened more than 1,700 service stores in rural areas, covering around 450,000 villages in total⁷.

Baidu and China Life Insurance sign strategic partnership agreement

Baidu Group and China Life Insurance (Group) Company entered into a strategic partnership. The two companies will reportedly work together in exploring technologies such as AI, Big Data, Cloud Computing, and Internet of Vehicles. Key business collaborations between the two will be carried out in areas such as online financial platform, branding and marketing, investment and finance, insurance, banking, and corporate annuity, as well as personnel training and ideas exchange⁸.

Japanese Rakuten plans to ditch its Chinese name to draw a line between itself and South Korean Lotte

Japanese online retail platform Rakuten announced on its official Weibo account that the company should not be confused with South Korean retailer Lotte Group, which is a different company but holds the same Chinese name. According to media reports, Rakuten plans to stop using its Chinese name and will operate in China in its English name Rakuten, so as to differentiate itself from the South Korean retailer⁹.

SFDA: Online food service providers without physical restaurant cannot provide catering services

The State Food and Drug Administration (SFDA) said that food service providers must pay attention to four operation areas to maintain the quality and safety of catering services: firstly, the source of food ingredients need to be verified; secondly, caterers need to follow strictly the regulations governing food operations; thirdly, restaurants should be able to showcase the sanitary process as well as the food preparation process; lastly, restaurants need to be responsible for the appropriate disposal or reuse of kitchen waste and consumers must be protected from harmful food ingredients such as gutter oil.

The official from SFDA also restated the requirement for online food services providers. They must have a licensed physical restaurant in order to provide online food services. They should make sure the quality of their food online and offline are the same¹⁰.

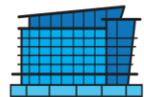
E-commerce logistics



JD.com announces smart supply chain strategies

Liu Qiangdong, founder of JD.com, talked about the concept of “Smart Commercial Supply Chain” in a press conference. The concept aims to incorporate consumer insights, big data analytics, artificial intelligence, as well as past retail experience of JD.com to create agile, smart, and open supply chains for JD.com’s retail partners. JD.com estimated that by the end of 2017, 80% of inventory replenishment will be done through algorithms and 80% of price adjustment (aside from non-standard price adjustment such as sales event) will be automated. JD.com said that by end of 2017, 100 companies will be connected to JD.com’s smart supply chain system to improve their operation efficiency¹¹.

Department stores and shopping malls



Linkshop: 185 department stores, shopping malls and large-scale supermarkets close in 2016

According to the a survey by Linkshop, 185 department stores, shopping malls and large-scale supermarkets were closed in 2016, involving 46 companies. By retail format, the store closure total included 56 department stores and shopping malls, as well as 129 large-scale supermarkets. Store closure is

happening across the entire retail industry. Major players, such as Pacific Department Store, Marks and Spencer, Wal-mart China, CR Vanguard and RT-Mart, also appeared on the store closure list. Over 80% of the store closures were in tier 1 and tier 2 cities, but the phenomenon was also gradually spreading to tier 3 and tier 4 cities¹².

iziRetail: 2016 results of 200 large-scale retailers in China announced

iziRetail, a market research company in China, carried out a survey on key large-scale retailers in China and studied their respective business performance. The study covered 200 large-scale retailers in 54 cities in China, which included 109 department stores, 78 shopping malls, 12 outlets, as well as one duty-free store. The survey looked at the 2016 sales of the sampled large-scale retailers which have been opened for two years or above, and found that the total sales of the sampled retailers increased by 4% yoy. By retail formats, department stores, shopping malls and outlets recorded a 1.5% yoy drop, 10% yoy increase, and 7.3% yoy increase in total sales respectively in 2016. In the period, 16 large scale retailers recorded over 10% of loss; all of them were department stores¹³.

Wanda teams up with China UnionPay to provide omni-channel experience

On 2 March, Wanda announced an omni-channel strategic partnership with Union Pay in Beijing. The two enterprises will work together to provide omni-channel experience for customers by setting up lifestyle-based scenarios, and to help physical stores to revamp and transform. At the same time, UnionPay QuickPass will be introduced to 187 Wanda Plazas, 51 department stores, 102 hotels, five theme parks and millions of Wanda partner merchants¹⁴.

