

China Retail & E-commerce

Weekly Updates

26 Jan 2018 – 1 Feb 2018



FUNG BUSINESS INTELLIGENCE
Asia Distribution & Retail

Teresa Lam

Vice President

E: teresalam@fung1937.com

T: (852)2300 2466

Fung Business Intelligence

10/F LiFung Tower

888 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: fbicgroup@fung1937.com



Retail in General p2

- CGCC, Fung Business Intelligence: Business innovations in the New Retail era is evident in 2018
- Nielsen: China's digital revolution to accelerate, further altering consumption habits
- Deloitte releases the "Global Powers of Retailing 2018"; 14 Chinese and Hong Kong retailers are on the Top 250 list

E-commerce p3

- MOFCOM: China's online retail market is moving towards a new era with high-quality growth
- MOFCOM: Retail transaction of China's rural e-commerce market amounts to 1,224.88 billion yuan in 2017, up 39.1% yoy
- CNNIC: Number of Internet users in China reaches 772 million
- Tencent, Suning, Sunac, JD.com to invest in Wanda
- Alibaba's 3Q revenue reaches 83,028 million yuan
- Alibaba to acquire 33% stake in Ant Financial
- VIP.com to become London Fashion Week's exclusive e-commerce partner in China
- Kaola.com to open first offline store in Hangzhou
- Tmall Global to launch first offline store in Hangzhou CBEC Comprehensive Pilot Zone
- JD.com adds 3D virtual fitting function on mobile app
- Taobao launches "family account" function for elders; the family account can be bundled with their children's account

E-commerce logistics p5

- JD Logistics forms strategic partnership with Shanghai Waigaoqiao Free Trade Zone Group; JD.com opens first offline experiential store in Waigaoqiao
- JD Logistics launches 700 new energy vehicles in Beijing

Department stores and shopping malls p6

- Xinhua Department Store changes its name and transforms into a shopping mall

Convenience stores p6

- Chengdu's first unmanned store "Gogo Nobody" shuts down temporarily

Apparel p6

- HLA's womenswear brand OVV and menswear brand AEX open first physical store
- Peacebird to host its fashion show in New York for the first time

Cosmetics p7

- CHANDO and Hstyle jointly launch cross-category program "Chucai jihua" on VIP.com

Home products p7

- HOLA launches in Suning; opens its first store in Nanjing

Retail in general



CGCC, Fung Business Intelligence: Business innovations in the New Retail era is evident in 2018

On 26 January, China General Chamber of Commerce, the Expert Committee of the China General Chamber of Commerce, and Fung Business Intelligence together released the report on “Ten Highlights of China’s Commercial Sector 2018”. The Ten Highlights forecast for 2018 are as follows:

1. A key principle of China’s 19th Party Congress: China’s distribution industry to evolve from big to strong; aims to meet people’s desire for a better life through innovation and transformation;
2. New commercial input and innovation sustains consumer market growth; technology brings smart advantages;
3. Business innovations become evident, embracing “New Retail” strategies to attract consumers;
4. Artificial Intelligence facilitates the creation of new retail formats; smart business models become the next digital frontier;
5. Convenience stores see robust growth; technological innovation a key driving force;
6. Distribution sector supply chain integration: leading to optimal supply-demand matching, national supply-side structural reform;
7. Rural areas become a new powerhouse for e-commerce growth; e-commerce plays a larger role in agricultural upgrading, alleviating rural poverty;
8. Demand for localized lifestyle services surge; growth rate far exceeds consumer goods consumption;

9. Physical retail market rebounds; transformation and innovation are imperative for the future of China’s commercial sector;
10. Digitization facilitates transformation and upgrade of China’s agricultural produce wholesale markets, with electronic clearing and settlement systems greatly enhancing product traceability¹.

Nielsen: China’s digital revolution to accelerate, further altering consumption habits

According to a recent report “What’s Next for China’s Connected Consumers – A Roadmap for Driving Digital Demand” released by Nielsen, the digital revolution in China is changing the consumption landscape in China. The report reveals that 84% of consumers used their mobile phone to shop in 2017 – up from 71% in 2015. New digital innovations have begun to emerge and will further transform consumers’ buying habits. Machine learning, robotics, virtual and augmented reality, frictionless payments and big data and analytics are poised for mass adoption. These innovative developments are set to further change the shopping habits and behaviors of Chinese consumers².

