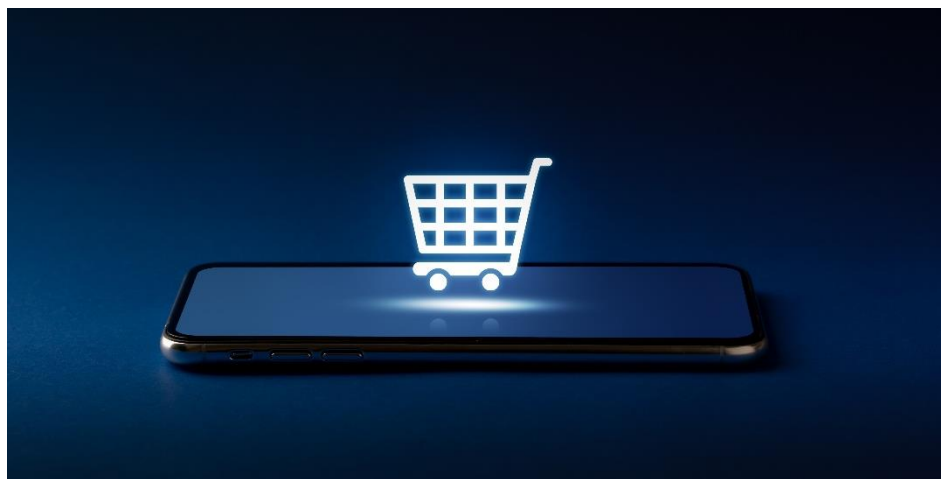


China Retail & E-commerce Weekly Update



I. Sector Review	3
General Retail	3
Suning.com partners with Haier Smart Home and Bank of Jiangsu	3
Internet & E-commerce	3
Xiaohongshu to remove its 'Link Notes to Taobao' function	3
Momo to launch social sharing app 'Raspberry'	3
Apparel	4
ZARA's parent company Inditex cuts production for the first time in five years, down by 17% from 2019	4
Guirenniao cuts off production line, becoming a sports brand and channel operator	4
Cosmetics	4
Estee Lauder brands join JD Beauty	4
Luxury	5
Secoo to open over 300 'urban third space' stores	5
Catering	5
Ele.me launches the first pilot for 'digitalized meal assistance'	5
II. Market Overview	5
McKinsey: The Chinese market will support the recovery of the fine jewellery and luxury watch industries in the next 5 years	5
2021 China Maternal and Baby Market Trend Report: Maternal consumption shifts towards early stages	6
Chinese Hanfu Industry Report: 2021 sales expected to exceed 10 billion yuan	6
Intangible Cultural Heritage Consumption Trend Report: 14 intangible cultural heritage industry clusters have an annual turnover of over 100 million on e-commerce platforms	6
Consumption data for 31 provinces published: Shanghai people spend the most	7

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III. Policy Spotlight 7

Ministry of Commerce: Six measures will be taken to promote consumption..... 7

Ministry of Commerce: Actively encourage regional and key enterprises to accelerate the construction of smart stores 7

Ministry of Commerce: Shanghai, Beijing, Tianjin, Guangzhou and Chongqing to take the lead as international consumption centre cities 8

References (in Chinese) 9

I. Sector Review

General Retail

Suning.com partners with Haier Smart Home and Bank of Jiangsu

Suning.com, Haier Smart Home, and Bank of Jiangsu recently held a signing ceremony for their strategic cooperation agreement. Through this partnership, the three companies will explore new models of bank-enterprise cooperation. With the support of relevant authorities of Jiangsu Province and Nanjing, the three parties will leverage digital capabilities to open up their systems; integrate the flows of logistics, capital, information, and bills; and achieve full involvement of financial institutions in the circulation field. These actions will promote new bank-enterprise cooperation models within the digital retail industry.¹

Internet & E-commerce

Xiaohongshu to remove its 'Link Notes to Taobao' function

The Xiaohongshu platform is reportedly about to undergo two major changes. Firstly, on 1 August, the platform will officially remove the recommendation function which allows users to add Taobao links to notes. Secondly, from 26 July, the platform will crack down on soft advertising notes in order to improve the user experience. The 'Link Notes' function is unlikely to return after it goes offline, as the move is a strategic adjustment rather than a technical one. However, links that have been added in previous notes will remain if the user does not edit the notes.²

Momo to launch social sharing app 'Raspberry'

Momo plans to launch a new social app called 'Raspberry' which will be targeted at young people as a competitor of Xiaohongshu. 'Raspberry' is very similar to Xiaohongshu in its user interface. Selected daily notes shared by users will be recommended on the homepage and displayed in the form of a vertical scroll. Users can also click on the '+' sign at the bottom to create content. It is understood that major Internet platforms have already made moves to develop the next Xiaohongshu (such as Alibaba's Chihuobiji/ Gourmet Notes, Tencent's You Ji, and Pinduoduo's Pin Circle).³

