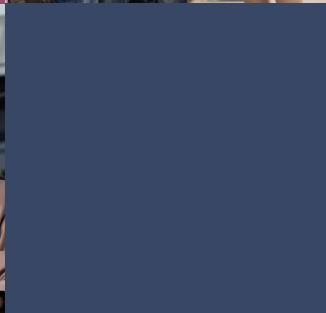
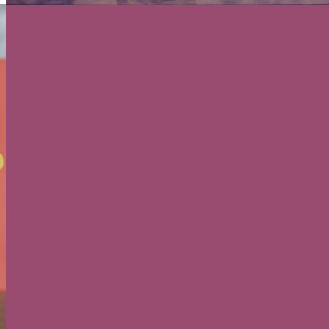
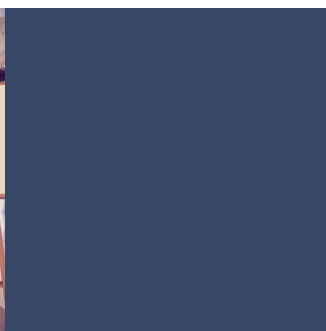


China's Department Stores Report 2022-2023

March 2023



Preface

Fung Business Intelligence and China Commerce Association for General Merchandise ('CCAGM') are pleased to present the *China's Department Stores Report 2022-2023*.

In 2022, China's economic development was affected by various domestic and international issues such as repeated outbreaks of COVID-19. Facing new economic pressures, China has optimized its anti-epidemic measures alongside decisive actions to stabilize the economy in a timely manner. It implemented a full range of policy measures to support economic growth, employment, and price stability. Local governments were encouraged to make full use of these policies, while economically prosperous provinces were called upon to lead the way. In 2022, China's GDP reached 121,020.7 billion yuan, representing a year-on-year increase of 3.0%.

The department store industry had a turbulent year, marked by several key trends. First, both operating revenue and net profit experienced an overall decline. Second, there was some progress made in the development of the self-operated buyer-model. Third, department store operators worked to optimize their cost structures by reducing expenses and improving efficiency. Fourth, most operators strengthened their online capabilities, particularly through mini programs and livestreaming platforms. Fifth, there was a continued focus on membership programmes, with members' contribution becoming increasingly important. Finally, there was a significant divergence in performance, with high-end department stores continuing to grow while others struggling.

The industry also needs to overcome various development barriers. First of all, insufficient consumption and sluggish growth is the top challenge faced by the industry. There is also a mismatch between product appeal and consumer demand, and while progress has been made in exploring direct sales business, more work must be done from an industry perspective. Additionally, although digitalization is essential to business growth, there are still many obstacles to overcome, and online platforms continue to disrupt offline retailers. The implementation of data security laws and regulations also poses new challenges to department store operators in terms of data security.

However, despite these challenges, the retail industry is expected to reach a turning point in 2023 due to the optimization and adjustment of the anti-epidemic measures. As set out in the 2022 Central Economic Work Conference, China will centre on boosting domestic demand by prioritizing consumption recovery and expansion. Government policies will focus on enhancing spending power, improving consumption conditions, and developing innovative consumption scenarios. These will set the tone for the development of the retail industry in 2023.

According to our survey, 85.7% of respondents expect sales growth in 2023. Quality consumption is expected to continue its growth trend. Department stores will continue to carry out in-store renovations and upgrades to improve the shopping experience. They will focus on improving the value of products and services, in order to meet consumers' increasing lifestyle demands. Moreover, department stores are turning to digitalization to enhance operational efficiency, with a focus on refining customer traffic management and enhancing their core competitiveness.

China's Department Stores Report 2022-2023 collects and analyses data from 104 department store operators. The report analyses development trends in the industry in the past year, discusses major issues and challenges facing the industry, and puts forward policy recommendations from retail enterprises to promote the healthy development of the industry. We would like to thank all department store operators who have participated in our survey.

Contents

I. Overview of China's Retail Market Development	4
1.1 The macroeconomy of China	4
1.2 The retail market	5
II. Trends and Development in the Department Store Industry	9
2.1 Revenue and profits affected by COVID-19 resurgence	10
2.2 Breakthroughs in self-operated buyer-model	12
2.3 Increasing efficiency by optimizing cost structure	12
2.4 Stronger online presence including mini programs and live streaming	13
2.5 Stronger membership programmes contribute greater value	13
III. Major Development Issues and Challenges	15
3.1 Lackluster growth due to weak consumption	16
3.2 Mismatch between product appeal and demand	17
3.3 More efforts towards the direct sales model required	17
3.4 Obstacles to further digitalization	20
3.5 Ongoing pressure from online platforms	21
3.6 New challenges to data security	22
IV. Direction of Development and Transformation Initiatives	23
4.1. Accelerating consumption recovery	24
4.2. In-store revamp and upgrades driving consumption	25
4.3. Delivering value to customers	27
4.4. Private traffic becoming crucial for success	27
4.5. Crafting immersive experiences	30
4.6. More integration and restructuring in volatility	31
4.7. Digital upgrading driving refined operations	32
4.8. Pursuing green and low-carbon development	35
V. Recommendations for the Sector's Development	37
5.1 Improving business environment for enterprises	38
5.2 Reducing operating costs	39
5.3 Restoring consumer confidence	40
5.4 Promoting corporate shareholding reform	40

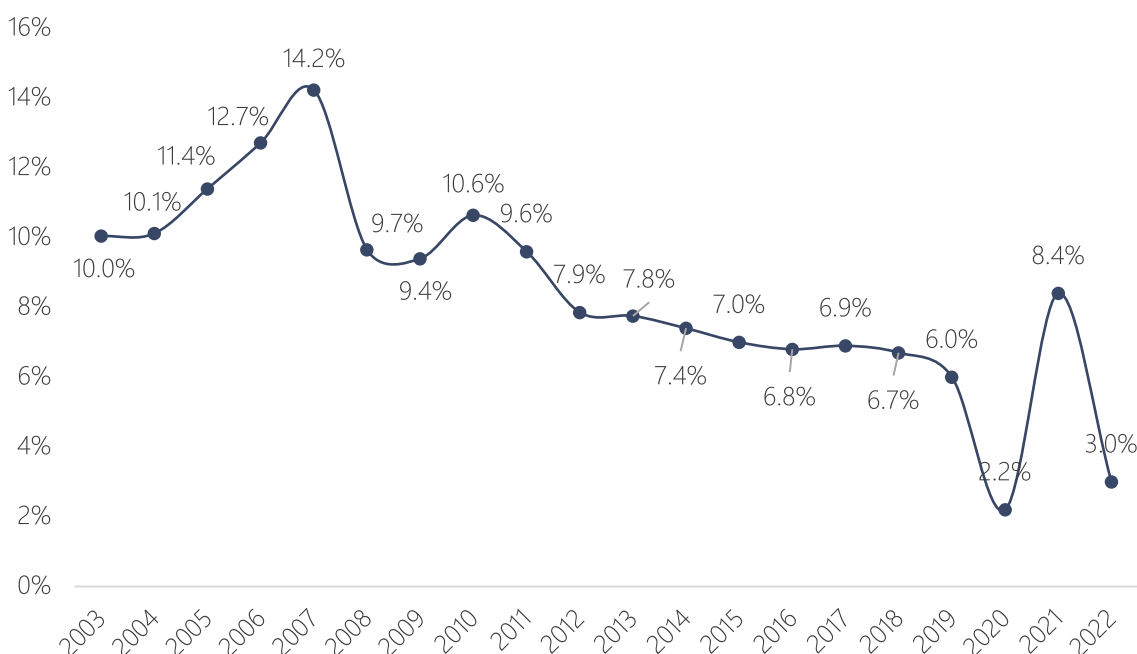
A young man with dark, wavy hair, wearing a green V-neck sweater over a white collared shirt, is smiling and looking at a brown quilted jacket. A young woman with dark hair in a ponytail, wearing a white shirt and a red scarf, is leaning in and whispering something to him. They are in a clothing store with racks of clothes and mannequins in the background.

I. Overview of China's Retail Market Development

1.1 The macroeconomy of China

In 2022, China's gross domestic product (GDP) reached 121,020.7 billion yuan, up by 3.0% year-on-year (Figure 1-1). The value added of the wholesale and retail trades was 11,451.8 billion yuan, up by 0.9% year-on-year; that of transport, storage and post was 4,967.4 billion yuan, down by 0.8% year-on-year; that of hotels and catering services was 1,785.5 billion yuan, down by 2.3% year-on-year; that of real estate was 7,382.1 billion yuan, down by 5.1% year-on-year. The business revenue of service enterprises above designated size grew by 2.7% year-on-year, and the total profit increased by 8.5% year-on-year. The total passenger traffic was 5.6 billion person-times, down by 32.7% year-on-year, and the passenger flows were 1,292.1 billion person-kilometers, down by 34.6% year-on-year.

Figure 1-1. China's GDP growth rate, 2003-2022



Source: National Bureau of Statistics of China; compiled by CCAGM and Fung Business Intelligence

In 2022, the per capita disposable income nationwide was 36,883 yuan, an increase of 5.0% year-on-year. The per capita consumption expenditure nationwide was 24,538 yuan, an increase of 1.8% year-on-year, or a decrease of 0.2% year-on-year in real terms. Specifically, the per capita consumption expenditure on services totalled 10,590 yuan, down by 0.5% year-on-year, accounting for 43.2% of the per capita consumption expenditure. The national Engel's Coefficient stood at 30.5%.

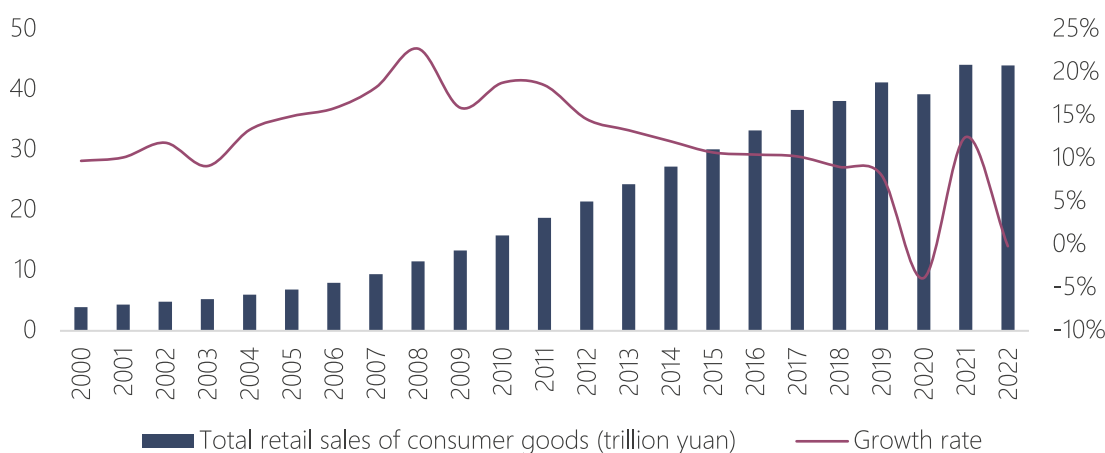
1.2 The retail market

1.2.1 The COVID-19 pandemic disrupts the consumer market

China's total retail sales of consumer goods edged down by 0.2% year-on-year to 43.97 trillion yuan in 2022 (Figure 1-2). Of which, the retail sales of physical goods were up by 0.5% year-on-year, while the catering sales were down by 6.3% year-on-year. Recurring COVID-19 outbreaks caused major disruptions to the recovery in the consumer market.

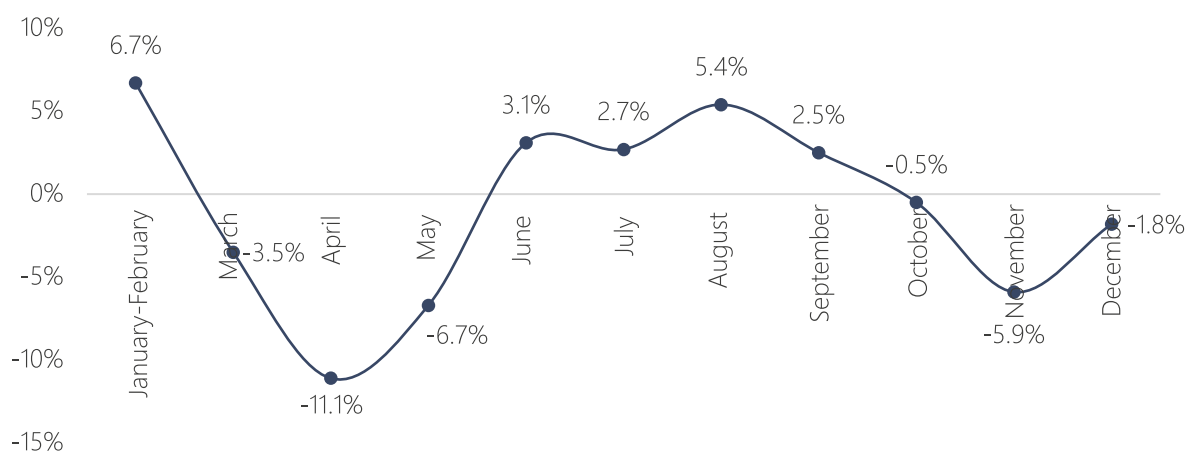
By quarter, total retail sales of consumer goods suffered a significant year-on-year drop in the second quarter amid the COVID-19 outbreaks in Shanghai and other provinces. The implementation of a series of consumption-boosting policies helped push the retail sales growth to the positive territory in the third quarter. However, the COVID-19 surge and the subsequent adjustment of anti-epidemic measures led to a year-on-year decline in retail sales again in the fourth quarter (Figure 1-3).

