

# China Retail & E-commerce

## Weekly Updates

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 FUNG BUSINESS INTELLIGENCE  
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# E-commerce

## CNNIC: Number of Internet users in China reaches 854 million

China Internet Network Information Center (CNNIC) released the “44th Statistical Report on Internet Development in China”. As of 30 June, 2019, there were 854 million Internet users in China, with a penetration rate of 61.2%. 847 million people used mobile phones to access the Internet; the proportion of Internet users accessing the Internet through mobile phones was as high as 99.1%. The number of online shoppers in China reached 639 million, accounting for 74.8% of total Internet population, while the number of mobile shoppers reached 622 million, accounting for 73.4% of total mobile shopping population<sup>1</sup>.

## Alibaba acquires NetEase’s CBEC platform NetEase Kaola for about US\$2 billion

On 5 September, Alibaba announced to fully acquire NetEase’s cross-border e-commerce platform NetEase Kaola for about US\$2 billion. NetEase Kaola will continue to operate independently under its current brand, with Tmall Import and Export General Manager Alvin Liu serving as NetEase Kaola’s new CEO. In addition, Alibaba will lead an investment in NetEase Cloud Music in its latest round of financing of about US\$700 million. Alibaba, together with NetEase Kaola, will further elevate import service and experience for Chinese consumers through synergies across the Alibaba ecosystem<sup>2</sup>.

## Pinduoduo exceeds Baidu to become the fifth-largest publicly-traded Chinese technology firm

On 30 August, Nasdaq-listed Pinduoduo was up 8.66% and reached a market capitalization

of US\$39.1 billion, exceeding Baidu to become the fifth-largest publicly-traded Chinese technology firm. Pinduoduo reported strong performance for 2Q19, exceeding analyst expectation, which resulted in the rise in stock price. Currently, Alibaba is the most valuable publicly-traded Chinese technology firm, with a valuation of US\$449.9 billion, followed by Tencent, Meituan-Dianping, JD.com and Pinduoduo<sup>3</sup>.

## Nice Tuan merges with Niwoning; the first merger in the community group buying sector

On 30 August, community group buying platform “Nice Tuan” announced that it has completed the merger with another community group buying platform “Niwoning”, which is reportedly the first merger within the sector. After the merger, Nice Tuan will operate in more than 50 cities and its monthly sales will reach 500 million yuan. Nice Tuan said that the merger is an important strategic milestone for both platforms – Nice Tuan can leverage Niwoning’s competitive advantage on fresh produce supply chain operations and sources of origins to carry out its fresh produce strategy; furthermore, the cooperation of the two companies at regional level can enhance business volume and market share significantly, thereby increasing the penetration rate of the platforms among users<sup>4</sup>.

# Retail logistics

## JD Logistics unveils plan to achieve 24-hour delivery in towns and counties by 2020

JD Logistics has recently launched a plan to accelerate its goal to provide “24-hour delivery services for tens of thousands of towns and counties” by 2020. Targeting lower tier cities,

counties and nearby villages, the plan suggests building more warehouses, keeping inventory close to clients, using big data for consumption prediction and inventory preparation, building transshipment facilities and installing smart equipment, etc. With these investments and measures, JD Logistics aims to improve distribution and dispatch frequency and efficiency. The plan is an important part of JD Logistics' move to lead transformation in the industry<sup>5</sup>.

## Department stores and shopping malls

### Wangfujing's net profit drops 7.48% yoy in 1H19

On 30 August, Wangfujing Group Co., Ltd. released its 1H19 report. The company's operating income increased 1.69% yoy to 13.42 billion yuan in 1H19; net profit attributable to shareholders of listed companies dropped 7.48% yoy to 699 million yuan. Wangfujing mainly engages in retail and commercial leasing businesses. Its four main business formats include department stores, shopping centers, outlets and supermarkets. It also operates its own online retail channels. During the reporting period, each of its business formats have continued to innovate and deliver positive momentum<sup>6</sup>.