Deloitte releases the “Global Powers of Retailing 2018”; 14 Chinese and Hong Kong retailers are on the Top 250 list

Deloitte released the “Global Powers of Retailing 2018” and identified the 250 largest retailers around the world based on publicly available revenue data for FY2016 (fiscal years ended through June 2017). Among the Top 250 retailers, 15 of them are from Mainland China and Hong Kong. The ten retailers from Mainland China include JD.com, Suning, China Resources Vanguard, Gome, VIP.com, Bailian Group, Yonghui Superstores, Chongqing Department Store, Dashang, and

Nonggongshang Supermarket. The four retailers from Hong Kong include A.S. Watson Group, Dairy Farm, Chow Tai Fook, and Belle. JD.com ranked the top among the Chinese retailers at 28th³.

E-commerce

MOFCOM: China's online retail market is moving towards a new era with high-quality growth

According to Gao Feng, spokesman of the Ministry of Commerce (MOFCOM), China's online retail market is moving towards a new era with high-quality growth. Below are the six major trends in 2017:

- Market size of online retail market continued to grow. In 2017, online retail sales grew 32.2% yoy to 7.1751 trillion yuan, 6 percentage points (ppts) higher than that of 2016. Of which, online retail sales of physical goods grew 28.0% yoy to 5.486 trillion yuan, accounting for 15.0% of total retail sales, 2.4 ppts higher than in 2016. Online retail sales contributed 37.9% of the growth of the total retail sales of consumer goods in 2017, 7.6 ppts higher than that in 2016.
- Regional development was more balanced. According to the MOFCOM, the top five provinces with the highest online retail transaction value in 2017 were Guangdong, Zhejiang, Beijing, Shanghai and Jiangsu, accounting for 74.8% of the national online retail transaction value, which is 3.8 ppts lower than that in 2016. Growth of online retail transaction in Western China was 45.2%, 12 ppts higher than that of Eastern China.
- High quality products were trending. According to the MOFCOM, sales growth of

smart devices, high-end home electronics, fresh food, healthcare products reached over 70% yoy.

- Leading e-commerce companies played a more important role in the development of the Internet industry. In 2017, the MOFCOM selected 238 e-commerce demonstration enterprises to guide the operation of other e-commerce enterprises.
- Fast growth of rural e-commerce helped alleviate poverty in China. The MOFCOM continued to urge e-commerce players to foster rural development.
- E-commerce players deployed “go global” strategy. In 2017, the MOFCOM cooperated with seven countries along the “Belt and Road” on e-commerce development and facilitated Chinese e-commerce players to go global⁴.

MOFCOM: Retail transaction of China's rural e-commerce market amounts to 1,224.88 billion yuan in 2017, up 39.1% yoy

At a regular press conference of the Ministry of Commerce (MOFCOM) on 25 January, the MOFCOM spokesman Gao Feng revealed that according to preliminary statistics, retail transaction of China's rural e-commerce market amounted to 1,224.88 billion yuan in 2017, up 39.1% yoy. Over 9.856 million online shops were based in villages by the end of 2017, up 20.7% yoy, creating over 28 million jobs⁵.

CNNIC: Number of Internet users in China reaches 772 million

China Internet Network Information Center (CNNIC) released the 41st Statistical Report on Internet Development in China. The report shows that as of December 2017, China had an Internet user base of 772 million and an Internet penetration rate of 55.8%. The number of mobile Internet users reached 753

million as of December 2017. 97.5% of Internet users use their mobile devices to access the Internet, up from 95.1% as of end-2016. The report points out that 65.5% of the consumers use mobile payment for offline shopping activities, up from 50.3% in end-2016⁶.

Tencent, Suning, Sunac, JD.com to invest in Wanda

On 29 January, 2018, Tencent, together with investors including Suning, JD.com, and Sunac, signed strategic investment agreements with Dalian Wanda Commercial in Beijing. The investor group plans to invest approximately 34 billion yuan (US\$5.4 billion) to acquire Wanda Commercial's approximately 14% equity interest held by investors who purchased the stake upon the company's delisting from the Hong Kong Stock Exchange. Tencent's investment of 10 billion yuan will give it a 4.12% stake, while Suning and Sunac's outlay of 9.5 billion yuan respectively will give them a 3.91% stake each, and JD.com's 5 billion yuan investment will fetch a 2% stake in Wanda Commercial. After the introduction of strategic investors, Wanda Commercial will be renamed as Wanda Commercial Management Group. Wanda Commercial Management aims to sell off its existing for-sale properties in the next one to two years. It will stop engaging in property development and will transform into a company solely focused on commercial management. The relevant parties will strive to take the company public as soon as possible⁷.