Figure 1-2. China's total retail sales of consumer goods, 2000-2022



Source: National Bureau of Statistics of China; compiled by CCAGM and Fung Business Intelligence

Figure 1-3. Monthly year-on-year growth rates of total retail sales of consumer goods, 2022



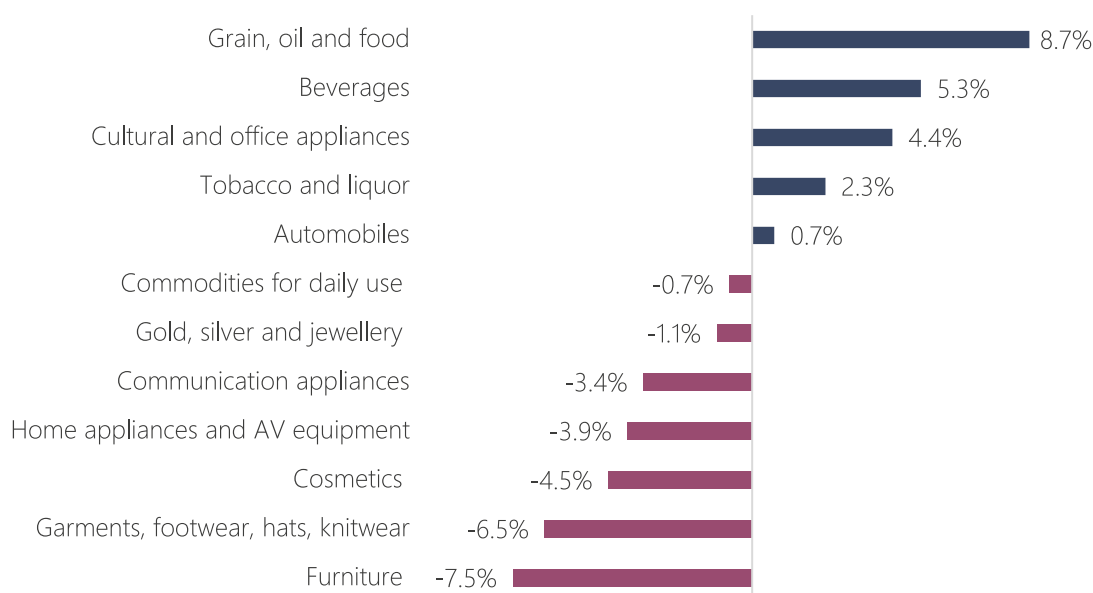
Source: National Bureau of Statistics of China; compiled by CCAGM and Fung Business Intelligence

1.2.2 Robust consumer staples sales accompanied by sluggish consumer discretionary sales

Retail sales of basic consumer staples managed to grow, while those of consumer discretionary categories fell in 2022. Data from the National Bureau of Statistics show that the year-on-year growth in retail sales by enterprises above designated size of 'grain, oil and food', 'beverages', 'cultural and office appliances' and 'tobacco and liquor' registered 8.7%, 5.3%, 4.4% and 2.3% respectively. Meanwhile, product categories hit hard by the pandemic experienced year-on-year declines in retail sales, including 'furniture' (down 7.5%), 'garments, footwear, hats, knitwear' (down 6.5%), 'cosmetics' (down 4.5%), 'home appliances and audio/video equipment' (down 3.9%), 'communication appliances' (down 3.4%), and 'gold, silver and jewellery' (down 1.1%) (Figure 1-4).

Despite the overall decline in private consumption, quality spending managed to hold steady in 2022. With the improvement in market supply and the promotion of the concept of environmental protection, people's demand for quality spending and green consumption is gradually increasing. In 2022, the year-on-year growth in retail sales of 'books, newspapers, magazines', and 'cultural and office appliances' by enterprises above designated size increased by 6.4% and 4.4%, respectively, over the previous year, which were significantly higher than the growth rate of the total retail sales of consumer goods.

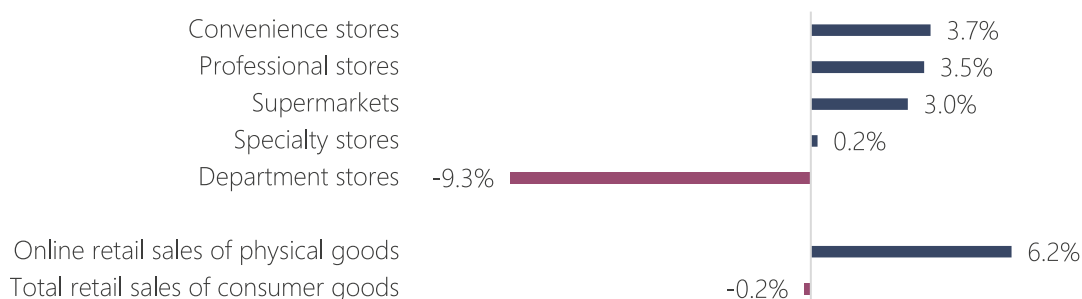
Figure 1-4. Growth rates of retail sales of enterprises above designated size, by product category, 2022



Source: National Bureau of Statistics of China; compiled by CCAGM and Fung Business Intelligence

By retail format, among retail enterprises above designated size, the retail sales of supermarkets, convenience stores, professional stores and specialty stores increased by 3.0%, 3.7%, 3.5% and 0.2%, respectively, over the previous year, while the retail sales of department stores fell by 9.3% (Figure 1-5).

Figure 1-5. Growth rates of retail sales of enterprises above designated size, by retail format, 2022

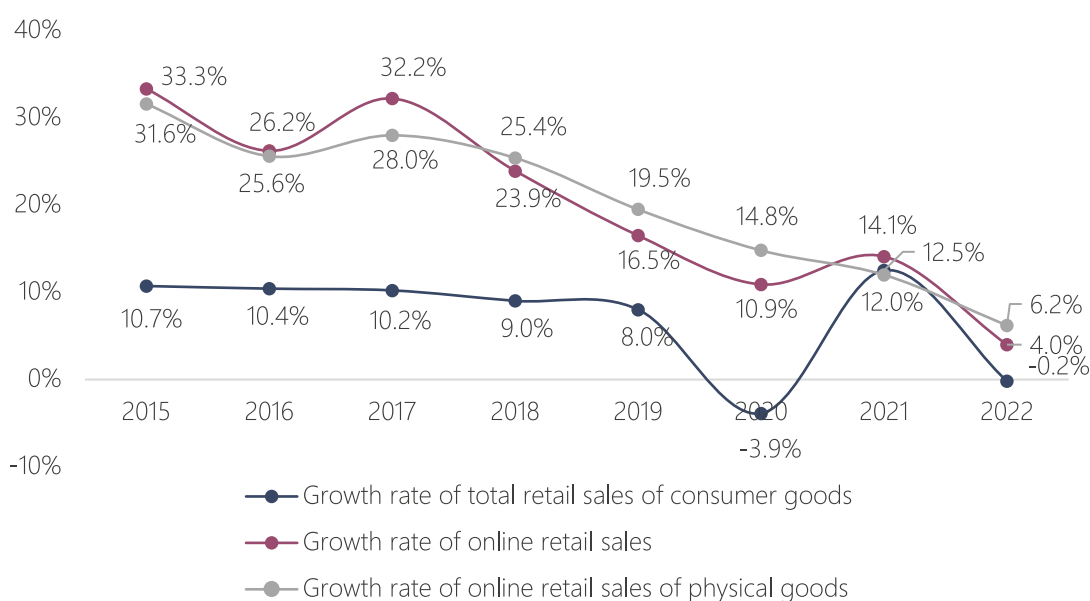


Source: National Bureau of Statistics of China; compiled by CCAGM and Fung Business Intelligence

1.2.3 Online consumption consolidates pandemic gains

As offline consumption scenarios were impeded by the pandemic, retailing continued its shift to online. With the maturation of mobile Internet technology and the improvement in the logistics and distribution systems, online shopping has continued to consolidate itself as the driving force for the growth of the consumer market. In 2022, the national online retail sales of physical goods grew by 6.2% year-on-year (Figure 1-6); of which, the online retail sales of food, clothing, and consumer goods for daily use increased by 16.1%, 3.5% and 5.7%, respectively, over the previous year.

Figure 1-6. Year-on-year growth rates of total retail sales of consumer goods, online retail sales and online retail sales of physical goods, 2015-2022



Source: National Bureau of Statistics of China; compiled by CCAGM and Fung Business Intelligence

Online retailing has grown rapidly in recent years. However, its growth rate has gradually slowed since 2015, and online retail sales registered a similar growth rate as total retail sales in 2021.

In 2021, online retail sales of physical goods made up 24.5% of total retail sales of consumers goods, down from 2020 and representing the first year-on-year decline since records began in 2015. In 2022, the proportion of online retail sales of physical goods in total retail sales increased by 2.7 percentage points to 27.2% (Figure 1-7), which was attributable to the impact of the COVID-19 pandemic on offline consumption. As the growth rate of online retail sales of physical goods converges with the overall growth rate of retail sales of consumer goods, and as offline sales gradually recover, it is expected that the proportion of online retail sales of physical goods in total retail sales will stabilize.

Figure 1-7. Growth rate of online retail sales of physical goods and their proportion in total retail sales of consumer goods, 2015-2022



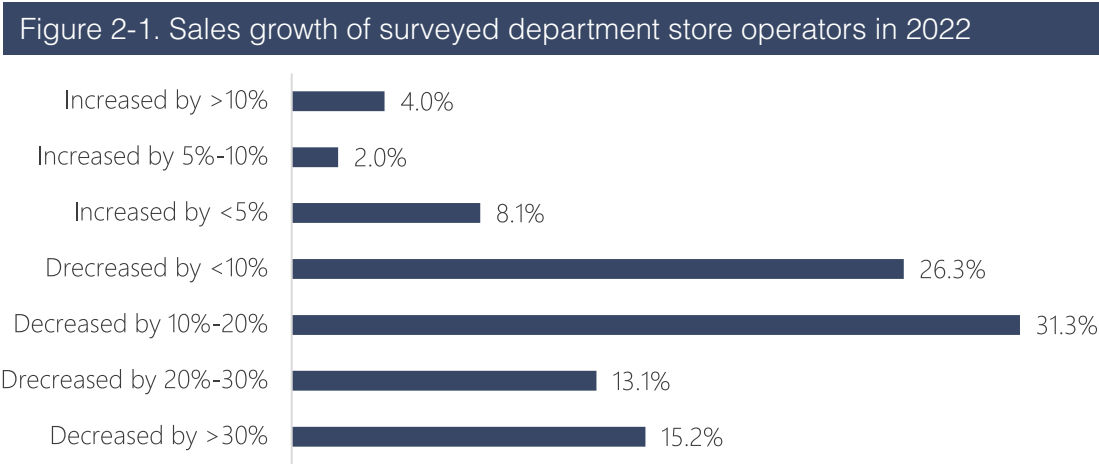
Source: National Bureau of Statistics of China; compiled by CCAGM and Fung Business Intelligence



II. Trends and Development in the Department Store Industry

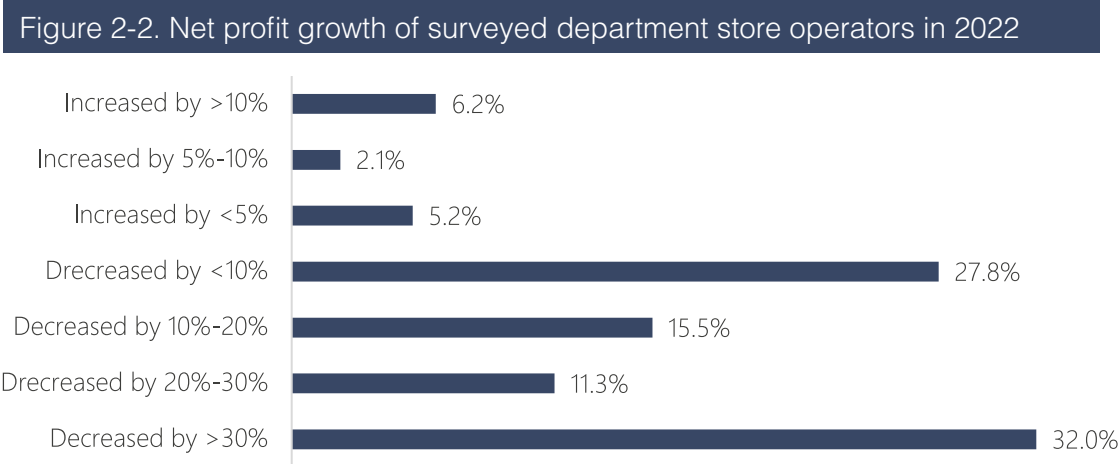
2.1 Revenue and profits affected by COVID-19 resurgence

A joint survey by the CCGAM and Fung Business Intelligence shows that 85.9% of surveyed department store operators saw a decline in sales revenue in 2022. Among them, 26.3% had a revenue decrease of 10% or less, 31.3% had a decrease between 10% and 20%, and 28.3% saw a decrease of over 20% (Figure 2-1).



