

# China Retail & E-commerce

## Weekly Updates

28 September – 4 October 2018

 FUNG BUSINESS INTELLIGENCE

Asia Distribution & Retail

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# Retail in General

State Council to lower most-favored-nation tariffs on various items; overall tariff level to lower to 7.5%

On 30 September, the Customs Tariff Commission of the State Council announced to slash most-favored-nation tariffs on a total of 1,585 taxable items starting from 1 November, 2018, in order to better adapt to industrial upgrading, reduce costs of enterprises and meet the different needs of consumers. The tariff cuts covered sectors including textiles, ceramics, steel, machinery and mechanical components. After several rounds of tariff level adjustments since the beginning of 2018, the overall tariff level will be reduced to 7.5% in 2018 from 9.8% in 2017<sup>1</sup>.

# E-commerce

JD.com officially launches its e-commerce platform "JD Central" in Thailand

On 28 September, JD Central, the e-commerce platform jointly established by JD.com and Thailand's Central Group, was officially launched in Thailand. JD Central started its trial operation in Thailand on 18 June this year, adopting a self-operated and marketplace model similar to that of JD.com in China, selling products including digital electronics products, fashion items, home appliances and fast-moving consumer goods. Products from Chinese companies have proved popular; Chinese brands including Xiaomi, Huawei, and Lenovo have achieved very impressive sales on JD Central<sup>2</sup>.

Meituan-Dianping records loss of 28.8 billion yuan in 1H18 due to increase investments in new business segments

On 27 September, Meituan-Dianping released its interim report for the six months ended 30 June, 2018. Total revenues increased by 91.2% yoy to 26.3 billion yuan in 1H18; loss for the period was 28.8 billion yuan; adjusted net loss was 4.2 billion yuan. The loss incurred in 1H18 has already exceeded that of FY17 of 19.0 billion yuan; the loss was primarily due to increase investments in new business segments. According to the interim report, Meituan-Dianping will continue to invest in new businesses as this will help the company expand the platform by offering more services to consumers and merchants<sup>3</sup>.

JD.com officially launches smart customer service robot "Jingdong Xiaozhi"

On 28 September, JD.com officially launched its smart customer service robot "Jingdong Xiaozhi", which is exclusive for its merchants. Different from chatbot, Jingdong Xiaozhi is more like a robot that can understand the queries of customers and provide relevant solutions for them efficiently, similar to what customer service representatives could do. In addition, Jingdong Xiaozhi can conduct data analytics in all aspects, such as predicting consumption behavior based on customers' buying history, emotional conditions and real-time shopping data. It can also handle reception data query, pre-sales conversion data query, and provide product recommendations and order tracking<sup>4</sup>.

# Retail logistics

JD Logistics and Netease set up joint warehouse for 11.11 Global Shopping Festival

On 26 September, JD Logistics and Netease officially launched their joint warehouse in Hangzhou before this year's 11.11 Global

Shopping Festival. This is the first time for JD Logistics to launch joint warehouse with other e-commerce platforms. Netease will share information of this warehouse with JD Logistics including product information, inventory data, etc. Products will enter the joint warehouse directly from factories and then transfer to JD distribution centers for last-mile delivery<sup>5</sup>.

### Cainiao Logistics upgrades logistics services for merchants to prepare for 11.11 Global Shopping Festival

Cainiao Logistics announced to upgrade its logistics services for merchants to prepare for the 11.11 Global Shopping Festival. With the construction of the China Smart Logistic Network, Cainiao Logistics can now offer global supply chain solutions to merchants with its eHub, Express Customs Clearance Services, overseas warehouses, bonded warehouses, etc. This will help merchants to better prepare for the 11.11 Global Shopping Festival. It is reported that in addition to the normal flight services, Cainiao Logistics will add over 40 charter flights to Russia and other European countries to ensure that consumers can receive their goods within 15 days after they place orders<sup>6</sup>.