Alibaba's 3Q revenue reaches 83,028 million yuan

Alibaba Group announced its financial results for the quarter ended 31 December, 2017. In the quarter, revenue was 83,028 million yuan (US\$12,761 million), an increase of 56% yoy.

Revenue from core commerce increased 57% yoy to 73,244 million yuan (US\$11,257 million). Annual active consumers on China retail marketplaces reached 515 million; mobile MAUs on China retail marketplaces reached 580 million in December 2017. Tmall recorded 43% yoy growth in physical goods GMV during the quarter⁸.

Alibaba to acquire 33% stake in Ant Financial

On 1 February, Alibaba Group and Ant Financial jointly announced that Alibaba Group has agreed to buy a 33% equity stake in Ant Financial. The two parties have agreed to certain amendments to their 2014 transaction agreements. Alibaba Group believes that deepening its relationship through an equity stake in Ant Financial will bring key strategic benefits to Alibaba, including advancing its New Retail strategy with mobile payments, increasing user acquisition and retention through collaboration with the Alipay digital wallet, and enhancing the execution of international expansion. In addition, the equity stake in Ant Financial enables Alibaba and its shareholders to participate in the future growth of the financial technology sector⁹.

VIP.com to become London Fashion Week's exclusive e-commerce partner in China

On 25 January, VIP.com announced its strategic partnership with London Fashion Week. VIP.com will become the official sponsor and exclusive e-commerce partner of London Fashion Week and London Men's Fashion Week. VIP.com said that the platform is eager to bring more Chinese fashion elements, ideas and Chinese fashion brands to the international stage¹⁰.

Kaola.com to open first offline store in Hangzhou

Kaola.com will open its first offline store in Raffles City Mall in Hangzhou Qianjiang. It will further open more offline stores in five other cities in the near future. Customers can purchase cross-border e-commerce (CBEC) products under the “bonded area import” model directly in-store. The custom clearance time will be greatly shortened and customers can directly pick-up bonded imported products in-store straight after the custom clearance process. This will make the shopping process of CBEC goods more convenient for consumers, as they do not need to wait for the online orders to send to their home. Meanwhile, customers can also purchase products which are made under Kaola’s “factory to customer” model in Kaola’s offline store¹¹.

Tmall Global to launch first offline store in Hangzhou CBEC Comprehensive Pilot Zone

Tmall Global will launch its first offline store in Hangzhou cross-border e-commerce (CBEC) Comprehensive Pilot Zone. Customers can purchase CBEC products under “bonded area import” model and pick-up the product directly in the store. Previously, CBEC players can only display bonded imported products offline and consumers need to place order online on authorized CBEC platforms, and they can only sell duty-paid products offline¹².

JD.com adds 3D virtual fitting function on mobile app

On 26 January, JD.com has officially added a new function – “JD Shi Shi”(JD Trying on) – a 3D virtual fitting room function on its mobile app. The function is able to generate a 3D model based on the body measurement provided by the user; and it can immediately

visualize the effect of trying on the clothes. Through launching this new function, JD.com would like to solve the problem of buying clothes online; and also will consider deploying this new function in its offline stores in the future¹³.

Taobao launches “family account” function for elders; the family account can be bundled with their children’s account

In order to tap the elderly’s consumer market, Taobao launched a new “family account” function on its platform that caters specifically to elderly users and their families on 1 February. The “family account” can be bundled with the children’s account to complete the payment function, and that it has skipped all the tedious registration steps, allowing users to register with just a mobile phone number and verification code. In addition, in order to meet the needs of the elderly consumer groups, the home page of the “family account” has adopted a new design, with larger fonts and focused on promoting Tmall supermarket’s products¹⁴.



JD Logistics forms strategic partnership with Shanghai Waigaoqiao Free Trade Zone Group; JD.com opens first offline experiential store in Waigaoqiao

On 30 January, Shanghai Waigaoqiao Free Trade Zone Group and JD Logistics announced to form a strategic partnership and cooperate in areas including logistics, warehousing, commercial trade, and functional platforms. Meanwhile, JD.com also announced to open the first offline experiential store “JD Hui” in Waigaoqiao with a space of

6.01 sq km. The store will incorporate JD.com's latest technologies on experiential shopping, payment technologies, unmanned technologies, as well as other technologies to facilitate online and offline integration¹⁵.

