



# China Retail & E-commerce

## Weekly Updates

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 FUNG BUSINESS INTELLIGENCE

Asia Distribution & Retail

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# Retail in General

## KPMG: China's retail service market size worth nearly 6 trillion yuan in 2017

KPMG has recently published a white paper on China's retail service industry. According to the white paper, China's retail service market size is estimated to reach nearly 6 trillion yuan in 2017. Over the past 14 years, the market grew at a CAGR of over 17%, of which the marketing sector accounted for the largest share (26%), followed by transactions (25%) and logistics (22%). Three major trends are currently shaping the retail service market:

1. Technologies are driving transformation in the market; service businesses continue to expand; marketing services segment scales up on the back of information technology innovations.
2. Accelerated iteration and innovation of business models promotes faster growth of unicorns and new retail concepts.
3. Explosive growth of cross-border retail trades and increasing globalization facilitate consumption upgrading. Enterprises overcome geographic constraints to provide global retail services to vendors and consumers<sup>1</sup>.

## GAC: China's imported cosmetics in the first 11 months soars 69.9% yoy

The General Administration of Customs of the PRC (GAC) announced that in the first 11 months of 2018, China's total import and export volume reached 27.88 trillion yuan, up 11.1% yoy; of which, exports amounted to 14.92 trillion yuan, up 8.2% yoy; while imports amounted to 12.96 trillion yuan, up 14.6% yoy. In the first 11 months of 2018, imported cosmetics reached 60.07 billion yuan, up 69.9% yoy. Experts said that the reason for the surge may be related to the consumption upgrading trend in China and the increasing

demand for high-end cosmetics<sup>2</sup>.

# E-commerce

## SF Best Shenzhen outlets use blockchain technology to track overseas online purchases

Recently, SF Express implemented the "Feng Su GO" operating model in its SF Best outlets in Shenzhen upon the approval of Shenzhen Customs. The operating model, which is a "bonded area import + offline community store" model, allows SF Express to store the bonded imported goods directly in the community stores in the neighborhood, instead of storing them in the warehouses located in the Customs' special supervision zones; this shortens customers' waiting time for overseas online purchases from 3 – 7 days to 5 – 10 minutes. Utilizing blockchain technology, this model provides end-to-end traceability for all parcels and consumers can obtain full product information by scanning anti-counterfeit labels on products. At present, SF Express has implemented this model in four SF Best outlets in Shenzhen, and is expected to roll out to a total of 12 stores in Shenzhen before the end of December<sup>3</sup>.

## Mogu Inc. lists on the New York Stock Exchange

On 6 December, Mogu Inc. was listed on the New York Stock Exchange. Public information shows that the largest amount of funds raised in this IPO is about US\$76.5 million. It is reported that Mogu Inc. intends to use 30% of the funds raised for further development and expansion of its fashion content products; 30% for continuous investment and in-depth development for technological advancement; 20% for deepening cooperation with merchants and brand partners; the remaining 20% for general purposes including potential

investments and acquisitions<sup>4</sup>.

### Amazon opens two new regional websites in India and the Middle East to serve Chinese sellers

On 6 December, Amazon Global Selling announced to add two new overseas sites for Chinese sellers, Amazon India and Amazon Middle East, to provide new opportunities for sellers. As of today, Chinese sellers can sell via 12 Amazon regional websites including U.S., Canada, Germany, U.K., France, Italy, Spain, Japan, Mexico, Australia, India and the Middle East. Amazon said that in 2019, it will continue to leverage Amazon's experience in cross-border e-commerce and help Chinese sellers to upgrade their products, build their brands internationally, accelerate international expansion, and achieve new business growth<sup>5</sup>.

### NetEase Yanxuan to open first store in Jiebai Department Store in Hangzhou

It is reported that NetEase Yanxuan will open its first store in Jiebai Department Store in Hangzhou on 18 December. With a store size of over 300 sqm, it can house around 1,000 to 2,000 SKUs. The store will adopt a Japanese interior design. It will be divided into two zones – one for selling daily use products and the other offering shopping experience. Apparel will not be offered currently due to SKU complexity, but a few items will be showcased in the shopping experience zone for customers to try on<sup>6</sup>.

