

China's Department Stores Report **2020-2021**

March 2021





Preface

Fung Business Intelligence and China Commerce Association for General Merchandise (“CCAGM”) are pleased to present the China’s Department Stores Report 2020-2021.

2020 was a particularly difficult year for retailers. Currently there are an estimated 8000 department stores across the country, and the pandemic saw around 150 store closures over the past year. In terms of performance, revenue and profits of the sector generally fell sharply, but over 70% of department stores still managed to record positive net profits for the year.

Over the past year, the Chinese government and local authorities have unveiled a series of policies and measures to help promote consumption and revitalize the consumer market in the wake of the pandemic. Supported by these government efforts and a rapid containment of the coronavirus, retail sales picked up gradually, especially during the National Holiday period last October and the recent Chinese New Year holiday period in 2021.

According to a survey conducted by CCAGM, over 60% of department stores saw increased sales during the 2021 Chinese New Year holiday period compared to 2019. Furthermore, consumers are steadily upgrading their consumption. Demand for higher value and premium products such as cosmetics, jewelry, and smart home appliances has increased.

The pandemic has further accelerated the sector’s digitalization and omnichannel transformation. Livestreaming in particular has gained further traction and proven to be an effective channel for department store operators to engage with consumers and drive both in-store and online sales.

China’s Department Stores Report 2020-2021 collected and analyzed data from 82 department store operators. The report analyzes development trends across the sector in the past year, discusses major issues and challenges faced by the sector, and offers some recommendations to further promote the healthy development of the industry. We would like to thank all department store operators who have participated in our survey.

Note: This is an abridged version of the China’s Department Stores Report 2020-2021 which was originally prepared in Chinese. The full version of the original report is available in simplified Chinese on Fung Business Intelligence’s website

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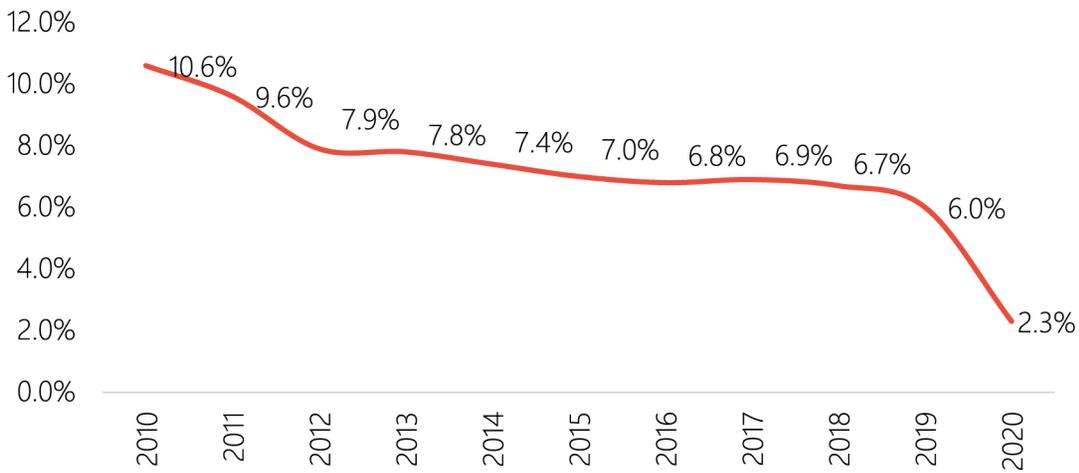
A woman with dark hair, wearing a white surgical-style face mask and a light-colored long-sleeved shirt with dark stripes on the sleeves, is looking at a rack of clothes in a retail store. The background is a blurred interior of a store with wooden pillars and bright lighting. The text 'I. Overview of China's retail market development' is overlaid in white on the left side of the image.

I. Overview of China's retail market development

1. China is the only major economy to report economic growth in 2020

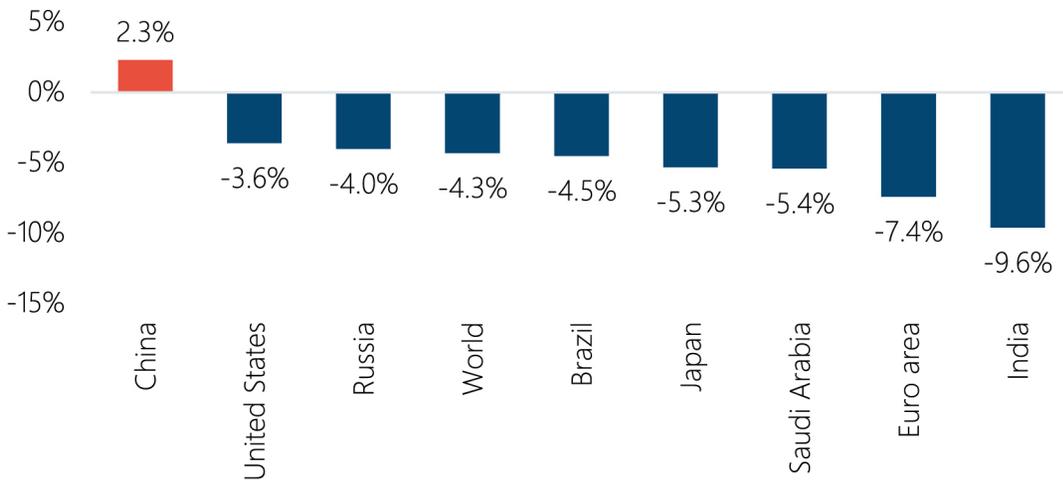
China's economy contracted 6.8% year-on-year in the first quarter of 2020, as COVID-19 shut down factories and shopping malls. As work and production gradually resumed, the economy grew by 3.2% year-on-year in the second quarter and the growth rate picked up speed in the third and fourth quarters. Overall, China's GDP expanded by 2.3% year-on-year in 2020 (Exhibit 1-1), exceeding the 100-trillion-yuan threshold for the first time. According to the World Bank, China is the only major economy to report economic growth in 2020 (Exhibit 1-2).

Exhibit 1-1. China's economic growth from 2010 to 2020



Source: National Bureau of Statistics of the PRC; compiled by CCAGM

Exhibit 1-2. Real GDP growth rate of the world's major economies in 2020



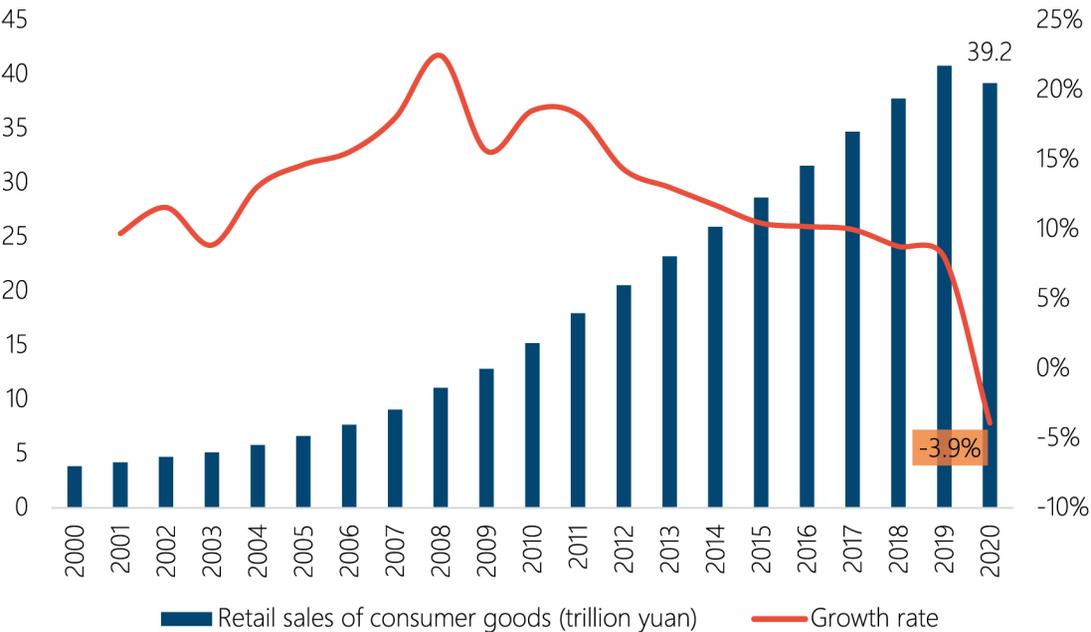
Source: Global Economic Prospects released by the World Bank in January 2021

2. Retail sales of consumer goods declined amid pandemic; consumption shows notable recovery in the second half of 2020

Data from the National Bureau of Statistics shows China’s total retail sales of consumer goods (which includes the retail sales of physical goods and catering services) dropped 3.9% year-on-year to 39.20 trillion yuan in 2020 (Exhibit 1-3). Among them, the retail sales of physical goods dipped 2.3% year-on-year to 35.25 trillion yuan.

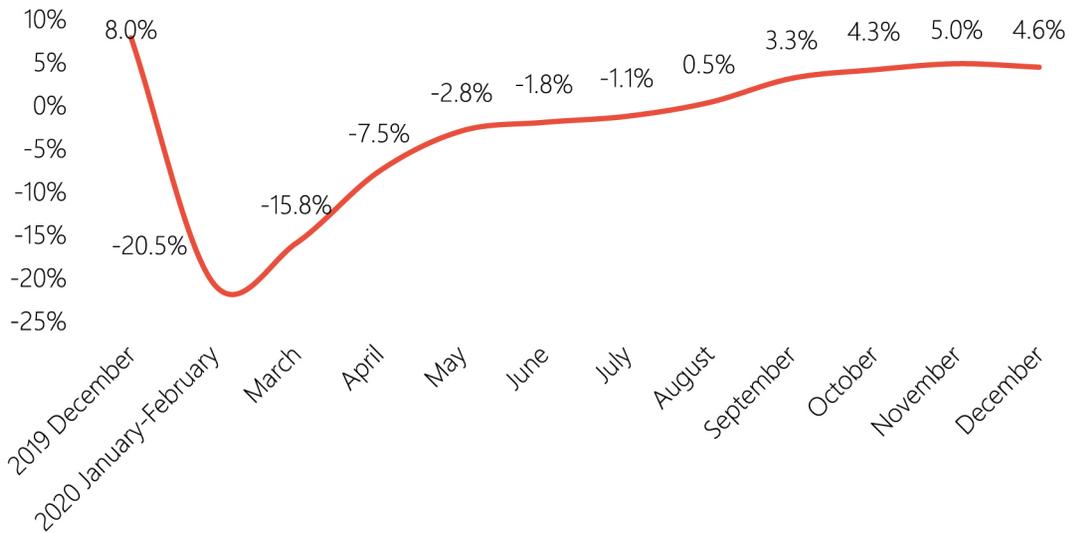
Due to the temporary shutdown of all non-essential shops – including department stores, shopping malls and outlet shops – in early 2020, the retail sales of consumer goods recorded a year-on-year decrease of 11.4% in the first half of 2020. In response, the central government and local authorities enacted a series of policies and measures to help promote consumption and revitalize the consumer market. Supported by these government efforts and a rapid containment of the coronavirus, retail sales picked up gradually. In August, retail sales of consumer goods totaled 3.36 trillion yuan, up 0.5% compared to the same period in 2019 (Exhibit 1-4), marking the first positive year-on-year growth since 2020 began.

Exhibit 1-3. China’s retail sales of consumer goods from 2000 to 2020



Source: National Bureau of Statistics of the PRC; compiled by CCAGM

Exhibit 1-4. Monthly growth rate of the total retail sales of consumer goods in 2020



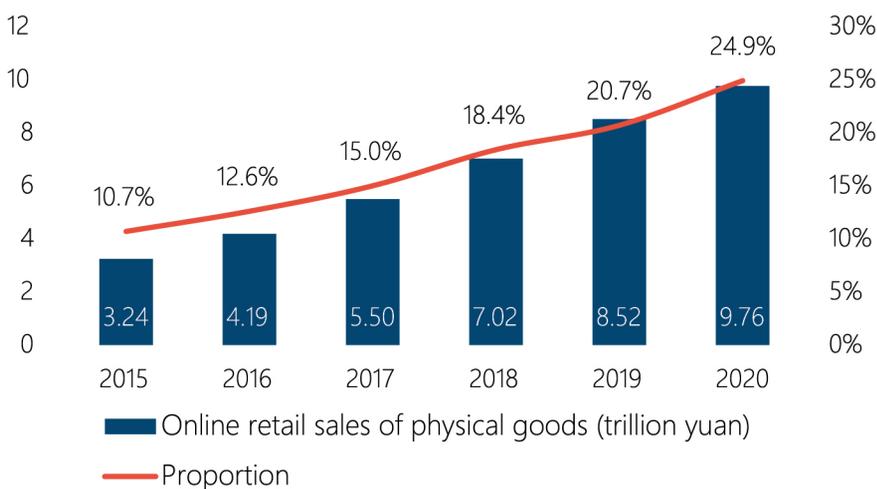
Source: National Bureau of Statistics of the PRC; compiled by CCAGM

3. Increasing diversion of sales to online channels further boosts the proportion of online retail sales

The COVID-19 outbreak has further accelerated the shift from offline to online shopping. In 2020, China's online retail sales of physical goods accounted for 24.9% of total retail sales of consumer goods, compared with 10.7% in 2015 (Exhibit 1-5). It is noteworthy that, as a result of the pandemic, this proportion jumped by 4.2 percentage points from 20.7% in 2019 to 24.9% in 2020, compared with the average annual increase of 2.5 percentage points in the past several years.

