

China Retail & E-commerce

Weekly Updates

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Retail in general



MOFCOM: Consumption upgrade is the major characteristic of the consumption market during the Lunar New Year holidays

On 6 February, Wang Bingnan, Vice Minister of the Ministry of Commerce (MOFCOM), said in the press conference of the State Council Information Office that, consumption upgrade is the major characteristic of the consumption market during the Lunar New Year holidays – consumers prefer high quality products; service consumption is on the rise; e-commerce and cross-border e-commerce makes shopping more convenient¹.

E-commerce



Alibaba and investors to make 13 billion yuan strategic investment in Easyhome

On 11 February, Alibaba Group announced to make a 13 billion yuan strategic investment with a group of investors in Easyhome Furnishing Chain Store Group. This has been the most remarkable capital investment and financing activity in China's home products market since the beginning of 2018. Of which, Alibaba invested 5.453 billion yuan for a 15% stakes of Easyhome, becoming the second largest shareholder. Under the agreement, Alibaba will help to fully digitalize the physical stores of Easyhome. The membership systems of both parties will be integrated, and all merchandise will be digitalized. Customers will enjoy an upgraded experience in choosing materials and furniture. At the same time, both

parties will work together to build a platform for home decoration which covers products and services from home design, material purchases to construction management².

JD.com enters into strategic cooperation agreement with Hydo International Holding to jointly build "borderless commercial center"

On 12 February, JD.com entered into a strategic cooperation agreement with Hydo International Holding Ltd, a leading developer and operator of integrated large-scale trade and logistics center in China. Both parties will cooperate in the areas of logistics, finance, e-commerce and technology to provide physical merchants with convenient, fast and integrated online and offline "marketing-trading-warehousing-distribution-after-sales" services. Eventually, Hydo commercial center will be transformed into a "borderless commercial center". As a large developer and operator of commercial logistics centers, its large number of logistics centers, total construction areas and land reserves owned and operated by Hydo ranked among the top in the industry – all these are highly sought-after by JD.com as important offline channels³.

Baidu's annual revenues for 2017 grow by 20% to reach 84.8 billion yuan

Baidu announced its unaudited financial results for the fourth quarter and fiscal year 2017. Total revenues in the fourth quarter were 23.6 billion yuan, increased by 29% yoy. Mobile revenue represented 76% of total revenues, compared to 65% for the fourth quarter of 2016. Net income attributable to Baidu was 4.2 billion yuan, increased by 1% yoy. For FY17, total revenues were 84.8 billion yuan, up 20% from 2016. Driven by Artificial Intelligence (AI) technology, Baidu's core businesses continue to grow rapidly and steadily, particularly in optimizing the search

experience and expanding video content. Baidu expects total revenues for the first quarter of 2018 to be around 19.86 billion yuan to 20.97 billion yuan, an increase of 25% to 32% over the same period of last year⁴.

Netease Yanxuan introduces AR function to help users select home products

Recently, Netease Yanxuan announced to formally launch an AR and short video functions on its app to help users find product information and select products more easily. It is reported that the AR function was jointly developed by Netease Product R & D Center and Netease Dongjian; it targets mainly the home products category, which currently covers 9 SKUs. Through this new function, Netease Yanxuan hopes to create real consumer scenarios and allow customers to understand the appearance and features of products in a more comprehensive and concrete way⁵.

Retail logistics



JD Logistics announces the completion of the US\$2.5 billion financing

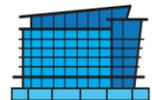
JD.com announced that it has entered into definitive agreements for the financing for its logistics subsidiary, JD Logistics, with investors including Hillhouse Capital, Sequoia China, China Merchants Group, Tencent, China Life, China Development Bank Capital FOF, China Structural Reform Fund and ICBC International, among others. The total amount raised in this round is expected to be approximately US\$2.5 billion. After the completion of this transaction, JD.com will remain the majority shareholder of JD Logistics with an 81.4% stake. The financing is expected to close in the 1Q18. According to

JD.com, this financing will enable JD Logistics to further enhance its smart supply chain network with openness and integration. It is the first public financing made by JD Logistics since its spin-out from JD.com in April 2017. It is also the largest single financing transaction in China's logistics industry⁶.