### JD.com launches new smart retail solution for physical retailers

Recently, JD.com has released a new smart retail solution for physical retailers. According to JD.com's introduction, the self-developed smart retail solution leverages the company's accumulated experience and expertise in in-

store technology and smart supply chain system. In addition, JD.com and Intel jointly announced the establishment of a digitalized retail laboratory to explore the potential applications of the IoT (Internet of Things) in smart retail solutions for physical retailers<sup>7</sup>.

### Douyin engages in social selling

On 11 December, Douyin officially announced to engage in social selling by enabling eligible users to apply for the "shopping cart function". Users registered with their real names and with over 8,000 fans and posted over ten videos are eligible to apply and register for the service. After registration, a link will be shown in the user profile with all the products offered for sale, and an icon will be appeared in the Douyin video which will direct to the product page on Taobao or Tmall for shopping. Since the launch of its beta version in June 2018, over 60,000 KOLs and enterprise accounts have tested the function. During the 11.11 Global Shopping Festival, users reportedly sold over 100,000 SKUs via Douyin and generated over 200 million yuan sales in one day<sup>8</sup>.

### Alipay announces to roll out in Norway

On 11 December, Alipay and Norwegian payment firm Vipps signed an agreement. Vipps said that it would begin to accept Alipay in 30 locations in Bergen, including the world's largest gingerbread city, as well as retailers, hotels and restaurants. Alipay will roll out to other cities in Norway in the future. Currently, more than 40 countries and regions accept Alipay, more than 20 of them are in Europe<sup>9</sup>.

### Pinduoduo to support 1,000 factory brands

On 12 December, Pinduoduo announced to support 1,000 factory brands in various industries, helping them reach consumers

more effectively and nurture brand at the lowest costs. Pinduoduo will offer services including big data analysis, experts' advice, research and development ideas to help factories build their brands. Meanwhile, Pinduoduo will also line up with brands such as Midea to collect customer information for better on-demand production, providing personalized products to customers, especially online shoppers<sup>10</sup>.

## E-commerce logistics

**SPB: Delivery companies handle 322 million parcels during "Double 12", up 32.5% yoy**

According to the statistics from the State Post Bureau (SPB), postal enterprises and express delivery companies handled a total of 322 million parcels on the day of 12 December, up 32.5% yoy, which is a record-high in history. Earlier in the 11.11 Global Shopping Festival, from 11 – 16 November, the total number of express delivery was 1.882 billion parcels, an increase of 25.8% yoy<sup>11</sup>.

## Department stores and shopping malls

**Wangfujing Group's multi-brand lifestyle store "Shangfu" opens to strengthen private label business**

On 10 December, Wangfujing Group opened a new multi-brand lifestyle store "Shangfu" in Wangfujing Department Store in Beijing. With an operating area of around 60 sqm, Shangfu houses a range of household products, daily necessities, cashmere clothing, and fashion accessories. It is reported that Shangfu cooperates with Fung Group and Yunshang Cashmere (Xi'an) Co., Ltd. in product sourcing

to ensure the product quality. Meanwhile, it also houses its self-owned private label "Jingpin". Currently, Jingpin covers home products and basic apparel items. It will expand to other categories in the future<sup>12</sup>.

## Supermarkets and hypermarkets

**Hema Xiansheng to launch the first supply chain project in Wuhan**

On 12 December, Hema Xiansheng announced to build a cold chain network and fresh produce manufacturing base covering core cities in China. This is part of the company's new retail supply chain upgrading initiative. It plans to locate the first supply chain center in Wuhan's Economic Development Zone. Hema Xiansheng said that after building the first center in Wuhan, it will roll out the new supply chain network in other core cities including Beijing, Shanghai, Guangzhou, Chengdu, Xi'an and Hangzhou<sup>13</sup>.

## Convenience Stores

**CCFA: Growth of convenience sector in 3Q18 slows**

China Chain Store and Franchise Association (CCFA) released the "China Convenience Store Prosperity Index" for 3Q18, showing that the growth of convenience sector in 3Q18 slowed and there were slight fluctuations in the industry, but it was still healthy. The overall prosperity index of convenience stores in 3Q18 was 64.12, 14.12 higher than the 50-point threshold and down 6.1 qoq. On the one hand, some stores were closed due to capital chain rupture; on the other hand, the development of unmanned stores and

unmanned shelves slowed as they face increasingly limitation in terms of expansion. Coupled with seasonal factors, as well as the high costs of rental, labor, water and electricity, the development of the convenience store sector in 3Q18 encountered some challenges<sup>14</sup>.

