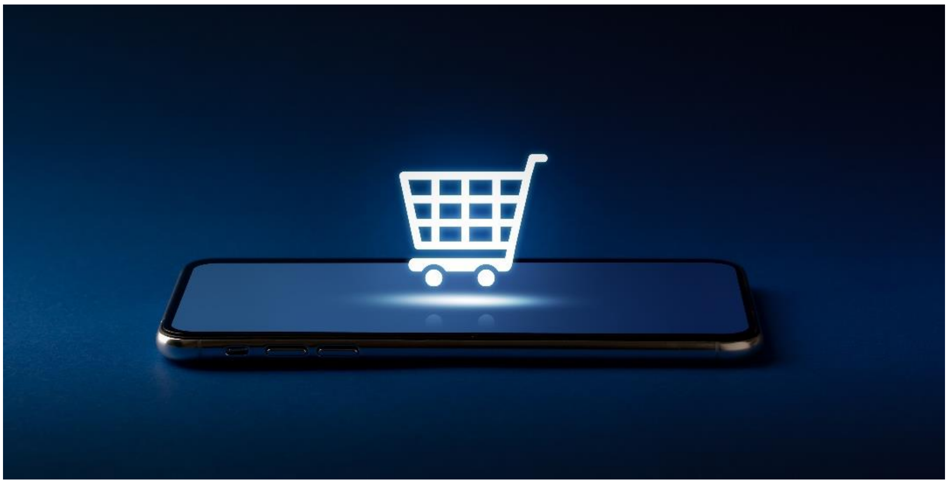
China Retail & E-commerce Weekly Update



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I. Sector Review

General Retail

GOME Retail, SZ Capital and Eternal Asia join forces to build a global supply chain sharing centre

On 22 July, GOME Retail announced that it has signed a strategic cooperation agreement with Shenzhen Investment Holding Capital (SZ Capital) and Eternal Asia. According to the agreement, the three parties will leverage their respective strengths and resources to cooperate in various fields, including establishing a global commodity supply chain sharing centre, setting up an all-channel traffic sharing retail platform, building a global smart manufacturing hub centred around the Greater Bay Area, opening up various ecosystems (such as establishing a shared low-cost and high-efficiency logistics service ecosystem), and setting up investment funds to invest in consumption sectors. The announcement stated that SZ Capital and Eternal Asia may invest in multiple projects by GOME Retail, including GOME's online platform 'FUN'.[1]

Japan's Kintetsu Department Store to open two duty-free shops in Hainan

Japanese department store operator Kintetsu Department Store Group recently announced that it will open its first overseas duty-free store in Sanya, Hainan this September, with a second store in Haikou City to follow. At the moment the planned shop name is 'Kintetsu Department Store Japanese Boutique'. It will sell beauty and specialty products from Japanese brands that are highly popular among Chinese consumers. Annual sales are expected to reach 200 million to 300 million yen, or between 11.6 million and 17.4 million yuan.[2]

Internet & E-commerce

Alibaba releases 2021 annual report: 1.13 billion global annual active consumers

Alibaba released its 2021 annual report on 27 July. According to the report, Alibaba's global annual active consumers reached 1.13 billion in the 2021 fiscal year. Domestic and overseas consumers have contributed a combined gross merchandise volume (GMV) of 8.119 trillion yuan on its platforms. Furthermore, the annual average GMV per consumer on its China retail marketplaces exceeded 9,200 yuan (US$1,404) in the past fiscal year.[3]

Tmall International announces new initiatives for merchants, including withdrawal of consumer protection deposits

On 29 July, Tmall International launched three new merchant initiatives, including allowing withdrawal of consumer protection deposits, providing a fast track for new merchants, and setting up a service centre for new merchants. These services will enable overseas brands to enter the Chinese market at lower costs and higher efficiency. In particular, the consumer protection deposit is a one-off fee that businesses must pay upon joining the e-commerce platform. This will be used to compensate the consumer in the case of merchant violations and will ensure an adequate after-sales experience. Tmall International is now allowing its merchants to apply for temporary deposit withdrawal, with a maximum amount of 50%, which can be used for marketing, logistics and other costs. The set-up time for new merchants will also be reduced from 30 days to 15 days.[4]