### Cainiao launches new service to allow travelers to send parcels from overseas back to China

On 28 September, Cainiao announced the provision of a new service “Overseas Courier” on a trial basis. Chinese travelers can send their products purchased overseas back to China during their trip in the overseas courier store. According to Cainiao, the first trial overseas courier store is located at the Desert Hills Premium Outlets in Los Angeles, U.S. Travelers need to use their Alipay mini-program to search for Cainiao “Overseas Courier” to enter the relevant page, order

online, and complete the payment process. After the goods are shipped, Cainiao and its partners will deliver the parcels to the customers in about 10 days<sup>7</sup>.

## Department stores and shopping malls

### Mitsukoshi Isetan opens flagship store on JD Worldwide

On 27 September, Japanese department store operator Mitsukoshi Isetan Holdings officially entered into a strategic cooperation with JD.com to set up an overseas official flagship store on JD Worldwide. The online store will offer Japanese products including personal care, beauty and skin care, and daily household goods for Chinese consumers. It is reported that Isetan's duty-free turnover was about 60 billion yen (about 3.6 billion yuan) in 2017, of which, about 70% of the turnover were contributed by Chinese customers<sup>8</sup>.

## Supermarkets and hypermarkets

### Wumart opens 28 smart supermarkets in one day

Recently, Wumart opened 28 smart stores in Beijing, Tianjin, Hebei and Hangzhou. These smart supermarkets are designed according to the needs of the post-80s and post-90s customers with an aim to provide a joyful shopping experience. The stores put more emphasis on fresh foods and imported goods. Meanwhile, there are various black technologies applied in-store, including scan-and-go checkout service, self-service checkouts counters, smart carts and facial recognition payment to make the shopping

journey more convenient<sup>9</sup>.

## Apparel

### ZARA's first new retail concept store opens in Shanghai

On 27 September, Zara's new retail flagship store jointly created by ZARA and Tmall was officially opened in Shanghai Times Square. This is ZARA's first new retail concept store in China. The two-storey store adopts a theme of "Wear Future" and features new technologies. Through the LED screen photo wall, customers can see the effects of mix and match and receive their own photos on their devices. The store will sell ZARA's seasonal collections and special limited-edition products<sup>10</sup>.

### I.T launches WeChat Mini Program ITeSHOP

On 27 September, multi-brand fashion retailer I.T announced that their WeChat Mini Program ITeSHOP has been officially launched, selling products of various brands including Alexander McQueen, Comme des Garçons, Off-White, and Fred Perry<sup>11</sup>.

### Metersbonwe lines up with Mobile Tmall to test new retail models

Recently, Metersbonwe cooperated with Mobile Tmall to test new retail models in Shanghai. Customers can order on mobile Tmall app, or directly through staff in the Metersbonwe store. After receiving the orders, the system can analyze the inventory in the stores in the city, and find the nearest store which has the items that the customers have ordered. Couriers from Fengniao Delivery will pick up the items in the store and deliver to customers within one hour<sup>12</sup>.

### JD.com and Hongdou Group launch first "Hongdou-JD.com Experiential Store" in Wuxi

On 1 October, JD.com and Hongdou jointly launched the "Hongdou-JD.com Experiential Store" at Huiju Wuxi Shopping Center. The store intends to bring a new, modern and high-quality shopping experience to its consumers by introducing a unique consumption scene and adopting various "black technologies" such as smart mirror with styling recommendation and personal guide function. The store offers mainly Hongdou's apparel items and home products, as well as JD.com's private labels such as Jingzao and Jingxuan<sup>13</sup>.

### Semir launches first fresh image, stylish concept store in Shanghai

On 1 October, Semir's first fresh image, stylish concept store at Shanghai Jiading CITIC Pacific Wanda Plaza was officially opened. The store is an experiential concept store that aims to meet the needs of the young consumer group. Its design philosophy is to create a "scenario + interactive" shopping experience for customers. Semir has created a special "KOL leisure zone", where shoppers can take photos and interact with each other while shopping at the store<sup>14</sup>.

## Kids products

### Number of stores of Suning Redbaby exceed 100

Suning.com Group announced that the total number of stores of Suning Redbaby across China have exceeded 100 as of 21 September. It targets to launch another 100 stores in the next 180 days and aims to have more than 500 Suning Redbaby flagship stores and 1,000 self-operated stores by end-

2020. Suning Redbaby has already partnered with over 1,000 enterprises in the maternity and baby products industry. It has over 2,000 nursery teachers to provide all-round products and services to its customers<sup>15</sup>.