## Apparel

### Anta to buy Finland's Amer Sports for 5.6 billion euro; the largest outbound Chinese transaction into Europe this year

A consortium led by Anta Sports is nearing an agreement to buy Finland's Amer Sports for 5.6 billion euro. The deal, if successful, will go down as the largest outbound Chinese transaction into Europe this year and Anta will be able to acquire the brands under Amer. As of to date, Anta is the largest sportswear brand in China in terms of sales revenue<sup>15</sup>.

### JNBY to launch multi-brand store "LA SU MIN SO LA"

On 3 December, JNBY announced to launch a multi-brand store "LA SU MIN SO LA" for designer brands in China, a move to align with the company's multi-brand strategy and expand its businesses through horizontal diversification. LA SU MIN SO LA will serve as a platform for designer brands to showcase their products. Adopting the concept "Better Design, Better Life", the store will operate as an incubator for designer brands and help international designer brands adapt to local operation. LA SU MIN SO LA's product lines cover various categories, including clothing, footwear, handbag, accessories and lifestyle products<sup>16</sup>.

## Consumer electronics

### Suning and Samsung deepen collaboration on retail channel construction and sports marketing

On 6 December, Suning and Samsung Electronics formed a strategic partnership at Suning's headquarters in Nanjing. Under the deal, both parties agreed to deepen their collaboration on distribution of consumer electronic products, retail channel construction and sports marketing, aiming to create a win-win situation for the two companies and their customers<sup>17</sup>.

### Gome builds an unmanned store to test retail technologies

Recently, Gome has come up with a new strategy "Home and Living" with three major tasks, namely exploring new businesses, tapping new markets and using new technologies. To this end, Gome partnered with Hangzhou Century Co Ltd. to jointly build an unmanned retail smart shop at its headquarters to improve cost and operation efficiencies. New technologies such as facial recognition, customer service via video, and smart shopping guide are used in the store. Gome said that they will roll out the retail technologies in its stores all over the country once the usage and applications of the technologies become mature<sup>18</sup>.

## Kids products

### Tmall teams up with Pepco to launch smart store

Recently, childrenswear company Pepco has teamed up with Tmall New Retail to create a new smart store in Dongguan's International

Trade City. The new retail concept store reportedly utilizes advanced retail and interactive technologies such as facial recognition, precise recommendation, and virtual fitting room to ensure the entire in-store shopping experience is digitalized<sup>19</sup>.

Association (CFA) to launch a limited-edition CFA Capsule Collection, which will be available on the brand's Tmall flagship store for a limited time only. Previously, Ermenegildo Zegna opened a virtual pop-up store on JD.com's Toplife, offering its exclusive Ermenegildo Zegna XXX collection to Chinese customers<sup>21</sup>.

## Luxury Goods

### Lunar Capital takes over upmarket fashion brand Shanghai Tang

Alessandro Bastagli, Chairman of Italian clothing manufacturer A.Modà, has recently sold its upmarket Chinese fashion label Shanghai Tang to China's investment fund Lunar Capital for an undisclosed amount. Bastagli, together with a consortium of investors including the Hong Kong-based Cassia Investments fund, bought Shanghai Tang in July 2017. According to insiders familiar with the deal, disagreements between Cassia Investments and Bastagli led the two to sell their majority stake in Shanghai Tang to Lunar Capital. Regarded as China's first modern luxury brand, Shanghai Tang was founded in Hong Kong in 1994. In 1998, Swiss luxury group Richemont bought a majority stake in Shanghai Tang and eventually acquired the full ownership of the brand in 2008<sup>20</sup>.

### Ermenegildo Zegna lands on Tmall Luxury Pavilion

Ermenegildo Zegna has recently opened a flagship store on Tmall Luxury Pavilion, the first time that the brand seals a long-term partnership with local third-party e-commerce platform. Ermenegildo Zegna currently offers 33 products on the platform, covering clothing, footwear, handbag, accessories, etc., priced at 2,200-21,900 yuan. Meanwhile, the brand has also teamed up with Chinese Football

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## Fung Business Intelligence

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