



China Retail & E-commerce

Weekly Updates

5 April 2019 – 11 April 2019

 FUNG BUSINESS INTELLIGENCE
Asia Distribution & Retail

Teresa Lam

Vice President

E: teresalam@fung1937.com

T: (852)2300 2466

Fung Business Intelligence

10/F LiFung Tower

888 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: fbicgroup@fung1937.com

Retail in general *p2*

- CNCIC: Total sales of consumer goods predicted to grow at 8.5% yoy in 2019

E-commerce *p2*

- Kaola.com and Nestlé China to jointly develop China's infant milk powder and baby food supplement market

Retail logistics *p2*

- JD.com and COSCO Shipping form joint venture company to build global logistics network

Department stores and shopping malls *p2*

- Xidan Joy City opens a hotel on its upper floors

Supermarkets and hypermarkets *p3*

- RT-Mart, Auchan, Better Life, Walmart drop prices on VAT cut
- SF Best shuts down stores in various cities to focus on Southern China operation
- Freshippo launches paid membership program in Beijing

Consumer electronics *p3*

- Gome Retail to open 100 "New Retail" stores in Henan in 2019
- Gome Retail to roll out "shop-in-shop" in over 200 Carrefour's stores before end of July

Apparel *p4*

- CNCIC: Apparel sales fall on higher unit prices; brands step up upgrading efforts
- Metersbonwe turns losses into profit in 2018; net profit soars 113.24% yoy

Kids products *p4*

- JD.com to adopt C2M model, enhancing differentiation in maternity and baby products business

Luxury sector *p5*

- Tmall's Luxury Pavilion ushers in the 100th brand
- Secoo reports revenues of 5,387.6 million yuan in 2018, up 44.0% yoy
- Louis Vuitton, Gucci and Prada reduce prices by around 3% in China



Retail in general

CNCIC: Total sales of consumer goods predicted to grow at 8.5% yoy in 2019

China National Commercial Information Center (CNCIC) expected that in 2019 China's domestic consumption market will continue to drive and support the steady development of the economy. It predicted the total sales of consumer goods to grow at 8.5% yoy. CNCIC also highlighted the following points on the future development of the retail market:

1. Stabilizing and expanding employment will further promote residents' income and thus consumption power;
2. Improving social security system and policies such as education, medical care, and elderly care will continue to resolve the pressure of residents;
3. Enriching service consumption, improving rural distribution, promoting new retail formats and business models, expanding imports will stimulate consumption demand and drive the growth of new products;
4. Preferential policies for purchasing new energy vehicles, and smart home appliances subsidy programs will drive the steady growth of relevant industries;
5. Enhancing consumption environment, infrastructure and quality standards, as well as consumer protection policies will further improve consumer's confidence¹.

E-commerce

Kaola.com and Nestlé China to jointly develop China's infant milk powder and baby food supplement market

Recently, Kaola.com and Nestlé China signed a strategic cooperation agreement in Hangzhou. The two companies will jointly tap the infant milk powder and baby food

supplement market in China through general trade cooperation. In the future, Kaola.com and Nestlé China will integrate online and offline resources, and carry out in-depth cooperation in areas including new products introduction, brand promotion, content marketing, health education, and consumption scene operation².

Retail logistics

JD.com and COSCO Shipping form joint venture company to build global logistics network

On 8 April, JD.com's logistics arm JD Logistics and China COSCO Shipping Corporation's subsidiaries OOCL Logistics and COSCO Shipping Logistics announced to establish a joint venture company, aiming to build an online-to-offline integrated global supply chain service platform to further promote the transformation and upgrading of China's logistics industry. Leveraging JD Logistics' Global Smart Supply Chain network, the joint venture company will set up a global logistics network and a one-stop global supply chain service platform to offer cross-border air and maritime logistic, financial, and data services, etc³.

Department stores and shopping malls

Xidan Joy City opens a hotel on its upper floors

Recently, Le Joy Hotel, a hotel brand owned by Joy City Property Limited, has started its trial operation. Located on the 8th floor and above of Xidan Joy City, Le Joy Hotel connects to the shopping mall's themed-zone Chatham Garden. In this hotel project, Xidan

collaborates with jewelry brands and toy brands to create hotel themed rooms, and also works with beauty brands to provide in-room styling services. This new hotel project is considered as shopping mall operators' exploration of new retail format in the department stores dominated Xidan commercial district⁴.

Supermarkets and hypermarkets

RT-Mart, Auchan, Better Life, Walmart drop prices on VAT cut

On 1 April, China reduced its value-added tax (VAT) rates to boost the domestic economy. The VAT rates for manufacturing have been lowered to 13% from 16%; while those for transportation and construction have been reduced to 9% from 10%. Various retailers have responded to the VAT tax reduction with price cuts – RT-Mart, Auchan decided to reduce prices for related goods from 1 April; Better Life announced to reduce price for 10,000 SKUs in its supermarkets nationwide; Walmart announced to cut prices on dry goods, frozen food, FMCG products and home electronics from 8 April⁵.