JD Logistics and China Railway Express jointly launch delivery service

JD Logistics and China Railway Express Co., Ltd. jointly launched delivery service, focusing mainly on the delivery of high-end products and providing customized services for customers of JD.com. China Railway Express will be responsible for providing high-speed trains for delivery as well as the venue for JD Logistics courier staff to unload and pickup the goods, while JD Logistics will be responsible for the delivery from the warehouse to the rail station, and the delivery from the station to the customer. The service is currently available for customers in Beijing and Shanghai ordering on JD.com⁷.

Department stores and shopping malls



Rainbow and China Unicom in Shenzhen form strategic cooperation to push New Retail strategy

On 9 February, Rainbow Department Store Co., Ltd. and China Unicom, Shenzhen branch reached a strategic cooperation. The two parties agreed that Rainbow and China Unicom, Shenzhen branch will further enhance their cooperation in areas such as Internet-driven operations and smart shopping malls. In the future, both Rainbow and China Unicom, Shenzhen branch will be engaged in in-depth cooperation in areas such as Internet-driven operations, marketing,

communications services and resource sharing. It is reported that China Unicom, Shenzhen branch is strong in technology innovation, particularly in big data analytic, Narrow Band Internet of Things (NB-IOT), 5G network technology, etc⁸.

Convenience stores



Chengdu Hongqi cooperates with Yonghui Superstores to upgrade and transform into fresh food convenience store

Domestic supermarket and convenience store chain operator Chengdu Hongqi and Yonghui Superstores enter into deep cooperation to revamp Chengdu Hongqi's current stores with Yonghui's expertise in fresh food supply chain. It is reported that two Chengdu Hongqi's revamped stores in Haichang Road and Huarun Road in Chengdu were opened on 10 February. Supported by Yonghui Superstores' fresh food logistics, the stores offer more fresh food including fruits, vegetables, meat and seafood compared to other Chengdu Hongqi stores. Chengdu Hongqi plans to open 300 more similar stores in the future. Chengdu Hongqi signed strategic cooperation framework agreement with Yonghui Superstores in December 2017; the companies will work together in areas including supply chain management, new business expansion, logistics, technology, big data analysis, and poverty alleviation⁹.

JD Convenience Store opens an 800 sqm flagship store in Zhengzhou

JD Convenience Store opened a flagship store in Zhengzhou, the capital city of Henan province recently. With a gross floor area of 800 sqm, the store mainly sells daily

necessities and targets office workers nearby and people living in surrounding communities. All products are sourced from JD.com, and the logistics is mainly provided by JD Logistics. In April 2017, JD.com announced to build over 1 million JD Convenience Stores within five years, over half of them will be located in rural areas¹⁰.

CSF Mart opens new format store in Beijing

On 12 February, the Beijing Supermarket chain CSF Mart opened a new store in Sidaokou, Haidian District of Beijing. The store is the eighth CSF Mart and Lawson co-brand store; it is also a new retail format of CSF Mart. The 24-hour shop includes a section selling "Gongcha" tea, a bookstore, an area selling fresh flowers, etc¹¹.

ZTO Shangye announces to enter the field of unmanned shelves

Recently, ZTO Shangye, a subsidiary of ZTO Express, has officially stepped into the field of unmanned shelves by reaching an agreement with Koala Bianli, an unmanned shelves manufacturer and operator. ZTO Shangye has an edge over its competitors in the unmanned shelves market when it comes to distribution network. ZTO Shangye can fully utilize the comprehensive distribution network of its parent company, especially those distribution points in the office areas, to speed up store roll-out. ZTO Shangye is the second logistics company to step into the field of unmanned shelves, following SF Express¹².

Gome launches first unmanned shelves

Gome launches its first 24-hour unmanned shelves on 12 February. Users need to register with the palm scanners on the unmanned shelves. Registered users can scan their palm to open the door of the shelf

and choose the products. The system will detect the products taken out and show the products information and prices on screen. Payments will be completed via Alipay once the door of the shelf is closed. For returns and refunds, customers must apply on Alipay and send the goods back to the retailer. It is reported that Gome's unmanned shelves are backed by AI solutions provider DeepBlue Technology¹³.

FMCG

Kantar Worldpanel: FMCG in 2017 up by 4.3%, highest in the last three year

According to the latest report released by the consumer market research institute Kantar Worldpanel, sales of fast-moving consumer goods (FMCG) increased by 4.3% yoy in 2017, 0.7% pts higher than 2016. The report also shows that in the past year, sales of FMCG in e-commerce channels increased by 29% yoy. In 2017, 60% of Chinese urban households purchased FMCG online, an increase of 5.4 pts over 2016. In 2017, shoppers on average shopped seven times per year from e-commerce channels. The report also shows that in the latest 52 weeks ending November 2017, fresh food sales on e-commerce channels grew by 38%¹⁴.