### Shirble to launch new department store brand "Hemali x Shirble" with Alibaba

On 3 September, Shirble Department Store Holdings (China) Limited announced that it will launch a new department store format – "Hemali x Shirble" in October. Cooperating with Freshippo of Alibaba Group, Shirble will revamp its Jufu branch in Shenzhen in various areas, including operational model of the store, store layout, software systems and

hardware design and development, procurement of goods and data management. In June 2018, Shirble entered into a strategic cooperation framework agreement with Hema Technology, whereby Shirble will cooperate with Hema Technology to transform the Shirble supermarkets into Freshippo supermarkets by phases within a period of two years. Currently, eight out of the 11 Shirble supermarkets have reportedly been converted into Freshippo supermarkets; the remaining three will finish transformation in 2H19<sup>7</sup>.

## Supermarkets and hypermarkets

### Parkson Supermarket opens in Shanghai; 80% of products are imported goods

On 31 August, Parkson opened its Parkson Supermarket in Huaihai Road, Shanghai. Being a key project of Parkson Retail Group this year, the store houses 15,000 SKUs, of which 80% are imported products. The new store is also equipped with self-checkout machines supported by facial recognition technology, which can significantly shorten the payment process and enhance the shopping experience of customers. Its WeChat Mini Program can promote online-to-offline integration by providing delivery service to its online customers, and at the same time it can expand the catchment area of Parkson stores<sup>8</sup>.

### Hema Mini to open another two to three new stores in Shanghai before end-2019

On 3 September, Hou Yi, Freshippo's CEO revealed that the supermarket is planning to enter the community store market by setting up its own community store "Hema Mini" in tier-3, 4 and 5 cities and also in the communities in tier-1 and 2 cities. It is

reported that the floor space of Hema Mini will only be one-fifth that of a regular Freshippo supermarket. Currently, Freshippo has already set up three Hema Mini stores in the nation and is planning to open another two to three new stores in Shanghai before end-2019. However, some industry experts have expressed their concerns on the profitability of Hema Mini's business model despite its fast penetration in the country<sup>9</sup>.

### JD Supermarket targets to achieve GMV of over 800 billion in the next three years

On 3 September, JD Supermarket announced its new upgraded strategy "TOUCH" – "targeted marketing, omnichannel retailing, unique products, competitive prices and holistic marketing". It also announced its target to achieve GMV of over 800 billion in the next three years. To satisfy consumers' demand for omnichannel shopping experience, JD Supermarket launched a new strategy which focus on digitalization and creating synergies among different retail channels and in different scenarios. Currently, JD Supermarket has already partnered with over 300 retailers including Walmart, Yonghui Superstores, Watsons, JD Liquor World, and Liquor Easy to provide O2O driven 30 minutes delivery solution<sup>10</sup>.

### SF Best to open big-box store in Foshan

SF Best, SF Express's offline fresh food supermarket, is reportedly to launch a new big-box store in Foshan on 25 September. This is a new retail format of SF Best with larger operating space and more SKUs than its regular fresh food supermarkets; it also includes a fresh food zone and a catering zone. Previously in April 2019, SF Best shut down many of its online stores across the country to focus only in Beijing and Southern China. SF Best hopes to transform its business by launching new retail formats<sup>11</sup>.

## FMCG

### CTR Market Research: China's FMCG sector grows 5.4% yoy in 1H19

CTR Market Research, a joint venture between China International Television Corp. and Kantar Group, recently published the "China Consumer Market Trends Report". It finds that the fast-moving consumer goods (FMCGs) sector recorded solid growth of 5.4% yoy in 1H19 and that WeChat channels have a penetration rate of 14% in the food and beverage (F&B) sub-sector. WeChat channels' contribution to the sales growth of F&B had gone up from 6% in 2017 to 16% in 2018. Social commerce platforms, livestreaming by KOL and social media have become new sales channels of FMCGs<sup>12</sup>.

## Consumer electronics

### Suning.com's total revenue amounts to 135.571 billion yuan in 1H19

On 30 August, Suning.com released its interim results for the six months ended 30 June, 2019. The report shows that Suning.com's total revenue was 135.571 billion yuan in 1H19, up 22.49% yoy. Net profit attributable to shareholders of the company was 2.139 billion yuan. As of 30 June, Suning.com operated 7,503 self-operated and franchise stores in total; it also operated 5,368 branches of Suning Xiaodian and Dia Supermarket. The number of registered members on Suning.com reached 442 million, up 35 million from December 2018<sup>13</sup>.