SF Best shuts down stores in various cities to focus on Southern China operation

According to media reports, SF Best, SF Express's offline fresh food supermarket, has shut down many of its offline stores in Shanghai, Wuhan, Qingdao and Chengdu. It is reported that SF Best will withdraw its operation in Eastern China and Southwest China markets and focus in Beijing and other cities in Southern China. SF Best will upgrade its operation in Shenzhen and Foshan by adding more fruits, vegetables and fresh meat

and setting up special zones for these food categories. SF Express operates more than 800 SF Best offline stores prior to the restructure⁶.

Freshippo launches paid membership program in Beijing

Freshippo (a.k.a. Hema Xiansheng) reportedly launched a paid membership program in Beijing on 4 April. According to the introduction in Freshippo app, the membership fee is 218 yuan per year. Paid members can enjoy special prices, cash rebates, bulk purchase packages for specific items, and can waive the handling fees for processing seafood in-store⁷.

Consumer electronics

Gome Retail to open 100 "New Retail" stores in Henan in 2019

On 7 April, Gome Retail signed a strategic cooperation agreement with Henan Provincial Commerce Department. According to the agreement, Gome Retail will construct one large-scale logistics base, and two to three regional distribution centers in Henan province. It will also build a sourcing center in Henan province for Central China and distribute the products nationally through Gome Retail's online and offline channels. In addition, Gome Retail hopes to further expand its reach in counties and targets to build 100 "New Retail" stores in 2019 in Henan province⁸.

Gome Retail to roll out "shop-in-shop" in over 200 Carrefour's stores before end of July

On 10 April, Carrefour China announced that

it has formed a strategic partnership with Gome Retail. Under this partnership, by adopting the “shop-in-shop” model, Gome Retail will set up its stores in more than 200 Carrefour’s stores by the end of July. In each of these stores, Gome Retail will provide a range of best-selling items, including home appliances, 3C products, etc. Gome Retail hopes to bring in more traffic flow by leveraging Carrefour’s vast network of physical stores. In fact, Gome Retail has reportedly rolled out its first batch of “shop-in-shop” in 11 Carrefour’s stores in Beijing, Shanghai, Wuxi and Hangzhou by end of 2018⁹.

Apparel

CNCIC: Apparel sales fall on higher unit prices; brands step up upgrading efforts

On 9 April, China National Commercial Information Center (CNCIC) published statistics on China’s retail sales of commodities. In 2018, retail sales of key large-scale retail enterprises grew 0.9% yoy, with the growth rate slowing down by 4.5 percentage points (ppts) from the same period in 2017. Retail sales of menswear, womenswear and childrenswear added 0.4% yoy, 0.9% yoy and 6.7% yoy respectively, with the growth rates moderating by 1.9 ppts, 4.7 ppts and 1.1 ppts from the same period in 2017. In 2018, the decline in apparel sales of key large-scale retail enterprises was mainly led by higher unit prices, which were up by 5.3% yoy, with the growth rate rising 4.1 ppts. Brands that have put greater efforts in store and product upgrading saw stellar performance and stronger sales growth in 2018¹⁰.

Metersbonwe turns losses into profit in 2018; net profit soars 113.24% yoy

On 8 April, Metersbonwe Group released its FY18 financial results. In 2018, the group’s total revenue surged 18.62% yoy to 7.677 billion yuan, turning losses into profit; its net profit surged 113.24% yoy to 40.316 million yuan. Its main brand, Metersbonwe, achieved revenue growth of 13% yoy; ME&CITY achieved revenue growth of 48% yoy; childrenswear brands Moomoo and ME&CITY KIDS together achieved yoy revenue growth of 24%. Metersbonwe Group pointed out that the growth in total revenue is attributable to the upgrade in brand images, products, channel distributions and consumption scenes¹¹.

Kids products

JD.com to adopt C2M model, enhancing differentiation in maternity and baby products business

On 10 April, JD.com announced to adopt the C2M model to enhance differentiation in its maternity and baby products business. It targets to expand its market share through adopting user analytics, C2M product customization and smart supply chain. In 2018, eight maternity and baby product brands on JD.com recorded total sales of more than 1 billion yuan, 20 brands recorded total sales of 500 million yuan, and more than 50 brands recorded total sales of over 100 million yuan. With rising consumption power in tier-3 and tier-4 cities, as well as the growing importance of post-90s generation, JD.com has become one of the major channels for brands to gain market share¹².

Luxury sector

Tmall's Luxury Pavilion ushers in the 100th brand

Tmall's luxury good platform Luxury Pavilion has recently listed Korean sunglasses brand Gentle Monster as its 100th brand. Originated from Korea in 2011, Gentle Monster is currently selling through its self-operated official website and providing delivery through direct mail services to its Chinese consumers. It has also opened flagship stores in Hong Kong, Beijing, Shanghai, Guangzhou, Xian and Chengdu. Launched in August 2017, Luxury Pavilion is the world's first invite-only platform exclusive for luxury brands¹³.