Reports indicate that since 2013, China has been the largest e-commerce market for eight consecutive years.

Exhibit 1-5. Online retail sales of physical goods and its proportion in the total retail sales of consumer goods from 2015 to 2020

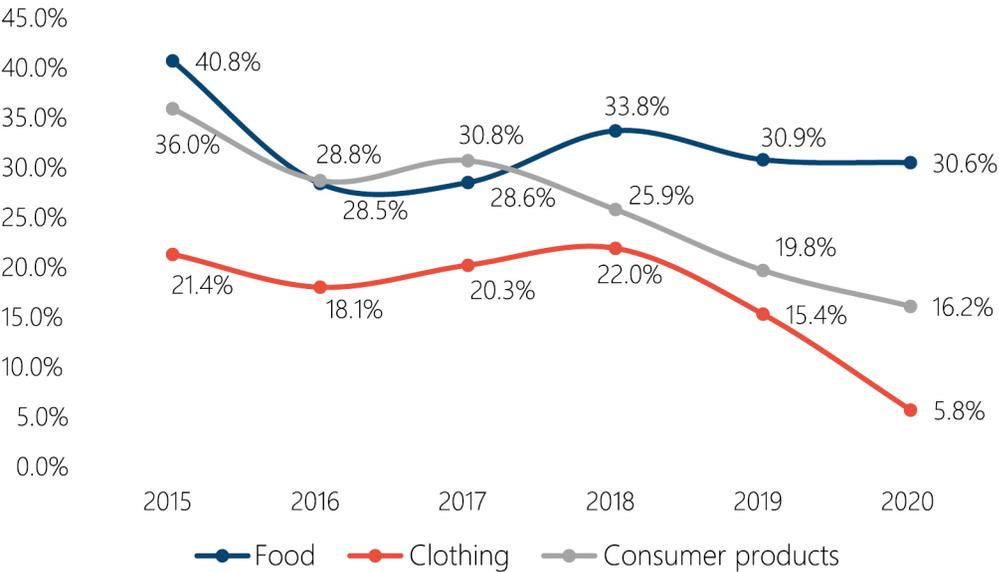


Source: National Bureau of Statistics of the PRC; compiled by CCAGM

For some product categories, the ratio of online retail sales to total retail sales is much higher than the average of 24.9%. For example, the online retail sales of household and electrical appliances make up over half of total retail sales. Key offline products such as food and beverages, cosmetics and personal care items, and apparel also have a high online penetration rate. In particular, the growth rate for online retail sales of food products has surpassed 30% for six consecutive years (Exhibit 1-6) – this is also a key challenge that large supermarkets are facing.

The pandemic has even increased the presence of online sales in the luxury market. According to the 19th edition of the Bain & Company Luxury Study, a report jointly released by Bain & Company and Fondazione Altagamma, the Italian luxury goods manufacturers’ industry foundation, global online sales of luxury goods reached 49 billion euros in 2020, up significantly from 33 billion euros in 2019. The report predicts that e-commerce will become the leading channel for luxury purchases by 2025, further driving omni-channel transformation.

Exhibit 1-6: Year-on-year growth rate of online retail sales of food, clothing and consumer goods



Source: National Bureau of Statistics of the PRC; compiled by CCAGM

Additionally, online retail spending in urban areas is generally higher than in rural areas. People in first- and second-tier cities tend to spend more compared to their counterparts in third- and fourth-tier cities, as illustrated by Tmall’s annual Singles’ Day e-commerce data – the top-spending cities largely belong to the higher tiers. Since most large-scale offline department stores are located in first- and second-tier cities, their business have been noticeably affected by the rise of e-commerce platforms.

4. Quality spending increases; higher proportion of entertainment spending

Domestic consumption remains a key priority for China. With the ongoing trends of urbanization and a rising middle class, Chinese consumers are becoming wealthier and there is an increasing demand for higher quality and more advanced products and services.

During the Chinese New Year period in 2021, key retail businesses monitored by the Ministry of Commerce saw dramatic growth across product categories. Sales of jewelry, apparel, communication equipment and home electronics increased 160.8%, 107.1%, 39% and 29.9% year-on-year, respectively. Some e-commerce platforms saw a 49% year-on-year increase in fitness equipment sales.

In terms of entertainment, renovated or newly constructed department stores have been adding cultural and entertainment activities to their locations in recent years. In addition to dining establishments, they have introduced facilities for children's entertainment, electronics and digital goods shops, cinemas, bookstores, KTV (karaoke), indoor basketball courts, etc. These facilities attract a high volume of visitors, especially during holidays.



II. Key Trends of the Department Store Sector

1. High-end department stores and luxury products continue to stand out

Despite the pandemic and lockdown restrictions, 2020 saw some impressive sales numbers for a number of high-end department store and mall operators. SKP (Shin Kong Place) in Beijing, known as the “king of department stores” in China, recorded 17.7 billion yuan in sales revenue in 2020, maintaining its double-digit sales growth. Meanwhile, retail sales of Plaza 66, a luxury shopping mall in Shanghai, surged 60% compared to the previous year. Particularly noteworthy is that its retail sales surged 60% compared to the previous year. These businesses share some key characteristics: they sell a relatively high proportion of luxury goods, and their prime-location stores are well-known shopping destinations, attracting consumers from surrounding areas as well as nearby cities. The sales performance of these businesses has improved significantly over the past year, benefiting from the rise in domestic luxury consumption, as Chinese consumers have put overseas shopping on hold and turned to domestic shopping.

In recent years, some major changes in the department store industry, such as store upgrades, effective omni-channel marketing, and improved relationships with brand owners, have further enabled businesses to attract more high-end brands. In light of these developments, the department store industry will become a better sales channel for luxury goods, and we expect that luxury-focused department stores and shopping malls have further potential for growth as domestic demand remains strong.

2. The digitalization process has further accelerated

For many businesses, the sudden COVID-19 outbreak in early 2020 greatly accelerated the digitalization process, and online operations continued to grow after the height of the pandemic. The number of department stores developing an online business, resources invested into digitalization, live-streaming e-commerce, and the provision of on-demand delivery services have all increased at an accelerating rate.

Our survey shows that 89% of respondents have already established their e-commerce business (Exhibit 2-1), compared to 71.4% from last year’s survey. Among them, around 94.4% have been selling via WeChat Mini Programs or WeChat Stores (Exhibit 2-2). Department stores have also been building their online sales through livestreaming (75%), providing group purchase services (31.9%), and offering on-demand delivery services (30.6%).

Among companies that have already established their e-commerce business, around 66.2% of the respondents said online retail sales have grown over the past year (Exhibit 2-3). Meanwhile, our survey found that companies that have performed exceptionally well over the past year are those who already have a solid digital foundation.

Exhibit 2-1. Penetration of e-commerce business among surveyed department stores

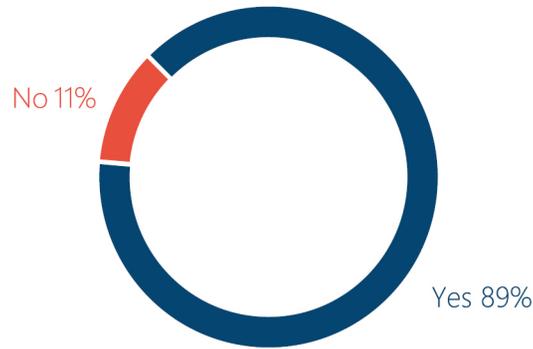


Exhibit 2-2. Forms of e-commerce business adopted by surveyed department stores

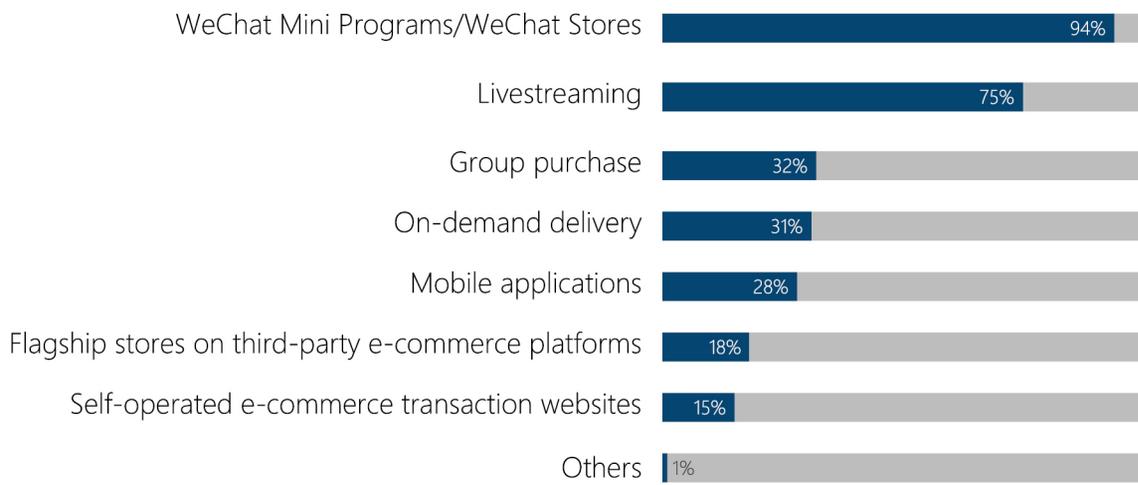
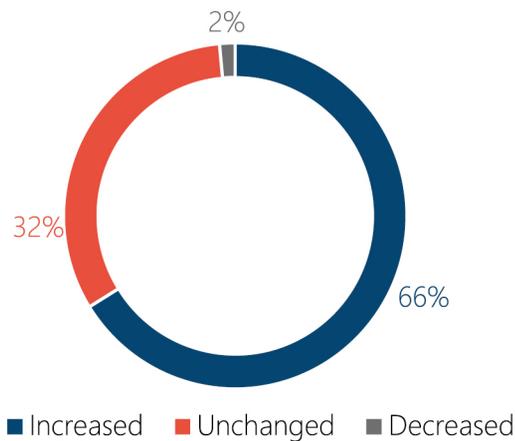


Exhibit 2-3. Sales performance of e-commerce business among surveyed department stores



Source: "China department store survey 2020-2021" by CCAGM and FBIC

3. Cosmetics become a key product category for department stores

Cosmetics consumption has been significantly upgraded over the past two years, with a considerable increase in demand for mid-to-high-end cosmetics. Young consumers aged 16-25 in particular are becoming more interested in high-end brands and premium products.