Chongqing Department Store to close 12 stores

Chongqing Department Store announced that it will close 12 stores. The department store operator closed a total of 16 stores in 2016. Also, in the context of omni-channel being the development trend for the industry, e-commerce being strongly supported and encouraged by the government, and e-commerce market continued to grow in size, the company will invest around 700 million yuan to build an omni-channel sales platform, including an online platform that sells products, the company's physical stores, logistics network and supply chain resources¹⁵.

Marks and Spencer closes two Shanghai branches

U.K. department store Marks and Spencer has been suffering from continued losses in its China business. On 26 February, it closed two of its physical stores in Shanghai – the Wanda branch and the Skymall branch. Marks and Spencer's e-commerce operations in China will continue. Previously, Marks and Spencer has opened four online stores on Tmall and JD.com, including the Tmall official flagship store, the Tmall ms kidswear flagship store, the Tmall imported food store, and the JD.com imported grape wine flagship store. In November 2016, Marks and Spencer announced its plan to close all of its ten physical stores in China. Currently, eight stores are still in operation¹⁶.

Consumer electronics

iResearch: Offline retail sales bounce back; Suning scores highest in terms of O2O implementation

iResearch published the “Report on Spending Trends on Home Electronic Appliances in 2017”, which pointed out that in the last two years the growth of online spending of China’s home electronic market has slowed down while offline sales recovered. The report said that the market has entered a “plateau” phase with features such as sales of traditional home electronic appliances stalled, consumer demographics in China changed, as well as O2O emerged as a growing retail trend that could appeal to young consumers. According to the survey of the report on retailers’ performance in terms of branding, channel development and information technology, Suning.com came top with the highest comprehensive scores, suggesting that it has the best O2O implementation model among various retailers in China¹⁷.

Apparel

JNBY Group records 1.3 billion revenue in the first half of FY17, 63.6% generated from WeChat

JNBY Group announced interim results for the six months ended 31 December 2016. Revenue for the period amounted to 1.31 billion yuan, up by 22.4% yoy. Same store sales growth reached 11.3% for the first half of FY17. Retail sales contributed by its WeChat members accounted for 63.6% of the

total. As of 31 December 2016, JNBY Group had over 1.6 million members, 1.1 million of which were from WeChat and the number of active users was over 230,000. As a result of the increased sales in its various product lines such as CROQUIS, jnby by JNBY, and ‘less’, profit attributable to shareholders of the company in the period increased 24% yoy to 227 million yuan. JNBY Group has 1,498 retail stores globally. Over 60% of retail stores under JNBY’s brands are self-operated¹⁸.

H&M partners with WeChat Pay and Alipay

H&M announced its plan to partner with WeChat Pay and Alipay to accept mobile payment in its China stores. The first batch of 85 H&M stores have already started accepting WeChat Pay and Alipay since 27 Jan 2017. By March, all H&M stores in China will accept mobile payment. H&M also plans to collaborate with WeChat and Alipay in future marketing campaign. H&M said that the partnerships will help the brand strengthen its interaction with Chinese customers¹⁹.

Cosmetics

Close to 80% of brands under the top nine cosmetics and healthcare product groups in the world open stores on Tmall

In the annual Tmall Beauty Awards Ceremony, a number of cosmetics brands, including Estée Lauder’s M.A.C, L’Oréal’s Kiehl’s, LVMH’s Fresh, Amore Pacific’s Hera, SHISEIDO’s ELIXIR, and the Korean hit Jayjun signed partnership agreement with Tmall to open flagship stores on the platform. As of February 2017, over 3,000 cosmetics brands from around the world has entered the Tmall platform, including over 70 high-end

brands; around 80% of the brands are under the top nine cosmetics and healthcare product groups in the world, namely LVMH, Estée Lauder, L'Oréal, P&G, SHISEIDO, Amore Pacific, LG Household & Healthcare and Unilever²⁰.

Watsons China stores to launch 2-4-hour express delivery services

Watsons China is to launch an express delivery service that could deliver orders in 2-4 hours. After an order is placed in Watsons' Tmall flagship store, the physical retail store closest to the customer's location will deliver the products to the customer. Also, Watsons China plans to display the trending sales items list of its Tmall store Tmall Beauty (mei.tmall.com) in its physical store²¹.

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