

China Retail & E-commerce

Weekly Updates

31 August – 6 September 2018

 FUNG BUSINESS INTELLIGENCE

Asia Distribution & Retail

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Retail in General

Amendment to the Individual Income Tax Law approved; new taxation threshold to take effect from 1 October

On 31 August, the National People's Congress (NPC) Standing Committee approved to adopt the revised Individual Income Tax Law. The new law states that the minimum threshold for personal income tax exemption will be raised from 3,500 yuan to 5,000 yuan per month. The taxable income shall be the balance of the gross income received in a tax year minus the 60,000 yuan quota, special deductions, special additional deductions, and other deductions specified under the law. The new law will come into force on 1 January, 2019 while some clauses including the minimum threshold for personal income tax exemption will take effect on 1 October, 2018¹.

E-commerce

China adopts E-commerce Law to improve market regulation

On 31 August, the National People's Congress (NPC) Standing Committee passed the E-commerce Law. The law will take effect on 1 January, 2019. The E-Commerce Law includes seven chapters with a total of 89 articles, which mainly stipulates the e-commerce operators, their specific duties and obligations, e-commerce dispute resolution, and e-commerce-related legal responsibility. According to the E-commerce Law, e-commerce platform operators may face a penalty of 500,000 yuan, or up to 2 million yuan in serious cases, for failing to take necessary steps against intellectual property rights infringement by merchants on their

platforms, or unreasonably restricting transactions on the platforms².

JD.com and Shandong Ruyi Group reach strategic cooperation agreement

On 4 September, JD.com announced that it has signed a strategic cooperation agreement with Shandong Ruyi Group. The two parties will cooperate in the brand entry, boundaryless retail, finance, logistics, smart supply chain and cloud computing, and set up the "fashion industry innovation development fund" to develop the domestic fashion ecosystem. According to the agreement, JD will work with Ruyi to deploy a full suite of "Boundaryless Retail" technologies, including smart logistics, supply chain solutions, big data-enabled inventory management, and membership systems. JD will establish a retail management system for Ruyi's subsidiary brands, and Ruyi will deploy JD's virtual and augmented reality shopping technology in Ruyi's brick-and-mortar stores, to give customers a seamless shopping experience no matter where they are. The companies will jointly build fashion and lifestyle concept stores in Beijing and Shanghai, showcasing JD's smart retail technologies³.

Pinduoduo announces first financial report after listing; GMV reaches 262.1 billion yuan

On 31 August, Pinduoduo reported the first financial report after listing in the U.S. In 2Q18, Pinduoduo's total revenues were 2,709.0 million yuan, up 2,489% yoy. Net loss attributable to shareholders was 6,493.9 million yuan, compared with 109.5 million yuan in 2Q17. Gross merchandise value (GMV) in the twelve-month period ended 30 June, 2018 was 262.1 billion yuan, up 583% yoy. Active buyers in the twelve-month period ended 30 June, 2018 were 343.6 million, up 245% yoy⁴.

Suning.com reports 44.55% yoy increase in operating revenue in 1H18

On 30 August, Suning.com released its financial reports for 1H18. From January to June 2018, Suning.com reported operating revenue of 110,786 billion yuan, up 32.16% yoy; commodity sales volume reached 151.39 billion yuan, up 44.55% yoy. In 1H18, the net profit attributable to shareholders was 6.003 billion yuan, up 1954.41% yoy; the GMV generated on its online platform was 88.322 billion yuan, up 76.51% yoy⁵.

Alibaba's Ist.1688.com targets to serve 30% mom-and-pop stores in China in three to five years

On 3 September, Alibaba's B2B2C unit Ist.1688.com announced that it now offers services to more than 1 million mom-and-pop stores and becomes the leading B2B platform in the FMCG sector. Ist.1688.com targets to serve 30% of all mom-and-pop stores in China in three to five years⁶.

JD PLUS has more than 10 million members

JD.com announced the scale of its paid members for the first time. As of 6 September, JD PLUS has more than 10 million members. It is reported that JD PLUS is China's first e-commerce paid membership system. It was officially launched in January 2016. JD PLUS aims to provide a premium shopping experience, living and entertainment services to JD.com core users by integrating the advantages of JD's platform and its external partners. According to JD.com, 65% of PLUS members are young people aged under 35; nearly 60% of the members live in first- and second-tier cities; 89% of the members are highly educated with Bachelor's degree or above; their shopping frequency on JD.com

and the average amount of consumption is higher than the non-PLUS members; the proportion of loyal users in the membership system is as high as 98%⁷.