## Cosmetics

### Beauty brand Fenty Beauty by Rihanna opens online flagship store on Tmall Global

American pop music celebrity Rihanna's beauty brand, Fenty Beauty by Rihanna, announced that it has reached a deep strategic cooperation agreement with Tmall Global to satisfy Chinese consumers' beauty needs online. Its online overseas flagship store was opened on Tmall Global on 3 September, 2019. Fenty Beauty by Rihanna is a cruelty-free brand and it will uphold its policy never to test on animals<sup>14</sup>.

### Innisfree opens first eco-friendly concept store in Nanjing's Deji Plaza

Recently, Innisfree launched an eco-friendly concept store in Phase 1, Deji Plaza, Nanjing; the store is also the first-of-its-kind in China, with an aim to communicate the message of green and healthy lifestyle to customers. The new concept store also offers the world's first eco-friendly coffee take-away service "Green Cafe to-go". According to Innisfree, it will provide a smart and immersive in-store shopping experience in more and more cities to entice young Chinese consumers<sup>15</sup>.

## Luxury sector

### British luxury e-commerce platform YNAP launches on Tmall's Luxury Pavilion

On 28 August, British luxury e-commerce group Yoox Net-a-Porter (YNAP) announced that its luxury e-commerce platforms Net-a-Porter and Mr Porter will launch on Tmall's luxury platform Luxury Pavilion on 30 September, 2019. Net-a-Porter and Mr Porter will serve female and male customers in

China respectively. YNAP and Alibaba set up a joint venture company in October 2018. Alibaba provides the JV company with technical and logistics support, payment solutions as well as big data analytics to identify the products to be sold on the platform<sup>16</sup>.

### Secoo's 2Q19 operating revenue hits 1.71 billion yuan, with net profit up 10.2% yoy

On 29 August, China's luxury e-commerce platform Secoo announced its financial report for 2Q19. According to the report, Secoo racked up 1.71 billion yuan in operating revenue in 2Q19, up 40.3% yoy from 1.22 billion yuan for the same period last year. Its net profit was 40.1 million yuan, up 10.2% yoy from 36.4 million yuan for the same period last year. The report also shows that Secoo's GMV surged 95.9% yoy to 3.24 billion yuan in 2Q19, with the total number of orders reaching 954,800, jumping 109.4% yoy from 455,900 for the same period last year, while the number of active users also increased by 67.7% yoy to 428,400, as compared to 255,500 for the same period last year<sup>17</sup>.

### Secoo forges extensive partnership with Russian e-commerce platform Umka to tap upscale markets in Russia and Eastern Europe

China's luxury e-commerce platform Secoo plans to forge an extensive partnership with Russian online shopping platform Umka, joining forces to tap the upscale markets in Russia and Eastern Europe. Under the partnership, Secoo will focus on connecting its luxury supply chain system with that of Umka, aiming to further integrate the supply chain systems of both companies and complement the strengths of their systems. Secoo is set to officially kick-start its "go overseas" business project this year; apart from bringing its supply chain networks of top international luxury

brands offered on its platform to overseas markets, the e-commerce platform also plans to help some Chinese cross-border e-commerce companies and homegrown mid-to-high-end brands to go overseas through its business project “Secoo China Town”<sup>18</sup>.

### Secoo and ByteDance jointly announce new cooperation plan “Luxury Headlines”, allowing TikTok users to purchase luxury items in just one click while watching videos

Recently, China’s luxury e-commerce platform Secoo and Beijing-based Internet technology company ByteDance have jointly announced their new cooperation plan “Luxury Headlines”. Under the cooperation, both parties will work together on marketing, technology and advertising areas and jointly publish reports on high-end consumer data insights. Meanwhile, the partnership will enable users of ByteDance’s news and information content app Toutiao and video-sharing app TikTok to purchase luxury items in just one click while watching news and videos with the apps<sup>19</sup>.

### Tiffany & Co. launches online shopping function on China website

Tiffany & Co. has recently added an online shopping function to its existing website in China. The new launch provides shoppers another option to place their orders in addition to visiting the brand’s physical stores; most of the brand’s products are available online. The official online store offers free delivery services to 31 provinces and autonomous regions nationwide, while the brand’s WeChat account is also linked to the online store. Industry analysts believe that Tiffany & Co.’s e-commerce push in China aims primarily at reaching out to potential consumers in tier-3 and 4 cities across the country<sup>20</sup>.

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## Fung Business Intelligence

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