

# China Retail & E-commerce

## Weekly Updates

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 FUNG BUSINESS INTELLIGENCE

Asia Distribution & Retail

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## General retail

**NBS: Total retail sales of consumer goods up by 7.6% yoy in July 2019**

According to the National Bureau of Statistics (NBS), total retail sales of consumer goods reached 3,307.3 billion yuan in July 2019, up nominally by 7.6% yoy (5.7% yoy in real terms). Of which, retail sales of enterprises above a designated size amounted to 1,141.2 billion yuan, up 2.9% yoy; retail sales excluding automobiles amounted to 3,001.7 billion, up 8.8% yoy. By type of consumption, in July 2019, catering sales amounted to 365.8 billion yuan, increased by 9.4% yoy. Retail sales of commodities amounted to 2,941.5 billion yuan, up 7.4% yoy. In January – July 2019, online retail sales grew 16.8% yoy to 5,597.2 billion yuan. Of which, online retail sales of physical goods increased by 20.9% yoy to 4,423.3 billion yuan, accounting for 19.4% of total retail sales<sup>1</sup>.

**Nielsen: 68% of Chinese consumers prefer local brands**

On 13 August, Nielsen released the China's Consumer Trend Index (CTI) Report for 2Q19. The report states that 68% of Chinese consumers prefer homegrown brands. Although 62% of the respondents claimed that they will buy foreign brands, Chinese brands remain their top choice. 61% of the Chinese consumers prefer Chinese brands because they offer great value for money. 33% of consumers said they are more willing to buy quality goods in the coming year, while 26% will choose the cheaper ones given the same basic functionalities<sup>2</sup>.

## E-commerce

**MOFCOM recaps the development of the online retail market in 1H19; total online retail sales of goods and services amounted to 4.82 trillion yuan in 1H19**

On 8 August, the spokesperson from the Department of E-Commerce and Informatization of the Ministry of Commerce (MOFCOM) recapped the development of the online retail market in 1H19. Total online retail sales of goods and services amounted to 4.82 trillion yuan, up 17.8% yoy. Of which, online sales of goods amounted to 3.82 trillion yuan, up 21.6% yoy. It accounted for 19.6% of the total retail sales of consumer goods and contributed 44.8% to the growth of the total retail sales of consumer goods. Some major characteristics of the online retail market in 1H19 are highlighted below:

1. Consumption upgrading remained the trend. The share of online transaction via B2C model continued to increase – B2C now accounted for 75.8% of the total online retail sales of goods and services, up 4.1 pts from 1H18. Growth of cosmetics, smart home appliance, health care products increased rapidly by over 30% yoy.
2. Regional differences remained large. In 1H19, Eastern China accounted for 83.2% of the total online retail sales, much higher than Central China (9.6%), Western China (5.9%) and Northeast China (1.3%).
3. Huge growth potential of rural e-commerce. Rural online retail sales of goods and services reached 777.13 billion yuan, up 21.0% yoy, 3.2 pts higher than the national growth.
4. Cross-border e-commerce (CBEC) saw rapid growth. The value of retail imports via major CBEC (import) platforms increased by over 20% yoy. Imports from Japan, the U.S. and South Korea topped

the list and accounted for 19.1%, 13.9% and 10.7% of the total value of CBEC imports respectively. By category, cosmetics (34.8%), grain, oil, and food (24.7%), and daily necessities (9.6%) were the most popular imported products.

5. Online and offline retail became more intertwined. Many e-commerce platforms tapped the offline market, especially the community markets. Meanwhile, social-commerce, online group buying, live streaming, short videos grew rapidly to satisfy consumer's different needs<sup>3</sup>.

### 2019 Top 100 Chinese Internet Companies: Alibaba ranks first and ByteDance enters top 10

On 14 August, the Internet Society of China and the Ministry of Industry and Informational Technology jointly released the "2019 Report on the Development of Top 100 Chinese Internet Companies". The Top 100 companies generated 2,750 billion yuan of income from their Internet business in 2019; an additional 1,000 billion yuan of income was made compared to the previous year. The top 10 companies include: Alibaba (China), Tencent, Baidu, JD.com, Ant Financial, NetEase, Meituan-Dianping, ByteDance, 360 Security Technology and Sina<sup>4</sup>.

### Alibaba's revenues up 42.0% yoy to reach 114.92 billion yuan in the quarter ended 30 June, 2019

On 15 August, Alibaba Group announced its financial results for the quarter ended 30 June, 2019 (1Q20). In 1Q20, Alibaba's revenue were 114.92 billion yuan, up 42% yoy. Revenues from core commerce also increased 44% yoy to 99.544 billion yuan. GMV of physical goods of Tmall grew 34% yoy in 1Q20. In June 2019, Alibaba's China retail marketplaces had 755 million mobile monthly active users; while annual active

consumers on Alibaba's China retail marketplaces reached 674 million for the 12 months end 30 June, 2019. During the quarter, over 70% of the increase in annual active consumers was from less developed areas<sup>5</sup>.

### JD.com's net revenues for 2Q19 reach 150.3 billion yuan; both revenue and net income hit record-high by quarter

On 13 August, JD.com announced its unaudited financial results for the quarter ended 30 June, 2019. JD.com delivered robust growth in 2Q19 across all four key metrics, namely revenues, profitability, cash flow and customer base. Net revenues for 2Q19 were 150.3 billion yuan, up 22.9% yoy; non-GAAP net income attributable to ordinary shareholders increased by 644% yoy to 3.6 billion yuan in 2Q19. Both parameters hit a record-high by quarter. Annual active customer accounts increased steadily to 321.3 million in the twelve months ended 30 June, 2019<sup>6</sup>.

