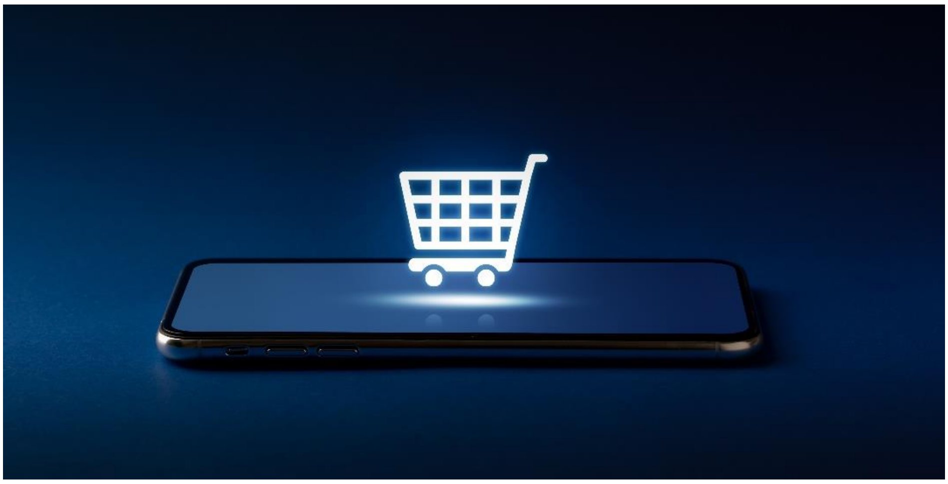
China Retail & E-commerce Weekly Update



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I. Sector Review

General Retail

Jiangsu State-owned Assets Supervision and Administration Commission invests in Suning.com

On 5 July, Suning.com announced that the State-owned Assets Supervision and Administration Commissions of Jiangsu Province and Nanjing City will lead the second phase of the Jiangsu New Retail Development Fund, with a scale of 8.83 billion yuan. Huatai Securities, Alibaba, Xiaomi, Haier, Midea, and TCL will be invited to invest, and the fund will acquire 16.96% equity of Suning.com. Suning.com's losses further expanded in 1H21. According to the performance forecast for 1H21 released by Suning.com on 5 July, the company expects a loss between 2.5 billion yuan and 3.2 billion yuan in the period, compared to a loss of 170 million yuan in the same period last year.[1]

Internet & E-commerce

ByteDance invests in Li Ziqi's contracted company Weinian

Hangzhou Weinian Brand Management Co., Ltd., the contracted company of KOL Li Ziqi, has undergone several registration changes. Beijing Quantum Jump Technology Co., a subsidiary of ByteDance, has been added as a shareholder with an equity share of 1.48335%. At the same time, the company's registered capital has increased from approximately 7,440,500 yuan to 7,174,700 yuan. Weinian develops new consumer brands through incubation of KOLs and deep integration with KOL networks. Their top influencer is Li Ziqi.[2]

Xianyu launches fashion channel targeting Gen-Z consumers

On 7 July, Xianyu officially launched the fashion channel 'Xianyu Chaoshe' and began recruiting 1,000 trend ambassadors worldwide. Young people born after 1995 account for over 35% of Xianyu's users and there are over 250,000 daily searches on the platform for 'AJ' and other trendy shoes. Popular in-platform communities such as Sneaker Trend Zone, Hupu Sneaker Circle, and Streetwear Brand (Chaopai) Club have up to 350,000, 650,000 and 1.58 million users respectively.[3]

Japanese secondhand luxury goods platform Reclo joins Kaola

Well-known Japanese secondhand luxury goods platform Reclo has recently joined cross-border e-commerce marketplace Kaola, bringing over 1,500 items from 19 brands. To ensure authenticity, the items sold via Kaola will be directly shipped from Japan after verification by a team of experienced Japanese appraisers. The items will be verified again when they enter China, and each package has its own track and trace code and anti-counterfeiting protections.[4]