JD Logistics launches 700 new energy vehicles in Beijing

On 31 January, JD Logistics said it has already launched more than 700 new energy vehicles in Beijing, and another 2,000 new energy vehicles nationwide, covering more than 10 cities in the country, including Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Wuhan, Xi'an, etc. The new energy vehicles will replace the traditional petroleum-based trucks to become the major transport vehicles in these cities. JD Logistics said it will increase investments and use of new energy vehicles – to replace all of the existing vehicles in the system by new energy vehicles over the next two years¹⁶.

Department stores and shopping malls

Xinhua Department Store changes its name and transforms into a shopping mall

Wumart Group's Xinhua Department Store will be renamed as "Wumart Xinjiekou Shopping Mall", aiming to transform itself from a department store to a shopping mall for greater business opportunities in the future. Currently, the department store has started to minimize the number of joint venture brands, and increase the share of private labels in its portfolio. Xinhua department store said that sales performance against last year was basically the same, after removing more than 100 brands since 2017, which is the time when it started the transformation exercise¹⁷.

Convenience stores

Chengdu's first unmanned store "Gogo Nobody" shuts down temporarily

After four months of operation, Chengdu's first unmanned store "Gogo Nobody" has reportedly shut down temporarily. The company's spokesman said that the unmanned store will re-open after its facial-recognition system has been upgraded. "Gogo Nobody" currently has two stores in Chengdu in JoyCity and Wanda Plaza respectively. Meanwhile, the unmanned shelf project "Gogo Small", run by the same Chengdu-based startup Xiao Mang Guo Technology, has already closed down in November 2017. "Gogo Small" established 500 unmanned shelves near business districts and office buildings. Company spokesman said that the closure was due to too-rapid expansion as well as wrong choice of shelf locations¹⁸.

Apparel

HLA's womenswear brand OVV and menswear brand AEX open first physical store

On 20 January, OVV and AEX, womenswear brand and menswear brand under HLA formally opened its first physical store, which signifies further landing of the Group's multi-brand strategy. Currently, OVV and AEX's target markets are mainly the tier-2 and tier-3 cities. Since 2017, HLA has accelerated its

multi-brand, multi-category and multi-channel investment to build up its youthful image, hoping to widen the customer base of the Group¹⁹.

Peacebird to host its fashion show in New York for the first time

Peacebird will host its fashion show in New York for the first time on 7 February. Peacebird will also release the spring/summer collection 2018 for Peacebird Men and Peacebird Women on the first "T-mall China Day" during the New York Fashion Week, jointly organized by Tmall and the Council of Fashion Designers of America. In the future, Peacebird plans to expand to other overseas markets, with Southeast Asia as its first stop²⁰.

Cosmetics

CHANDO and Hstyle jointly launch cross-category program "Chucaijihua" on VIP.com

On 19 January, Chinese cosmetic brand CHANDO and apparel brand Hstyle launched their cross-category program "Chucaijihua" on VIP.com. The program aims to provide recommendations on the most up-to-date make-up and fashion information to the users of VIP.com. Meanwhile, the two brands can cross-sell to the existing customers of the brand and thereby getting more new customers; they can also leverage each other's spokesperson to help increase the brand appeal. The integration of the beauty and apparel markets with the "fans economy" is set to achieve win-win situation²¹.

Home products

HOLA launches in Suning; opens its first store in Nanjing

On 2 February, domestic home product retailer HOLA opened its first store inside Suning's Nanjing Xinjiekou branch, which is also HOLA's first crossover cooperation with players from other industries. This new store occupies a floor space of around 300 sqm, selling merchandise covering Chinese and Western tableware, personal healthcare, home textile, etc. The store aims to provide one-stop solution for home products to its customers. Suning's strength is on smart home appliances, while HOLA's strength is on high quality home products. The two brands will continue to cooperate in other aspects in the near future²².