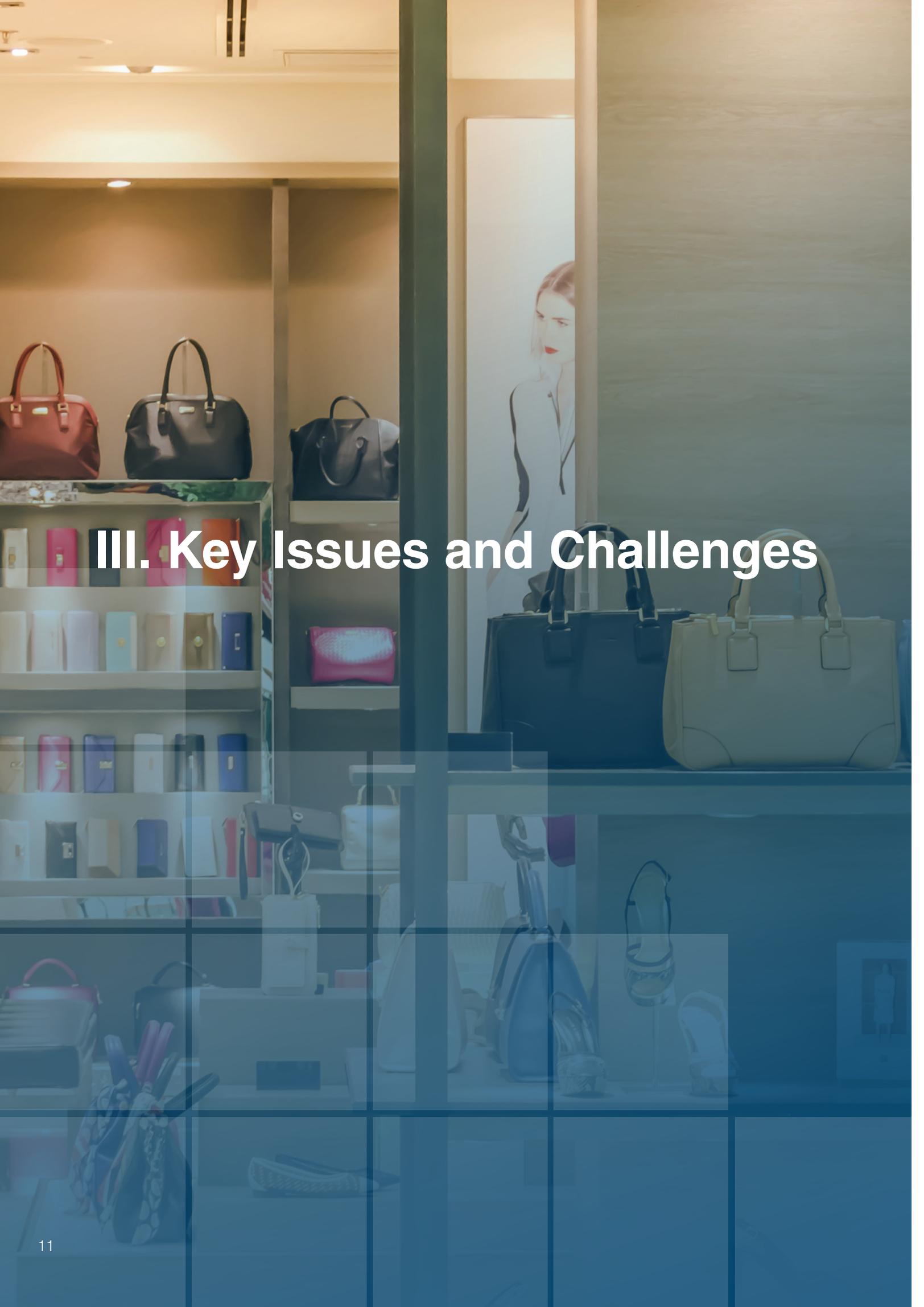
Cosmetics are an important product category for department stores as the brands they carry often reflect the taste and trendiness of a store. As such, strengthening the cosmetics section in a department store can help attract fashion-conscious consumers.

Wangfujing's 2020 interim report shows that cosmetics has become its largest product category, accounting for 23% of its total sales in the first half of 2020. Meanwhile, "Beauty World" at Beijing's SKP has become a brand-dominated high-end cosmetics department. Even among third- and fourth-tier department stores, cosmetics are increasingly becoming a core product category.

4. Leveraging private traffic to cultivate members

According to the "2020 Retail Industry Membership Management Report" released by CCAGM, 80% of the surveyed retail enterprises responded that "owning a large group of active members" is their core competitiveness.

Traditionally, brands and retailers have worked with major ecommerce platforms to interact with consumers online. However, the conversion rate of public domain traffic is much lower than that of private traffic. With the rise of social commerce in China, department store operators are increasingly using social media channels to build private traffic, which allows direct interaction with consumers. Customers who actively follow the retailer's social media accounts, join private groups, etc., are more willing to associate and interact with the retailer. However, this model requires businesses to consistently deliver quality content in order to stand out in the eyes of existing and potential customers.



III. Key Issues and Challenges

1. Impact of COVID-19

2020 has been a tough year for retail. Business operations, including the department store industry, were severely disrupted by lockdown and quarantine restrictions. Over the first three quarters of 2020, only three out of 42 A-share listed companies that operate department stores achieved positive year-on-year growth in revenue, while the rest experienced significant declines in revenue. (As of the publication date of this report, the full-year results of some businesses have yet to be released. However, we expect that most department stores will report a year-on-year decline in revenue.)

Consumption gradually recovered in the second half of 2020, as seen during the Golden Week period between October 1 and October 8, 2020. Key national retail and catering enterprises reported total sales of approximately 1.6 trillion yuan over this period, with a 4.9% increase in average daily sales compared to the previous year, according to data published by the Ministry of Commerce.

2. The ever increasing need to enhance product appeal and product competitiveness

Product appeal and product competitiveness are representative of a retail enterprise's operating capabilities. These strengths are at the core of top-performing department stores such as Beijing SKP, Hanguang, and Hangzhou Tower. Overall, however, most of our surveyed department stores are lacking in product appeal and competitiveness, offering widely homogeneous products at unattractive prices. Factors contributing to the problem include brand image and brand positioning, product mix, management practices, relationships with brand owners, and price levels.

The traditional concession model still dominates the operation of department stores. Too many intermediaries along the supply chain also lead to successive cost increases that are ultimately reflected in retail prices. As a result, most department stores fail to attract consumers and are outcompeted by e-commerce platforms. In contrast, high-performing department stores are introducing differentiated products, expanding direct-purchasing and self-operating business, and offering the same prices online and offline.

3. Urgent need for transformations and upgrades

Traditional department stores are often positioned in prime locations, giving them an advantage over their competitors in the past. However, the continuous rise of e-commerce over the past decade, including the rise of self-operated online channels and livestreaming e-commerce, has spawned new retail models. Meanwhile, accelerated commercial real estate development has led to an influx of new shopping malls, further intensifying competition in China's retail sector. Furthermore, the proliferation of car ownership has widened many consumers' shopping radius, and thus the advantage of a centrally located storefront is quickly disappearing. As such, department stores are due for a massive revamp of their geography-dependent business models, making transformation and upgrading a top priority.

The intensive transformation and upgrading of department stores have continued over the past two years. One trend that has gained traction in recent years is the transition from traditional shopping malls to community-based shopping centers. Through these changes, shopping malls hope to align themselves more closely with the consumption needs of local residents and improve the quality of their services. The new shopping centers aim to provide diversified one-stop services including shopping, catering, entertainment, leisure activities, early childhood education and community interaction. By extending the living space of community residents and meeting high-quality, multi-level consumer demand, department stores hope to regain lost customers.

Transformation and upgrading, however, are not without risks. These processes involve product repositioning, business optimization, renovation and reconstruction, functional facility optimization, crossover operation, etc.; software upgrades are also required to match the hardware improvements.

4. Obstacles to digitalization

Despite the accelerated digitalization and development of online business across the department store industry over the past year, the level of digitalization of the industry as a whole remains in its infancy. There are numerous obstacles to digitalization, a few of the key ones are as follows:

- **Organizational limitations:** The determination to digitalize at the management level is a make-or-break factor. If the management lacks sufficient knowledge and support, digitalization efforts and success will be limited. Furthermore, the digital transformation process often affects certain individuals with vested interests within the business, making them likely to hinder the process.
- **Too many existing systems within a business:** This creates significant difficulties (in terms of time and economic costs) when merging different systems.
- **Difficulty in measuring outcomes:** The effects of digitalization may not be immediately reflected in sales and performance, but rather through the improvement of soft criteria such as better shopping experiences and closer connections with consumers. Although these improvements will be reflected in the data over time, decision-makers are often concerned with the lack of tangible and measurable outcomes.

- **Lack of talent:** As consumption trends are increasingly shaped by young people, companies require employees that understand young consumer groups and can utilize modern marketing strategies to connect with them. These employees must stay up-to-date on new technologies and implementation methods, in order to efficiently meet operational requirements. Yet the retail industry is lacking in such talent, and the current organizational structures – including performance appraisal and reward systems – of many businesses are ill-suited for facilitating digital transformation and development.

5. Challenges in developing direct sales business

Direct sales business is an important strategic direction for the development of department stores. However, as of today, the scale of department stores' direct sales business remains small – more than half of the surveyed department store operators stated that the proportion of direct sales business to their whole business was less than 10%.

As shown in Table 3.1, surveyed department store operators cited “substantial amount of working capital required” and “difficulty in training a professional buying team” as the two major challenges of developing direct sales business.

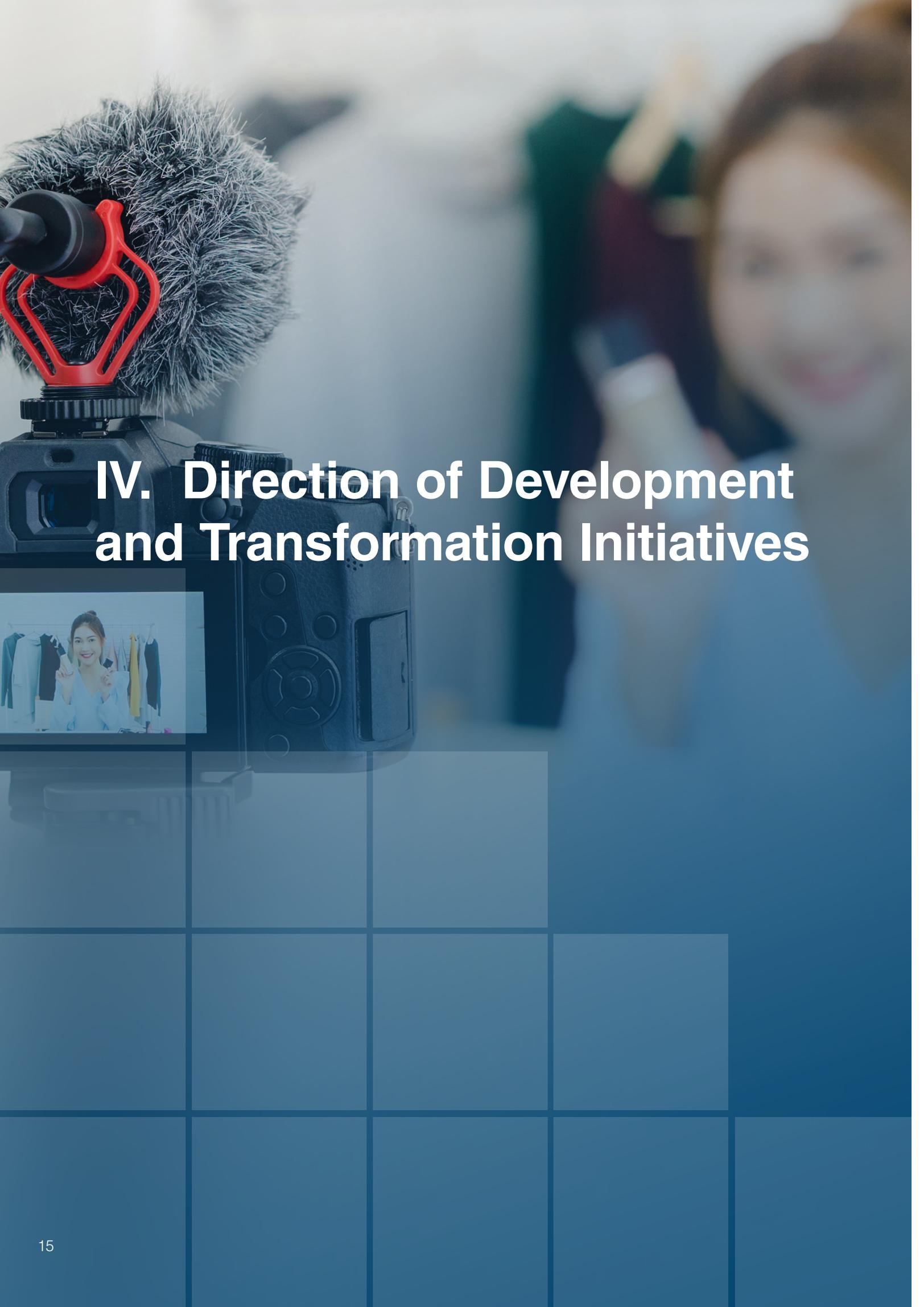
Unlike the concession model, department store operators usually need to be responsible for the entire process of their direct sales business, from sourcing to sampling and inventory, which requires a substantial amount of working capital. However, the income and cashflow of many department stores has plummeted over the past year. As a result, lack of working capital is cited as the biggest obstacle to developing their direct sales business. On the other hand, the dominance of the concession model in the department store industry has led to a lack of professional buyer talent, forming another major obstacle to developing direct sales business.

Under the direct sales model, department stores cannot return the goods to manufacturers when they are not selling well. Therefore, department stores must have a team of professional buyers who have good taste and sufficient knowledge of the market and consumers to ensure success. Traditional shoppers usually cannot meet these requirements, and training professional buyers takes time.

Table 3-1. Major challenges encountered by surveyed department stores when developing direct sales business

Rank	Challenges
1	Requires a substantial amount of working capital
2	Difficulty in training a professional buying team
3	Hard to find suitable suppliers and brands to work with
4	Hard to grasp consumer needs
5	Lack of management expertise
6	Hard to retain professional buyer talents
7	Internal organizational problems

Source: “China department store survey 2020-2021” by CCAGM and FBIC

A professional video camera with a large, fluffy microphone is the central focus. The camera is black with a red microphone mount. In the background, a woman with long brown hair is smiling and looking towards the camera. The scene is set in a brightly lit room, possibly a clothing store, with a rack of clothes visible. The overall image has a blue overlay and a grid pattern at the bottom.