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

Profits were also down across the board in 2022, with 86.6% of surveyed department store operators reporting a downturn. Among them, 27.8% saw a net profit decline of 10% or less, 15.5% saw a decline between 10% and 20%. 43.3% saw a decline of over 20%, with 32% experiencing a net profit decrease of over 30% (Figure 2-2).

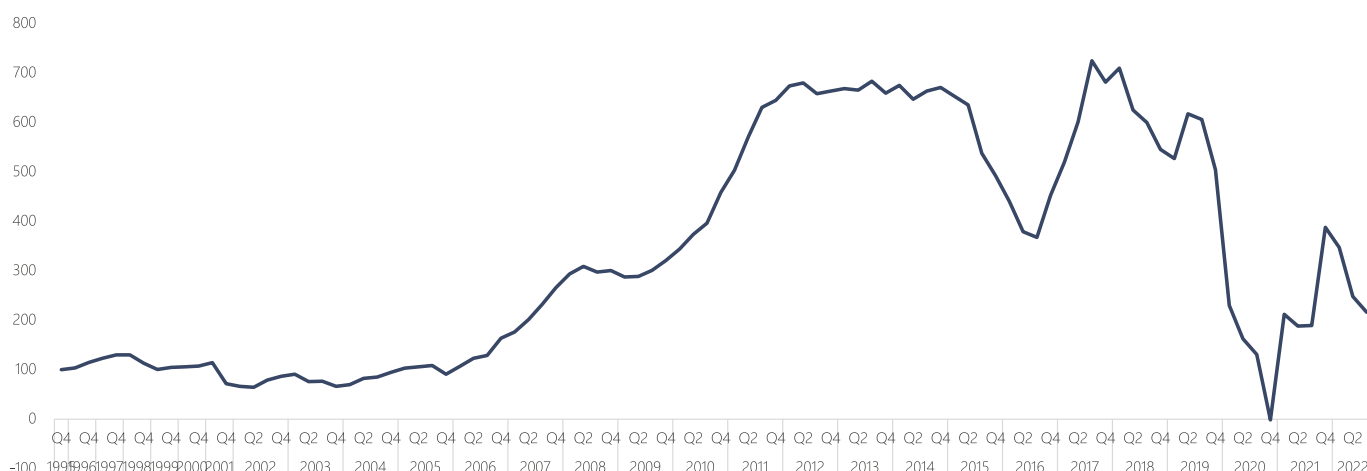


Source: National Bureau of Statistics of the PRC; compiled by CCAGM and Fung Business Intelligence

In order to better reflect the long-term operating performance of the department store industry, the CCAGM has developed the Large Retail Enterprise Development Indexes. These indexes are based on data collected from major publicly listed retail enterprises and are periodically updated according to their latest financial reports. The index series include the Large Retail Enterprise Revenue Index and the Large Retail Enterprise Net Profit Index. The base period for each is the fourth quarter of 1995, where the index is set at 100.

In the third quarter of 2022, the Large Retail Enterprise Revenue Index was 1,340 points, 200 points lower than it was during the COVID-19 outbreak in the fourth quarter of 2019 (Figure 2-3). China adjusted its anti-epidemic measures in the last month of 2022, causing COVID-19 infections to surge nationwide. As a result, the upcoming release of 2022 full-year financial results is expected to lead to another recent low in the index, indicating a marked decline in the department store industry's overall revenue in 2022 – even greater than that in 2020. This is due to multiple resurgences of the COVID-19 pandemic throughout 2022, which significantly impacted spending on consumer discretionary.

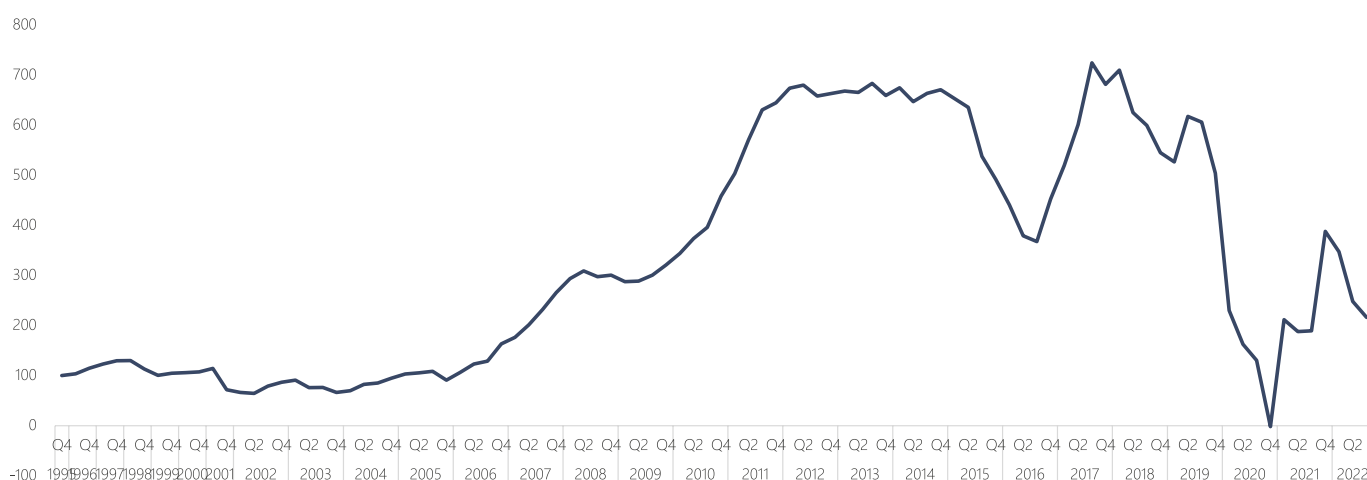
Figure 2-3. Large Retail Enterprise Revenue Index



Source: CCAGM, based on publicly available data from listed enterprises

The Large Retail Enterprise Net Profit Index fell into the negative territory for the first time in the fourth quarter of 2020 due to the COVID-19 pandemic (Figure 2-4), reaching an all-time low of -2 points as the department store industry was incurring losses as a whole. The index rebounded in 2021 as the industry showed signs of recovery. The index fell once again in 2022 but still above the level in the fourth quarter of 2020, as department store operators made efforts to reduce costs in order to limit any further decrease in profits.

Figure 2-4. Large Retail Enterprise Net Profit Index



Source: CCAGM, based on publicly available data from listed enterprises

2.2 Breakthroughs in self-operated buyer-model

Despite slow progress in the development of the buyer-model in the department store industry, there have been several breakthroughs in recent years, particularly regarding high-end products and designer brands.

In 2023, Beijing Hualian Group opened the new DT51 mall, which is targeted at high-income families. Each floor features a DT SELECT – a large-scale multi-brand store for renowned international brands and designer brands. There are two DT SELECT FASHION stores – one for boutique designers, and the other for women's fashion and shoes. DT SELECT MOM&ME offers a large selection of children's and family items. Self-operated buyer-model shops make up nearly half of the mall's area, with DT51's in-house buyers sourcing high-quality fashion and designer items from around the world. This helps differentiate its product portfolio, allowing the mall to stand out among competitors.

ICON&STORIES was a well-known Beijing-based chain of buyer shops, which focused on niche designer brands from Europe and the US. Its trademark was acquired by Intime Shopping in 2021, and several ICON stores in Beijing were rebranded to Shopping in 2022. The buyer shop is an important part of the direct sales business, and this acquisition reflects department stores' growing interest in the buyer shop model. Direct sales business improves brand differentiation, increases profit margins, and reduces dependence on brand owners, making it an attractive business model. Many department stores are developing their in-house buying teams, while others are tapping into the market through acquisitions.

In early 2022, Wangfujing Group's Beijing Dong'an Market reopened as Dong'an Luxemporium, a self-operated buyer-model department store. It mainly features international high-end luxury goods, independent designer brands and high street brands. It is Wangfujing's first buyer-model department store, and is an important step for Wangfujing to explore the transformation and innovation of its department store business.

2.3 Increasing efficiency by optimizing cost structure

The digitalization of the department store industry was initially focused on front-end objectives such as boosting traffic and sales. However, as front-end development began to plateau, some companies have shifted their focus to back-end operations such as digitalized management, hoping that these changes will reduce costs and increase efficiency.

One example is Chongqing Department Store's digital transformation of its financial system. It has shifted from informatization, which involves many manual operations and inefficient management layers, to digitalization driven by closed-loop data and technology to achieve real-time management. The integration of financial, management, and business systems facilitates contract management and accounts payable and receivable management. It also allows the management to integrate financial data such as payment processes, risk assessments, invoice statuses, and more into their analyses, which in turn will help the management make better decisions.

2.4 Stronger online presence including mini programs and live streaming

Nowadays, retail enterprises are competing for both online and offline traffic. To supplement their efforts, they are leveraging online service capabilities such as customer management and online operations. For example, WeChat has been a core traffic source for retail enterprises, and the platform's mini programs can help address various pain points. By leveraging mini programs, retail enterprises can create customized business platforms at a relatively low cost, and establish connections between shopping malls and consumers, and between products and consumers.

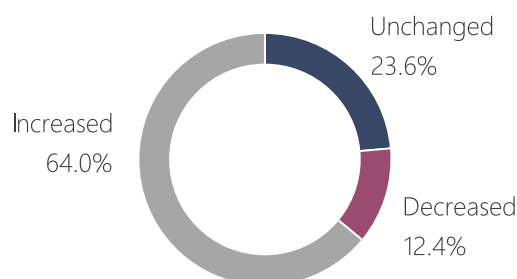
Our survey shows that the department store industry greatly values their online business: 86.5% of respondents have launched online businesses (Figure 2-5). Among these enterprises, 64% indicated that the proportion of online sales had increased over the past year (Figure 2-6).

Figure 2-5. Penetration of online business among surveyed department store operators



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

Figure 2-6. Change in the proportion of online business over the past year among surveyed department store operators



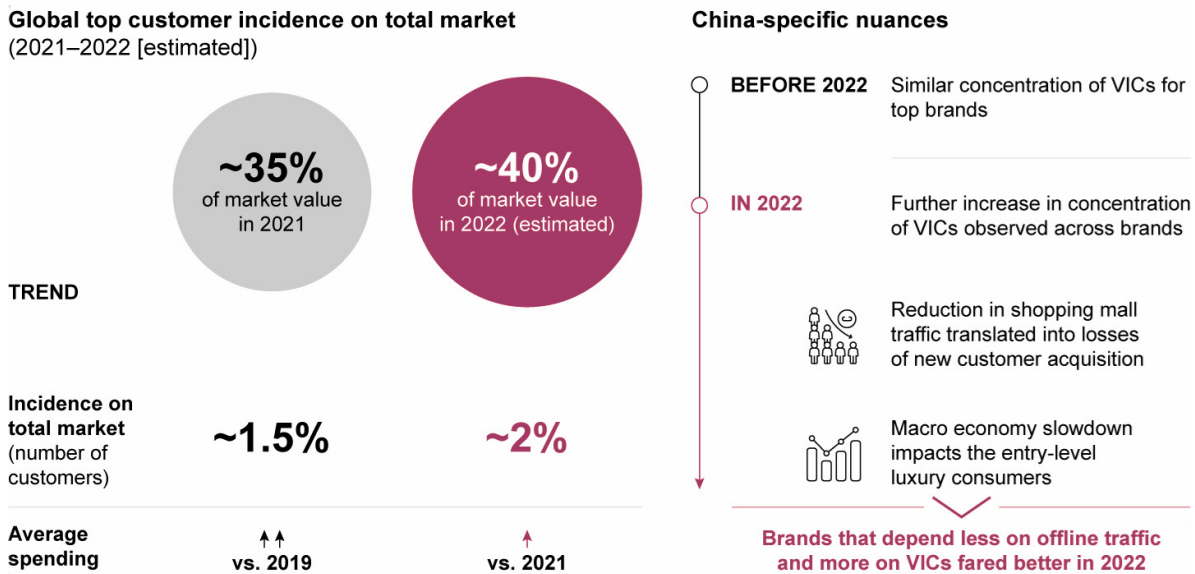
Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

2.5 Stronger membership programmes contribute greater value

Members are a highly valuable resource for department stores, as they make up a significant portion of the sales volume – particularly high-level members who are willing to spend more. For example, Hangzhou Tower's 2021 annual report showed that its key members, who made up less than 15% of all members, contributed to nearly 88% of total member sales. Meanwhile, the Gold and Silver members of Chongqing Department Store account for only 12% of the total membership, but they contribute to 75% of member sales and half of the total sales.

According to Bain's latest research on the luxury goods market, the top 2% of customers contribute about 40% of luxury sales globally (Figure 2-8). China's luxury market contains a relatively high concentration of core customers, and this has become more pronounced since 2022 as sales became increasingly concentrated among this group – even higher than the global average.

