

China Retail & E-commerce

Weekly Updates

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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



China kicks off first “Chinese Brands Day” to promote Chinese brands

10 May, 2017 is China's first "Chinese Brands Day". To further promote the reputation and influence of Chinese brands, the State Council has designated the "Chinese Brands Day" to be held each year on 10 May. This year's theme was "to deepen the supply side structural reform, fully welcome the new era of Chinese brands development."¹

JD.com publishes the “Chinese Brands Development Report”

JD.com published its first “JD Chinese Brands Development Report” on 10 May 2017, which is coined the first “Chinese Brands Day” of China. The report shows that Chinese brands, particularly those belong to home electronics and telecommunications industries have achieved rapid growth; they have occupied more than half of the market shares in these industries and received wide recognition across the country. The Chinese brands have evolved from being stereotyped as "low-price brands" to brands contemplate "powerful functions and excellent designs". Post-90s and students become the core consumer segment of Chinese brands. Meanwhile, e-commerce players have put in a lot of resources to help more and more Chinese brands and the traditional Chinese labels to innovate and reform in the Internet era².

CNCIC: China’s consumer market expects to grow at 10.2% yoy in 2017

China National Commercial Information Center (CNCIC) expects that consumer

market will continue to be the major growth engine driving China’s economic growth in 2017. Factors driving the consumption market include: new retail formats and retail innovation will continue to renovate retail businesses; demand for tourism, culture, entertainment, and elderly market will continue to grow rapidly; the demand for high quality products will drive up retail sales; government will strive to reach its target of a total retail sales of consumer goods of 48 trillion yuan by 2020. On the other hand, the consumer market also faces some downward pressures, including: slower growth of automobile and property sales; slowing growth of the online retail market due to a higher base; and a very slight household income growth. CNCIC expects that China’s consumer market will grow at 10.2% yoy in 2017³.

Kantar Worldpanel: China’s FMCG market remains weak in 1Q17; local players see strong growth

According to the latest survey by market research institution Kantar Worldpanel, China’s FMCG market recorded only a small growth of 1.7% yoy in total sales in 1Q17. Total sales in modern retail channels (including hypermarkets, supermarkets and convenience stores) in 1Q17 increased by just 0.3% yoy. Many hypermarkets were still unable to win back the consumers they lose to online retailers. Adversely affected by the weak growth in key cities, growth of hypermarkets was down by 0.8% yoy in the period. The FMCG market in provincial-level and prefecture-level cities recorded 2.5% growth in sales, which was relatively stronger than the industry average. In terms of geographical region, the markets in western and northern China recorded relatively higher growth in sales, which were up by 2.9% and 3% respectively. In 1Q17, the top five FMCG retailers included Sun Art Retail Group, China

Resources Vanguard, Wal-mart China, Carrefour China and Yonghui Superstores. While market share of Sun Art Retail, China Resources Vanguard and Wal-mart China remained the same in 1Q17, Carrefour's share dropped by 0.1 percentage point in the period comparing with the same period last year. By contrast, local player Yonghui Superstores recorded strong growth in the period with market share increased to 3% from 2.6% in 2016⁴.

E-commerce

Rural online retail sales reach 250.43 billion yuan in 1Q17, up 36.6% yoy

WeChat released the "Report on Cashless Outbound Spending During the Golden Week Holidays", showing that during the Golden week holidays, Guangdong has the most number of outbound tourists, followed by Shanghai, Beijing, Fujian, Zhejiang and Jiangsu. During Golden Week holidays, Hong Kong surpassed South Korea for the first time to be the region with the most number of cross-border payments, followed by South Korea, Thailand, Japan, Australia, Taiwan, New Zealand, and Singapore⁵.

JD.com announces 1Q17 results: Net revenues reach 76.2 billion yuan

JD.com, Inc. announced its 1Q17 financial results. According to the financial report, JD.com recorded net revenues of 76.2 billion yuan, representing a 41.2% increase from the same period in 2016. The growth of revenues from services is an important reason for JD.com's relatively high growth in earnings over the past few quarters. In 1Q17, the number of annual active customer accounts increased by 40% to 236.5 million from 169.1

million in the same period last year. Fulfilled orders in 1Q17 were 477.1 million, an increase of 39% from 342.1 million in the same period in 2016. Fulfilled orders placed through mobile accounted for approximately 81% of total orders fulfilled, an increase of 56% compared to the same period in 2016⁶.