IV. Direction of Development and Transformation Initiatives

1. Department stores continue to revamp and upgrade to improve in-store customer experience

The department store industry was hit hard by COVID-19 in 2020. At the peak of the pandemic in early 2020, many physical stores had to shut their doors temporarily. Though stores reopened soon after new cases dropped sharply and restrictions started to lift in March, sales at offline outlets remained lackluster as consumer desire to go out and spend was far from robust.

Amidst a dearth of walk-in customers, the number of newly opened department stores decreased significantly. More department store operators chose to reinvent and upgrade their current stores rather than open new ones. According to incomplete statistics by Winshang Data, in 2020 there were 37 transformation and upgrading projects in China's department store industry that covered over four million square meters, almost double that of 2018.

The major goal of transformation and upgrading is to better meet consumers' needs and stay competitive. Thus, when making a transformation plan, it is important for department store operators to focus on target customers and identify what they really value. Many department store operators are adding more in-store experiential elements such as art and culture exhibitions and creating compelling content and entertainment to lure customers. Department stores have also begun renovation projects and infrastructure upgrades. Through creating a new image and stronger visual impact, they aim to attract more consumers.

Table 4-1. Examples of transformation and upgrading projects of department stores in 2020

Department store operator	Transformation and upgrading project
Wangfujing Group	<ul style="list-style-type: none"> The 118-year-old Beijing Dong'an Market on Wangfujing Street has been closed temporarily for upgrading. The department store is expected to re-open in October 2021. After the renovation, the Dong'an Market will transform into a "fashion themed district", offering items selected by its buyer team.
Rainbow Digital Commercial Co Ltd	<ul style="list-style-type: none"> According to the interim results of Rainbow, many of its department stores have been actively transforming and upgrading in the first half of 2020 – in particular, its Nanchang Zhongshan location has signed deals with several international premium skincare brands. Some of its shopping malls will set up themed areas, and more experiential shopping elements will be offered after the renovation. Rainbow will also expand pedestrian shopping zones to improve the customer experience.
Yuyuan Tourist Mart	<ul style="list-style-type: none"> Located in Tianyu Tower in Shanghai's iconic Yu Garden, Yuyuan Department Store reopened in October 2020 after the transformation and upgrading – other locations will soon follow. This newly renovated store now gathers popular domestic brands such as Pop Mart and collaborates with well-known IPs to hold various marketing campaigns and events. Through its transformation, Yuyuan aims to attract younger consumers and provide an economic boost to the surrounding business district, thereby strengthening its brand.
Beijing Cuiwei Tower Co Ltd	<ul style="list-style-type: none"> From 2019 to 2022, the group will complete the transformation and upgrading of its three department stores: Cuiwei Department Store, Modern Plaza (Zhongguancun) and Modern Plaza (Dingcheng). The group is gradually shifting towards new business models and focusing on two major areas: fashion and community.

Source: Internet; compiled by CCAGM

In addition to the transformation and upgrading of the department stores themselves, some property developers and e-commerce platforms have marched into the industry by taking over old commercial projects.

For example, Wanda Group transformed Beijing Fun Capital Outlets Shopping Mall into Beijing Changping Wanda Plaza, which officially opened in December 2020. Wangfujing Walk, also in Beijing, began official operations on August 8, 2020, following a huge renovation where China Vanke transformed a rugged road plagued by sewage into a beautiful pedestrian zone with well-designed shopping booths and a music fountain. Moreover, discount e-commerce retailer Vipshop opened a city outlet in Hefei, Anhui province, in December last year. The outlet was formerly known as AHCOF International Trade Center but has since been transformed into an experiential outlet location.

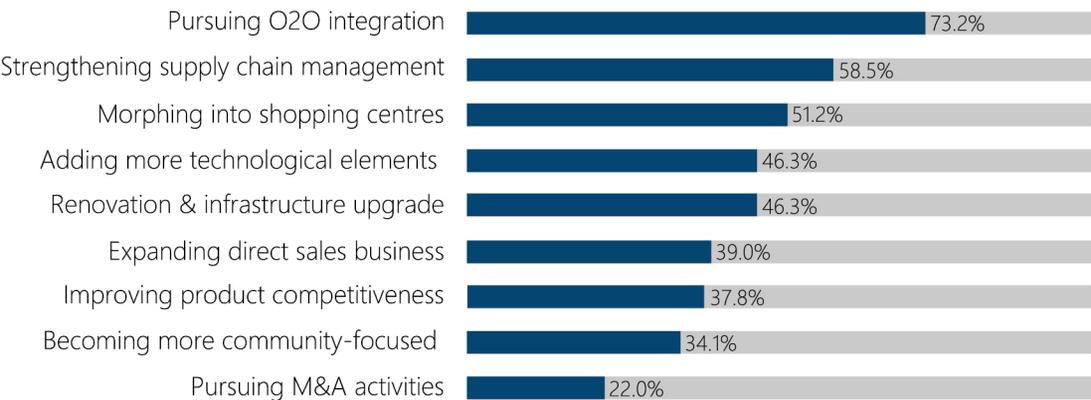
Moving forward, with more and more successful cases, an increasing number of department stores will develop plans on transformation and upgrading, which will further promote overall industry upgrading.

2. Omni-channel retailing / online to-offline (O2O) integration will continue to dominate the retail scene

The integration of online and offline channels has become an indisputable mainstream trend. Last year’s pandemic pushed more department stores to establish an omni-channel presence, as offline sales were severely impacted. While a growing number of consumers opted to shop online, department stores, in turn, had to move online to find new opportunities.

In the post-pandemic era, it is important for department stores to refine their O2O strategies proactively and provide a seamless shopping experience for customers. According to our survey, around 73.2% of the respondents cited “pursuing O2O integration” as the most important development goal in the next 12 months, followed by “strengthening supply chain management” (58.5%). Meanwhile, 51.2% of respondents indicated that they are beginning to morph into shopping centres (Exhibit 4-1).

Exhibit 4-1. Key developmental goals of surveyed department store operators for the next 12 months



Source: “China department store survey 2020-2021” by CCAGM and FBIC

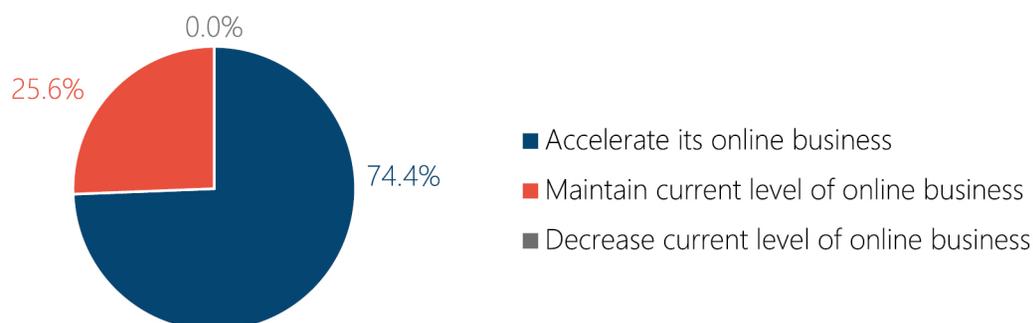
The COVID-19 pandemic has fueled China's online retail sales throughout the past year. Official data issued by China's National Bureau of Statistics shows China's online retail sales totaled 11.76 trillion yuan in 2020, up 10.9% over the previous year. Within this number, the online retail sales of goods rose 14.8% yoy to 9.76 trillion yuan, accounting for 24.9% of total retail sales of consumer goods, which was 4.2 percentage points higher than that of last year. In addition, according to data analytics platform ALDZS.com, the gross merchandise value sold through department stores' Mini Programs increased by 670% yoy in the first half of 2020. Many department stores have intensified their efforts to expand online operations, shifting sales online amid the pandemic. For example, as of November 2020, Rainbow Department Store has already built a fully digitalized membership management system with over 30 million members online. In 1-3Q 2020, more than 160 million people had made purchases via its official mobile application or its WeChat Mini Program.

Among companies that have already established their e-commerce business, most department stores said online retail sales have occupied more of their total retail sales compared with the same period the previous year. Nearly half of the respondents stated that their online retail sales' share grew by less than 10%, while over one quarter of respondents said their online sales' share grew between 11% and 30% (Table 4-2). In light of consumers' growing habit of purchasing online, about 74.4% of the respondents said they would accelerate their e-commerce business development in the next 12 months (Exhibit 4-2).

Table 4-2. Growth rate of the share of online retail sales of surveyed department stores over the past year

Growth rate of the share of online retail sales over the past year	Percentage of surveyed department stores
≤10%	47.7%
11%-30%	27.3%
31%-50%	0.0%
51%-100%	13.6%
>100%	11.4%

Exhibit 4-2. Online business development plans of surveyed department stores for the next 12 months



Source: "China department store survey 2020-2021" by CCAGM and FBIC

Department stores have been rapidly developing their on-demand delivery services. During the pandemic, many people were confined to their homes, and consumers were unwilling or unable to visit physical stores. In response to changing consumer demands, many department stores – including Intime, Bailian and Rainbow – quickly introduced on-demand delivery services that allowed consumers to place orders online and have the goods shipped directly to their home.

In particular, InTime Retail announced that Intime Mall (West Lake) would extend its on-demand delivery service hours to 10 pm. Orders within 5 kilometers of the store can be delivered in an hour, while orders located 5-20 kilometers from the store can be delivered by the following day. Bailian Group also rolled out its on-demand delivery service via a WeChat Mini Program. Consumers can place an order via Bailian’s WeChat Store and specify the location they would like to order from. At the same time, enhancing the offline shopping experience and winning back consumers remain the top priorities for department stores in the post-pandemic era. Although foot traffic decreased significantly during the pandemic, 45.8% of surveyed department store operators said that they have added more experiential elements in their stores compared to a year ago.

These experiential elements include family and children-related facilities, art and culture exhibitions, dining, entertainment, events, and technological elements. Around 78.5% of the respondents stated that they have already incorporated such experiential elements in their physical stores (Exhibit 4-3). Among them, nearly half said the area allocated for experiential shopping accounted for no more than 10% of the total retail space, while one-fourth of the respondents said the experiential shopping area accounted for 21-30% of the total retail space (Table 4-3).

Exhibit 4-3. Percentage of surveyed department store operators that have added in-store experiential elements

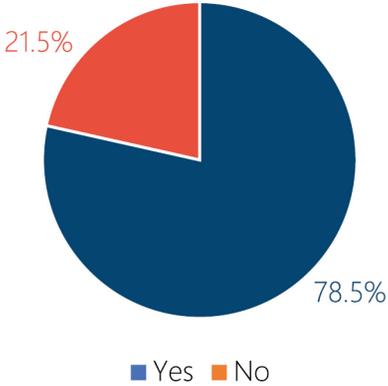


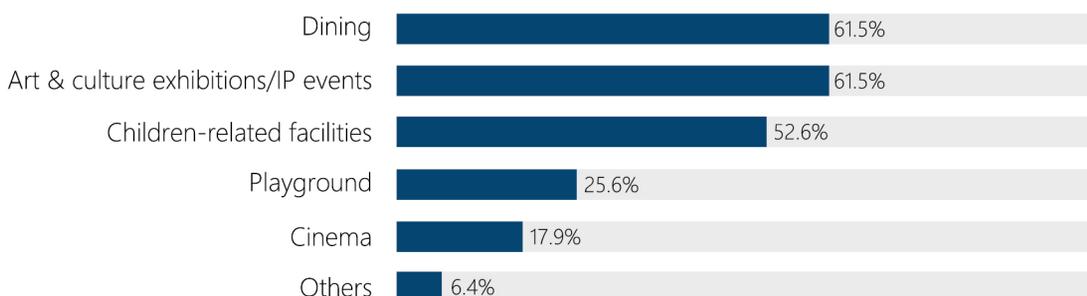
Table 4-3. Proportion of in-store experiential elements in total retail space of surveyed department stores

Proportion of in-store experiential elements in total retail space	Percentage of surveyed department stores
≤10%	47.4%
11%-20%	21.1%
21%-30%	24.5%
31%-40%	3.5%
> 40%	3.5%

Source: “China department store survey 2020-2021” by CCAGM and FBIC

Dining, IP events, and art and culture exhibitions are the most favored experiential elements among surveyed department store operators. More than 60% of respondents would like to add these types of experiential elements to their stores (Exhibit 4-4). In addition, over half of the respondents said they would add more children-related facilities, with the goal of encouraging more parents to shop with their children. Furthermore, some department store operators stated they would also include more elements relating to beauty, hairdressing and fitness, as people are now more focused on self-image enhancement. Adding experiential elements will help extend the time consumers spend at a store and boost sales. This will also differentiate the store from its competitors and strengthen their brand image.