Figure 2-8. Proportion of top customers in the global market, 2021-2022



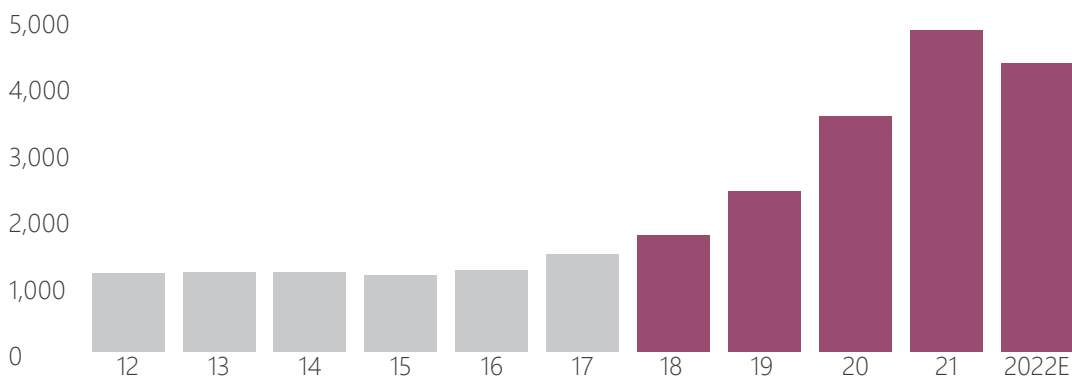
Source: 'Setting a New Pace for Personal Luxury Growth in China' report by Bain & Company, 2023

2.6 Greater differentiation as high-end department stores maintain growth

Despite the pandemic, high-end department stores have continued to thrive. China's high-end retail market has grown rapidly in recent years, attracting many international brands to enter the market – such as renowned department store Galeries Lafayette, which opened its third store in China in 2022. Cheungdu SKP also opened for trial operation at the end of 2022, featuring over 1,300 global first-tier brands. Although the growth rate of high-end department stores in 2022 has slowed compared to previous years, they have generally outperformed other retail enterprises under unfavorable market conditions.

The luxury market has not been immune to the impact of the pandemic. According to Bain's 2022 report on China's luxury market, although the market size doubled from 2019 to 2021, its growth momentum weakened in 2022, with the personal luxury goods market declining by 10% year-on-year. Furthermore, various luxury categories and most brands experienced a sharp decline for the first time in five years (Figure 2-9).

Figure 2-9. Personal luxury sales in the Chinese Mainland (billion yuan)



Source: 'Setting a New Pace for Personal Luxury Growth in China' report by Bain & Company, 2023

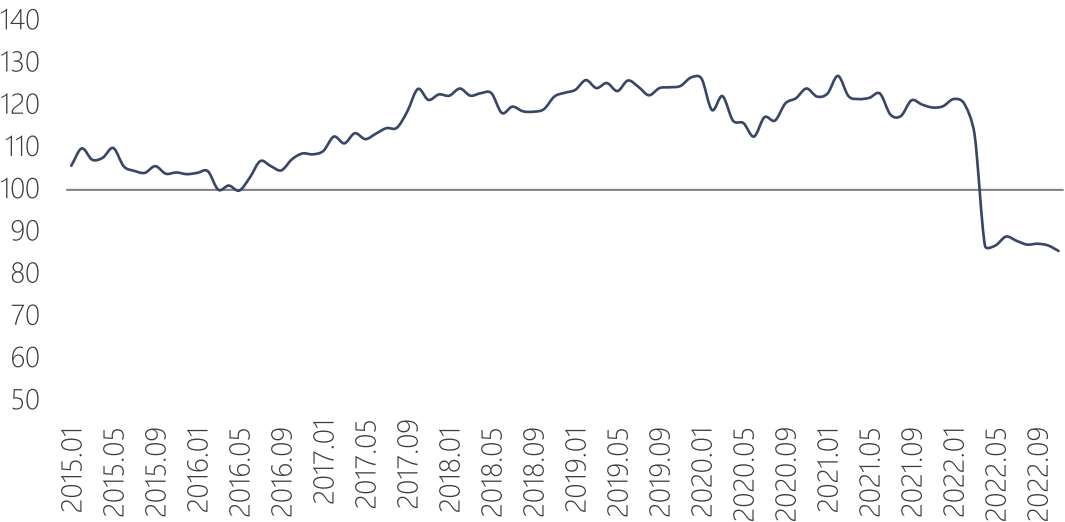
A photograph of two young women in professional business attire. The woman on the left is wearing a white blazer over a light-colored turtleneck and is gesturing with her right hand while looking at a tablet. The woman on the right is wearing a brown blazer and is looking at the tablet with a slight smile. They are standing in front of a modern building with a glass facade. The image has a semi-transparent blue overlay with a grid pattern.

III. Major Development Issues and Challenges

3.1 Lackluster growth due to weak consumption

The 2022 Central Economic Work Conference pointed out that China's economic recovery is facing pressures from a shrinking demand, supply shocks, and weakening expectations. The consumer confidence index released by the National Bureau of Statistics dropped sharply to 86.7 in April 2022 (Figure 3-1), and reached an all-time low in November 2022. However, as China has been adjusting its epidemic measures, consumer confidence is expected to rebound in 2023.

Figure 3-1. Consumer Confidence Index



Source: National Bureau of Statistics of China; compiled by CCAGM

Household savings continued to increase amid weak consumption. According to statistics from China's central bank, the increase in RMB deposits reached 26.26 trillion yuan in 2022, up by 6.59 trillion yuan from the previous year. Among them, household deposits increased by a record 17.84 trillion yuan as low consumer confidence led to an increase in savings.

These conditions pose significant challenges to the department store industry. According to our survey, 76.9% of surveyed department store operators believe that insufficient spending power and sluggish growth are the main challenges faced by the industry (Figure 3-2).

Figure 3-2. Major challenges encountered by surveyed department store operators



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

3.2 Mismatch between product appeal and demand

Product appeal in the department store industry should come from the supply chain rather than through management of external brands. According to a report jointly released by the CCAGM and Heyi Consulting, how consumers spend their time has changed significantly over the past decade. Nowadays, consumers spend over half of their time on non-consumption activities such as work, household tasks, transportation and watching TV; around 10% of time is spent with family and on socializing with friends; 22% is spent on personal enjoyment such as leisure, personal care, fitness, reading, education, etc. This leaves less than 15% of their time for shopping and dining.

To attract consumers' attention, brand owners and online retailers have made efforts to improve their supply chains and operational efficiency. On the other hand, physical retailers have leveraged various consumption scenarios to integrate retail consumption with leisure and social activities – this is a key advantage that cannot be replicated by online channels.

In the past, physical retailers leveraged either premium commercial properties to serve high-end customers, or chain and large-scale commercial properties to serve mass market customers. However, the changing retail landscape has led to increasing consumer stratification, meaning that different business models must be adopted to cater to specific value propositions, such as meeting consumers' basic needs through the self-operated model, providing a one-stop experience through improving product offerings and operational efficiency, and offering higher-level products, services, scenarios, marketing, etc. through multiple models such as leasing, joint operations, distribution, and self-operation.

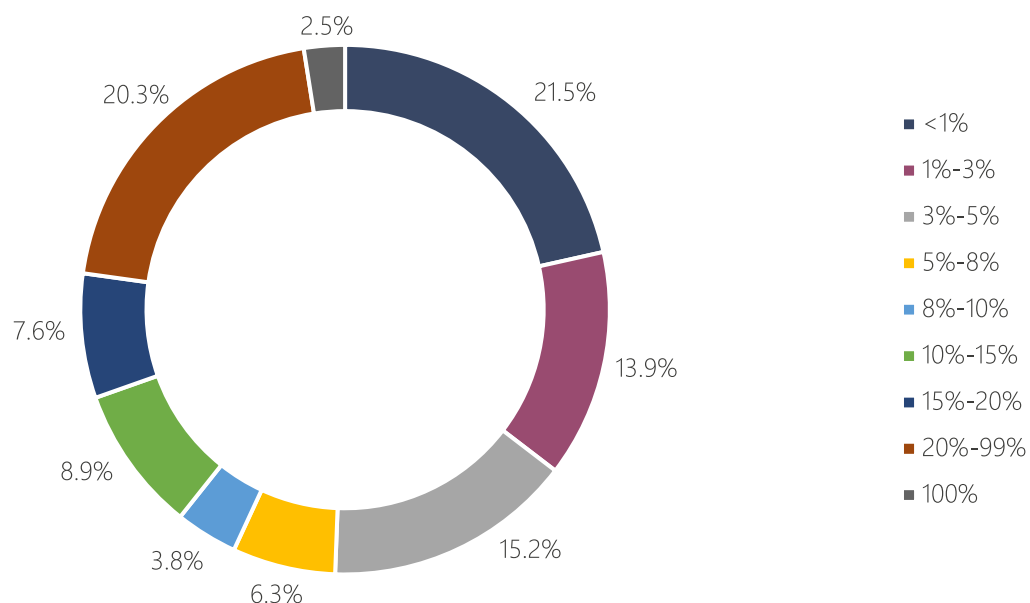
To improve supply chain efficiency, physical retailers must provide more efficient solutions, services, and experiences based on local consumer preferences, rather than simply conducting management of external brands.

3.3 More efforts towards the direct sales model required

Currently, China's department stores mainly operate on the traditional concession model, which is asset-light and incurs less capital investment and labour costs. However, it also limits department stores' product management capabilities. As a result, many department store operators are now aiming to transition towards the direct sales business model.

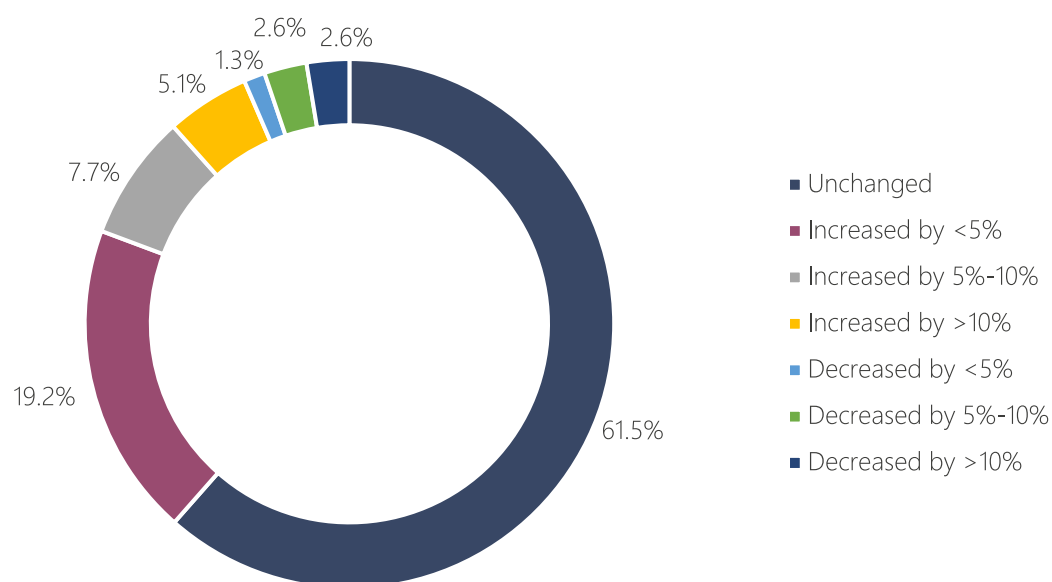
Our survey shows that 76.9% of respondents have already engaged in direct sales business, but for most of them, direct sales business makes up less than 15% of their overall business (Figure 3-3). Compared with the previous year, 61.5% of respondents said that the proportion of direct sales business has not changed; 32.1% reported an increase, but most companies have seen a small increase of less than 5%, indicating slow progress (Figure 3-4). When asked about plans to expand their direct sales business in the next year, 57.5% of respondents said they would not continue to expand, while 42.5% will continue to expand, indicating that progress in this area is limited.

Figure 3-3. Proportion of direct sales business among surveyed department store operators



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

Figure 3-4. Change in the proportion of direct sales business compared to the same period of the previous year among surveyed department store operators



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

According to the survey, the top challenges in developing direct sales business are: the substantial amount of working capital needed, a lack of skilled buyers, a lack of suitable brands or suppliers, and inexperienced management (Table 3-1).

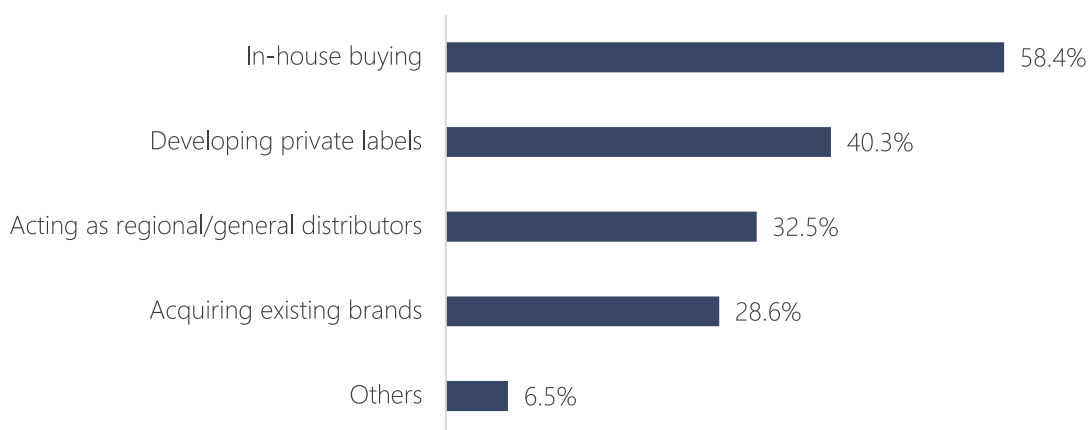
Table 3-1. Major challenges encountered by surveyed department store operators when developing direct sales business

Rank	Challenge
1	Requires a substantial amount of working capital
2	Difficult to train a professional buying team
3	Hard to find suitable suppliers/brands to collaborate with
4	Lack of management expertise and experience
5	Hard to grasp consumers' needs
6	Difficulties in retaining talents
7	Internal organizational problems

Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

In terms of direct sales business models, the most common one is in-house sourcing, with 58.4% of department store operators adopting this model in their direct sales business; the second is developing private labels, followed by acting as regional/general distributors, and acquiring existing brands (Figure 3-5).