Retail logistics

Tmall Global kickstarts preparation for 11.11 Global Shopping Festival

On 5 September, sources from Tmall Global and Cainiao revealed that the preparation for this year's 11.11 Global Shopping Festival has been started. Tmall Global will plan together with merchants so that they can have better inventory planning to lower costs and improve operating efficiency. Cainiao will offer overseas merchants a complete range of logistics services including port-to-warehouse logistics, bonded warehouses and overseas warehouses, customs clearance, and delivery services. Delivery from bonded warehouses will be the major delivery method for the 11.11 Global Shopping Festival. Cainiao has 10 bonded warehouses across the country with a total operating area of over 1 million sqm available for the merchants. It also provides more than 30 overseas warehouses and 40 cross-border direct mail routes for merchants to use⁸.

Department stores and shopping malls

New World Department Store relaunches self-operated e-commerce platform "Xinshangou"

New World Department Store has recently relaunched its self-operated e-commerce platform "Xinshango". The platform now adopts the O2O model which allows customers to pick up products at stores

instead of the direct mail model previously adopted in Beijing. The platform mainly sells cosmetics, apparel and food products. "Xinshangou" platform was launched in March last year, but it was closed due to unsatisfactory sales. After a half-year adjustment, the platform was launched on WeChat once again, with wider varieties of products available than before⁹.

Supermarkets and hypermarkets

Liqun acquires Lotte's assets; 18 renovated stores open in August

On 30 August 30, Liqun issued a notice stating that as of 28 August, 2018, the registration procedure for changes in the equity of 10 companies in Eastern China held by Lotte Shopping (Hong Kong) Holdings Co., Ltd. has been completed. After the acquisition of the relevant assets of Lotte Mart Co. Ltd., Liqun has been renovating the original stores of Lotte Mart and preparing for the reopening. Apart from the first five acquired stores that have already been reopened on 3 August, the other "Liqun Times" stores have been going through adjustment and transformation. The first batch of 18 stores have officially opened in Jiangsu province and Shanghai in August 2018. The rest of the stores are scheduled to open before the Spring Festival in 2019¹⁰.

Wumei Holdings acquires 21 stores of Lotte Mart in North China

Wumei Holdings Inc. has reportedly admitted that it has acquired Lotte Mart's stores in North China. 21 stores of Lotte Mart in North China have been integrated into the Wumei's system, including 17 stores in Beijing, two in Tianjin, one in Yanjiao and another in Zhangzhou. At present, Wumei has started to

upgrade some of its stores in areas such as merchandise categories and store design. The transformation work is expected to be completed within this year¹¹.

Alibaba invests 1.466 billion for 32% stake in Sanjiang Shopping and remains the second largest shareholder

The cooperation between Zhejiang supermarket chain Sanjiang Shopping and Alibaba Group is expected to be further strengthened. Recently, Sanjiang Shopping announced that Hangzhou Alibaba Zetai Information Technology Co., Ltd. subscribed for its non-public offering of shares of 1.466 billion yuan in cash. With the increase in stake of Sanjiang Shopping, Alibaba will hold 32% of its shares and remain the second largest shareholder. In November 2016, Alibaba purchased 9.33% stake in Sanjiang Shopping and became the second largest shareholder of Sanjiang Shopping. Sanjiang Shopping also cooperated with Hangzhou Alibaba Zetai to invest 50 million yuan to establish Ningbo Zetai Network Technology Service Co., Ltd. as a platform for cooperation between the two parties, responsible for the store service and daily online operation of the fresh produce shops¹².

JD Daojia works with more than 30 retailers to integrate membership systems

Recently, JD Daojia announced that it has reached membership cooperation agreements with more than 30 retailers including Sam's Club, PARKnSHOP, Huaguan Supermarket, Mannings, Shenzhen Pagoda and Dashenlin Pharmaceutical to integrate their online and offline membership systems. The project will cover more than 90 million users. According to JD Daojia, by integrating the membership systems, JD Daojia will be able to provide customer demographics to retailers using JD.com's AI and big data analytics. Retailers,

on the other hand, can connect with customers more easily, improve marketing effectiveness and digitalize membership database¹³.

Apparel and footwear

JNBY's total revenue increases 22.8% yoy

JNBY's parent company, JNBY Design Ltd, released its 2018 financial results. For the 12 months ended 30 June, 2018, the Group's total revenue was 2,864 million yuan, up 22.8% yoy; gross profit margin was 63.7%, and net profit increased by 23.8% yoy to 410 million yuan. By sales channel, sales from direct-operated stores increased by 22.5% yoy to 1,400 million yuan, with a gross margin of 73%; sales from distributors increased by 19.5% yoy to 1,197 million yuan, with a gross margin of 53.1%; The growth of e-commerce channel was strong, up 42% yoy to 265 million yuan, and gross profit margin was 63%. The Group has a total of 1,831 retail stores around the world as of 30 June, 2018, of which 80 points of sale are in overseas. It has over 2.5 million membership accounts, including more than 2.1 million subscribers on WeChat platform, and over 360,000 active membership accounts. Retail sales contributed by members accounted for 68.5% of the total retail sales for FY18¹⁴.

