

# China Retail & E-commerce

## Weekly Updates

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## E-commerce



### Government work report 2017: “Internet Plus” and digital economy to be the focus in future development

China’s Premier Li Keqiang delivered a government work report on 5 March during the opening meeting of the fifth session of China’s 12th National People’s Congress (NPC). He said that China needs to support the planning of strategic emerging industries, as well as boost the development of emerging industries such as artificial intelligence, sharing economy and “Internet Plus”. Also, Li mentioned that China needs to further raise its technological innovation ability, transform its traditional industries, continue to promote social innovation and entrepreneurship, improve quality standards, as well as use innovation to upgrade the physical economy<sup>1</sup>.

### Hangzhou announces China’s first local level regulation on CBEC

On 1 March, Hangzhou government announced the “Regulations on Promoting Cross-border E-commerce in Hangzhou” (“the Regulations”), the first set of regulations drafted and approved at local level governing cross-border e-commerce (CBEC). The document outlined various areas of regulations to be implemented to promote the development of CBEC in Hangzhou, such as regulatory framework establishment, planning and development, provision of online public services, industry standards establishment, and government support.

In terms of regulatory framework, the Regulations established a collaborative

market protection mechanism involving local level government bureaus such as Customs, Inspection and Quarantine, Foreign Exchange Administration, Tax and other related official bodies. Also, businesses are encouraged to take initiative to form industry alliance and perform self-monitoring to ensure that industry development is regulated and fair.

In terms of platform services and market standards establishment, the Regulations stated that online service platform is set up according to the “Single Window Principle” to offer comprehensive public services online. Hangzhou will also set up multiple e-commerce industrial zones to offer one-stop services offline in areas such as custom clearance, logistics, finance and recruitment, such that integrated online and offline services can be offered.

The Regulations targeted to incubate an “Online Silk Road” with favourable government policies to benefit businesses such as streamlined custom clearance, better quality supervision, finance innovation, advanced logistics services, credit services, statistics monitoring and talent recruitment<sup>2</sup>.

### MFA to launch consular services on WeChat’s mini program

The Ministry of Foreign Affairs (MFA) will launch a WeChat mini program for its global consular services. The “Global Consular Protection and Services Hotline” of the MFA, also known as “Hotline 12308”, is a 24-hour service hotline for Chinese nationals for service and enquiries. After the launch of the mini program, users can also get access to MFA’s real-time services and information through the WeChat platform<sup>3</sup>.

## WeChat Pay enters North American market

WeChat Pay enters the North American market through a partnership with American company Citcon, a mobile payment solution provider that specializes in connecting global businesses with the China market. The partnership allows millions of businesses in North America to receive mobile payment from Chinese tourists through WeChat Pay. In 2016, Chinese tourists spent up to US\$74 million daily in the U.S. Citcon, the partner of WeChat Pay, is based in Silicon Valley and it is also the payment service partner of other payment service providers such as Alipay and Unionpay<sup>4</sup>.

## WeChat Pay becomes exclusive third-party mobile payment service provider of ANA

WeChat Pay becomes the exclusive third-party mobile payment service provider of All Nippon Airways (ANA), a Japanese aviation company. WeChat Pay is available as the mobile payment option in all ANA's physical stores and retail businesses, such as duty-free stores and hotels. ANA is a Japanese airline who aside from passenger flight and cargo freighter businesses also operates duty-free stores, hotels and other related services. ANA said that its cross border e-commerce platform ANA Cargo Direct Mall also plans to partner with WeChat Pay<sup>5</sup>.

## Hema Xiansheng opens first physical store and launches online shopping services in Beijing

Hema Xiansheng will open its Beijing Shilipu branch on 31 March. The retailer has also launched its online shopping and delivery services for the Shilipu neighbourhood, offering delivery services of both fresh

produce as well as hot food. In 2016, Alibaba invested in Hema Xiansheng, an investment which many deemed as Alibaba's move to expand in the "New Retail Regime". Hema Xiansheng opened its first experiential membership store last year in Shanghai. By establishing both online e-commerce platform and offline physical store, the retailer adopted an O2O model. Its main businesses include fresh produce and FMCG distribution, as well as catering services. Currently, there are eight Hema Xiansheng stores in China, seven of which are in Shanghai and one is in Ningbo<sup>6</sup>.