Exhibit 4-4. Types of in-store experiential elements that surveyed department store operators would like to add



Source: “China department store survey 2020-2021” by CCAGM and FBIC

As a case in point, Wangfujing Group built a 1000-meter-long crape myrtle lane in its newly opened shopping mall in Foshan, Guangdong province. The mall, which has an area of 320,000 square meters populated by over 400 brands, integrates the culture of the crape myrtle flower (Zi Wei) IP into its offline business development strategies. Wangfujing has cooperated with international artists and creators to craft full range events and peripherals, themed cultural curation and video content, combining technology and entertainment to establish a new era of cultural trends. The group has also built a holographic crape myrtle themed theatre and themed walk-in spaces, aiming to bring the ultimate immersive visual interactive experience to its customers. They will also hold more IP events and animation exhibitions in the future.



Cosplay events at Wangfujing Group’s new department store in Foshan
(Source: Wangfujing Group)

Joy Breeze, Grandjoy's latest mall brand, opened its first department store in Beijing's Daxing district at the end of 2020, targeting at the 25-45-year-old urban middle class. In terms of branding and operation, the store focuses on the "lifestyle economy" and has introduced nearly 300 domestic and foreign premium brands. The shopping mall has seized on the "first-store economy" and "internet celebrity economy", introducing 30% of "first stores in the region" and a number of internet celebrity brands such as a garden-style pet-friendly Starbucks, MUJI, JD supermarket, and Chua Lam Hong Kong-style dim sum store. Leveraging the industrial supply chains of Grandjoy's parent company COFCO, China's state-owned foodstuff conglomerate, Joy Breeze (Daxing) introduced two interactive consumer events named "COFCO Breeze Market" and "Great Wall Wine Lab". The department store also presented a 500-square-meter flowers and plants exhibit during its themed "Super Spring" event, bringing the freshness of nature to its customers and promoting healthy, natural lifestyles.



The "Great Wall Wine Lab" at Joy Breeze (Daxing) (Source: Joy Breeze)

3. Offering differentiated goods and services to enhance product competitiveness

In the post-pandemic era, enhancing product appeal and competitiveness has become one of the key goals for the department store industry. Many department stores are now striving to establish their unique positioning and brand image by strengthening their direct sales business and developing private labels. Establishing procurement channels through cooperation with upstream manufacturers in R&D, design, and production can strengthen supply chain advantages and improve product management and service capabilities.

(1) Actively strengthen direct sales business

The concession model has long been the mainstream business model in China's department store industry. This model helps department stores avoid some business risks and guarantee certain profits. However, their reliance on brands and suppliers means they lack full control of supply channels, which can, in turn, lead to missed market opportunities.

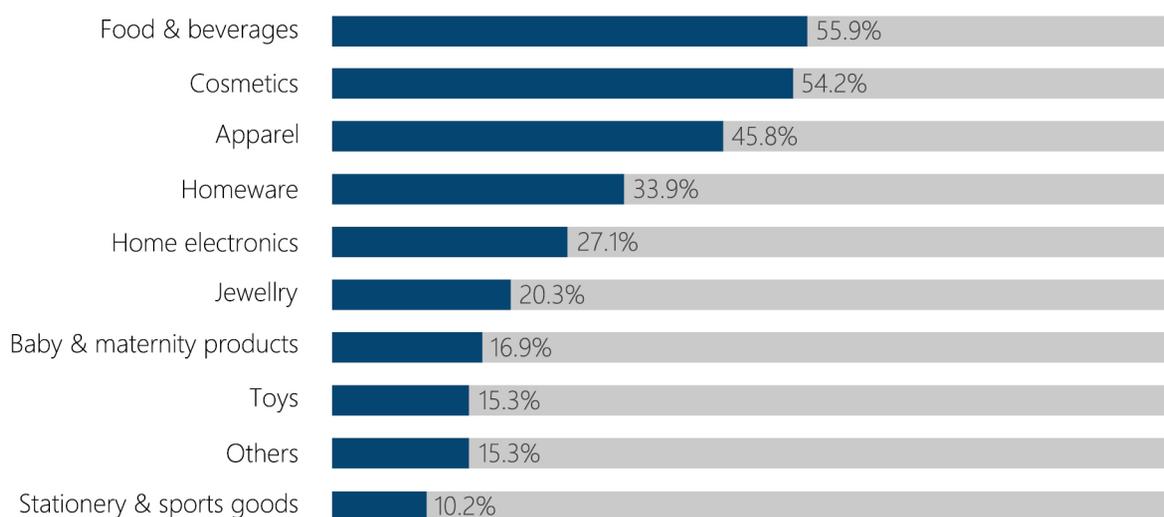
In recent years, some department stores have sought new opportunities through direct sales business. They have been sourcing goods from international manufacturers through their own sourcing teams, opening multi-brand stores, and introducing independent designers and niche brands in order to appeal to customers and differentiate themselves from competitors. Their self-operated ventures can usually occupy a better location in the department store. As such, they can attract relatively high foot traffic and are well-received by customers when their products are able to meet customers' real demand.

Our survey reveals that 71.1% of respondents have already engaged in direct sales business (Exhibit 4-5), higher than 67.1% from the previous year's survey. Among this group, most surveyed department stores operate direct sales business in food & beverages (55.9%), cosmetics (54.2%) and apparel (45.8%) (Exhibit 4-6).

Exhibit 4-5. Penetration of direct sales business among surveyed department stores



Exhibit 4-6. Major direct sales business categories among surveyed department stores

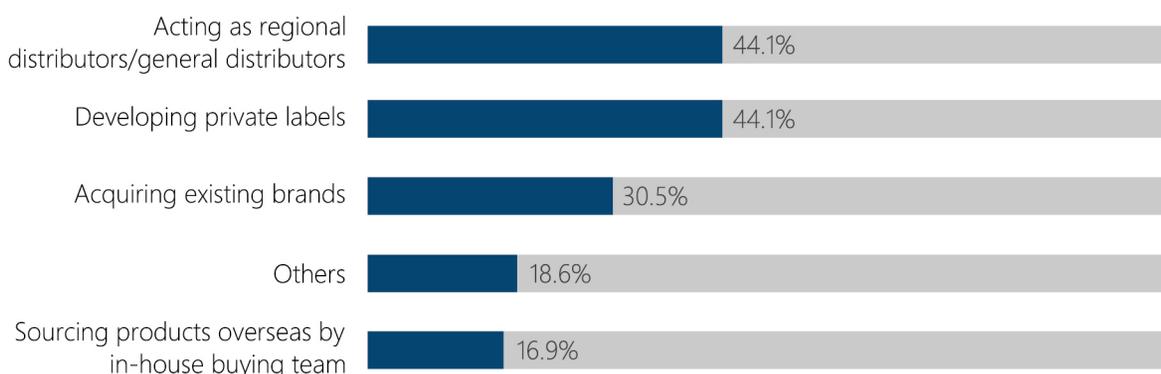


Source: "China department store survey 2020-2021" by CCAGM and FBIC

44.1% of the respondents have established direct sales business by developing their own private labels, 44.1% by acting as general distributors or regional distributors, and 30.5% by acquiring existing brands or certain product categories of existing brands (Exhibit 4-7).

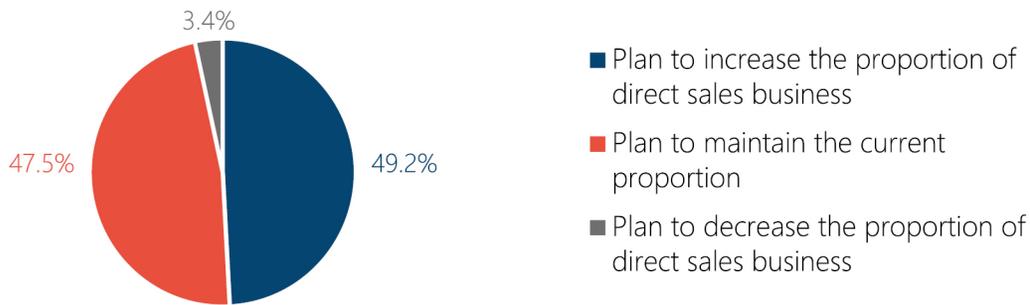
When asked about their intention to expand their direct sales business, nearly half of surveyed department store operators cited that they planned to increase the proportion of direct sales business in the next 12 months (Exhibit 4-8).

Exhibit 4-7. Types of direct sales models adopted by surveyed department store operators



Source: "China department store survey 2020-2021" by CCAGM and FBIC

Exhibit 4-8. Direct sales business plan among surveyed department store operators in the next 12 months



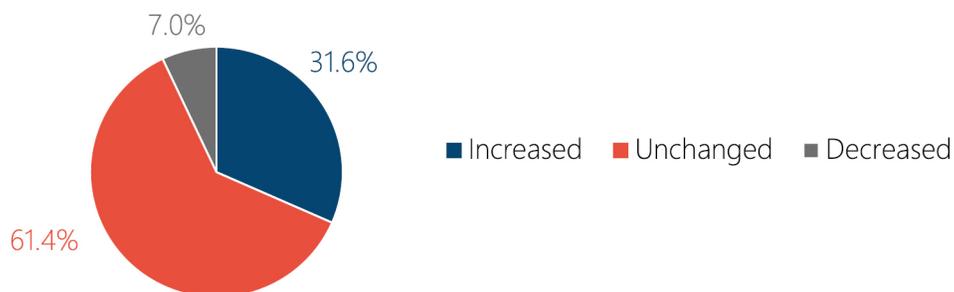
Source: "China department store survey 2020-2021" by CCAGM and FBIC

However, as retail business was hit hard by the pandemic in 2020, many department stores have now become more cautious about developing direct sales business. More than half of the surveyed department store operators stated that the proportion of direct sales business to their whole business was less than 10% (Table 4-4). Meanwhile, over 60% said the proportion of their direct sales business had not changed in the past year (Exhibit 4-9); only 31.6% said that the proportion had increased year-on-year, but by no more than 10% for most of them.

Table 4-4. Proportion of direct sales business among surveyed department stores

Proportion of direct sales business	Percentage of surveyed department stores
<=10%	55.6%
11%-20%	13.0%
21%-30%	7.4%
31%-40%	3.7%
41%-50%	3.7%
>50%	16.7%

Exhibit 4-9. Change in the proportion of direct sales business compared to the same period of the previous year among surveyed department stores



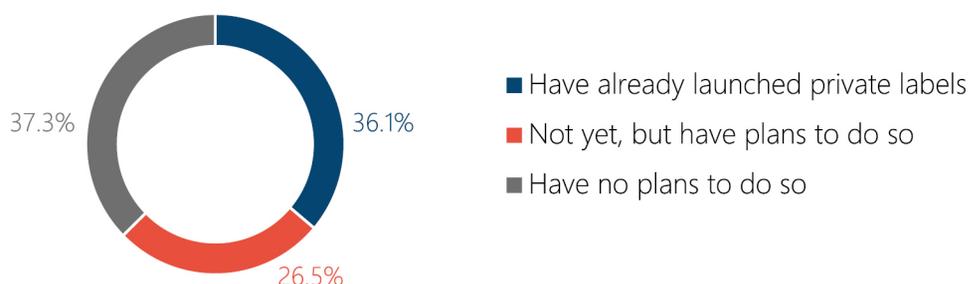
Source: "China department store survey 2020-2021" by CCAGM and FBIC

(2) Developing private labels

With the increasing diversification of consumer demand and the rise of new retail models, another way to create product differentiation is to develop private labels. Cooperating directly with manufacturers can help reduce costs and increase margins through gaining more flexibility in pricing. At the same time, retailers can also better understand the quality and characteristics of their products. From the consumer's point of view, private brands can also meet their needs for value-for-money products and differentiated products, thereby increasing customer stickiness to the brands and the retailer.

In our survey, around 36.1% of the respondents have launched their own private labels (Exhibit 4-10), similar to the results of previous year's survey; another 26.5% plan to develop private labels in the future.

Exhibit 4-10. Penetration of private labels development among surveyed department stores



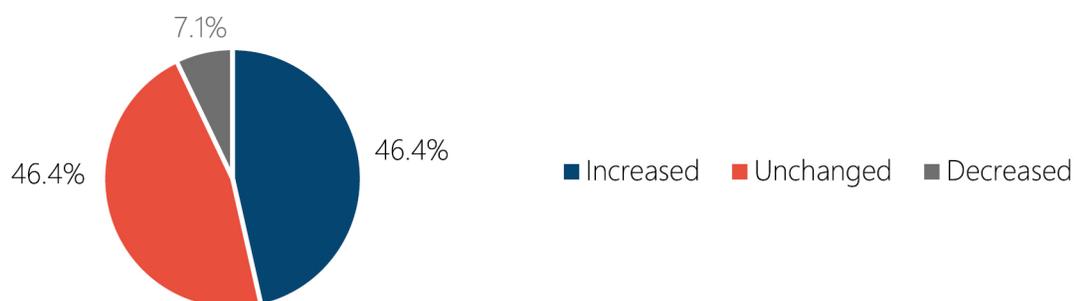
Source: "China department store survey 2020-2021" by CCAGM and FBIC

Among those who have already launched private labels, around 46.4% of the surveyed department store operators said private labels made up a bigger share of their total sales compared to the previous year (Exhibit 4-11).