Ellassay forms partnership with Belgium designer brand Jean-Paul Knott

On 31 August, Shenzhen Ellassay Fashion Co., Ltd. issued an announcement stating that Ellassay signed an agreement with Belgian designer Jean-Paul Knott and agreed to jointly establish a joint venture company in Shenzhen, Guangdong Province. Ellassay invested 8 million yuan and held 80% stake of

the joint venture company; Jean-Paul Knott invested 2 million yuan in intellectual property and held 20% stake of the company. After the company has formally established, it will manage and operate the Belgian designer brand Jean-Paul Knott in Greater China. At present, Ellassay Fashion Co., Ltd. owns the main brand ELLASSAY and the acquired brand of German haute couture brand Laurèl, the American trend luxury brand Ed Hardy, the French luxury brand IRO and the American designer brand Vivienne Tam¹⁵.

Menswear brand GXG's parent company Alpha Smart plans Hong Kong IPO

On 31 August, Alpha Smart Ltd, parent company of Ningbo menswear brand GXG, submitted its IPO filing to the Hong Kong Stock Exchange. Alpha Smart recorded revenue of 2.7135 billion yuan in 2015, 3.0178 billion yuan in 2016 and 3.5104 billion yuan in 2017; net profit was 344.9 million yuan in 2015, 399.7 million yuan in 2016 and 421.8 million yuan in 2017. Core brands operated by Alpha Smart include GXG, gxg jeans, gxg.kids, Yatlas and 2XU. As of June 2018, it has 2,213 retail stores across China¹⁶.

Champion accelerates expansion in China; first flagship store to open in Beijing Taikoo Li Sanlitun

U.S. Sportswear brand Champion has accelerated expansion in China. Its first flagship store will be opened on 10 September in Beijing Taikoo Li Sanlitun. Champion entered the China market in 2015 by launching its online store on Tmall. Its first physical store was opened in 2017 in Hangzhou. Currently, Champion operates stores in Hangzhou, Shenzhen and Xian, and it is expected that more stores will be launched in the near future¹⁷.

FMCG

Johnson & Johnson signs cooperation agreement with Alibaba to launch the "Johnson & Johnson Tmall Innovation Center"

On 29 August, Johnson & Johnson signed cooperation agreement with Alibaba to launch the "Johnson & Johnson Tmall Innovation Center" in Alibaba Xixi Campus. The center will leverage big data of consumers from Alibaba's various channels and help Johnson & Johnson to gain insights into market opportunities and consumer preferences, so as to develop new products quickly to meet the potential needs of consumers, while driving efficient operation of the entire supply chain. Johnson & Johnson said that this cooperation will help the company better apply data insights to product development and new product launch in China as well as better serve the needs of Chinese consumers. The "Johnson & Johnson Tmall Innovation Center" will also facilitate Johnson & Johnson's new overseas products to enter China in the next two to three years¹⁸.

Nielsen: Several product categories sold in JD supermarket hold more than 50% of the market share

On 5 September, Nielsen released the "New Trends in Quality Life" report. According to the report, JD Supermarket has the largest market share in the supermarket sector; a number of product categories such as infant milk powder and domestic liquid milk hold over 50% of the market share. Nielsen research shows that premium water drinks, health and enjoyment have become new trends in quality life. The B2C online market growth rate of 44% is much higher than C2C and offline market growth, and has become an important driving force of omni-channel growth. The data shows

that the post-90s accounted for the highest proportion of online shopping population, reaching 41% in tier-3 and tier-4 cities. This reflected that the tier-3 and 4 cities have greater potential¹⁹.

Consumer electronics

Gome's new retail format "Black Swan Living Store" opens

Recently, the first new offline store incubated by Gome's "Home·Life" strategy – "Gome Black Swan Living Store" has officially opened in Harbin Central Street. With an operation area of nearly 10,000 sqm, Gome's "Black Swan Living Store" features several experiential zones, including the "Laser Cinema", "Gome Zhizao", "Beautiful Life", "Xuedao Bookstore" and "Baking Bar". The store adopts a hybrid format and provides integrated services such as home, bookstore, and fresh food supermarkets. In terms of store layout, home category is still the focus. The store also integrates shopping, entertainment, leisure, catering and other elements to enhance overall shopping experience²⁰.

Cosmetics

Korean beauty brand innisfree launches on Tmall supermarket

On 27 August, innisfree, a popular beauty brand under Amore Pacific Group announced that it has officially launched on Tmall Supermarket. innisfree has chosen the low-priced entry products, masks, cleansing products and men's products to sell on Tmall supermarkets. Sales categories account for about 20-30% of the brand's overall SKUs²¹.

Luxury sector

Fine jewelry brand Buccellati opens flagship store on JD.com's Toplife

On 30 August, Italian fine jewelry brand Buccellati, has opened an online flagship store on Toplife, JD.com's luxury e-commerce platform. This is reportedly the first online store established by the fine jewelry brand in China so far. The brand was founded in Milan, Italy in 1919²².

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