### Semir finalizes acquisition of Kidiliz, becoming second largest childrenswear company globally

Zhejiang Semir Garment Co., Ltd. announced on 2 October that the acquisition by Semir of a 100% stake in the Kidiliz Group was finalized. The value of the transaction was not disclosed. Leveraging the expertise, sales channels, and management of Semir, Kidiliz will speed up its expansion in China. After the acquisition, Semir will become the second largest player in the childrenswear industry globally. The combined annual sales of the two companies are estimated to reach around 2 billion euros. Semir will continue to focus on China and other Asian markets, while Kidiliz will focus on premium international childrenswear market<sup>16</sup>.

## Consumer electronics

### Xiaomi to open its retail system and own 2,000 authorized stores by end of year

Recently, Xiaomi Group announced that it will open its Xiaomi retail system nationwide, allowing people from all walks of life to participate in new retail development, and will set up retail stores in most prime business districts by the end of this year. Xiaomi also announced that the third Xiaomi flagship store was opened in Chuhe Han Street, Wuhan on 1 October. It is reported that by the end of 2018, there will be 700 Xiaomi stores and more than 2,000 Xiaomi authorized stores<sup>17</sup>.

## Home products

### MINISO secures 1 billion yuan investment from Tencent and Hillhouse Capital

On 30 September, MINISO announced that it has signed a strategic investment agreement with Tencent and Hillhouse Capital for a total of 1 billion yuan. This is the first external financing of MINISO since its founding in 2013. MINISO hoped that the strategic cooperation with Tencent and Hillhouse Capital would bring synergies to the three parties, and strengthen cooperation in areas including big data analytics, smart stores, smart retail and digital operations. It is reported that MINISO has opened more than 3,000 stores worldwide<sup>18</sup>.

## Cosmetics

### L'Oreal, Tmall: China's men's grooming market becomes more streamlined, professional and high-end

On 28 September, L'Oreal and Tmall's Innovation Center signed a strategic cooperation agreement. L'Oreal said that through this strategic cooperation with Tmall, the Group will leverage Tmall's big data-driven consumer insights to redefine product mix, marketing and sales channels; it hopes to help consumers make the right choice, while driving business growth. At the same time, the two entities jointly released the "White Paper on Chinese male beauty sector" which focuses on men's consumption attitudes and behavior on cosmetics in China. The report showed that men's grooming market in China has witnessed explosive growth, with a growth rate of over 50% for two consecutive years. The number of grooming products used by men continues to increase, and consumers are looking for more high-end, professional

brands. It is observed that the men's grooming market is becoming more professional and high-end<sup>19</sup>.

dominate online luxury transactions; yet, social selling has gained popularity recently<sup>20</sup>.

## Luxury sector

Tencent, BCG: Chinese consumers to account for 40% of the global luxury goods market in 2024

On 27 September, Tencent and BCG jointly released the “China’s Personal Luxury Goods Consumption Report”. According to the report, China's personal luxury goods market (including overseas purchases) will grow by 6% annually from now through 2024. Chinese luxury consumers will account for 40% of the sales of the global luxury goods market by 2024, driving 75% of the growth. Young consumers will be the major consumption force – about 58% of luxury goods spenders are aged 18-30, and most of them have attained Bachelor’s degree or above; the proportion of female consumers is high (71%). More than 50% of consumers live outside the top 15 cities in China; most of them live in tier-2 or lower tier cities. The study reveals six major trends:

1. Mobile app continues to be the most influential shopping device among Chinese luxury spenders;
2. Fashion KOLs (key opinion leaders) are important touch points to reach out to luxury goods spenders;
3. Brands’ public accounts and Mini Programs on WeChat have gained importance in engaging with customers;
4. “Research online, purchase offline” is the main path that Chinese luxury shoppers like to take;
5. Digital marketing based on urban agglomeration is the key for customer conversion in lower-tier cities;
6. E-commerce platforms continue to

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## Fung Business Intelligence

Fung Business Intelligence collects, analyzes and interprets market data on global sourcing, supply chains, distribution, retail and technology.

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