Figure 3-5. Types of direct sales models adopted by surveyed department store operators

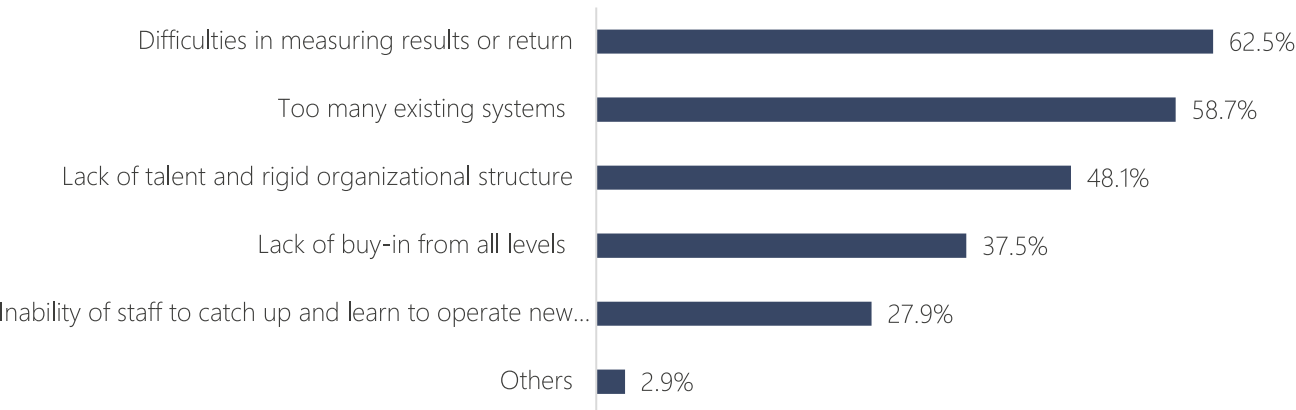


Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

3.4 Obstacles to further digitalization

As digitalization continues across the department store industry, department store operators face several challenges. The biggest challenge is conducting input-output analysis or quantifying the impact of digital initiatives – according to our survey, 62.5% of surveyed department store operators believe this is the greatest challenge in the process of digitalization. Many department store operators rely on outdated IT systems that are over a decade old and require upgrading or replacement. However, the impact of digitalization might not be directly reflected in sales growth, but in rather less visible aspects such as efficiency improvement or better customer responsiveness. This difficulty in measuring results or return affects decision-making around digital investment, and enterprises have remained reluctant to increase their investments (Figure 3-6).

Figure 3-6. Difficulties faced by surveyed department store operators in the process of digitalization

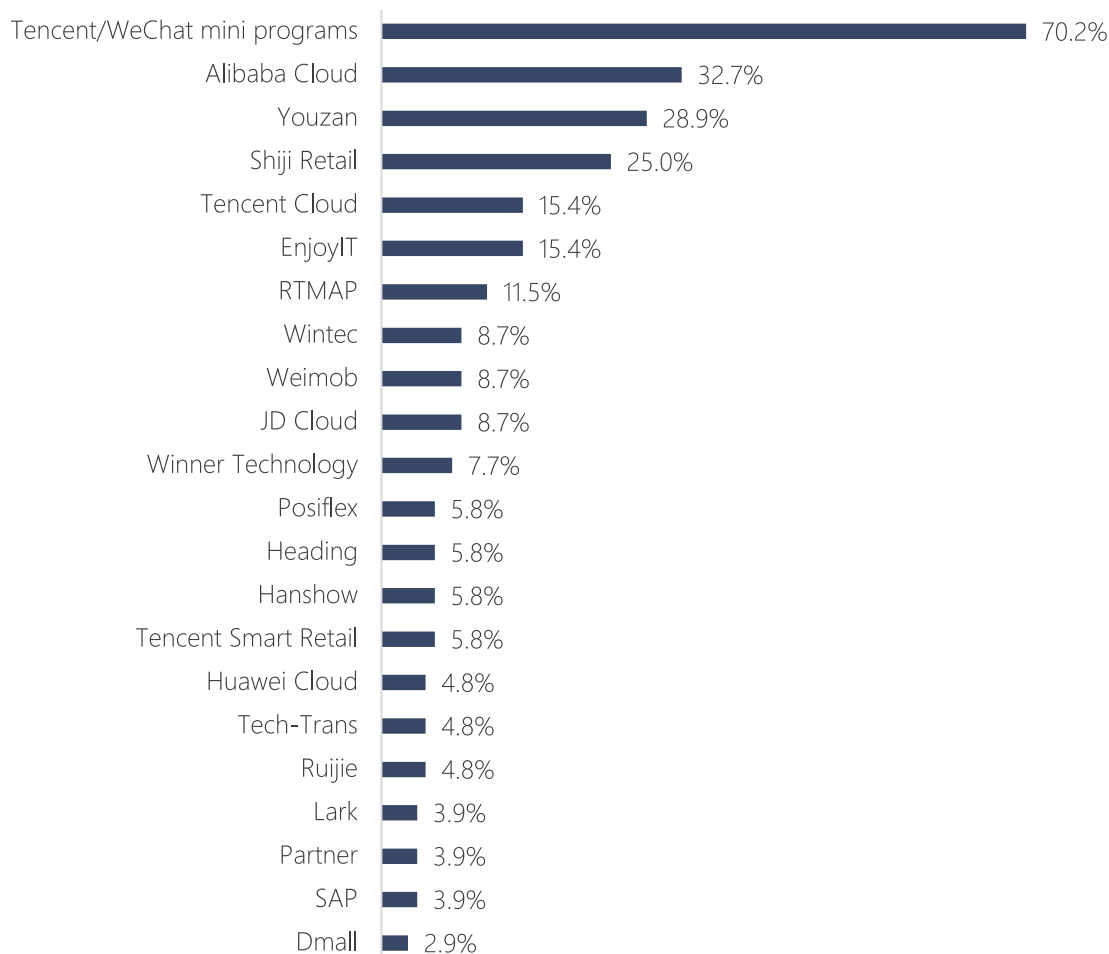


Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

Furthermore, most department store operators currently rely on many disjointed internal systems from different external service providers. This poses a significant challenge to digitalization, as these systems are not integrated, and the cost to connect them can be prohibitive. Moreover, these systems are often outdated and lack the scalability and capabilities to meet the current needs of enterprises. According to a CCAGM survey on the digital needs of retail enterprises, most respondents were dissatisfied with their existing customer relationship management (CRM) systems, which have become obsolete. For example, previous generations of CRM systems simply enabled membership management and one-way communication from enterprises to customers. However, nowadays, CRM systems are expected to be an open, integrated platform.

Service providers have played an important role in the digitalization process of retail enterprises. In recent years, Tencent's WeChat mini programs have become the most popular service across the industry. Other major service providers include Alibaba Cloud, Youzan, Shiji Retail, Tencent Cloud, and EnjoyIT (Figure 3-7). In addition to the efforts of retail enterprises themselves, the improvement in digital capabilities of the many service providers will be crucial in facilitating digital upgrades across the industry.

Figure 3-7. Systems or technologies from service providers used by surveyed department store operators



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

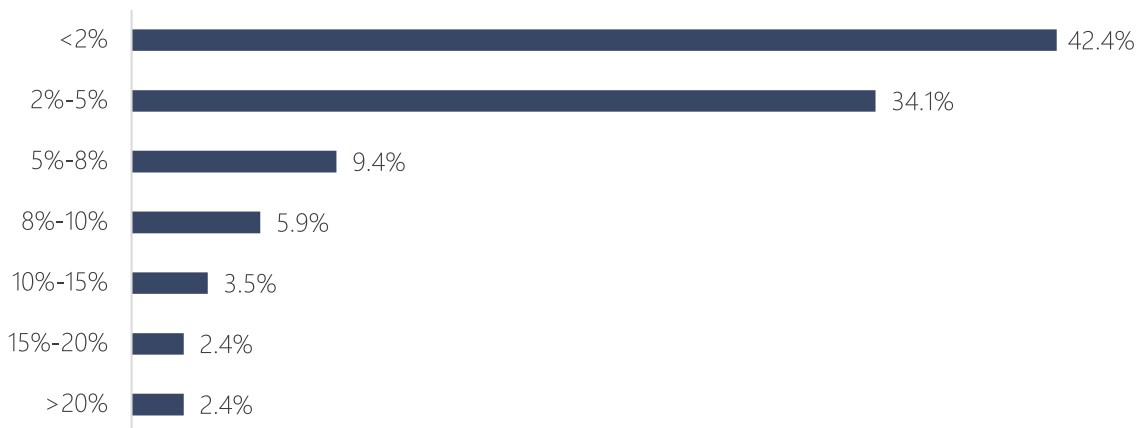
3.5 Ongoing pressure from online platforms

According to our survey, 74% of surveyed department store operators view online platforms and e-commerce as major challenges to the industry as they continue to affect offline retail. From e-commerce platforms such as Taobao and JD.com to live streaming platforms such as Douyin, online channels have continued to evolve and put pressure on offline retail enterprises. However, the proportion of online retail has begun to stabilise over time – a trend that is expected to continue.

In response to these challenges, department stores have continued to develop their online business; however, due to the positioning of department store retail and consumer habits and perception towards department stores, online business remains an extension of their physical store space, rather than another parallel channel.

Our survey shows that 42.4% of respondents generate less than 2% of sales through mini programs; and 34.1% of respondents generate between 2% and 5%. In other words, 76.5% of respondents generate less than 5% of their total sales through mini programs (Figure 3-8).

Figure 3-8. Proportion of mini program sales to total sales among surveyed department store operators



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

3.6 New challenges to data security

Retail enterprises process a huge amount of data related to consumers, transactions and products, but their data governance levels are often low. As consumers' legal awareness continues to grow and government regulations become more and more advanced, the security standards for data storage and usage have become increasingly stringent. This situation, if not handled properly, may escalate to the administrative or even judicial level.

Several laws and regulations related to data security have been enacted in China in recent years. There are three key laws regulating data security: the "Cybersecurity Law of the People's Republic of China", which mainly deals with network and network information security, data localisation and cybersecurity; the "Data Security Law of the People's Republic of China", which covers the creation, use, and protection of data; the "Personal Information Protection Law of the People's Republic of China", which protects the rights to and fair use of personal information. The two relevant regulations are the "Regulations on Protecting the Security of Critical Information Infrastructure" and the "Regulations on the Management of Cybersecurity Data". Furthermore, the "Civic Code of the People's Republic of China" includes a special chapter on privacy and personal information protection, establishing a civil law foundation for such protections are serving as a legal basis for compliance.

The advent of these new regulations creates new data compliance requirements for retail enterprises. However, there is still a long road ahead for retail enterprises to achieve data compliance, as they face several major challenges. Firstly, senior management has yet to direct sufficient attention to the issue. Secondly, many retail enterprises possess a large amount of historical data that was collected without any relevant compliance requirements, and transforming this data can be costly. Thirdly, data security is in its infancy, and there is a lack of corresponding standards and guidelines for reference. Finally, many systems used by retail enterprises are provided by external service providers, which means that industry-wide cooperation is needed to ensure consistency in adherence to regulations.



IV. Direction of Development and Transformation Initiatives

4.1. Accelerating consumption recovery

As set out in the 2022 Central Economic Work Conference, China will focus on boosting domestic demand by prioritizing the recovery and expansion of consumption. The country will enhance consumption capacity, improve consumption conditions, and innovate consumption scenarios. These set the tone for the development of the retail industry in 2023.

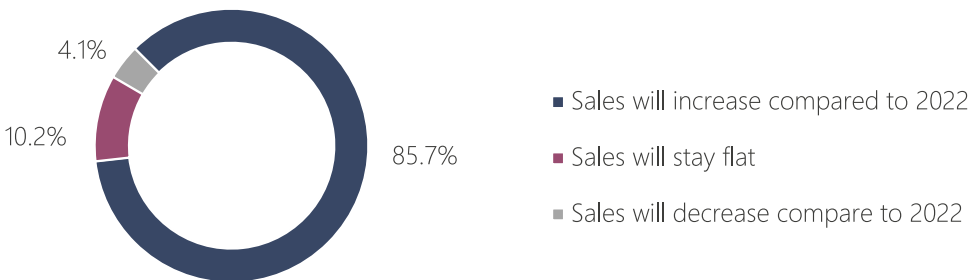
The recovery of the retail industry will vary greatly across different retail formats and categories. In terms of retail format, businesses that focus on providing high-quality, personalized and discretionary products and services, such as department stores, shopping centres, and outlet malls, are expected to experience a strong rebound. For example, in 2021, during the times when the pandemic situation improved, department stores experienced a stronger rebound than other retail formats, with a remarkable increase in sales and profits. Considering that the market confidence has significantly improved, the department store industry is likely to experience an even greater growth this year than in 2021.

In terms of product category, as people no longer stay at home due to the relaxation of dine-in restrictions and the return to workplace, demand for certain consumer staples may decline. However, there may be increase in demand for other categories. Postponed weddings due to the pandemic may drive demand for gold, silver, and jewelry, while increased business activities may result in greater demand for beauty and formal wear. Additionally, as people seek to engage in tourism and leisure activities, outdoor products may experience a surge in demand.