JD.com announces B2B strategy "JD-Business", tapping the corporate market

JD.com announced its B2B strategy – "JD-Business". Based on JD.com's core capabilities of JCloud, JD Finance and JD Logistics, the company will offer a range of services that meet the sourcing needs of corporate clients, including technology, products, trade credit, and other value-added services. In order to upgrade its services to corporate clients, JD-Business provides big data analytics, data-driven marketing and decision making services through JCloud; while JD Finance will further optimize its service process and expand trade credit and receivables management services to SMEs; also, JD Logistics will provide a network of one-stop B2B logistics services⁷.

JD.com to replace all of its logistics delivery vehicles with electric models in five years' time

JD.com said that the company now has over 100 zero-emission electric cars in its logistics fleet. The company promised to fully upgrade its tens-of-thousands-strong logistics van fleet to electric models in the coming five years. To minimize impact to the environment, JD.com set up an internal team working on green logistics projects and the company has been working with six car manufacturers from China and around the world to develop electric delivery van models⁸.

JD.com develops its IoT capability

JD.com officially announced its Internet of Things (IoT) strategy to the public. The company aims to create a consumer-end IoT that provides various services, such as product customization, network linkage, sales channels and services ecosystems. Through these services the company plans to monetize on the sharing of its own supply chain management capability, big data analytics and cloud computing resources to the public. JD Smart, JD.com's business department responsible for developing IoT business, followed the IoT industrial standard known as Joylink that is currently used by more than 200 major manufacturers in the world. It plans to introduce an open-end service platform and provide channels to help bring the IoT solutions to the market. Also, it is further developing smart lifestyle services offered through smart home products, as well as establishing an IoT devices data analytics platform that can run on mobile⁹.

CBEC experiential store Nuhuangzhen New Retail Concept opens in Guangzhou Lingnan E-Commerce Park

Cross-border E-commerce experiential store "Nuhuangzhen New Retail Concept" opened in Guangzhou Lingnan E-commerce Park. The store displayed 300-500 SKUs, which covered four major product categories, namely healthy snacks, healthcare products, nutrition supplements and natural skincare products. Of the 2,000 SKUs now available for sale on the online platform of Nuhuangzhen, half belongs to CBEC imports and the other half was normal trade imports. Most healthcare and skincare products are imported through CBEC channel, while most food products are imported through normal trade import channel. The company was founded by NHF, a listed company in the U.S, with a 100-million-yuan investment fund. It has

teams in Guangzhou to support its global operations and R&D, sourcing and quality control teams in Cyberjaya, Malaysia, as well as subsidiaries in countries such as Australia, France and Thailand. The company plans to open 100 new stores through franchising by the end of 2017¹⁰.

Supermarkets and hypermarkets



97 Wal-mart China stores connects to JD Daojia platform

JD Daojia said that 97 stores of Wal-mart China across 11 cities in China are now connected to JD Daojia's platform. It is expected that by end of 2017 there will be Wal-mart China stores from over 20 cities on the platform. Currently, there are around 1,200 SKUs of products from Wal-mart China on JD Daojia, around 300 SKUs of which belong to categories such as fresh produce, food and dried food, mother-and-infant products, home cleaning and personal care products. All the online orders are fulfilled from stores. Currently, fresh produce category accounts for 40% of Wal-mart China's online orders. Previously, Wal-mart China has joined JD Daojia's service pledge of "7-day Unconditional Returns of Goods" and fresh produce is one of the categories included in the return scheme. In April 2017, the number of orders for Wal-mart China and its GMV on JD Daojia's platform increased 30.4% and 42.5% month-on-month respectively¹¹.

Department stores and shopping malls

Privatization plan of Intime retail approved

Intime Retail Group's privatization and de-listing plan is approved by shareholders in the extraordinary general meeting of shareholders. The registers of shareholders of the company will be closed from 16 May, 2017. The company is expected to withdraw the listing of its shares on the Hong Kong Stock Exchange after the closing of market on 19 May. The share cancellation price will be HK\$10 in cash for each share and cash required for privatization amounted to around HK\$19.79 billion. The joint offerors of the privatization plan are Alibaba Investment and Intime International Holdings Limited, which together hold 1 billion shares and accounted for 37% of the share capital currently. According to media report, the reasons behind the privatization include: having easier access to market finance outside of the stock market, enhancing flexibility in company governance, as well as helping Alibaba to implement its strategies under the "New Retail Regime"¹².