Apparel

ZARA's parent company Inditex cuts production for the first time in five years, down by 17% from 2019

According to the annual report of Inditex, ZARA's parent company, the apparel group produced more than 450,000 tons of clothing in 2020, a decrease of about 17% compared to 2019 and on par with 2016 volumes. At the same time, Inditex also reduced their number of suppliers from 1,520 to 1,390. As Inditex's largest production location, China had 412 suppliers working with Inditex in 2020, a decrease of 65 from the previous year. This is the first time the group has reduced the number of its suppliers in China in the past five years. However, China still has the largest number of suppliers, accounting for 29.6% of the total.⁴

Guirenniao cuts off production line, becoming a sports brand and channel operator

Guirenniao recently announced that it will cut off all production lines. Their shoe and apparel production will be outsourced, and the company will completely transform into a sports brand and channel operator. Furthermore, the company intends to shut down 14 non-operating subsidiaries to further reduce costs and increase efficiency. Guirenniao's restructuring will bring in 700 million yuan of funding from investors, which may temporarily alleviate the company's liquidity crisis, but it still faces considerable debt pressure. As of this March, the company had 1.302 billion yuan in non-current liabilities due within one year, but had only 22.68 million yuan in cash and cash equivalents.⁵

Cosmetics

Estee Lauder brands join JD Beauty

Estee Lauder Group's three major brands – Estee Lauder, Clinique, and Origins – recently joined JD Beauty. They offer over 130 products that range across more than ten sub-categories including makeup removers and cleansers, essences lotions, men's skincare, base makeup, lipstick, etc. In recent years, international name brands have shown explosive growth, generally with a younger user base. Some of these brands have launched their store on JD beauty.⁶

Luxury

Secoo to open over 300 'urban third space' stores

Secoo Group recently announced their plan to open more than 300 'urban third space' (shared social spaces outside the home and workplace) new retail stores through direct franchising and joint partners. The company has reached cooperation agreements with Wanda, Sunac, Parkson, Longemont, Seazen Wuyue, etc. Their first urban third space store, opening 25 September, will be on the 4th floor of Longemont Shopping Centre in the Changning District of Shanghai.⁷

Catering

Ele.me launches the first pilot for 'digitalized meal assistance'

Ele.me and the civil affairs authorities of Xicheng District of Beijing have jointly rolled out the first 'digital meal assistance' pilot for the elderly catering service market. Its service model mainly includes 'online platform + courier station + third-party dietary nutrition evaluation + data tracking feedback'. There are three main dining modes: online ordering from restaurants (takeaway), boxed lunch delivery to courier stations (group meals), and dining in the courier stations (dine-in). This service has been piloted in 6 courier stations in Xicheng District in March this year. It is expected to cover all courier stations in Xicheng District by August. As a next step, Ele.me will promote the medication purchasing and delivery service system for the elderly.⁸

II. Market Overview

McKinsey: The Chinese market will support the recovery of the fine jewellery and luxury watch industries in the next 5 years

The American multinational consulting company McKinsey recently released a market research report outlining the market prospects of the fine jewellery, high-end and ultra-luxury watch industries in the next five years. According to McKinsey, these two large-scale industries make up a majority of the global luxury goods market, with annual sales totalling more than US\$330 billion. Currently, Asia accounts for 45% of global jewellery sales and 50% of global watch sales, and the Asian market – led by China – is expected to grow further in the next five years. The annual growth rate of high-end jewellery sales will be 10%-14%, and the annual growth rate of luxury watch sales will be about 4%.⁹

2021 China Maternal and Baby Market Trend Report: Maternal consumption shifts towards early stages

On 15 July, iiMedia Consulting released the '2021 China Maternal and Baby Market Trend Report'. According to the report, the size of China's maternal and baby market reached 4,085 billion yuan in 2020, and it is expected to exceed 7,600 billion yuan in 2024. The industry has become an important part of China's consumer market. Furthermore, China's mother population is becoming younger. The number of post-90s mother population continues to grow, and the proportion of mother population under the age of 30 has exceeded 50%. It is clear that maternal consumption is shifting towards pre-pregnancy and pregnancy stages, and this early-stage consumer group has high marketing potential. Maternal and baby products vertical platforms are the main channel for obtaining consumer information, and the leading vertical platforms have advantages in content dissemination.¹⁰