Overall, the retail industry is optimistic about the business outlook for 2023. According to a survey jointly launched by the CCAGM and Fung Business Intelligence, 85.7% of surveyed department store operators expect sales growth in 2023, a substantial increase from last year's 41.2%. Among them, more than 40% of respondents expect sales to increase by more than 10%. About 10% of respondents expect sales will stay flat as in 2022, while only 4.1% of respondents expect a decline in sales (Figure 4-1).

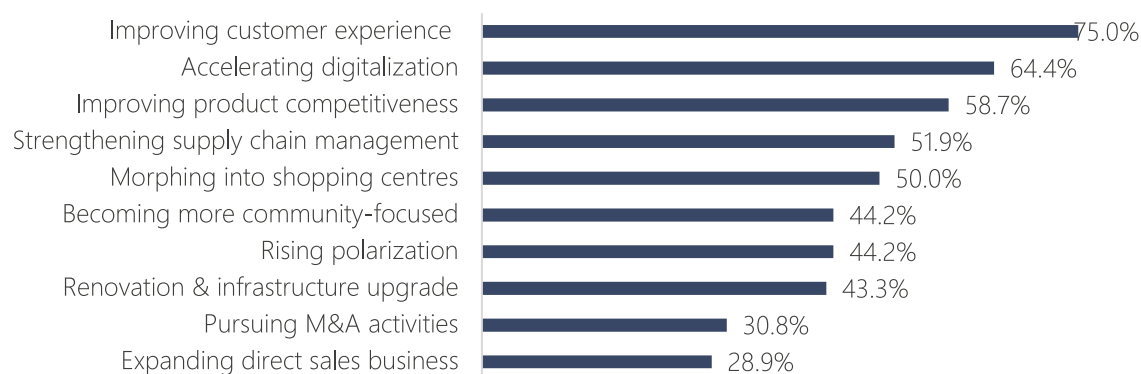
75% of the survey respondents said that in the next 1-3 years, the department store industry should focus on improving customer experience (Figure 4-2). Other key areas of focus for the industry include accelerating digital transformation and pursuing O2O integration (64.4%), improving product competitiveness (58.7%), and strengthening supply chain management (51.9%). Among them, it is increasingly important for department store operators to improve product competitiveness, with the proportion of respondents who picked this option increasing by nearly 20 percentage points compared to last year.

Figure 4-1. 2023 sales expectations among surveyed department store operators



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

Figure 4-2. Key development goals of surveyed department store operators for next 1-3 years



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

4.2. In-store revamp and upgrades driving consumption

Despite the pressure on the retail industry in the wake of the pandemic, China's consumption upgrade has continued to accelerate. On the one hand, Generation Z consumers have gradually become the driving force of domestic consumption. They pay close attention to personalization and interactive experiences, and have higher requirements for innovative consumption scenarios. On the other hand, most dated shopping malls are no longer attractive to consumers.

In recent years, department store operators have actively adapted to the changes of the times, and undergone revamping, transformation or upgrading projects from the inside out accordingly to their own characteristics and advantages. These involve store interior design, product mix, services, and even market repositioning. Through revamping and upgrading, department stores create a youthful and trendy retail space, which will help increase customer flow and sales.

Many department stores have improved the shopping environment through store layout optimization and hardware adjustments. Beijing CapitaMall Grand Canyon has reopened with a new look. Green plants and flowers of different generations and origins are placed in the mall, forming a tropical rainforest-like vegetation landscape. In addition, the rooflight area is widened to introduce more natural light for plant growth. Waterfalls, streams, and ponds are built at different storeys and are interconnected, creating a more natural environment.



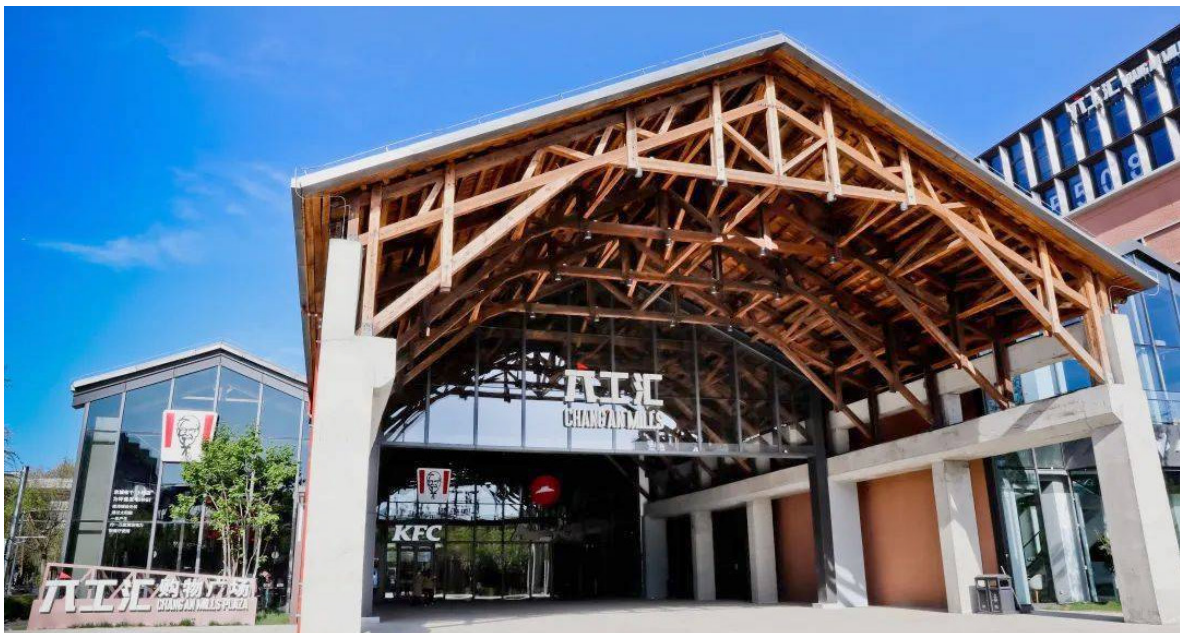
An 'urban oasis' unfolds in CapitaMall Grand Canyon, Beijing
Image Source: Beijing Daily

Department store operators have been adjusting their brand portfolios and leveraging new stores and first stores to boost consumer spending. For example, Huizhou Huamao Place has implemented a brand elimination system. As many as 198 brands have been introduced throughout 2022, 130 of which are being introduced to Huizhou for the first time, covering beauty, jewelry, new-energy vehicles, high-end watches, dining, fashion and many other categories.

The cosmetics department on the first floor of Nanjing Central Shopping Mall has been fully upgraded and renovated, and newly introduced famous beauty brands such as Dior, 3CE, Valentino, and Yue Sai. In order to provide more comprehensive beauty and skincare services, an exclusive beauty salon for VIP members has also been added, bringing professional skincare services and superior experiences to high-end consumers.

Besides partial adjustments, some department stores have even taken fundamental transformations. Wuhan Trend Box X118, located on the century-old Jiangnan Road Pedestrian Street, was formerly the Wuhan New World Fashion Plaza with a history of 20 years. It has been transformed into a diversified and composite trendy space with a focus on trendy culture and sports. Trend Box X118 targets the young Generation Z consumers and creates a themed and trendy space exclusive to this group from multiple dimensions such as consumption scenarios and innovative retail formats.

In recent years, with the continuous promotion of urban renewal in China, many old properties have been transformed into department stores, injecting new life into them. For example, Beijing Chang'an Mills (Liugonghui) Shopping Plaza was transformed from the old factory buildings in Shougang Park, a century-old industrial heritage site. The project has preserved the original 'No.2 Pump Station' and '7000 Fan Room', thus retaining the original industrial style. The Splendors, a grand shopping centre in Tianjin, was rebuilt from the former No.1 Thermal Power Plant. The overall renovation has retained the original space structure of the old plant buildings, while incorporating modern elements.



*The east entrance of Chang'an Mills (Liugonghui) Shopping Plaza, located at Shougang Park, Beijing
Image Source: Sohu*

4.3. Delivering value to customers

Looking back at the successful retail companies over the past few years, it is crucial for retailers to deliver customer-centric value propositions: either it is the unique products of high-end luxury stores, or the affordable yet high-quality offerings of essential consumer goods. The ongoing impact of the pandemic has led to a significant number of consumers experiencing a decrease in disposable income, resulting in declining confidence in spending. Therefore, the pursuit of value has become even more pronounced among consumers.

From a global perspective, value retailers mainly include discount stores (including soft discounts, hard discounts, and clearance discounts), dollar stores, membership stores, and outlet malls:

- Of these, hard discount stores have emerged as the most popular format in markets with downward economic trends, and have experienced rapid growth in Europe. While they have been introduced to China in recent years, their scale remains relatively small compared to other markets.
- Clearance discount stores have emerged in the Chinese market in recent years, but their scale is limited due to supply chain constraints.
- The development of dollar stores is particularly prominent in the United States and Japan, where there are large chain enterprises with thousands of stores.
- Costco and Sam's Club, which are prominent membership stores from the United States, are developing rapidly in China.
- Outlet malls have experienced rapid growth in China. In addition to those already in operation, numerous new projects are currently in preparation, including both urban and tourism-oriented outlets.

Among these retail formats, membership stores and outlet malls are currently showing strong momentum, with some stores achieving impressive sales figures and high passenger flows. It is anticipated that these two formats will continue to be the fastest-growing in 2023.

4.4. Private traffic becoming crucial for success

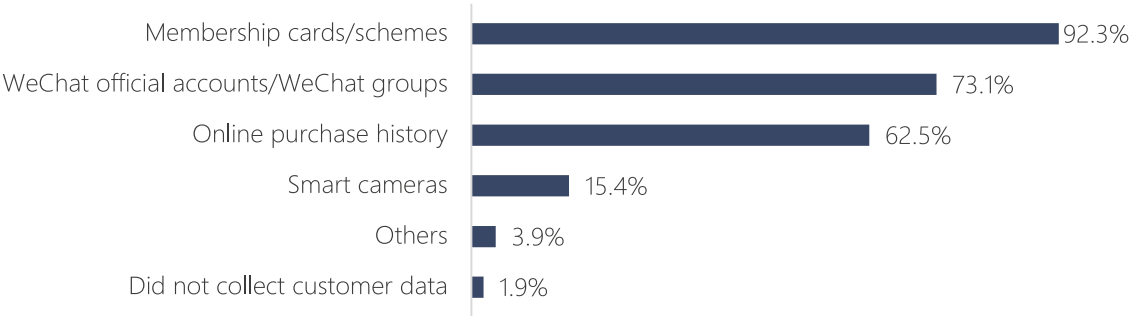
In 2023, the retail industry may face a lack of motivation to expand their store networks. Instead of opening new stores, retailers may shift their focus to operating existing stores and serving the needs of their existing customers. Customer traffic will be a critical factor for survival, particularly in offline retail.

However, the pandemic has changed consumers' behaviors and purchasing habits, with many now preferring to shop online. They are skilled in navigating e-commerce platforms and using the internet to research on products before making a purchase. Additionally, they are eager to share their shopping experiences on social media. Retailers must adapt their business models and customer service strategies to capture this traffic.

With the lifting of pandemic restrictions, consumers are returning to physical stores. To restore growth, retailers are pulling out all the stops to attract customers, and customer operations capability has become the key to success.

Department store operators have collected a large amount of consumer data through online and offline channels. By analysing the data, department store operators can understand consumer preferences and market trends, and can provide consumers with more personalized products and services through more precise marketing and customer acquisition. In our survey, almost all respondents indicated that they have been collecting consumer data through various means. Among them, membership schemes/cards are the most commonly used (92.3%), followed by WeChat official accounts and WeChat groups (73.1%) and online purchase history (62.5%) (Figure 4-3).

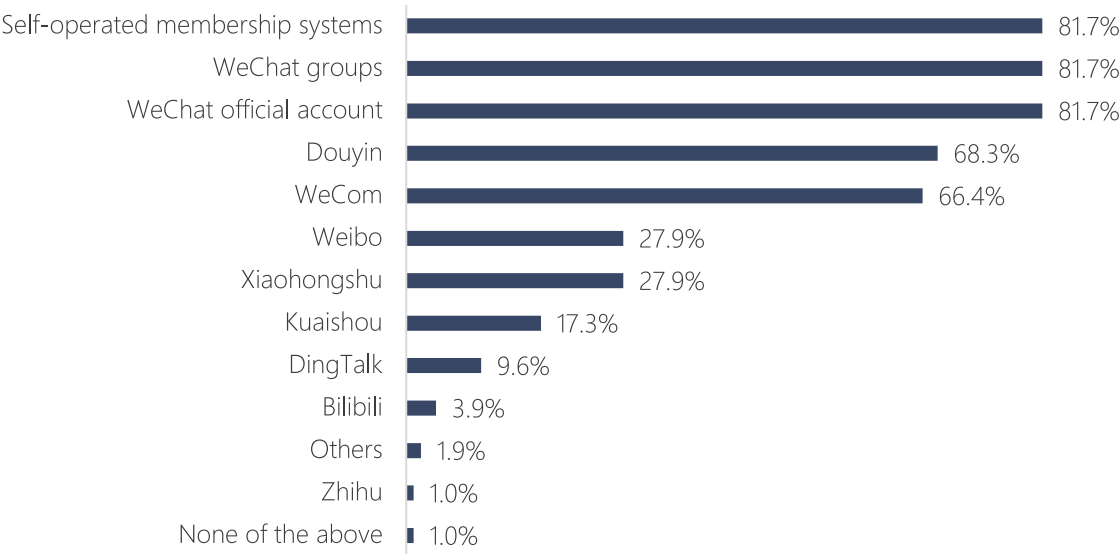
Figure 4-3. Means of collecting consumer data by surveyed department store operators



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

As the cost of public domain traffic continues to rise, many department store operators have accelerated the expansion of private domain traffic in recent years, unleashing the value of existing customers. Compared with the high-cost and high-investment public domain traffic, private domain traffic has lower operating cost and has the advantage of being able to reach consumers at any time and repeatedly. Retailers communicate and interact with consumers through membership systems, chat groups, emails and other means to increase user stickiness. According to our survey, self-operated membership systems and WeChat groups are the top platforms for department stores to build private domain traffic (Figure 4-4).