References

- ¹ “CGCC, Fung Business Intelligence: Business innovations in the New Retail era is evident in 2018”, 26 January 2018. Linkshop.
<http://www.linkshop.com.cn/web/archives/2018/395794.shtml> (in Chinese only)
- ² “Nielsen: China’s digital revolution to accelerate, further altering consumption habits”, 29 January 2018. Fashion Network.
http://cn.fashionnetwork.com/news/ni-er-sen-zui-xin-yan-jiu-bao-gao-dao-du---shu-zi-hua-shi-dai-xia-de-zhong-guo-xiao-fei_941223.html#.Wm63jhykF1Y (in Chinese only)
- ³ “Deloitte releases the “Global Powers of Retailing 2018”; 14 Chinese and Hong Kong retailers are on the Top 250 list”, 29 January 2018. Askci.com.
<http://www.askci.com/news/chanye/20180129/095519117139.shtml> (in Chinese only)
- ⁴ “MOFCOM: China’s online retail market is moving towards a new era with high-quality growth”, 25 January 2018. Sina.
<http://tech.sina.com.cn/i/2018-01-25/doc-ifyqyuhy6320874.shtml> (in Chinese only)
- ⁵ “MOFCOM: Retail transaction of China’s rural e-commerce market amounted to 1,224.88 billion yuan in 2017, up 39.1% yoy”, 25 January 2018. Gov.cn.
http://www.gov.cn/xinwen/2018-01/25/content_5260868.htm (in Chinese only)
- ⁶ “CNNIC: Number of Internet users in China reaches 772 million”, 1 February 2018. Xinhuanet.com.
http://www.xinhuanet.com/zgjx/2018-02/01/c_136940768.htm (in Chinese only)
- ⁷ “Tencent, Suning, Sunac, JD.com to invest in Wanda”, 29 January 2018. ebrun.
<http://www.ebrun.com/20180129/263023.shtml> (in Chinese only)
- ⁸ “Alibaba’s 3Q revenue reaches 83,028 million yuan”, 1 February 2018. Linkshop.
<http://www.linkshop.com.cn/web/archives/2018/396161.shtml> (in Chinese only)
- ⁹ “Alibaba to acquire 33% stake in Ant Financial”, 1 February 2018. Alizila.
<http://www.alizila.com/alibaba-agrees-33-stake-ant-financial/>
- ¹⁰ “VIP.com to become London Fashion Week’s exclusive e-commerce partner in China”, 26 January 2018. Linkshop.
<http://www.linkshop.com.cn/web/archives/2018/395775.shtml> (in Chinese only)
- ¹¹ “Kaola.com to open first offline store in Hangzhou”, 30 January 2018. ebrun.
<http://www.ebrun.com/20180130/263110.shtml> (in Chinese only)
- ¹² “Tmall Global to launch first offline store in Hangzhou CBEC Comprehensive Pilot Zone”, 29 January 2018. ebrun.
<http://www.ebrun.com/20180129/263022.shtml> (in Chinese only)
- ¹³ “JD.com adds 3D virtual fitting function on mobile app”, 29 January 2018. Fashion Network.
http://cn.fashionnetwork.com/news/jing-dong-app-ke-hu-duan-tui-chu-3d-xu-ni_940833.html#.Wm6AsxykF1Y (in Chinese only)
- ¹⁴ “Taobao launches “family account” function for elders; the family account can be bundled with their children’s account”, 1 February 2018. It.people.com.cn
<http://it.people.com.cn/n1/2018/0201/c1009-29799060.html> (in Chinese only)
- ¹⁵ “JD Logistics forms strategic partnership with Shanghai Waigaoqiao Free Trade Zone Group; JD.com opens first offline experiential store in Waigaoqiao”, 30 January 2018. Linkshop.
<http://www.linkshop.com.cn/web/archives/2018/396001.shtml> (in Chinese only)
- ¹⁶ “JD Logistics launches 700 new energy vehicles in Beijing”, 1 February 2018. linkshop.
<http://www.linkshop.com.cn/web/archives/2018/396088.shtml> (in Chinese only)
- ¹⁷ “Xinhua Department Store changes its name and transforms into a shopping mall”, 29 January 2018. BBT news.
<http://www.bbtnews.com.cn/2018/0129/228331.shtml> (in Chinese only)
- ¹⁸ “Chengdu’s first unmanned store “Gogo Nobody” shut down temporarily”, 28 January 2018. Chengdu Business Daily.
http://e.chengdu.cn/html/2018-01/28/content_616518.htm (in Chinese only)
- ¹⁹ “HLA’s womenswear brand OVV and menswear brand AEX open first physical store”, 29 January 2018. Fashion Network.
http://cn.fashionnetwork.com/news/hai-lan-zhi-jia-tui-chu-liang-da---qing-shang_941306.html#.Wm_dhxykF1Y (in Chinese only)
- ²⁰ “Peacebird to host its fashion show in New York for the first time”, 31 January 2018. Ebrun.
<http://www.ebrun.com/20180131/263235.shtml> (in Chinese only)
- ²¹ “CHANDO and Hstyle jointly launch cross-category program “Chucaijihua” on VIP.com”, 25 January 2018. PR Newswire.
<http://www.prnasia.com/story/200811-1.shtml> (in Chinese only)
- ²² “HOLA launches in Suning; opens its first store in Nanjing”, 30 January 2018. Linkshop.
<http://www.linkshop.com.cn/web/archives/2018/395990.shtml> (in Chinese only)