Chinese Hanfu Industry Report: 2021 sales expected to exceed 10 billion yuan

iiMedia recently published the 'Chinese Hanfu Industry and Consumer Behaviour Report 2021'. According to their data, the sales volume of China's Hanfu market has risen sharply from 190 million yuan in 2015 to 6.36 billion yuan in 2020. Although the growth rate slowed down in 2020 due to the COVID-19 pandemic, sales are expected to exceed 10 billion yuan in 2021 with much room for development in the future. 47.5% of Hanfu consumers have 2-4 sets of Hanfu. Social media platforms such as Weibo and Douyin have become the source of Hanfu information for nearly 60% of consumers and have become an important way to popularize Hanfu.¹¹

Intangible Cultural Heritage Consumption Trend Report: 14 intangible cultural heritage industry clusters have an annual turnover of over 100 million on e-commerce platforms

The Cultural Tourism Industry Index Laboratory and Taobao jointly published an 'Intangible Cultural Heritage Consumption Trend Report'. According to the report, as of the end of June, 14 intangible cultural heritage industry clusters had sold over 100 million yuan of products on Taobao last year. The transaction volume of intangible cultural heritage brands has increased for three consecutive years. There are over 25,000 active Taobao handicraft shops for intangible cultural heritage products, and nearly 5,000 heritage related shops have joined Alibaba's original design protection platform. Furthermore, over the past year, the number of consumers of intangible cultural heritage products on Taobao reached 100 million, and the post-85s and post-90s groups have become the main consumers. There were 3.8 million livestream broadcasts of intangible cultural heritage, of which 85% were self-broadcast by the businesses themselves.¹²

Consumption data for 31 provinces published: Shanghai people spend the most

The National Bureau of Statistics recently released the economic data of 31 province-level divisions for 1H21. During this period, the national disposable income per capita was 17,642 yuan, a nominal increase of 12.6% yoy. The high growth was mainly due to the low base in 1H20. The two-year average growth was 7.4%. In 1H21, the per capita consumption expenditure of residents in the 31 province-level divisions was 11,471 yuan, a nominal increase of 18.0% yoy. Specifically, per capita consumption in 9 province-level divisions, including Shanghai, Beijing, Zhejiang, Tianjin, Guangdong, Jiangsu, Fujian, Chongqing, and Hubei, exceeded the national average. Among them, the per capita consumption in Shanghai and Beijing both exceeded 20,000 yuan. Shanghai has the strongest consumption power, with a per capita consumption of 23,644 yuan.¹³

III. Policy Spotlight

Ministry of Commerce: Six measures will be taken to promote consumption

At a press conference held by the State Information Office on 22 July, the Director of the Department of Market Operation and Consumption Promotion of the Ministry of Commerce announced that the Ministry will take six key measures to promote consumption: further improve policies and measures to promote consumption; enhance the capabilities of urban consumer services; increase the development of the rural market; expand the growth of traditional consumption and stabilize spending on automobiles, home appliances, and home furnishings, while ensuring better recovery of the catering market; promote the accelerated development of new modes of consumption; and create a strong consumption atmosphere.¹⁴

Ministry of Commerce: Actively encourage regional and key enterprises to accelerate the construction of smart stores

Recently, Gao Feng (the spokesperson of the Ministry of Commerce) stated that the Ministry of Commerce hopes to encourage commercial retail enterprises to provide better online and offline integrated service experiences leveraging digitalization, smart technology and improved precision. This will be done through three key areas: First, the Ministry should focus on promoting the digitalization of offline stores. They should encourage physical enterprises to apply 5G, Internet of Things, big data, cloud computing, virtual reality and other new technologies to improve store operations and enhance consumer experiences. The second is to focus on promoting smart supply chains through new models such as centralized collection and distribution, unified warehouse distribution, and reverse customization. Enterprises should develop flexible and agile supply chains, strengthen logistics support, and promote the reconstruction of retail distribution channels. The third is to promote service

precision through digital services such as issuing membership cards and coupons online, providing event information online, smart notifications, and online reward programmes. Enterprises should offer the same standards, quality and prices for online and offline products.¹⁵

Ministry of Commerce: Shanghai, Beijing, Tianjin, Guangzhou and Chongqing to take the lead as international consumption centre cities

On 19 July, the Ministry of Commerce announced that, with the approval of the State Council, Shanghai, Beijing, Guangzhou, Tianjin, and Chongqing will take the lead in the development of international consumption center cities. These centres must be 'international' by pooling quality international market entities, goods and services, accelerating the cultivation of local brands, and developing into a hub that integrates global consumption resources. They must be closely tied to 'consumption' by promoting high standards business communities, being at the forefront of market trends, and improving market regulation services, reaching new heights of consumption upgrades. To highlight the functions of a 'centre', they must continuously take a leading role within the region and become the main hub of global consumers and regional coordinated development.¹⁶

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Fung Business Intelligence

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

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

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting 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.

Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including sourcing, logistics, distribution and retail. The Fung Group comprises over 26,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

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