Regarding the scale of their private label business, most of the respondents (60%) said that private labels account for no more than 5% of their total sales, while about 16% of respondents reported that the proportion has exceeded 20% (Table 4-5).

Additionally, about 66.7% of surveyed department stores said they would increase the proportion of their private label business in the next 12 months, slightly up from 57.1% in the previous year's survey (Exhibit 4-12).

Exhibit 4-11. Change in the proportion of private label business compared to the same period of the previous year among surveyed department stores

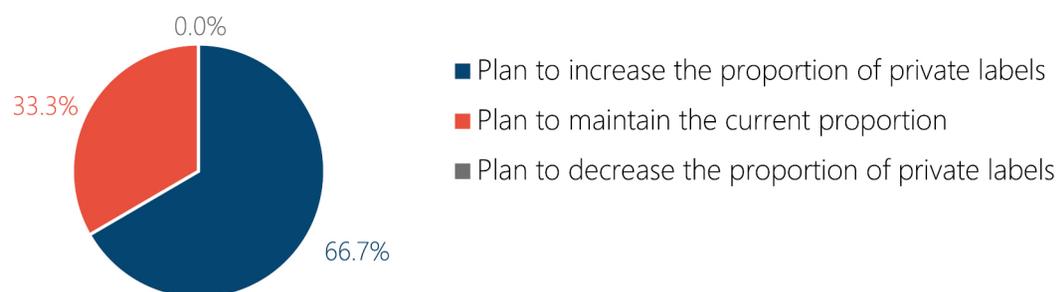


Source: "China department store survey 2020-2021" by CCAGM and FBIC

Table 4-5. Proportion of private label business among surveyed department stores

Proportion of sales of private label products to total sales	Percentage of surveyed department stores
≤5%	60%
5.1%-10%	16%
10.1%-15%	4%
15.1%-20%	4%
>20%	16%

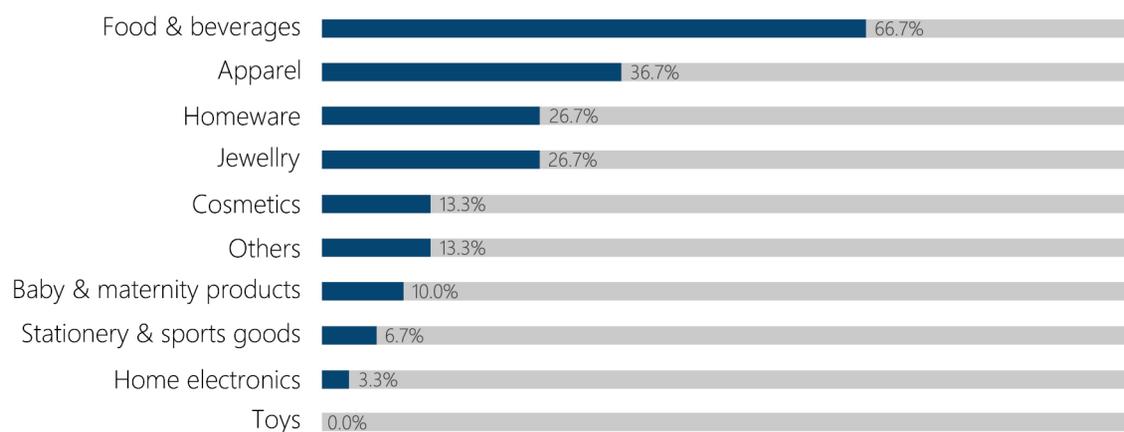
Exhibit 4-12. Private labels development plan among surveyed department store operators in the next 12 months



Source: “China department store survey 2020-2021” by CCAGM and FBIC

As for the product categories of private label business, 66.7% of the surveyed department store operators are selling private label products in food & beverages, 36.7% in apparel, 26.7% in homeware and 26.7% in jewelry (Exhibit 4-13).

Exhibit 4-13. Major categories of private labels among surveyed department stores



Source: “China department store survey 2020-2021” by CCAGM and FBIC

It should also be noted that there are certain risks in developing private labels. According to the survey, the top three challenges are the long period of time required to gain market recognition, the substantial amount of working capital needed, and the risk of high inventory levels (Table 4-6).

The customer base of department stores often places a high value on brands. Therefore, it is essential for department stores' private labels to establish an outstanding brand image and provide high-quality goods in order to rapidly gain consumers' recognition.

Additionally, department stores must have certain economies of scale and adequate working capital when developing private labels. During the development process, department stores need to take full ownership of the supply chain – from conducting market research and selecting products to monitoring production processes, organizing marketing campaigns, and building logistics and distribution channels. Since these steps were all done by brands and suppliers under the concession model, department stores will find it highly challenging to take on these new tasks when developing their private label business.

Furthermore, private label business often entails inventory risk. If the products do not sell well and inventory accumulates, working capital will be tied up. Department stores should seriously consider these risks. It would be wise for them to launch private label products in a few strategic product categories initially, before gradually expanding into other categories.

On the whole, although many department stores have launched direct sales business and developed their private labels, the scale of the business remains relatively small. Most department stores are still exploring the two areas, especially due to the challenges discussed above. Some product categories, such as food and beverages and cosmetics, have seen more development in both direct sales and private label business. Some department stores are already ahead of the game, such as Xinyulou Department Store and New World Department Store Group.

Table 4-6. Major challenges encountered by surveyed department stores when developing private labels

Rank	Challenge
1	Takes a long time to gain market recognition
2	Requires a substantial amount of working capital
3	Risk of high inventory levels
4	Hard to grasp consumers' needs
5	Lack of suitable talents
6	Lack of management support

Source: "China department store survey 2020-2021" by CCAGM and FBIC



Xinyulou's private label products in its first supermarket in Shijiazhuang (Source: linkshop.com)

Leading regional department store operator Xinyulou Department Store has followed the direct sales model for years. It has established private labels in various product categories including food products, general merchandise, jewelry, menswear, and womenswear. In December 2020, Xinyulou opened its first supermarket in Shijiazhuang, Hebei province. There is a section in the supermarket that exclusively offers Xinyulou's private label products – mainly grains and condiments, kitchen goods, and household cleaning products.

New World Department Store has also proactively expanded its private label business in recent years. It has expanded its multi-category private label series N+ and LOL (Love • Original • Life) Concept Shop (“LOL”) in order to differentiate its direct sales business. The LOL black label flagship store has positioned itself as a high-end fashion store that sells name brands and trendy imported products. Conversely, the LOL gold label store provides value for money and functional products that target mid-end customers while also increasing the consumption of male customers. According to the group's annual report, direct sales business made up 27.1% of its total sales in its financial year 2020 (which ended June 30, 2020). As of the end of June 2020, there were 12 LOL stores across the country.



LOL Concept Shop at Shanghai K11 Art Mall (Source: Ctrip.com)



New World Department Store's multi-category private label series N+ (Source: linkshop.com)

(2) Rise of home-grown domestic brands

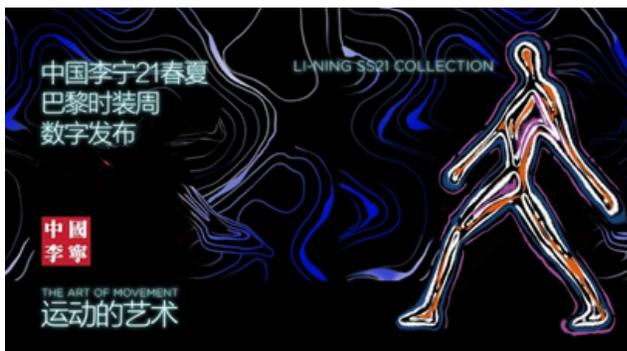
Home-grown domestic brands have experienced strong growth in 2020. This trend, known as “Guochao”, has recently become popular, especially among the younger generation. Mainland millennials and Generation Z are taking a greater interest in Chinese traditions and culture. They are paying more attention to home-grown brands which encompass Chinese aesthetics.

A number of home-grown domestic brands have performed exceptionally well, especially in the cosmetics and sportswear categories, and are highly sought after by consumers.

We believe that the heightened enthusiasm for domestic brands is more than a temporary phenomenon. Instead, it is a concrete manifestation of people’s strong and genuine confidence in the Chinese national identity. Department stores should leverage this trend and work more closely with domestic brands to promote Chinese culture and drive sales.



Wangfujing Group signed a strategic cooperation agreement with People’s Creativity, a cultural and creative company under People’s Daily (Source: China Economic Net)



Li-Ning, a leading Chinese sportswear brand, revealed its S/S 2021 collection at Paris Fashion Week (Source: Li-Ning’s official website)

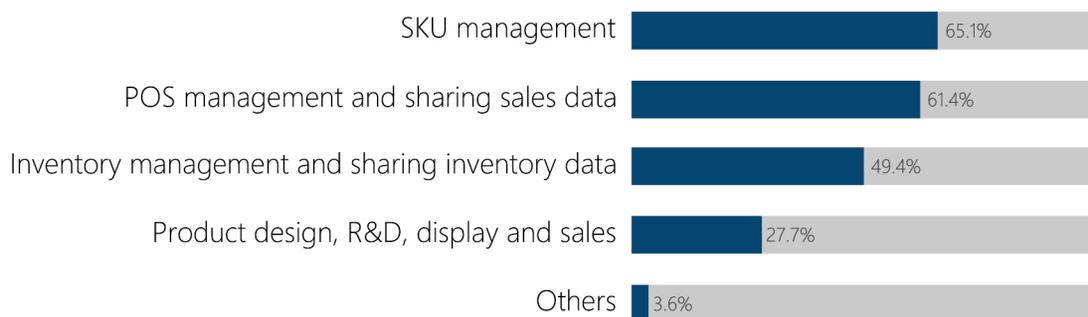


China’s leading down apparel brand Bosideng’s flagship store on East Nanjing Road, Shanghai (Source: Bosideng’s official website)

4. Strengthening cooperation with suppliers through data sharing

Department store operators have been transforming their business models and are playing a more active role in managing their supply chains. They have accelerated digital transformation efforts, building closer ties and partnerships with suppliers and brands to enhance competitiveness and build synergy. According to our survey, department store operators indicated that they have strengthened cooperation with upstream suppliers and brands – mainly via involving more in SKU management (65.1%), point of sale (POS) management and sharing of sales data (61.4%), and inventory management and sharing of inventory data (49.4 %) (Exhibit 4-14).

Exhibit 4-14. Means to strengthen cooperation with suppliers and brands by surveyed department store operators



Source: “China department store survey 2020-2021” by CCAGM and FBIC

SKU management is a key area that both brands and department store operators have been focusing on over the past year. They have been sharing data to identify best-selling products and target their marketing efforts towards those specific products, driving sales through the use of big data and consumer analytics.

By leveraging consumer analytics collected from Taobao and Tmall, Intime Department Store is able to gain better insights into consumer behavior and predict consumer needs. Working closely with brands, Intime can come up with more accurate insights by combining its own data with those from the brands to identify best-selling products, as well as optimal price points based on big data analytics. Through exchanging data and sharing inventory and sales information, Intime has worked closely with a number of leading makeup brands to successfully drive sales. As an example, Intime’s big data analytics suggested that high-end eye creams would be popular with consumers. Intime shared this information with a beauty brand, which then targeted its marketing efforts towards promoting one of its eye-cream products. 100,000 bottles of the product ended up being sold in a year, representing a 400% yoy increase.

In addition to strengthening collaboration with existing suppliers, department store operators are also looking to expand their product offerings by working with new suppliers and adding additional categories and products that are in-demand based on big data and consumer analytics. For example, Grand Pacific Department Store decided to add a fresh food line for its online supermarket after big data suggested that this would be a growth area. It also launched a number of online exclusive cosmetics and apparel brands on its online shopping platform, which helped increase both traffic and sales.

5. Engaging users via social commerce and livestreaming

Department store operators have been collecting customer information, using big data to analyze consumer behavior and predict consumer needs in order to provide relevant products and services and more effectively direct their marketing efforts to reach their target audience. According to our survey, almost all department store operators indicated that they have been collecting customer data through various channels. The most common data collection method is membership schemes/ membership cards (95.2%), followed by WeChat official accounts and groups (86.7%), and online purchase history (48.2%) (Exhibit 4-15).

Our surveyed department store operators further indicated that the consumer data collected were mainly used to understand consumer preferences (90.4%), provide customers with more personalized products and services (86.7%), carry out precision marketing (86.7%), and optimize their in-store merchandise mix (54.2%) (Exhibit 4-16).

