

China Retail & E-commerce

Weekly Updates

3 February – 9 February 2017



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Retail in general



State Council releases 2017 No.1 Document to push forward supply-side structural reform in the agricultural sector and promote rural e-commerce development

The State Council released the Central Government No.1 Document for 2017, entitled “Several Opinions on Deepening Supply-side Reform in Agriculture to Further Speed up the Formation of New Growth Momentum for Development in Rural Areas and the Related Industries”. The No. 1 Document stated the importance of pushing forward supply-side structural reform in the agricultural sector. Selected major tasks include refining production categories, improving production methods, as well as upgrading the industry and its supply chain. The document also highlighted the following tasks: further promoting the development of rural e-commerce, speeding up the process of establishing industry standards to guide the development of rural e-commerce, supporting the establishment of e-commerce platforms and physical service stations for rural products, promoting the interaction of traditional commerce, commercial services, express mail, and e-commerce, strengthening the logistics infrastructure connecting rural areas, and facilitating the development of express delivery services in rural areas¹.

NDRC issues the “Guiding Catalogue of Key Products and Services for Strategic Emerging Industries (2016 Edition)”

NDRC issued the “Guiding Catalogue of Key Products and Services for Strategic Emerging

Industries (2016 Edition)” (the “Catalogue”). It covers eight specific sectors in five major fields as well as some relevant industries in the service sector. Around 4,000 products and services deemed as belonging to strategic emerging industries have been included and are categorized under 40 key strategic directions and 174 sub-directions. The sectors on the list include next generation information technology, manufacturing of high-end equipment, new material, biotech, new energy and digital media. For example, prevention and control of water pollution is named as one of the examples in the advanced environmental protection sectors, while the next generation information technology industry includes “Internet +” application services such as advanced logistics and e-commerce. Other examples of industries listed in the Catalogue include intellectual property (“IP”) services, inspection and testing services, standard accreditation services, start-ups and innovation services such as demonstration base, co-working space and incubators, as well as services around the investment on other strategic emerging industries. This 2016 edition of the Catalogue is issued with the aim to guide the society in the investment of various resources. It highlights industries that provide products and services most needed in the market, so that companies can adapt their business strategies according to the latest market situation².

MOFCOM and four other departments jointly issue the “13th Five-Year Plan for the Development of Trade Logistics”

The Ministry of Commerce (MOFCOM) and four other departments jointly issued the “13th Five-Year Plan for the Development of Trade Logistics” (the Plan). The Plan states that the 13th Five-Year period should have seen huge strides in the development of advanced information technologies application, which

will lead to the constant growth in the competitiveness of trade logistics companies; in particular, the logistics cost ratio of wholesale and retail companies to drop to around 7%. The Plan ascertains nine major tasks for the development of trade logistics, including constructing a multiple-layer trade logistics network, promoting the standardization of trade logistics, strengthening the information technology infrastructure of trade logistics, facilitating the transformation of trade logistics to become more sustainable, and establishing the credit system for trade logistics. It also proposes seven key projects, such as developing a trade logistics platform, improving e-commerce logistics, and developing sustainability in the industry of trade logistics³.

Total transaction amount during Lunar New Year holidays set new record

According to the Ministry of Commerce (MOFCOM), retail and catering businesses recorded a total sales of around 840 billion yuan in the first 7 days of the Lunar New Year holidays (27 January – 2 February), up by 11.4% from that of last year. China National Tourism Administration (CNTA) estimated that there were 344 million tourists in China during this holiday period, up by 13.8% yoy, while the total spending of inbound tourism amounted to 423.3 billion yuan, up by 15.9% yoy. China UnionPay's statistics showed that over 286 million transactions were made using its debit and credit cards, which amounted to 378.7 billion yuan in the first 6 days of the Lunar New Year holidays (27 January – 1 February), increasing 10.7% and 48.8% yoy respectively to set a record high⁴.

Inbound tourism spending in Hainan during the Lunar New Year holidays amounts to 12.4 billion yuan; duty-free stores see booming sales

According to the statistics announced by the Hainan Provincial Tourism Development Commission, Hainan province had 5.15 million visiting tourists in the first seven days of the Lunar New Year holidays (27 January – 2 February) and the total inbound tourism spending amounted to 12.4 billion yuan. Two duty-free stores in Haikou and Sanya respectively recorded total number of shoppers of 266,000 and total sales of 333.17 million yuan⁵.

Nielsen: Chinese consumers spend more on quality lifestyle products than before

Nielsen said in a recent consumer report that sales of high quality merchandise kept climbing as a result of positive supply and demand shock. As the market demands more quality products, several product categories have good development potential: technology gadgets, cosmetics, fashion, dairy products, automobiles, dental hygiene products, meat and seafood. Furthermore, the Chinese consumers surveyed by the report claimed that they have increased their spending in the past 5 years on categories such as food and groceries (60%), clothing (56%), entertainment (52%), tourism (52%), eating-out (50%), showing that the trend of lifestyle spending has already been formed⁶.