### JD.com invests in lifestyle and homeware chain store LATTIV to tap lower tier cities

On 8 August, JD.com announced that it had completed the strategic investment in lifestyle and homeware chain store LATTIV (literally means worry-free life). JD.com also plans to form a joint venture with LATTIV to develop supply chain business and build a private label for lifestyle and homeware products. In addition to providing products and discounts exclusively for JD.com's users in lower tier cities, the JV will also explore business models for overseas supply chain services. Such planning and development will play a part in JD.com's retail infrastructure building for overseas markets<sup>7</sup>.

### Tmall Global revamps its entry portal to shorten the time for setting up online stores to seven days

Recently, Tmall Global revamped its entry portal (openshop.tmall.hk) to offer a further simplified process for merchants to set up online stores on Tmall Global. The whole process involves four steps, namely submitting application materials, evaluation by Tmall Global, activating account of the merchant, and launching online store on Tmall Global, and can complete as quick as just seven days<sup>8</sup>.

### Vipshop's net profit increases by 84.2% yoy in 2Q19; number of active customers up 11% yoy

On 15 August, Vipshop announced its unaudited financial report for 2Q19. The report shows that, in 2Q19, Vipshop's total net revenue increased to 22.7 billion yuan, up 9.7% yoy; non-GAAP net income attributable to Vipshop's shareholders amounted to 1.1 billion yuan, up 84.2% yoy. Vipshop's total orders for 2Q19 increased by 33% yoy to 147.8 million; the number of active customers reached 33.1 million, up 11% yoy<sup>9</sup>.

### Vip.com renames its specialist daigou and wholesale platform to "Wei Daigou"

On 11 August, Vip.com renamed its specialist daigou and wholesale platform to "Wei Daigou" (唯代购), previously known as "Wei Pincang" (唯品仓), which first went online in August 2018, servicing daigou agents and wholesalers and making use of social platform WeChat to clear out inventory for brands. The platform's business operation will stay unchanged following the rebranding<sup>10</sup>.

### India's social commerce startup Meesho to invite Chinese merchants to join its platform

India's social commerce startup Meesho has recently announced that the company will start inviting Chinese vendors to join its platform. According to the company, the business model of Meesho is similar to that of Chinese social-commerce platform Yunji where merchants on the platforms can source products from vendors and suppliers via Meesho and share/sell the products on social media platforms such as Facebook, Whatsapp and Instagram. It is reported that Meesho has already started setting up a local team in China and recruiting Chinese merchants to join its platform. Currently, Meesho only has a small number of Chinese merchants selling on its platform and most of the merchants are specialized in certain product categories required by the platform<sup>11</sup>.

## Supermarkets and hypermarkets

### Ele.me-Koubei establishes platform for digitalization of hypermarkets and supermarkets

Recently, Alibaba's local service business Ele.me-Koubei announced to establish a platform for the digitalization of hypermarkets and supermarkets. The platform can help hypermarket and supermarket operators as well as brands to achieve O2O integration in membership, payment, inventory management, marketing, real-time logistics and supply chain management. Currently, over 10,000 hypermarkets and nearly 200,000 chained supermarkets from 676 cities in China have connected with the platform. As of August 2019, Ele.me-Koubei has reached deep cooperation with RT-Mart, Carrefour, Bailian, CR Vanguard, and Wumart<sup>12</sup>.

### AEON to launch self-operated online supermarket business in China in 2020

AEON will reportedly launch its self-operated online supermarket business in China in 2020. It plans to accept orders through self-developed mobile app and distribute goods from about 70 stores nationwide, hoping to collect customer data and use the data to analyze the behavior and preferences of its customers. At present, AEON's online supermarket business in China is operated on third-party platforms such as JD.com, which makes data collection difficult<sup>13</sup>.

## Cosmetics

**CBNData, Juhuasuan Maikong: Homegrown color cosmetics capture over 60% market share in lower-tier Chinese cities**

CBNData and Juhuasuan Maikong have jointly released a report “Color Cosmetics Consumption Trends in Lower-tier Cities”. According to the report, domestic makeup products captured over 60% market share in lower-tier Chinese cities over the past year. In tier-3 and lower cities, penetration of homegrown mass makeup products reached more than 90%, with lipsticks, eyebrow pencils and eyeshadows being the most popular makeup products among consumers in lower-tier cities<sup>14</sup>.

## Consumer electronics

**Suning Jiwu opens first flagship store in Wuxi; offers more than 10,000 SKUs**

On 8 August, Suning Jiwu opened its first national flagship store in Suning Life Square, Wuxi. It is reported that on the first day of operation, the in-store sales conversion rate was 20% and the average duration of stay

was more than 45 minutes. Also, this is the first time for Suning Jiwu to join hands with enterprises having a big hit on the Internet such as bookstore Yan Ji You and g.suning.com for store upgrade. Currently, the store offers more than 10,000 SKUs, and features a dedicated area for cross-border purchase jointly launched with g.suning.com for the first time – goods available in-store can be purchased and taken on the spot. Till now, there are 20 Suning Jiwu stores nationwide<sup>15</sup>.

## Luxury sector

**Farfetch to acquire New Guards Group for US\$675 million**

On 8 August, JD.com-backed U.K. luxury e-tailer Farfetch expressed that it will acquire fashion brand Off-White's major shareholder New Guards Group for an estimated US\$675 million, with the deal expected to be completed in 3Q19 the earliest. New Guards Group holds a 53% stake in Off-White and owns a number of fashion brands, including streetwear brand Palm Angels, designer brands Heron Preston, Unravel Project, Marcelo Burlon and A Plan Application, as well as Italian knitwear brand Alanui, which was acquired by New Guards Group in 2017<sup>16</sup>.

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