Community group buying company Tongcheng Life declares bankruptcy

Tongcheng Life declared bankruptcy on 7 July. The day before, a group of suppliers protested against the company's default on payments due to a decline in business volume. On the same day (6 July), Tongcheng also announced their transformation from B2C to B2B business, renaming themselves 'Orange Life' in the process. The bankruptcy of Tongcheng is due mainly to supplier debts and leaves just five major players in the community group buying industry: Xingsheng Select, Orange Heart Select, Duo Duo Grocery, Meituan Select, and the Alibaba Group (MMC and Shihui Tuan).[5]

Li & Fung C2M partners with JD.com's private brand business

On 7 July, Li & Fung Group announced that its C2M business unit has signed a partnership agreement with JD.com's private brand business. This agreement signifies a deepening of their business relationship after JD.com made a strategic investment in Li & Fung last July. The two parties will focus on developing innovative C2M models and accelerating the joint building of digital supply chains. Li & Fung will provide end-to-end digital supply chain management services for JD.com's private brand initiatives, as their respective strengths will result in mutual benefits.[6]

Retail Logistics

CIMC Logistics and Thai-based RCL Group announce establishment of joint venture

CIMC Logistics and Thai shipping company RCL (Regional Container Lines) recently announced the establishment of a joint venture. CIMC stated that in the future, both parties will leverage the joint venture to build an end-to-end international logistics service platform. CIMC Logistics is a subsidiary of CIMC Group and a 5A-level integrated logistics enterprise. In 2020, the company's operating income exceeded 10 billion yuan for the first time, a year-on-year increase of 16.15%, making the CIMC Logistics the fourth business under CIMC Group to pass 10 billion yuan in revenue.[7]

Supermarkets & Hypermarkets

Freshippo completes external construction of its first self-built supply chain centre which will have central kitchen processing and temporary aquaculture capabilities

The external construction of Freshippo's first self-built supply chain centre, located in Wuhan, will be completed by the end of the month. Internal renovations are scheduled to be completed by the end of the year, and the centre will begin operating next year as one of the first components in Freshippo's nationwide supply chain. Self-built supply chain centres in Chengdu, Shanghai, Hangzhou, Xi'an and other locations are also under construction. Unlike other similar centres, Freshippo's will be equipped with added functions such as temporary aquaculture, fresh produce processing, and a central kitchen. These upgrades specifically target the brand-new business formats that Freshippo has been actively developing this year, such as fresh kitchen, 3R (ready to cook, ready to heat, ready to eat), and fresh flowers.[8]

Freshippo joins community e-commerce with launch of Freshippo Neighbourhood

On 7 July, Alibaba's Freshippo launched a new community e-commerce project called 'Freshippo Neighbourhood', with the internal codename 'NB Project'. Through this model, users can place their grocery orders a day in advance through the Freshippo app and select the nearest self-pickup store, with pickup available from 8 am the following day. There will be over 20,000 products available.[9]

Furniture

Red Star Macalline reaches strategic cooperation agreement with Easyhome

Red Star Macalline and Easyhome signed a strategic cooperation agreement in Beijing on 3 July. The two parties have agreed to the following: maintaining fair competition in the home furnishing market nationwide and ending unfair competition behaviour such as 'picking one from two'; sharing of supply chain brand resources; joint maintenance of industry order with respect to marketing practices, opposing below-cost dumping behaviour; and joint promotion of digital transformation and upgrading of the industry.[10]

Luxury

Italian luxury brand Max Mara launches on Tmall luxury platform

On 2 July, Italian luxury womenswear brand Max Mara officially launched on the Tmall luxury platform with its first official flagship store in China. The store will stock a range of apparel, handbags, leather goods, shoes, and accessories, including classic styles and new collections. Max Mara was founded by Achille Maramotti in 1951 and is one of the high-end luxury brands under Max Mara Fashion Group.[11]