E-commerce

JD.com sees number of customers, number of purchase orders and total sales double during Lunar New Year holidays this year

According to data from JD.com, number of customers, number of purchase orders and total sales during the Lunar New Year holidays doubled that of last year. JD.com has accumulatively used 150,000 logistics personnel to not only maintain its express delivery services during the holidays, but also expand the delivery coverage areas. During the period, JD.com delivered mid-to-small-sized parcels to 110 cities, large-sized parcels to 446 prefectural-level cities and county-level cities; its cold-chain delivery services covered 69 cities; also, JD.com guaranteed same-day or second-day delivery in 15 core cities, including Beijing and Shanghai. Meanwhile, the top three cities in terms of order numbers during the Lunar New Year holidays are Beijing, Shanghai and Guangzhou respectively⁷.

JD.com and three electronics retailers agree on 8-billion-yuan of services

JD.com signed a strategic partnership agreement for 2017 with three telecommunication electronics retailers, including MaiKaoLi, FunTalk, and Heng Da He. The service agreement worth 8 billion yuan in total. JD.com said it will provide operation support to the three retailers and work with them in areas such as logistics and warehouse, finance, as well as after-sale services. Market analyst expects JD.com to continue to open up its supply chain services

to more third-party retailers in the future⁸.

Alipay and Global Blue announce instant VAT refunds for Chinese tourists in Europe through QR code scanning

Alipay and Swiss tax-refund company Global Blue launched a new service for Chinese tourists shopping in Europe. Through digital validation by QR code scanning, tourists can get instant refunds which will be credited to their Alipay accounts. This service has already been made available in the tax refund service points at Milan's Malpensa Airport, Munich Airport and Helsinki Airport. The instant tax refunds service will be available in more European countries by summer⁹.

Lotte closes its flagship store on Tmall

Lotte Group, a Korea conglomerate, halted the operation of its flagship store on Tmall in January amid the ongoing tension over Korea's THAAD deployment decision. Earlier, Lotte had closed three of its smaller-sized stores; it also stopped the construction of its in-door entertainment complex project in Shenyang in December 2016. As of today, Lotte has 99 Lotte Marts and 16 Lotte Supermarkets in China¹⁰.

Trustdata: GMV of local lifestyle service O2O market in China totals 729.1 billion yuan in 2016, up by 64% yoy

Trustdata, a market research company that monitors the online market, published the "White Paper on O2O Local Lifestyle Service in 2016". The report showed that the gross market value (GMV) of the local lifestyle service O2O market in China amounted to 729.1 billion yuan in 2016, up by 64% yoy. The industry is no longer merely represented by group buying services, but has developed

three core business areas including in-store services, home delivery services, and food delivery, among which in-store services have seen the fastest growth with total transaction value of 423.1 billion yuan, 58% of the total of all O2O local lifestyle services. Among all O2O local lifestyle service platforms, Meituan-Dianping ranked first with the largest total transaction value and was followed by Koubei, Baidu and Ele.me. In terms of number of transaction per day, Koubei was the fastest growing platform in 2016. It topped the list with 15 million transactions per day¹¹.

Supermarkets and hypermarkets



Wal-mart increases JD.com stake to 12.1% to become its third largest shareholder

According to a document filed to the U.S. Securities and Exchange Commission by JD.com on 3 February, 2017, the Wal-mart has increased its stake in JD.com to 12.1% at the end of last year. With the increase in stake, Wal-mart replaced Hillhouse Capital Group to become the third largest shareholder of JD.com. JD.com's founder Liu Qiangdong still has tight control of the company with 80.9% voting rights and most of the Class B shares¹².

Home products



Hola expands its franchise business to all cities in China

Hola, an international retailer of household and home accessory announced the

implementation of its new franchising arrangement in China in 2017. It will gradually expand its franchising business to all cities in China by inviting all interested potential partners to either open franchising stores or join as contract distributors. For franchising partners, Hola will offer options of either opening a single franchised store or enter into a regional master franchise agreement. Hola opened its first China store in 2014 in Shanghai, and it currently has stores in major cities such as Beijing, Shanghai, Tianjin, Chengdu, Chongqing and Wuhan¹³.

Luxury products



Market research company L2: International price difference for luxury brands decreases while that of affordable luxury stays large

L2, a market research company in New York, compared the international price difference for luxury brands and found that 45% of luxury brands have a price gap of 15% or less between their China prices and those in the U.S. An example of luxury brand in this price-gap range is Chanel, indicating higher-end labels are keen to embrace price harmonization. Meanwhile, affordable luxury brands such as Michael Kors showed the highest international price difference: these brands priced their products in China at least 46% higher than in the U.S.¹⁴.

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