Trip.com Group and Funai Consulting Inc. form partnership

Trip.com Group and Funai Consulting Inc. have recently formed a business alliance to establish a long-term partnership. Trip.com Group officially launched its cross-border e-commerce business in 2020 to make up for the pandemic-induced stagnation of the inbound travel industry. The cross-border e-commerce platform of Trip.com provides integrated services for product launch, payment and settlement, and cross-border logistics. According to the cooperation agreement, Funai Consulting Inc., together with its existing business partner Clips, will work with Trips.com Group to promote cross-border e-commerce business to more Japanese customers and merchants, and leverage the Internet to make more Japanese products accessible to the Chinese market.[5]

Retail Logistics

Baozun E-commerce and Cainiao to further their strategic cooperation

Baozun E-commerce recently announced that, together with its wholly owned subsidiary Baotong Co., Ltd., they have signed with Cainiao a letter of intent regarding Cainiao’s equity investment in Baotong. They will cooperate with Cainiao to further develop e-commerce opportunities. After the completion of this investment, the company will leverage Cainiao’s national logistics experience and technology to greatly improve its cost structure and enrich its services. Baotong can also provide operations, technical management and consulting services for Cainiao’s wider customer base.[6]

Sports

Hongxing Erke sees a spending spree after donating 50 million yuan

Sports brand Hongxing Erke recently donated 50 million yuan worth of supplies in response to the severe flooding in Henan province. As the news spread, netizens flocked to support Hongxing Erke by making purchases through the brand's Taobao and Douyin e-commerce livestreams. Between 23 and 24 July, sales on the livestream channel of Hongxing Erke's Taobao flagship store exceeded 107 million yuan, with a total sales volume of 645,000 items and nearly 30 million livestream viewers. The company's chairman, Wu Rongzhao, rushed to the livestreaming studio to thank viewers while calling for rational spending. However, the spending spree continues – in one of Hongxing Erke's physical stores, a consumer paid 1,000 yuan for a 500-yuan item.[7]

Cosmetics

Pien Tze Huang invests 150 million to set up new cosmetics trading company

Fujian Pien Tze Huang Cosmetics Trading Co., Ltd. was formally established on 21 July with a registered capital of 150 million yuan. Its business scope includes cosmetics retail, cosmetics wholesale and Internet sales. Equity information shows that the company is indirectly controlled by Zhangzhou Pien Tze Huang Pharmaceutical Co., Ltd. Pien Tze Huang's share price closed at 360.98 yuan on 27 July, with a market capitalization of approximately 217.7 billion yuan.[8]

Luxury

Prada to launch shopping guide service in its WeChat mini program

Prada will launch a new shopping guide system in its WeChat mini program before 14 August. It is designed to provide a better service and shopping experience for consumers. Consumers only need to select the product they want to inquire about. After making an appointment, the shopping guide will provide an explanation of the selected product. The shopping guide cannot see the consumer during the process, which ensures user privacy.[9]

Catering

Dingdong Life opens breakfast shops

Dingdong Life has opened three breakfast shops called ‘Good Morning Dingdong’ in Pudong, Shanghai. The shops are still in the beta testing stages and have not yet been widely promoted. All three stores are located in the office park of Dingdong Life, taking advantage of nearby regular customers by focusing on white-collar workers in office buildings and the surrounding commercial district. However, since the business hours are 8:00-20:30, ‘Dingdong Good Morning’ is not just a breakfast shop, but a new format that not only offers breakfast, lunch and afternoon tea, but also sells flowers and other products, and more closely resembles a ‘fresh food convenience store’.[10]