Pomellato joins Tmall to attract younger Chinese consumers

Italian high-end jewellery brand Pomellato has recently officially launched on Tmall. It has opened a flagship store where they will sell a full range of products, aiming to gain a larger share of the Chinese market and attract more young consumers. Tmall's head of fashion and luxury goods in the European and American divisions said that high-end jewellery is showing solid growth in China. Consumers want to invest in durable, unique and valuable items, and Pomellato is highly compatible with this demand.[12]

II. Market Overview

2021 Online Product Debut Consumption Trend Report: Consumers born in the 90s are driving consumption of online new products

Recently, CBNData and Tmall jointly published the '2021 Online Product Debut Consumption Trend Report'. The report points out that currently over 60% of brands choose to launch new products online, and most of them choose the Tmall platform to do so. With the support of Tmall Innovation Center (TMIC) and Tmall Little Black Box, 60% of new products launched on Tmall have become best-sellers. Consumer groups born after 1990 and 1995 have gradually become the main consumers of online new products and their sales per customer have also increased rapidly, showing great consumption potential. In addition, in the 'new product city rankings', Shanghai was ranked first in both the new product consumption and new domestic product innovation lists.[13]

WTO report: Global B2C cross-border e-commerce trade to reach US$4.8 trillion in 2026

According to a report published by the WTO, global goods trade fell by 5.3% yoy in 2020 while the global B2C cross-border e-commerce trade expanded. The report forecasts global B2C cross-border e-commerce to rise from US$780 billion in 2019 to US$4.8 trillion in 2026, reaching a compound annual growth rate of 27%. China is currently the world's largest B2C cross-border e-commerce market, with 26% of global transactions. The US, the UK, Germany, and Japan rank second to fifth respectively. Among the top 10 B2C cross-border e-commerce platforms worldwide, three Chinese platforms, including Alibaba, have taken the first, third and seventh positions.[14]

III. Policy Spotlight

14th FYP for Circular Economy Development: Encourage the development of the 'Internet + second-hand' model

On 7 July, the National Development and Reform Commission and other government departments jointly published the notice on the '14th FYP for Circular Economy Development', which proposes the regulation of the second-hand goods market. The government will improve market regulations as well as standards for the authentication, appraisal and grading of specific second-hand items such as car, home electronics, and mobile phones, in order to regulate the circulation and transaction of second-hand goods. The government will also promote the establishment and operation of well-regulated offline physical second-hand markets and centralized flea markets.[15]

Cyberspace Administration of China asks app stores to remove Didi app

On 4 July, the Cyberspace Administration of China (CAC) issued a notice stating that after inspection and verification, the Didi App has 'serious violations of laws and regulations pertaining to the collection and use of personal information'. In accordance with the relevant provisions of the 'Cybersecurity Law', the CAC notified app stores to remove the app and demanded that Didi Chuxing Technology Co. thoroughly rectify the existing problems in strict accordance with the requirements of the law and national standards, in order to effectively protect the personal information security of their many users.[16]

Cosmetic industry sees stricter regulation as Sephora is fined 800,000 yuan in 2 months

According to a notice on the website of Shanghai Municipal Administration for Market Regulation, Sephora Shanghai was fined 400,000 yuan due to false or misleading commercial publicity. The company had already been fined 400,000 yuan on 21 May for the same issue. Both this case and Estee Lauder's recent fines were filed for investigation as early as 2018, though the verdict was only announced this year. It is clear that these fines are intended to send a signal that the new rules will be strictly enforced, ushering in a new era of strict industry regulation.[17]

Guangdong strengthens regulation of community group purchases, including 'picking one from two', 'big data targeting' and other tactics

The Guangdong Provincial Administration for Market Regulation has recently responded to suggestions regarding the supervision of new Internet-based business models. They will emphasize the enforcement of competition law, focusing on strengthening the law enforcement on large-scale platform sales tactics such as 'picking one from two', 'big data targeting', and 'blocking competitors'. Community group buying and other sectors will be investigated and punished in accordance with the law for using capital advantages to force out competitors through price competition and seizing market share. Other activities such as price labelling, promotions, and price fraud will also be regulated.[18]

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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.

For more information, please visit www.funggroup.com.