Ningbo Dongmen Intime Department Store to renovate and build its first "new retail" department store

Recently, the Ningbo Dongmen Intime Department Store announced to renovate and upgrade to a "new retail" department store. It will be Intime's first "new retail" department store. It is reported that the Ningbo Dongmen Intime Department Store would be the pilot site of physical stores' upgrading after the acquisition of Intime Retail by Alibaba Group. During the renovation, the store will introduce more experiential elements and personalized

features. Intime department store team is reportedly working with the Alibaba team to introduce "black technologies" such as AR and VR. They will also try to introduce 3D fitting rooms and "checkout-free supermarket"¹³.

Convenience stores

CCFA, BCG: Store number of China's convenience store chains close to 100,000 and total sales reach 130 billion yuan

China Chain Store & Franchise Association (CCFA) and Boston Consulting Group (BCG) jointly published the "2017 Report of China's Convenience Store Development", which stated that the number of convenience store chains in China was around 100,000 and total sales reached around 130 billion yuan. The report looked at the industry development in 36 cities across China, analyzed the data from key convenience store chains, as well as interviewed management of convenience store retailers. According to the report, the industry demonstrated eight characteristics:

1. Number of new stores and the same-store-sales both on the rise.
2. Market still has a lot of whitespace. Tier 1 and tier 2 cities are hotspots for growth. No retail chains have expanded to national level.
3. Profitability has room for further growth as it still falls behind of leading international players.
4. Operation costs keep rising.
5. Product structure still has room for improvement.
6. Franchising model is relatively under-developed.
7. Over 50% of retailers have developed e-commerce; online transaction

accounted for around 11% of total. Mobile payment technology is widely adopted but the penetration rate is low.

8. Membership strategy to be reinforced. Around 55% of retailers have created membership schemes.

The report summarized six key elements affecting the future development of the industry:

1. Retail model transformation: to better differentiate products, store format and services based on consumer demographics,
2. Product structure: to provide unique product offerings through the provision of private labels, fresh produce and semi-processed food.
3. Extended services: to provide one-stop shopping experience by integrating multiple retail formats and providing value-added services.
4. Digitalization: to engage in omni-channel retailing by using new technology acquired either through investment or partnership.
5. Supply chain transformation: continue to enhance supply chain efficiency under the complex operational environment.
6. Expansion: to come up with an appropriate franchise model to facilitate business expansion¹⁴.

Apparel and shoes

Taobao brand AK Men's Wear lists on NEEQ

Shanghai Kaichen Clothing Co., the parent company of Taobao brand AK Men's Wear has been listed on the Chinese National

Equities Exchange and Quotations (NEEQ). AK Men's Wear is a leisure menswear brand. The design and cutting of its products incorporate military and outdoor stylish elements. AK Men's Wear became one of the first Taobao brands in 2009. In 2016, its annual sales grew by 50% yoy and the net profit of 1H16 nearly doubled the full year amount of 2015. Currently, AK Men's Wear has opened more than 20 physical stores, six of which are directly operated by the brand. Directly operated physical stores contributed to 1.32% of the total sales of AK Men's Wear, while franchised stores accounted for 0.77% of the total sales. The brand said that it planned to further expand its physical network by opening more directly operated and franchised stores¹⁵.

Denham joins forces with Ochirly's parent company Trendy International Group to enter China

Amsterdam-based denim brand Denham has entered into a joint venture (JV) agreement with Trendy International Group, the parent company of Chinese casual-wear company Ochirly to distribute the Denham brand in the greater China region (including Mainland China, Hong Kong, Macau and Taiwan). The first Chinese Denham store opened in HKRI Taikoo Kui, Shanghai in May 2017, followed by three additional locations this year (including one in WF Central, Beijing). The Denham China JV company plans to open approximately 40 Denham stores in China by 2020¹⁶.