Exhibit 4-15. Means of collecting customer data by surveyed department store operators

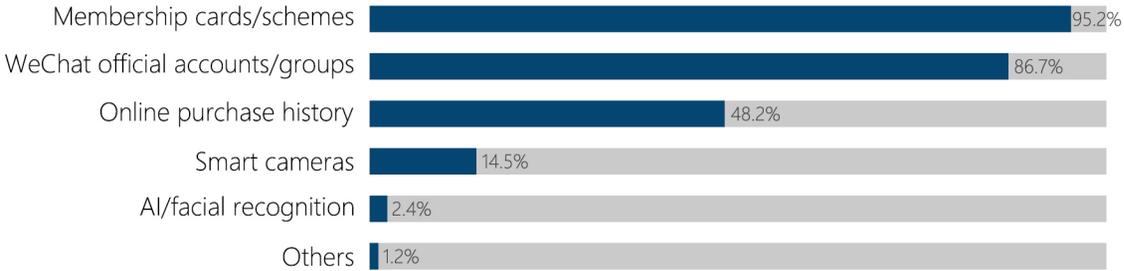
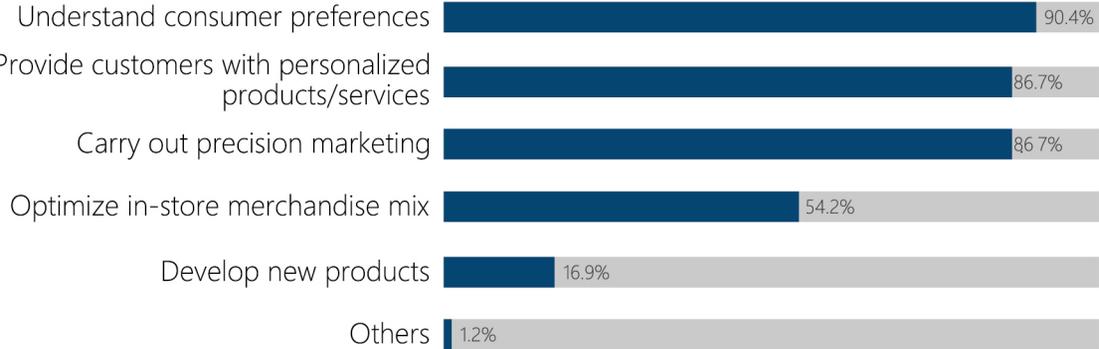


Exhibit 4-16. Main purposes of collecting consumer data by surveyed department store operators



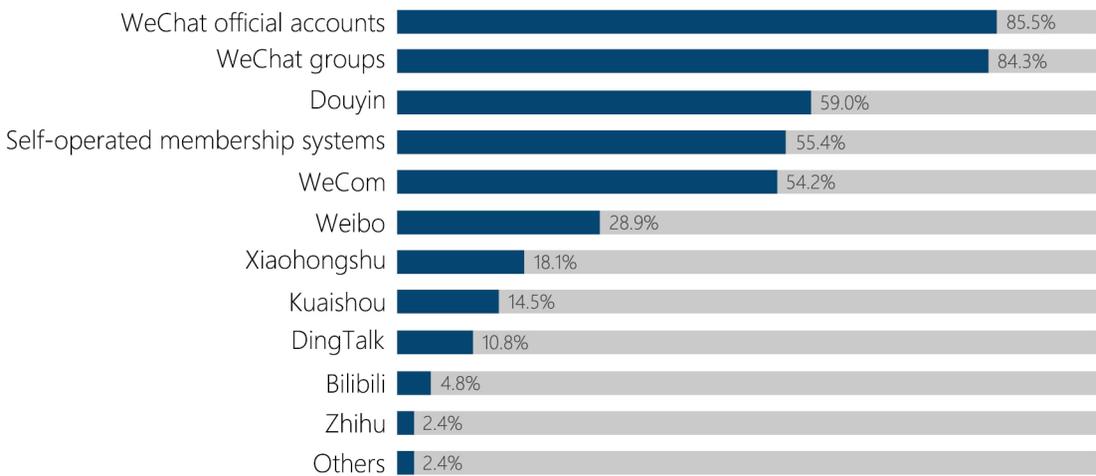
Source: “China department store survey 2020-2021” by CCAGM and FBIC

Traditionally, brands and retailers have worked with major e-commerce platforms such as Tmall and JD.com to drive traffic to their stores, but marketing and advertising costs have substantially increased over the years, with the further drawback that such traffic is owned and controlled by third-party platforms.

The rise of social commerce in China has allowed brands to build their own communities on social platforms, through which they can directly engage customers and drive sales without relying on third-party or paid channels. Traffic that is generated this way is known as “private traffic” and is essentially owned by the brand. It can be used repeatedly for free and can also be monetized through traditional or native advertising strategies.

Given China’s mobile-centered online economy, WeChat is the most commonly used platform to generate private traffic. Our survey indicates that WeChat official accounts and WeChat private groups were the most commonly used platforms to construct private traffic by our surveyed department store operators (Exhibit 4-17).

Exhibit 4-17. Key platforms to establish private traffic by surveyed department store operators



Source: “China department store survey 2020-2021” by CCAGM and FBIC

Since the outbreak of COVID-19, an increasing number of department store operators have shifted their marketing efforts online, setting up official WeChat accounts and private WeChat groups to interact with their customers.

“Zhihui Shopping”, Shanghai No. 1 Yaohan Department Store’s WeChat Mini Program, has attracted more than 600,000 registered users. During the “Double 11” shopping festival, “Zhihui Shopping” launched an online competition encouraging sales associates to promote products via social commerce platforms. Data showed that during November 1 to 11, the business of “Zhihui Shopping” grew significantly – the number of digital members, sales and the number of orders increased by 88%, 407% and 498% yoy respectively.

Department stores under the New World Group have also been leveraging WeChat communities to more effectively carry out targeted marketing strategies to help engage customers and drive sales. Based on the profiles of its existing customers, New World department stores have set up various WeChat shopping groups segmented by brands, categories and themes for them to join. Through these groups, marketing initiatives such as special promotions, exclusive discounts, and limited-time offers were promoted to attract and retain loyal customers.

Hangzhou Hubin Yintai in77, a shopping mall owned by the Intime Group, also organized and promoted a number of high-profile events via its official WeChat account right before the Dragon Boat Festival last year. These events attracted a large number of young customers to follow its official account and successfully directed foot traffic to the mall.

During the pandemic, many sales associates (so-called “counter ladies”) and brand sales representatives from department stores and shopping malls also acted as online shopping guides, reaching out directly to customers via WeChat groups and live-streaming. For example, Tianjin Joy City established dozens of brand-based WeChat groups and posted QR codes in its Mini Program where customers could join groups of interest by scanning the QR codes directly.

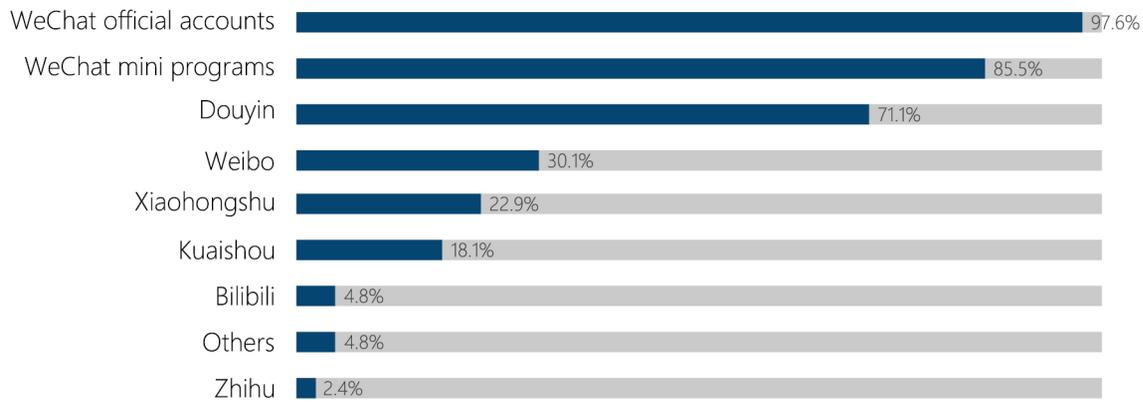


Source: Screenshot from Tianjin Joy City’s mini program

Social media is an integral part of consumers’ daily lives. Buying and selling on social media apps has become increasingly popular in China, especially with the mobile-savvy younger generation. Social commerce sales in China accounted for around 30% of China’s online retail market in 2020. The appeal of social commerce is that it allows users to build and maintain relationships with one another. Consumers, especially the younger generation, particularly enjoy sharing recommendations, shopping tips, and coupons with their families and friends. They are also more likely to trust and purchase products recommended by their inner circles, key opinion leaders (KOLs), as well as celebrities. With the growth of social commerce shoppers, social commerce platforms will be an effective channel for businesses to promote and sell their products and services.

According to our survey, WeChat and Douyin are the two most commonly used social platforms for department store operators to conduct marketing and sales activities. Our survey shows that 97.6% of surveyed department stores have an official WeChat account, and 85.5% of them have been using WeChat Mini Programs to promote and sell products, while 71.1% have been using Douyin to do so (Exhibit 4-18).

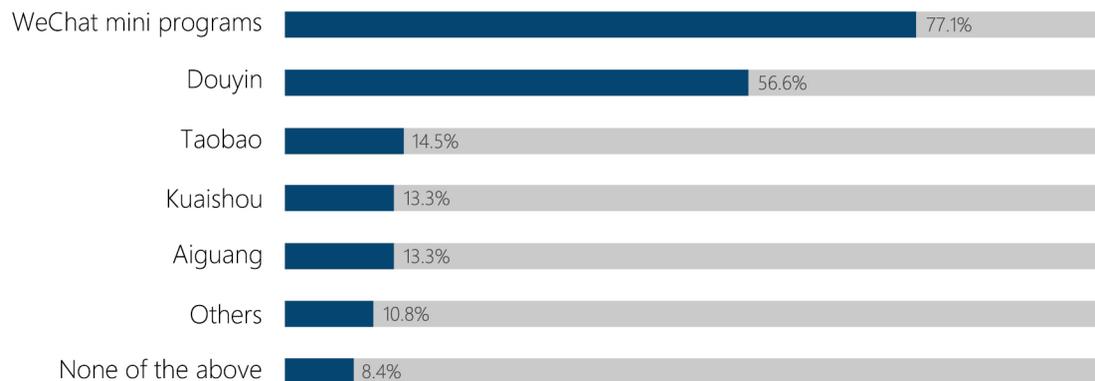
Exhibit 4-18. Social platforms commonly used by surveyed department store operators to conduct marketing and sales activities



Source: "China department store survey 2020-2021" by CCAGM and FBIC

The COVID-19 pandemic, lockdowns and social distancing measures continue to fuel online consumption. Most brands and retailers have embraced digital channels and have accelerated their digitalization process over the past year. Livestreaming in particular experienced exponential growth in 2020. According to data from iiMedia Research, China's live-streaming market was estimated at 961 billion yuan in 2020, a significant increase of 121.5% yoy. The livestreaming market is expected to continue its rapid growth and the market size is expected to reach 1,201.2 billion yuan in 2021. Our survey shows that more than 90% of department stores surveyed have started engaging in livestreaming to promote and sell their products. The main livestreaming platforms used by department stores are WeChat apps and Douyin (Exhibit 4-19).

Exhibit 4-19. Key livestreaming platforms used by surveyed department store operators



Source: "China department store survey 2020-2021" by CCAGM and FBIC

Major department stores, including Bailian, Intime, New World, Rainbow, Chongqing Department Store and Golden Eagle, etc., have partnered with major e-commerce and social media platforms such as Taobao Live and Douyin to launch special livestreaming shows to interact with customers and boost sales over the past year.

The Shanghai retail conglomerate Bailian Group has been partnering with Alibaba to further expand its footprint online. Four Bailian shopping malls have started livestreaming via Taobao Live. Bailian Group also organized almost 40 livestreaming events in collaboration with Taobao, Douyin, Xiaohongshu and other livestreaming platforms in November last year, attracting over one million viewers online. During the “Double 11” shopping festival, Bailian’s store managers and employees also actively took part in livestreaming events – a total of 11 livestreaming shows were hosted by store managers, attracting over 150,000 views and contributing to an overall sales increase of 600,000 yuan.



Xu Ziyang, President of Bailian Group, participates in a livestreaming event (Photo Source: Daily Headlines)



Intime Department Store Livestreaming event (Photo source: myzaker.com)

Meow Street, the online platform of Intime Department Store, broadcasted over 4,000 livestreaming shows during the “Double 11” shopping festival. According to sales data released by Intime, its online sales increased by 65% during 1-11 November last year, whilst delivery orders on Meow Street showed a threefold increase over the previous year. New World Group’s store managers and sales associates actively participated in the livestreaming shows, leveraging mainstream platforms to drive both online and in-store sales. Chongqing Department Store built its own online community where customers can join different private WeChat groups hosted by brands and view livestreaming shows.