II. Market Overview

China National Commercial Information Centre: Retail sales of 100 major retail enterprises increase by 22.5% yoy in 1H21

The China National Commercial Information Centre recently published their analysis of the consumer goods market in 1H21. According to their analysis, the retail sales of 100 major retail enterprises (who mainly operate department stores) increased by 22.5% yoy in 1H21. Retail sales of physical stores also showed rapid recovery during this period, reaching 161,641 billion yuan – an increase of 24.4% yoy and an increase of 2.7% from the same period in 2019. In 1H21, retail sales of supermarkets, convenience stores, department stores, specialty stores and mono-brand stores above designated size increased by 6.2% yoy, 17.4% yoy, 29.5% yoy, 24.6% yoy, and 32.4% yoy respectively.[11]

Sun Art Retail Group tops ‘2020 Top 100 Chinese Supermarkets’ list

On 29 July, the China Chain Store and Franchise Association released the ‘2020 Top 100 Chinese Supermarkets’ list. In 2020, sales of the top 100 Chinese supermarket chains totalled 968 billion yuan, an increase of 4.4% yoy and accounting for 5.5% of retail sales of fast-moving consumer goods. The top 100 supermarket chains operated a total of 31,000 supermarket stores, an increase of 7.4% yoy. Among them, Sun Art Retail Group ranked first, Yonghui Superstores ranked second, and China Resources Vanguard ranked third. Walmart, Wumart, Lianhua Supermarket, Jiajiayue, Carrefour, Better Life and Zhongbai rounded out the top 10.[12]

III. Policy Spotlight

Guangzhou's Huadu District signs cooperation agreement with JD.com and JD Technology

The government of Huadu District, Guangzhou recently signed a three-way strategic cooperation agreement with JD.com and JD Technology. According to this agreement, the three parties will jointly develop at least 1,000 mu (666,667 square metres) of land, with fixed asset investments of at least 100 billion yuan and annual revenue of at least 100 billion yuan. Prior to this agreement, in June 2019, JD.com had already chosen to establish its Greater Bay Area headquarter for e-commerce operations in Huadu. The total planned area for this headquarter project is about 622 mu (414,667 square metres), with a total investment of around 2 billion yuan. The headquarter project is expected to go into operation in 2023 and annual turnover is expected to exceed 35 billion yuan in full operation. So far, JD.com has registered 8 physical companies in Huadu and achieved 22.4 billion yuan in turnover in Huadu in 2020.[13]

Beijing encourages 'first stores' and product debuts with up to a million yuan in financial support

Recently, the Beijing Municipal Bureau of Commerce issued the 'Supplementary Notice on the 2021 Guidelines on Encouraging the Development of New Commercial Brand First Stores'. In addition to supporting brands opening 'first stores' in Beijing, it will also support the debut of new products. This includes providing financial support (i.e. venue and construction costs) for large-scale product debuts in Beijing by first stores, well-known local brands, commercial complexes, commercial operators, etc. on and after 1 January, 2021. The maximum amount of financial support is 50% of the total investment and capped at 1 million yuan.[14]

Supreme People's Court issues clarification: Misuse of facial recognition in shopping malls and other places of business infringes on rights

On 28 July, the Supreme People's Court issued the 'Regulations on Several Issues Concerning the Application of Laws in the Trial of Civil Cases Related to the Use of Facial Recognition Technology in Handling Personal Information'. The Regulations clarify that if hotels, shopping malls, banks, stations, airports, stadiums, entertainment venues and other places of business and public premises violate laws and administrative regulations in using facial recognition technology for facial verification, identification or analysis, the people's courts shall determine this to be an infringement upon the individual rights of a natural person.[15]

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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.

Listed entities of the Group include Global Brands Group Holding Limited (SEHK: 00787) and Convenience Retail Asia Limited (SEHK: 00831). Privately-held entities include Li & Fung Limited, LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

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