Peak launches first 3D printed running shoes in China

China's sports brand Peak launched its first model of 3D printed sports shoes in Beijing. This model of running shoes is the first China running shoes made with 3D printing technology. Peak owns five sports shoes

research centres in Beijing, Guangzhou, Quanzhou, Xiamen and Los Angeles respectively. 3D printing shortens the manufacturing cycle of its shoes from 120 days to 20 days. Peak has started to introduce 3D printing equipment and technology into China through its R&D centre in Beijing since 2013¹⁷.

Heilan Home to launch various new brands in August

Chinese apparel brand Heilan Home plans to introduce new brands in August to October, including men's business casual wear, trendy menswear, childrenswear (to launch under the Eichitoo brand) categories. It is reported that Heilan Home hopes to obtain consumers feedback through pilot retail touch points for company's future direction in incubating new brands. In addition, in order to strengthen the research and development (R&D) function, the company has established an R&D centre in Shanghai, with the hope to attract high-calibre personnel to join the team¹⁸.

Cosmetics

Kantar Worldpanel: Online and cross-border shopping channels of China's cosmetics market continue growth momentum amidst declining penetration rate of offline channels

Market research institution Kantar Worldpanel said that the distribution channels for China's cosmetics market are now undergoing significant transformation. Since the end of 2015, penetration rate of offline channels in the cosmetics market has been declining, while online and cross-border shopping continue to grow. Consumer's per person spending on cosmetics on cross-border e-

commerce platforms remains high and amounted to around 675 yuan in the year ended June 2016, accounting for 42% of the total spending by cosmetics consumers in China. China's cosmetics market also has the highest online penetration rate compared to other international markets. Consumers who see smartphone as the most influential tool affecting their buying decisions accounted for 55% of total population in China, in contrast with the U.S. and U.K. markets in which the ratio was only around one-third of the total. Female consumers in their 20s are the major consumers of cosmetics in China; they accounted for 14.3% of the total population but contributed to 38% of total sales in the cosmetics industry¹⁹.

Luxury products

Longchamp China opens Shanghai flagship store

French luxury brand Longchamp opened a flagship store at the Kerry Center in Shanghai. The flagship store has the widest range of Longchamp's collections in China, including women's ready-to-wear, shoes, handbags, leather accessories, men's collections and luggage bags. Longchamp currently has 18 stores in China; it plans to open new stores in more cities such as Beijing and Changsha²⁰.

Hermès Group's Shang Xia enters Tmall

Shang Xia, a Chinese luxury brand under French fashion house Hermès, opened its first online shop on Tmall on 9 May. Shang Xia only selected 200 SKUs among its collection of a few thousand SKUs to be sold on Tmall flagship store, covering all categories. Shang Xia does not have plans to offer exclusive products online. All products offered online

can be found simultaneously offline too²¹.

Kids products

Amazon CN: Over 90% of online sales in the mother-and-infant toys category go to international brands

Amazon CN and multiple international retail brands, such as Mattel, Lego, Avent, MeadJohnson and Britax, jointly released the “2017 Consumption White Book on the Online Shopping for Mother-and-infant Toys” and looked at the trends related to the online consumption of goods in this product category. According to the report, over 90% of online sales in this category came from major international brands. Consumers in China are most concerned about food safety, quality education, as well as travel safety. Moreover, current trends and seasonal factors are playing a more crucial role in affecting online consumption of mother-and-infant toys²².

Cosmo Lady forms partnership with Japanese mother-and-infant products company to tap China’s childrenswear market

Chinese lingerie company Cosmo Lady (China) Holdings Company Limited signed a strategic agreement with Kimuratan Corporation, a Japanese listed mother-and-infant products company, to be its exclusive omni-channel strategic partner in Mainland China to distribute its products. Cosmo Lady will leverage its e-commerce platform to seize the children’s underwear market segments²³.

Home products

Zara Home opens the largest Asia’s flagship store in Shanghai

Recently, Zara’s housewares brand Zara Home officially opened its Asia’s largest flagship store in Shanghai, which is ZARA HOME’s 35th store in China. The two-storey store is located on Nanjing West Road, with 500 sqm of retail space. It sells the full range of Zara Home Kids products, and it is also the world’s only ZARA Home store to offer products of the “fables” collection series²⁴.

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