## Koala.com partners with AQSIQ's CBEC quality monitoring centre on quality control

Koala.com and the Hangzhou Cross-Border E-Commerce Quality Monitoring Centre (the Centre), a centre set up by the General Administration of Quality Supervision (AQSIQ), signed a memorandum of agreement on quality control. The two parties will work together in areas such as information and data sharing, collaboration in quality inspection and control, establishment of joint handling mechanisms for quality incidents, as well as joint announcement of testing data and results. The Centre said it will support Koala.com to engage in various pilot arrangements with regards to cross-border e-commerce (CBEC), thus allowing Koala.com to expand its business. Koala.com said the partnership will help the company strengthen its product quality control, after-sale services, as well as allow the company to be more active in protecting consumers' rights<sup>7</sup>.

## Supermarkets and hypermarkets



### Wal-mart China reveals plan of O2O collaboration with JD Daojia for its 180 stores

Wal-mart China announced that selected retail branches of Wal-mart will start to work with JD Daojia for home delivery services. Wal-mart China estimated that over 180 of its retail stores across more than 20 cities in China will be connected to the JD Daojia online platform by end of 2017. JD Daojia, a fresh produce O2O marketplace, is an online platform owned by the Dada-JD Daojia joint venture. The platform has over 30 million registered users. Currently, Wal-mart China sells over 1,200 SKUs on JD Daojia, including products such as fresh produce, dried food, maternity and baby products, etc<sup>8</sup>.

### BBG Group to open “innovative supermarket” by 3Q or 4Q17

Wang Tian, director of the Chinese retailer BBG Group, said that the company will likely open a new supermarket store that is in an “innovative retail format” by third or fourth quarter of 2017. The innovation will be a product of the integration of BBG Group’s various internal resources and strengths. Also, he mentioned that the group has set a three-year-plan for the years from 2016 to 2019 around the digital transformation of the company. By 2019, the group will be able to digitize its products, members’ retail data, as well as the operational data of the company<sup>9</sup>.

## Department stores and shopping malls



### Linkshop, Soupu.com: High-end malls in eastern China perform the best in terms of sales in 2016

Linkshop and Soupu.com consolidated and analyzed the 2016 sales data of high-end large-scale retailers across China, including retail formats such as high-end shopping malls, outlets, shopping centres, department stores and department store shopping complex.

According to the survey, 26 high-end large-scale retailers in China had over 2 billion yuan of sales in 2016. Of the 26, four were China Resources’ Mixc, three were under Swire Properties, while both Sun Hung Kai Properties and Hang Lung Properties also had two malls included in the list.

By region, eastern China performed the best in terms of 2016 sales. The region recorded total sales of 20.2 billion yuan, followed by 18.7 and 16.1 billion yuan of the northern/north-eastern region and the southern region respectively.

Seven outlets across China had over 2 billion yuan sales in 2016 and there were an additional two recording sales of close to that figure. By region, northern/north-eastern region came first with total sales of 9.5 billion yuan, followed by 7.97 and 5.43 billion yuan of the eastern region and the south-western /north-western region respectively<sup>10</sup>.

### Fanli.com partners with Pacific Department Store in Shanghai

Online rebate sales platform Fanli.com

announced strategic partnership with Pacific Department Store, whose malls in Shanghai will offer discount offline in the physical stores while Fanli.com will offer sales rebates online for consumers. Both sides will launch promotion campaigns together. Pacific Department Store is a Taiwan-based department store company; it entered China in 1993. Fanli.com is its first e-commerce partner<sup>11</sup>.

## Outlets

**RDM Asia: China market in the coming ten years only large enough for 200 outlet malls**

Maurizio Lupi, director of Italian outlet mall Florentia Village and RDM Asia, took the U.S. market as benchmark for comparison and said that the China market in the coming ten years is only large enough for 200 outlet malls. Currently there are more than 300 self-proclaimed outlet malls in China, but according to Lupi, only one tenth of the market players are operating to an international standard. In 2016, the three Florentia Village outlet malls in China had total sales of 5.5 billion yuan, with over 11 million consumers visited the malls in the period<sup>12</sup>.

## Apparel and shoes

**Ruyi Group acquires U.K. trench coat brand Aquascutum**

Shandong Ruyi Group, a Chinese textile producer, acquired the iconic British trench coat maker Aquascutum from Hong Kong's

YGM Trading for US\$117 million. Ruyi Group said that acquisitions of foreign fashion brands help the group to expand in the high-value-added part of the value chain by possessing more downstream retail resources. Previously, Ruyi Group acquired three emerging affordable luxury brands Sandro, Maje and Claudie Pietro. Founded in 2001, Shandong Ruyi Group focuses on manufacturing and distribution of high-end fabrics. The proprietary brand Ruyi has over 3,000 distribution points in Asia and the group's annual sales reached over US\$4.6 billion. Founded in 1851, Aquascutum was one of the most well-known U.K. heritage brands alongside with others such as Burberry and Barbour<sup>13</sup>.