Secoo reports revenues of 5,387.6 million yuan in 2018, up 44.0% yoy

On 4 April, Secoo announced its unaudited FY18 results. According to report, Secoo's GMV in 2018 reached 8,048.1 million yuan, up 52.9% yoy; total number of orders was 2.3 million, up 64.3% yoy; total revenues reached 5,387.6 million yuan, up 44.0% yoy; net income increased by 16.6% yoy to 155.5 million yuan. Total registered customers reached 27.0 million as of 31 December, 2018. In June 2018, Secoo tapped social commerce by launching its "Kudian" app, covering home products, fresh food, digital products, home appliances, cosmetics and personal care, apparel and bags, as well as luxury products with lower price points than those selling on Secoo.com. The app has generated huge traffic flows. Secoo targets to open more offline franchised stores in popular commercial districts in tier-2 and tier-3 cities in 2019¹⁴.

Louis Vuitton, Gucci and Prada reduce prices by around 3% in China

A cut in China's value-added tax rate with

effect from 1 April has driven price drops in some products from luxury brands including LVMH's Louis Vuitton and Kering's Gucci; suggested retail prices for both luxury brands have been lowered by around 3%. Prada has also announced to reduce the prices of its two core brands Prada and Miu Miu in China; these two brands reportedly have already trimmed the product prices for both their online and offline stores in China by an average 2%-3%¹⁵.

References

- ¹ "CNCIC: Total sales of consumer goods predicted to grow at 8.5% yoy in 2019", 10 April 2019. CNCIC.
<http://www.cncic.org/?p=1723> (in Chinese only)
 - ² "Kaola.com and Nestlé China to jointly develop China's infant milk powder and baby food supplement market", 11 April 2019. Beijing Business Today.
<http://www.linkshop.com.cn/web/archives/2019/422869.shtml> (in Chinese only)
 - ³ "JD.com and COSCO Shipping form joint venture company to build global logistics network", 8 April 2019. Linkshop.
<http://www.linkshop.com.cn/web/archives/2019/422653.shtml> (in Chinese only)
 - ⁴ "Xidan Joy City opens a hotel on its upper floors", 7 April 2019. Beijing Business Today.
<http://www.bbtnews.com.cn/2019/0407/293802.shtml> (in Chinese only)
 - ⁵ "RT-Mart, Auchan, Better Life, Walmart drop prices on VAT cut", 9 April 2019. Linkshop.
<http://www.linkshop.com.cn/web/archives/2019/422699.shtml> (in Chinese only)
 - ⁶ "SF Best shuts down stores in various cities to focus on Southern China operation", 2 April 2019. Sina.
<https://tech.sina.com.cn/i/2019-04-02/doc-ihxncv7627770.shtml> (in Chinese only)
 - ⁷ "Freshippo launches paid membership program in Beijing", 3 April 2019. Ebrun.
<http://www.ebrun.com/20190403/328004.shtml> (in Chinese only)
 - ⁸ "Gome Retail to open 100 "New Retail" stores in Henan in 2019", 9 April 2019. Longsok.
<https://www.longsok.com/dt/2019/0409/49706.html> (in Chinese only)
 - ⁹ "Gome Retail to roll out "shop-in-shop" in over 200 Carrefour's stores before end of July", 10 April 2019. Beijing Business Today.
<http://www.bbtnews.com.cn/2019/0410/294382.shtml> (in Chinese only)
 - ¹⁰ "CNCIC: Apparel sales fall on higher unit prices; brands step up upgrading efforts", 10 April 2019. CNCIC.
<http://www.cncic.org/?p=1727> (in Chinese only)
 - ¹¹ "Metersbonwe turns losses into profit in 2018; net profit soars 113.24% yoy", 9 April 2019. Linkshop.
<http://www.linkshop.com.cn/web/archives/2019/422694.shtml> (in Chinese only)
 - ¹² "JD.com to adopt C2M model, enhancing differentiation in maternity and baby products business", 10 April 2019. Beijing Business Today.
<http://www.bbtnews.com.cn/2019/0410/294582.shtml> (in Chinese only)
 - ¹³ "Tmall 's Luxury Pavilion ushers in the 100th brand", 11 April 2019. Linkshop.
<http://www.linkshop.com.cn/web/archives/2019/422866.shtml> (in Chinese only)
 - ¹⁴ "Secoo reports revenues of 5,387.6 million yuan in 2018, up 44.0% yoy", 8 April 2019. Iyiou.
<https://www.iyiou.com/p/96892.html> (in Chinese only)
 - ¹⁵ "Louis Vuitton, Gucci and Prada reduce prices by around 3% in China", 4 April 2019. Fashion Network.
<https://cn.fashionnetwork.com/news/shou-yi-yu-zhong-guo-xia-diao-jin-kou-huo-wu-zeng-zhi-shui-lu--louis-vuitton--he--qucc.1085600.html#.XKti0ZgzaUm> (in Chinese only)
- 8 April 2019. Fashion Network.
<http://www.bbtnews.com.cn/2019/0408/293855.shtml> (in Chinese only)

Fung Business Intelligence

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

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