Figure 4-4. Key platforms of build private traffic by surveyed department store operators

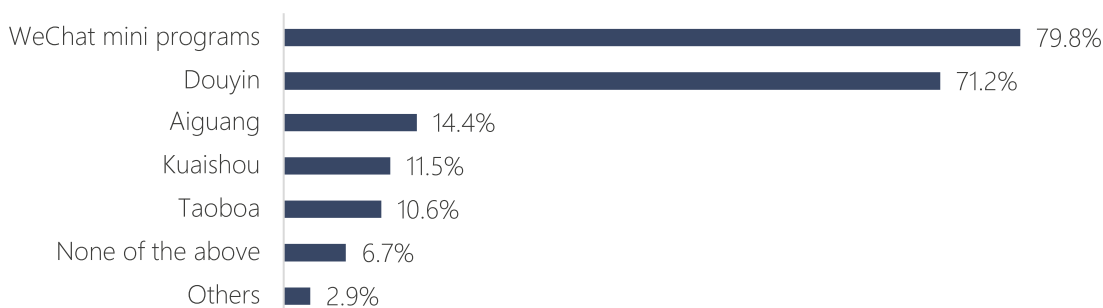


Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

During the COVID-19 pandemic, the passenger flow of physical stores has dropped sharply. Most brands and retailers have engaged in live streaming to promote and sell their products. In the past two years, live streaming e-commerce has experienced explosive growth. According to a report from the Academy of China Council for the Promotion of International Trade, users of live streaming e-commerce platforms in China reached 469 million as of June 2022, an upsurge of 204 million from March 2020, accounting for 44.6% of internet users in the country.

Our survey shows that more than 90% of respondents have started engaging in live streaming. The main live streaming platforms used by department stores are WeChat mini programs and Douyin, accounting for 79.8% and 71.2% respectively (Figure 4-5).

Figure 4-5. Key live streaming platforms used by surveyed department store operators



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

Today, live streaming has become a common marketing tool for most brands and retailers. For example, Wangfujing Group stated that it has set up regular sessions of live streaming for its private domain traffic and established a professional team for overseeing the online operations. Rainbow Department Store launched a 6-hour live streaming of virtual fashion show for the first time, attracting more than 150,000 online viewers. The sales performance of the participating brands increased by 107% year-on-year. Huizhou Huamao Place launched its official Douyin live streaming room in August 2022. During the period from November 1 to November 15, 2022, its Douyin live streaming room achieved gross merchandise value of over 9 million yuan. Live streaming helps the department stores to break free from the space and time constraints and creates new growth points for the department store industry.



Rainbow Department Store launched a 6-hour live streaming of virtual fashion show for the first time, attracting more than 150,000 online viewers

Image Source: Tencent

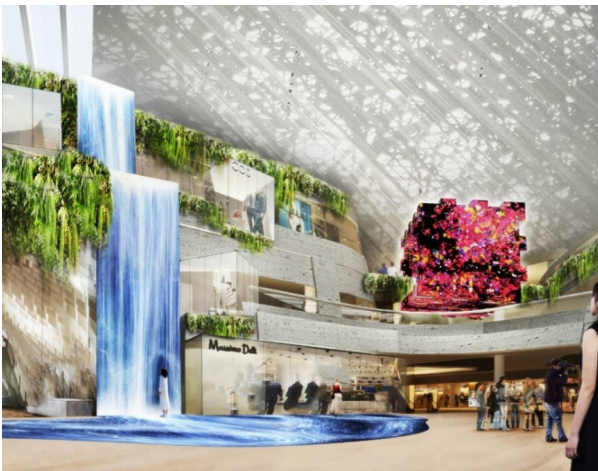
4.5. Crafting immersive experiences

A positive shopping experience is a crucial factor in increasing customer stickiness, and is often the primary reason for customers to come to shop and make repeat purchases.

Since the optimization and adjustment of the epidemic prevention and control policies, consumers are returning to physical stores, leading to a strong rebound in passenger flow and sales for various consumption places across the country. According to monitoring by the Ministry of Commerce, during the Spring Festival in 2023, the passenger flow of key business districts in 36 large and medium-sized cities across the country increased by 27.8%, and the sales of key retail and catering enterprises in the country also increased by 6.8%, compared to the same period of the previous year in the lunar calendar.

In order to seize the opportunity of offline consumer flow, department stores are creating immersive, interactive, and experiential consumption scenarios to bring consumers closer to the brands and stimulate consumer spending.

Some department stores are adopting digital technologies to provide consumers with immersive visual experiences. Shenzhen Zhongzhou Bay C Future City has collaborated with the international art collective teamLab to place new media artworks and installations in the mall, attracting consumers to take pictures. A large 'waterfall' art landscape can be seen in the mall lobby, with the digital waterfall pouring down from the third floor, presenting different water flows as people move around. Chengdu China Merchants Rubik's Cube and Jiangsu Huai'an Guolian Sunac ins park have set up naked-eye 3D display screens on the exterior walls of the shopping malls, creating city landmarks for check-ins.



*Shenzhen Zhongzhou Bay C Future City has collaborated with the international art collective teamLab to place new media artworks and installations in the mall
Source Image: teamLab's official website*



*A large-scale themed commercial space located in Viva Beijing R&F Plaza is designed around the theme of the Peach Blossom Spring
Image Source: Phoenix New Media*

Many shopping malls have adopted the design of themed blocks to add unique features to their malls. For example, a large-scale themed commercial space located in Viva Beijing R&F Plaza is designed around the theme of Peach Blossom Spring, creating an immersive entertainment and leisure space indoors. BOM Xifanli has transformed the entire mall into a large real-life puzzle-solving 'game zone', allowing customers to experience puzzle-solving games while shopping. Tongzhou Wanda Plaza has launched a themed concept block 'Dong 8yeah Lane', which focuses on trendy culture and nightlife themes, targeting the 18-35 age group as the main customer base.

Department stores are also introducing experiential formats, such as art galleries, amusement parks, sports centers, etc., to enhance consumers' shopping experience. In 2022, U2 by UCCA, the art museum co-founded by China's largest art museum group UCCA and leading cultural IP operation platform Yameidi, debuted at Beijing Chaoyang Joy City, aiming to present popular culture beyond boundaries. The NEOBIO Museum (Shanghai), an interactive, experiential science and technology museum, unveiled in Shanghai AI Plaza, presenting a 360-degree sensory and experiential technology art space. The world-famous attraction Museum of Ice Cream landed in China for the first time and opened in Shanghai Taikoo Li Qiantan, setting up multiple photo-taking spots and check-in scenes in a two-story space to create a dreamy and immersive pink interactive space.

4.6. More integration and restructuring in volatility

Integration and restructuring are necessary reactions in the market after every major upheaval. The unprecedented volatility caused by the three-year-long pandemic has led to significant declines in cash flows and net profits for most companies regardless of the business format, with loss-making enterprises accounting for a higher proportion than ever before. As the market begins to recover, this turning point becomes the most active period for capital deployments.

Some companies which face operational difficulties or have lost confidence are actively seeking partners for cooperation, while others see market opportunities and are proactively making investments at market lows. In addition, there are some government-led efforts to restructure and consolidate state-owned resources. According to the "Top Ten Retail Mergers and Acquisitions

No.	Event	Announcement / Media coverage
1	Guangzhou Grandbuy completed asset restructuring, strengthening its capital base.	9 May 2022
2	Shopling, Intime Department Store's buyer store business, acquired the 'ICON&STORIES' trademark, which is a Beijing-based chain of buyer shops.	9 May 2022
3	Wangfujing Group acquired Hainan Luye, strengthening its business portfolio.	24 May 2022
4	Chongqing Department Store completed restructuring, implementing mixed-ownership reform.	21 December 2022

In 2023, it is anticipated that there will be a significant increase in restructuring and consolidation activities, particularly the consolidation of similar businesses to increase their size and competitiveness. There may also be a few instances of restructuring and consolidation across different retail formats to achieve resource complementarity.

4.7. Digital upgrading driving refined operations

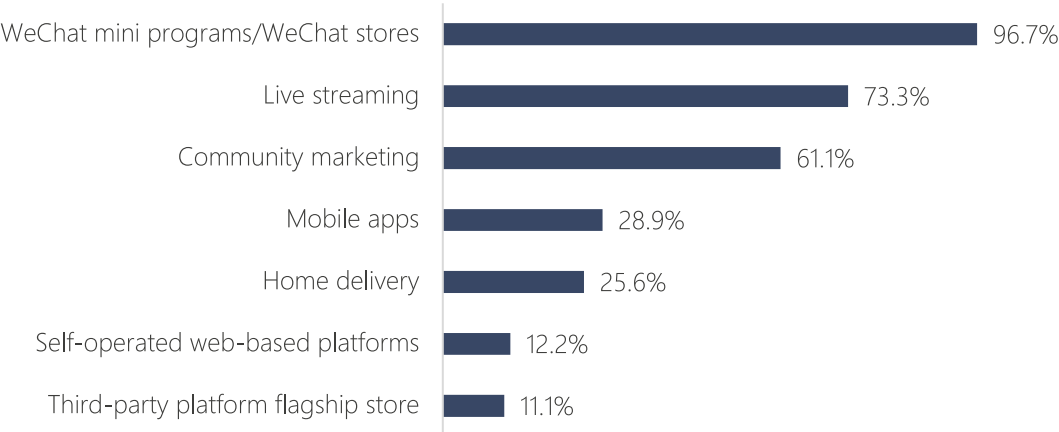
Due to its diverse scenarios and multiple touchpoints, the retail industry has always been the most active in digital application. With the large number of application models, digital products, and tools, in addition to the constantly improving digital teams of enterprises and their strengthening application and operational capabilities, there are many successful examples in the market.

Digitalization plays a crucial role in adapting to the changing consumer landscape, enabling retailers to enhance the customer experience, increase repeat purchases, and improve operational efficiency. As such, it is the major direction of retail development.

The COVID-19 pandemic has driven the flourishing development of online shopping and, as a result, traditional department store operators have accelerated their pace of digital transformation. According to our survey, nearly 90% of the respondents have already established their e-commerce business. Among them, WeChat mini programs and WeChat stores (96.7%) are the most common channel (Figure 4-6).

Compared with web-based platforms and mobile apps, mini programs have the characteristics of being lightweight and fast. Department store operators use mini programs to build online malls, boost sales, and drive traffic. WeChat mini programs are often used to fulfil functions such as QR code payments, shopping vouchers, coupons, etc. Most respondents said that, compared with the same period last year, the proportion of online sales has increased, and they would continue to accelerate their e-commerce business development in the next 12 months.

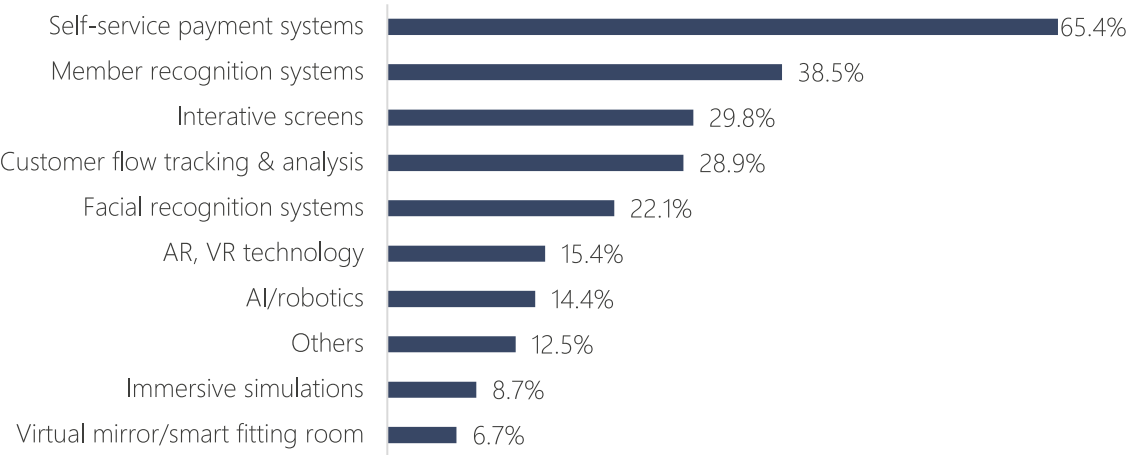
Figure 4-6. Forms of e-commerce business adopted by surveyed department store operators



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

In addition to their online businesses, department stores also apply various technologies in their offline operations. According to the survey, 65.4% of respondents have adopted the self-service payment system (Figure 4-7). Customers can make self-service payments at self-checkout machines or through WeChat mini programs, which reduces queuing time, improving payment efficiency, and enhancing the shopping experience for consumers. Merchants can also use the self-service payment system to collect sales data and record members' purchase history, facilitating digital membership management.