**Anta launches customized product series ANTAUNI**

Chinese sports brand Anta launched a product customization service "ANTAUNI", which enhances the buying experience by allowing consumers to customize their product design. This also facilitates Anta to collect consumer's data. It takes 30 days to make the first batch of customized-shoes and it costs a 50 yuan extra on top of the original product price. Anta adopts an omni-channel distribution strategy for ANTAUNI - consumers can either purchase online, such as through ANTA's self-operated online store and its flagship store on Tmall, or they can place their orders in selected physical stores or pop-up stores of ANTA<sup>14</sup>.

**U.S. lingerie brand Victoria's Secret opens its first lingerie flagship store in Shanghai**

On March 8, U.S. lingerie brand Victoria's Secret opened its first lingerie flagship store in Shanghai, which is also its first store in Asia. This is seen as the first step for Victoria's Secret to officially enter the China

market; the brand will also open another flagship store in Chengdu soon<sup>15</sup>.

## Cosmetics

**CBNData, Tmall Beauty: Online sales account for over 10% of total sales for around 80% of cosmetics & healthcare brands operating in China**

Based on Alibaba's market data, CBNData and Tmall Beauty (mei.tmall.com) jointly published the "2017 China Cosmetics and Healthcare Consumption Trends Report". The report stated that consumers in the post-95s are becoming the core consumers in the online cosmetics market. Besides, quality and sophisticated products such as high-end cosmetics, colour cosmetics and functional skincare products are getting into the mainstream in China. Men's cosmetics are also a new growth area. According to the report, online channel has become a vital growth driver for China's cosmetics industry, as online sales reportedly accounted for over 10% of total sales for around 80% of cosmetics & healthcare brands<sup>16</sup>.

## Luxury products

**Fortune Character Institute: Chinese tourists and online shopping create growth opportunities for luxury brands**

Fortune Character Institute, a Chinese market research institution, said that the spending of outbound Chinese tourists on entertainment and shopping has become a pillar supporting the global tourism retail sector. In 2016, outbound Chinese tourists spending on luxury

goods amounted to 630 billion yuan, which together with the domestic luxury goods sales accounted for 46% of the global sales of luxury goods. Meanwhile, following the advent of e-commerce, shoppers can place order globally for goods to be delivered to them without geographical constraint. The institute believed that outbound Chinese tourists' spending and e-commerce luxury market are two trends that luxury brands should watch out for. Brands need to reinvent their supply chains to better harness these global opportunities<sup>17</sup>.

**Chinese high-end women's wear brand Marisfrolg seeks listing to raise 2.4 billion yuan**

Shenzhen Marisfrolg Fashion Co. Ltd, the parent company of Chinese high-end women's wear brand Marisfrolg, is preparing to list on the SME board of the Shenzhen Stock Exchange. According to the IPO prospectus, the company plans to issue 50 million new shares to raise a total of 2.38 billion yuan. The capital raised will be used in six projects, such as the expansion of operation management centre, the construction of a design, R&D and exhibition centre in Dalang, as well as the expansion of its manufacturing facility. Marisfrolg was founded in 1993. Rank top among China's high-end women's wear brands, Marisfrolg has a 1.31% market share in 2015<sup>18</sup>.

**Shenzhen Ellassay to indirectly acquire French affordable luxury brand IRO after a 79 million yuan transaction**

Shenzhen Ellassay Fashion Co. announced that it is going forward with the 79 million yuan cash transaction to acquire a 16% stakes of Qianhai Shanglin. Ellassay will hold 65% stakes of the company, which in turn owned 57% stakes of Adon World. Adon World owns IRO, a French affordable luxury brands

specializing in women's wear. Hence, Ellassay will own the French brand after the transaction is completed. Since its listing in May 2015, Ellassay has acquired a number of fashion-related assets, such as the exclusive brand right and franchise of German high-end women's wear brand Laurèl in mainland China, the exclusive brand rights of U.S. affordable luxury brand Ed Hardy in mainland China, Taiwan, Hong Kong and Macau, 75% stakes of Chinese e-commerce operator Buy Quickly, as well as the current transaction to own 100% stakes of IRO<sup>19</sup>.

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