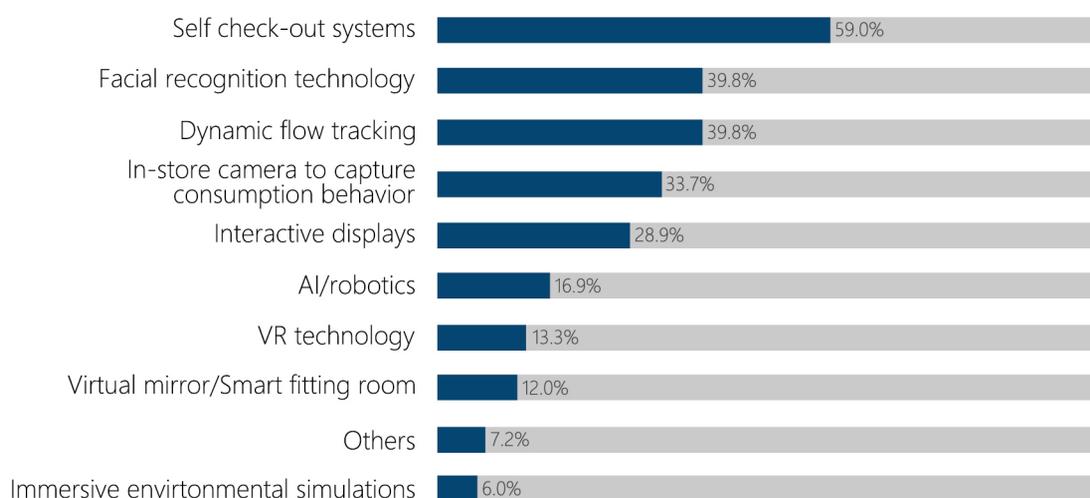
6. Enhancing consumer experience via technology

New technologies have reshaped and enhanced the operation of department stores. Department store operators have leveraged new technologies such as facial recognition, AI, robotics, and VR, to enhance the consumer experience as well as collect data for big data analysis, which allows them to better understand customers' needs.

During the pandemic, department store operators have been adopting contactless payment systems such as mobile and QR code payments to avoid physical contact and handling cash. Our survey indicates that close to 60% of department stores have adopted self-checkout systems to reduce queuing time and improve efficiency (Exhibit 4-20).

All department stores under the Rainbow Department Store Group currently offer self-checkout services via mobile, eliminating the need for customers to queue up at cashiers and thus significantly reduced wait times. Meanwhile, sales associates at Mao Ye Department Store can help customers place orders via their WeChat Mini Program, which also allows customers to pay directly on their mobile device. Mobile payment also helps department stores capture product, sales and customer-related information more effectively, which in turn provides better insights into consumer behavior and purchasing patterns.

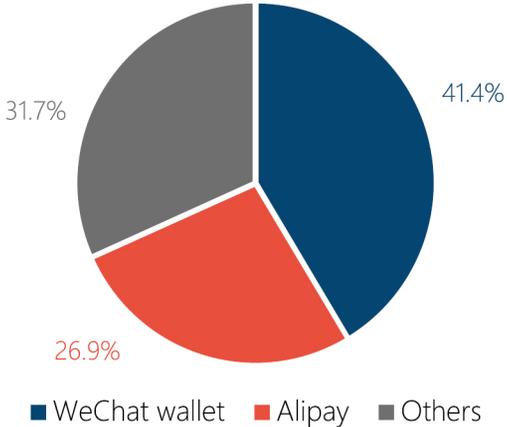
Exhibit 4-20. Technology application in physical stores among surveyed department stores



Source: "China department store survey 2020-2021" by CCAGM and FBIC

According to a report published by the Payment & Clearing Association of China in 2020, mobile payment is the main payment method adopted by consumers. Almost three-quarters of Chinese users utilize mobile payment tools on a daily basis. Our survey indicates that WeChat Pay and Alipay are the two main payment tools (Exhibit 4-21) used by consumers in department stores. WeChat Pay is the most popular mobile payment tool used in department stores, as many of them have launched their online operation via WeChat Mini Programs and WeChat Stores.

Exhibit 4-21. Mobile payment tools used by consumers when shopping in surveyed department stores



Source: “China department store survey 2020-2021” by CCAGM and FBIC

70% of our surveyed department stores reported that adopting technological elements has increased customer traffic and boosted sales. Among these stores, 8.4% claimed that technology had helped increase customer traffic significantly, and 8.4% indicated that adding technological elements had helped increase sales significantly (Exhibit 4-22). Meanwhile, close to 80% of our surveyed department stores claimed that they would increase the adoption of technological applications in the next 12 months (Exhibit 4-23).

As a case in point, Guangzhou International Grand City (IGC) has been leveraging technology to enhance the customer experience at its shopping mall. Using technologies such as big data, AI, interactive displays, and other technological elements, IGC is able to better engage its customers and offer them a more interactive and rewarding shopping experience. IGC recently implemented a technology-enabled membership system which utilizes AI and Optical Character Recognition (“OCR”) technology to analyze consumer shopping habits and purchase history. This information is used to create personalized offers and promotions, generating a significant increase in repeated purchases and in-store sales.



Interactive activities at Guangzhou International Grand City
(Photo source: topbiz360.com)

Exhibit 4-22: Impact of adopting technological elements by surveyed department store operators

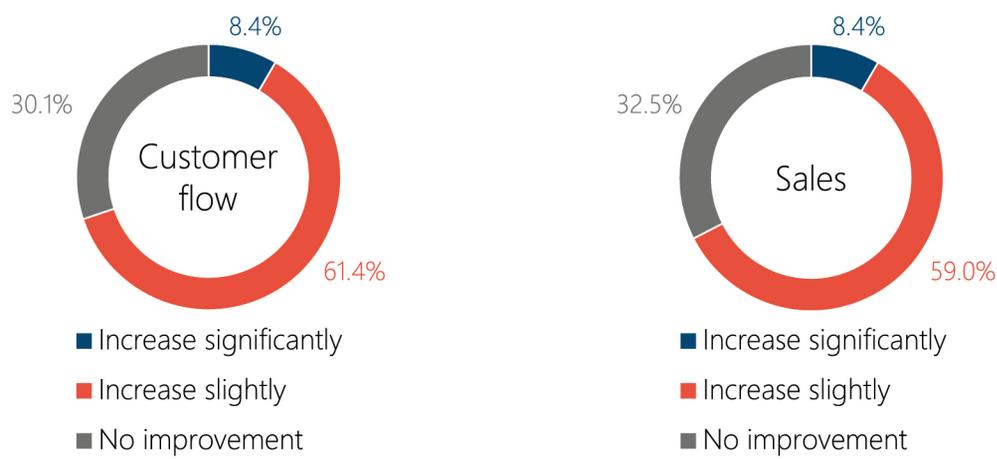
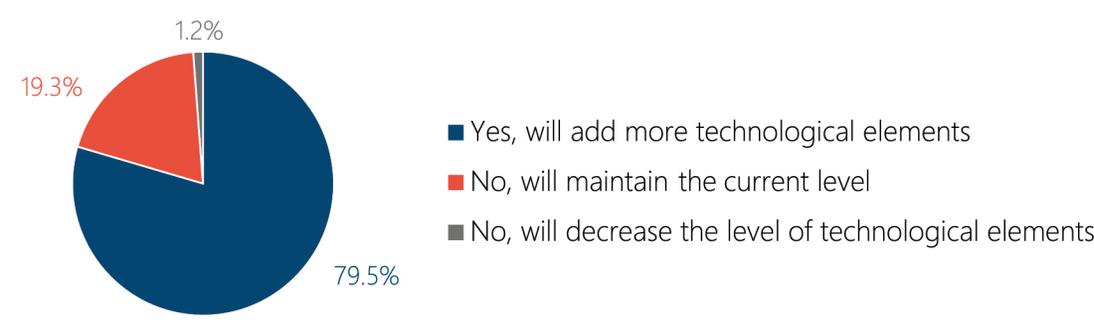


Exhibit 4-23: Likelihood of adding more technological elements in the next 12 months by surveyed department store operators



Source: "China department store survey 2020-2021" by CCAGM and FBIC



V. Recommendations for the Sector's Development

Recommendations for the Sector's Development

The government has rolled out a number of policies and major guidelines to encourage domestic consumption in the past year. “Dual circulation”, in particular, is one of the key directions of China’s *14th Five-Year Plan (2021-25) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035*.

The “dual circulation” strategy is a new growth model that relies primarily on domestic demand whilst developing external markets as a complement. China will strive to nurture a strong domestic market, expand its middle class, and boost household income to promote domestic consumption, which will provide further momentum for the growth and development of the department store sector and the retail industry as a whole.

We suggest the following recommendations to further promote the sector's development:

1. Recognize and emphasize the value of department stores as both commercial and geographical landmarks

Department stores play a pivotal role in the fashion economy. Many well-known international department stores – such as London’s Harrods and Selfridges, Nordstrom’s flagship store in Seattle, Galeries Lafayette in Paris, and Beijing’s SKP – are both urban landmarks and benchmarks for the latest fashion trends. Their appeal extends beyond the goods they sell, drawing visitors that simply want to visit these iconic locations. While this applies to international capitals and large cities, there are plenty of department stores in third- and fourth-tier cities that are both local landmarks and fashion destinations.

High-quality department stores become valuable landmarks of their cities. They characterize their cities’ development, enduringly guiding their fashion trends. They are also crucial commercial landmarks – the commercial industry would be incomplete without well-regarded department stores. Furthermore, as consumers steadily upgrade their consumption to higher end products (such as gold and jewelry, cosmetics, clothing, etc.), department stores will be the main sales channel for these items. As such, the commercial value of department stores as city landmarks and commercial landmarks must be well recognized and realized.

2. Advance the digitalization process

Department stores should consider the following points as they advance the digitalization process:

- They should not rely on a set of standardized solutions to meet their needs. Solutions should be based on use cases and system capabilities.
- They should digitalize their decision-making processes with the support of appropriate IT systems and platforms.
- They should integrate their online and offline services to offer consumers seamless services and better customer experiences.
- They should leverage private traffic to draw customers. In recent years, successful platforms such as Pinduoduo, Douyin, and some vertical channels have done well by creating social shopping experiences online and building private communities to better manage and exceed ever-changing customer expectations.

3. Provide appropriate financial subsidies

As urban fashion landmarks, department stores not only drive trendy and high-quality consumption, but also make a positive impact on the urban landscape. However, both the physical and digital transformation of department stores require a large amount of capital investment. This creates immense financial pressure for department store operators.

The Beijing Municipal Bureau of Commerce is currently supporting the upgrading and transformation projects of traditional shopping malls through the “one store, one policy” pilot program, providing financial support of up to 5 million yuan for individual enterprises. Through this program, the government aims to strengthen the department store sector and help department stores to provide a better shopping experience for consumers, which would in turn boost consumption. We believe it would be beneficial to roll out similar programs nationwide.

Furthermore, during the post-COVID-19 recovery process, local governments handed out consumption vouchers to incentivize spending, creating multiplier effects to stimulate the economy. For example, shopping vouchers were given out via online platforms during Shanghai’s “May 5th Shopping Festival”. Governments should continue to implement these measures during major holidays.

4. Advance the digitalization process

Some research studies have found that sales growth of department stores and shopping centers are far from being able to keep up with the expansion in scale. At present, there are numerous department store and shopping center projects under construction or ready to operate. The oversupply of retail space is not healthy for the development of the industry and must be addressed.

5. Push forward mixed ownership reform

State-controlled retail enterprises, especially some large department store groups, currently have a relatively high proportion of state-owned shares. This may result in inflexible operations, slow decision-making processes, and poor performance incentives. The retail industry is intensely competitive, and players must be innovative and dynamic in order to react quickly to the market. Further reform of the ownership structure will hopefully help vitalize the industry.

About the Organizations

CHINA COMMERCE ASSOCIATION FOR GENERAL MERCHANDISE

Founded in January 1990, China Commerce Association for General Merchandise (CCAGM) is a non-profit social organization endorsed by the Ministry of Civil Affairs, under the guidance of the Stated-owned Supervision Administration Commission and the Ministry of Commerce. The CCAGM has nearly 1,000 members, encompassing large-and medium sized domestic department stores, enterprises engaging in retail, wholesale, and manufacture of daily industrial products, and enterprises which provide related services to the department store industry. Its members come from 34 provinces, autonomous regions and municipalities in the country, covering all forms of ownerships. The CCAGM has 60 corporate members, including City Department Store Industry Association, Trade Association and Trans-regional Department Store Company Union Organisation, linking more than 15,000 indirect members.

After 30 years of growth and development, the CCAGM has completed the transformation of its work model from one that was influenced by the planned economy to one influenced by socialist marketing economy. In 2009, the CCAGM was appraised as a 4A social organisation by the Ministry of Civil Affairs.



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.

THE 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 trading, logistics, distribution and retail. The Fung Group comprises over 27,000 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.

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