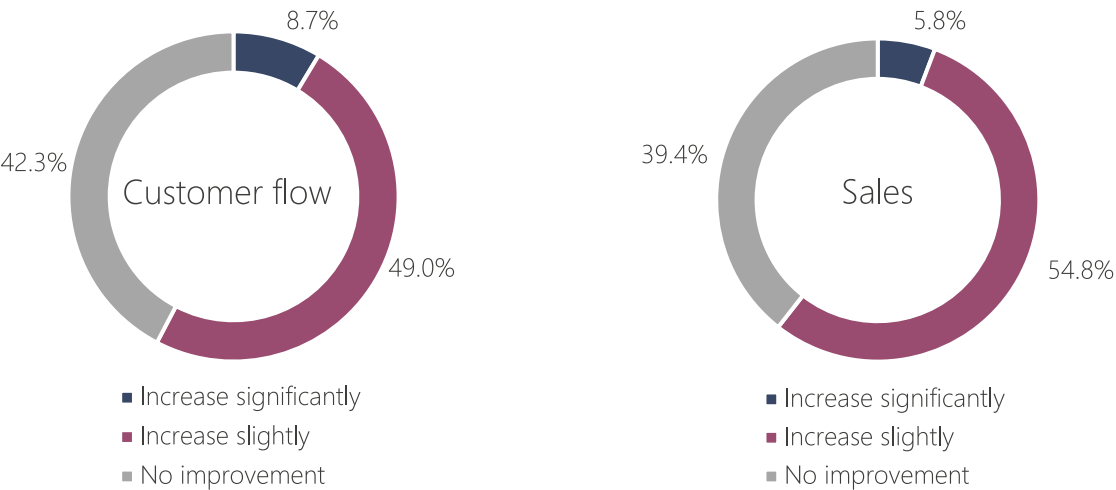
Figure 4-7. Technology application in physical stores among surveyed department store operators



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

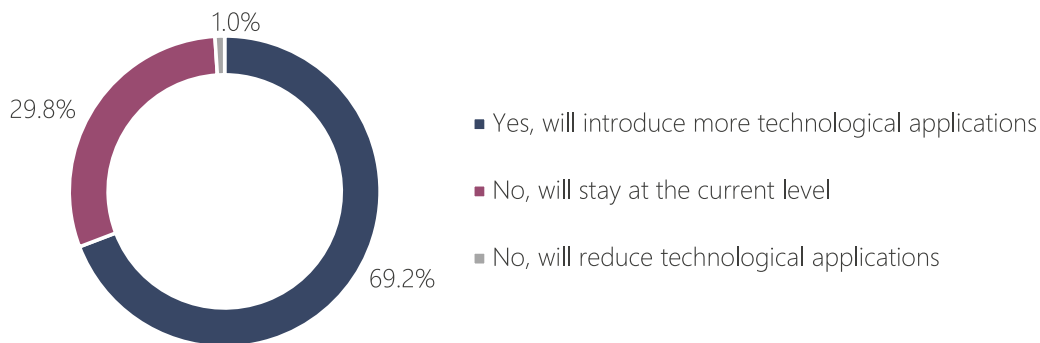
According to our survey, nearly 60% of respondents reported that adopting technological elements in stores had increased customer traffic and boosted sales. Among them, 8.7% indicated that technology had helped increase customer traffic significantly, and 5.8% claimed that adding technological elements had helped increase sales significantly (Figures 4-8). Witnessing the significant effects of technology applications, nearly 70% of respondents indicated that they would increase the adoption of technological applications in the next 12 months (Figure 4-9).

Figure 4-8. Impact of adopting technological applications by surveyed department store operators



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

Figure 4-9. Likelihood of introducing more technological applications in the next 12 months by surveyed department store operators



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

Today, many department store operators have already established their e-commerce businesses, blurring the line between online and offline. The omni-channel integration has become the trend. E-commerce businesses are also actively deploying offline channels to find new growth points. In 2022, JD.com launched The J Shop, a department store format focusing on fashion and home furnishing, and opened a number of offline stores across the country. JD New Department Store will be developed as an innovative format that integrates online and offline consumption and experience, enhancing consumer experience. It complements the online platform, creating new growth points and driving offline retail growth.

As more and more traditional department stores transform from physical retail to omni-channel operations, the main battlefield of digitalization is gradually shifting from the front-end to the construction of the 'middle platform' (also known as 'zhongtai') and back-end infrastructure, so as to better integrate online and offline business. With the support of the data middle platform, department store operators can drive refined omni-channel operations and launch marketing activities targeting small groups. According to our survey, 63.5% of respondents believed that the middle platform is an upcoming development trend, which was slightly higher than the previous year, while 32.7% said they were not sure (Figure 4-10).



The J Shop launches its first flagship store in Chengdu
Image Source: Sina

Figure 4-10. Views of surveyed department store operators on middle platform



Source: China department store survey 2022-2023 by CCAGM and Fung Business Intelligence

4.8. Pursuing green and low-carbon development

Green and low-carbon development has become a global trend and a goal actively pursued by major economies around the world. In response to the country's 'dual carbon' goals, department store operators have incorporated green development into their business strategies. Through management innovation, technological innovation, and other means, they are moving towards sustainable development and low-carbon transformation. In addition, the new generation of consumers pays more attention to environmental protection. Through responding to this new consumer demand, the retail businesses not only can get closer to consumers, but also increase the social value of their brands.

In daily operations, many department stores have adopted energy-saving and carbon-reducing measures. In November 2022, Guangzhou CapitalLand Rock Square received the Leadership in Energy and Environmental Design (LEED, the most widely used green building rating system) certification, by adopting a roof garden to reduce the urban heat island effect; using water-saving appliances at least with a Grade 2 water efficiency label, achieving the comprehensive water-saving rate of 55.7%; carrying out routine maintenance for equipment; and reducing the building's total energy consumption by 43.8%. In addition, the project implements compliant green procurement and cleaning policies, which help to improve indoor air quality and ensure effective recycling of various types of wastes.

In recent years, many newly opened department stores are designed according to low-carbon and sustainable principles, providing consumers with increasingly diverse green consumption scenes. Shenzhen Link CentralWalk reopened in January 2022, with a new positioning as "an urban paradise on the central axis of Futian", implementing green design from the inside out. The mall has planted different seasonal plants and evergreen plants indoors and outdoors, presenting different scenes throughout the year. After revamping, Link CentralWalk has a green area of over 18,000 square meters, with a total greening rate of 43.1% and 36 different plant species within the mall.



*The green design is implemented from the inside out in Link CentralWalk, Shenzhen
Image Source: Link's official website*

JD Technology and other brands, jointly launched a green-themed marketing campaign in Wangfujing Group's 74 stores across the country. In addition, Wangfujing Group is also one of the first 68 cooperating institutions in the 'Carbon Inclusive Network'. The Carbon Inclusive Network was initiated by the Centre for Environmental Education and Communications of the Ministry of Ecology and Environment and other departments. It aims to explore and establish mechanisms for multi-stakeholder engagement, promote the development of carbon inclusive work nationwide, and create a social atmosphere for the public to build and share a green life together.

Intime Department Store has also actively invested in the construction of green shopping malls, and more than half of its stores have been rated as 'green shopping malls'. Intime Department Store is committed to promoting green consumption, and has successively launched campaigns such as empty bottle recycling and old clothes recycling, and going paperless with e-invoicing. In addition, starting from the 'Double 11' shopping festival in 2022, Intime Department Store has adopted the eco-friendlier fully biodegradable courier bags for delivery packaging. It is estimated that, with the use of fully biodegradable courier bags, Intime Department Store can reduce the amount of plastic used in delivery packaging by nearly 150 tons throughout the year.



V. Recommendations for the Sector's Development

5.1 Improving business environment for enterprises

i. Strengthening urban commercial planning

Department store operators generally believe that there are currently too many commercial projects and too much commercial area per capita. Some newly opened large-scale commercial real estate projects such as urban complexes, shopping centres, etc., often occupy hundreds of thousands of square metres. These projects affect existing commercial businesses and are not conducive to the healthy development of the retail industry overall.

Studies show that shopping centre floor area should not exceed 0.3 square metres per capita. Yet some cities in China have already exceeded this number, with more projects underway. The government should formulate appropriate development plans and promote the sustainable development of the commercial sector.

ii. Supporting outdoor business activities in commercial areas

Department store operators have expressed deep concerns regarding the restrictions on outdoor displays, decorations and commercial performances. To address these concerns, we recommend that the government relax the restrictions on outdoor business activities within specified areas and cancel all administrative charges for corporate promotional activities, such as fees for the placement of colourful flags and decorative arches. Additionally, we suggest encouraging suitable enterprises to conduct outdoor marketing activities, creating a more vibrant and engaging consumption atmosphere.

This approach allows retailers to set up booths or outdoor displays to sell their products, which can help attract more foot traffic. To protect their brands, we believe that most enterprises will work to minimize impact on the surroundings when conducting outdoor business activities.

iii. Further regulating the development of ecommerce

Innovative Internet-based business models such as e-commerce and livestreaming have become important sales channels. However, some merchants have adopted unfair competition practices such as false advertising, inferior quality product substitution, tax evasion, and predatory pricing. If left unregulated, these practices will create an unfair competitive environment, affecting the offline market as well.

5.2 Reducing operating costs

i. Offering subsidies for transformation and renovation projects

With department stores resuming normal operations after the pandemic, there is a significant demand for transformation and renovation. Retail enterprises are typically asset-heavy, and these renovation projects often require significant investments in decorations and equipment. As a result, some department stores are hoping for policy support, particularly for key urban renewal projects in core commercial areas. This could encourage more transformation and renovation projects to improve the consumption environment and further drive consumption.

The Beijing Municipal Bureau of Commerce has promoted the upgrading and renovation of traditional department stores with the 'One Policy for One Store' initiative, providing up to 5 million yuan per store for renovations. Various department stores such as Cuiwei Department Store, Shuang'an Department Store, and Ganjiakou Department Store have already made use of this subsidy. Department store operators hope that this initiative can be promoted nationwide.

In addition, some department stores are actively engaging in energy-saving renovations and upgrades as well as phasing out energy-intensive equipment. We recommend that the government provide subsidies for green equipment investments by department store operators.

ii. Continuing to reduce labour costs

During the pandemic, retail enterprises have made significant contribution to stabilizing employment and ensuring supply while also bearing the pressure of operating costs. To ease these pressures, department store operators hope that preferential policies, such as deferred social insurance premium payments, will continue in 2023. Additionally, they hope that the government can continue to provide employment subsidies to maintain their staff stability.

iii. Replacing short-term high-interest loans with long-term low-interest loans

For enterprises with large-scale employment, converting their short-term high-interest loans into long-term low-interest loans can effectively reduce their financing costs and help alleviate their short-term liquidity pressure. In addition, it is important for financial institutions to increase their efforts in implementing relevant preferential policies to address the financing difficulties and high costs faced by department stores. This includes giving up their preference for collateral and guarantee, increasing credit loans to enterprises with good credit, and reducing interest rates to levels below the Loan Prime Rate (LPR) for enterprises that have been significantly affected by the pandemic.

iv. Establishing special development loans

In general, opening a new department store is extremely expensive and requires a large amount of funding. In our opinion, the government should relax the loan ceiling and provide certain interest rate discounts to support the opening of new department stores.

5.3 Restoring consumer confidence

i. Distributing consumption vouchers

Department stores can leverage consumption vouchers to organize shopping festivals and events, which encourage spending and boost retail sales. With government support, retailers can partner with brand merchants to offer greater benefits to consumers. Publicity around these events also helps build up a positive atmosphere and boost consumer confidence.

Department store operators hope that the government will increase the scale and frequency of consumption voucher distribution and provide bundled combinations of diverse types of vouchers, including retail, dining, and entertainment, to encourage associated consumption.

ii. Creating consumer hotspots

The promotional impact of a single enterprise is limited. We recommend that the government follows the example of Shanghai's May 5 Shopping Festival and collaborates with media and retail enterprises to create a consumption wave that could encourage shoppers to return to shopping malls.

5.4 Promoting corporate shareholding reform

Further shareholding reform of state-owned department store operators can make the industry truly competitive. Leveraging private capital and improving shareholding structure can help department stores reach their full potential.

The retail industry is intensely competitive. Currently, foreign and private retail enterprises play an important role in driving the market and ensuring adequate supply. Some publicly listed retail companies controlled by state-owned capital can carry out shareholding reform through various means, such as introducing strategic investors and adopting a mixed ownership.

On the other hand, the retail industry is rapidly changing and requires quick market responses and decisions. State-controlled retail enterprises may be relatively stable in their business decisions, sometimes even at the cost of lower efficiency. A fully market-oriented operation can improve management efficiency, thereby helping to maintain or even increase asset value.

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 State-owned Supervision Administration Commission and the Ministry of Commerce. The CCAGM has more than 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 also has 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 sourcing, logistics, distribution and retail. The Fung Group comprises over 15,000 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 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

A decorative graphic consisting of a grid of squares in various shades of blue and grey, located in the bottom half of the page. The grid is composed of squares of different sizes, creating a stepped effect. The top row has one large square on the left. The second row has two medium squares. The third row has three medium squares. The fourth row has four medium squares. The fifth row has five medium squares. The squares are arranged in a way that they overlap slightly, creating a sense of depth.

China's Department Stores Report 2022-2023