Apparel

Heilan Home officially launches WeChat store

On 8 February, Heilan Home under HLA has officially launched its store on WeChat

platform. Heilan Home is a home product brand, selling merchandise covering office supplies, cosmetics, tableware, kitchen supplies, bedding, etc. According to official introduction, Heilan Home will launch more than one hundred new products on a monthly basis. Earlier in 1 October, 2017, Heilan Home opened a flagship store on Tmall; as of to-date, the company reportedly has opened four physical stores in Jiangyin, Zhangjiagang, Suzhou and Wuxi in Jiangsu province¹⁵.

Cosmo Lady and JD.com forms funds to carry out peer acquisitions

Domestic lingerie brand Cosmo Lady (2298.HK) announced the establishment of an industrial fund with JD Century, a wholly-owned subsidiary of JD.com, to invest in upstream and downstream companies involved in domestic innerwear brands. According to Cosmo Lady, through setting up this 1 billion yuan worth industrial fund with JD.com, it plans to further enhance its visibility and footprint in the global inner wear industry and broaden its sources of income through M&A activities and resource integration. Cosmo Lady said it values JD.com's experience in running online business and JD Century's experience in investing in different sectors¹⁶.

Cosmetics

Mariedalgar opens first standalone store in Shanghai

Recently, domestic color cosmetics brand Mariedalgar opened the first store in Shanghai to further develop the distribution channel at shopping centers. Different from the previous retail counters in cosmetics stores, department stores, Watsons and Sephora

stores, this store is the first standalone store opened by Mariedalgar. In addition to selling colorful make-up products, this new store also features a lipstick wall and vending machines of make-up products to attract consumers¹⁷.

Home products

ZARA HOME opens the nation's largest flagship store in The MIXC in Shenzhen

Recently, ZARA HOME opened China's largest flagship store in The MIXC in Shenzhen. The flagship store occupies an area of over 500 sqm, selling all the product lines under ZARA HOME, including bedding, bathroom supplies, tableware, home décor, fragrance, etc. ZARA HOME is a household products and interior decoration brand under Inditex Group, and currently it has opened more than 30 stores in Beijing, Shanghai, Chengdu, Tianjin, Guangzhou, Qingdao, Hangzhou and Chongqing¹⁸.

Consumer electronics

CCID: China's online sales of home appliances reach 500 billion yuan in 2017; JD.com ranks first in terms of market share

The Center for Communications Industry Development (CCID), the research institute under the Ministry of Industry and Information Technology released the "2017 Home Appliances Online Shopping Report". The report shows that the B2C home appliance online market in China reached 490.6 billion yuan in 2017, an increase of 27.6% yoy. According to the report, online sales of air

conditioners, refrigerators, washing machines and televisions increased by more than 50%. Among all the home appliances e-commerce platforms, JD.com occupied the first place with a market share of 60.8%. The report shows that the post-80s generation has become mainstream consumers of online home appliances market, accounting for 48% of the market; while the post-90 generation accounted for 23% of the market in 2017, up from 14% in 2016. The online home appliances market is trending towards a younger customer structure¹⁹.

Luxury sector

Shandong Ruyi to acquire Swiss luxury brand Bally

On 9 February, JAB Holding Co, the parent company of Swiss luxury brand Bally announced that Shandong Investment, the investment tool of Shandong Ruyi will acquire the majority stake of the Swiss luxury brand, and JAB will retain a minority interest in the company. Although the two sides have not disclosed any details of the deal, insiders mentioned the transaction value will be about US\$700 million, and that the deal will be completed within this year. According to JAB, Shandong Ruyi will keep Bally's Swiss headquarters and the brand's operation will remain independent²⁰.

Hermès posts a 0.4% decline in sales in 4Q17; official Chinese website to launch in end-2018

French luxury brand Hermès International posted a 0.4% decline in sales in 4Q17 as a strong euro weighed on its performance. Sales for the last three months of the 2017 totaled 1.5 billion euros, up 4.6% at constant

exchange rates. Hermès' total turnover for FY17 reached 5.549 billion euros, up 6.7% yoy. Hermès will launch its Chinese official website by the end of 2018; only selected products will be available online²¹.

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