CHINA COMMERCE ASSOCIATION FOR GENERAL MERCHANDISE
FUNG BUSINESS INTELLIGENCE

China's Department Stores Report 2023-2024

April 2024

Preface

Fung Business Intelligence and China Commerce Association for General Merchandise ('CCAGM') are pleased to present the China's Department Stores Report 2023-2024.

The report highlights five main trends in the department store industry in 2023: First, a continuous recovery with increasing enterprise differentiation; second, a shift towards improving quality and efficiency, with a significant focus on digitalization to enhance operational efficiency and profitability; third, an emphasis on store renovations and upgrades to better meet customer expectations and improve the shopping experience; fourth, intensified competition, particularly in key categories like cosmetics, which has led to stagnant growth.

The industry faces several challenges, including weakened consumer spending, the ongoing impact of e-commerce, high operational costs coupled with low profits, decreasing foot traffic, and the relatively small scale and market share of self-operated business.

Looking ahead, six transformative trends and development strategies have emerged: First, a focus on store renovation and upgrades as a key operational priority; second, an emphasis on development of core business capabilities; third, enhancement of merchandise management through deeper collaborations with brands and an exploration of self-operated models; fourth, creation of exceptional value through experiential offerings, with consumers showing a willingness to pay for unique experiences; fifth, adoption of advanced digitalization tactics to boost efficiency across various operational aspects; sixth, a commitment to the national green transformation agenda and the achievement of 'dual carbon' targets, with retailers exploring innovative paths to sustainable development.

The report also offers recommendations for government action, suggesting the regulation of online retail to promote fair competition, strategic commercial planning to avoid store redundancy, government subsidies to encourage investment in consumer infrastructure improvements, and the creation of a conducive business environment to stimulate consumer spending.

China's Department Stores Report 2023-2024 collects and analyses data from 80 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.

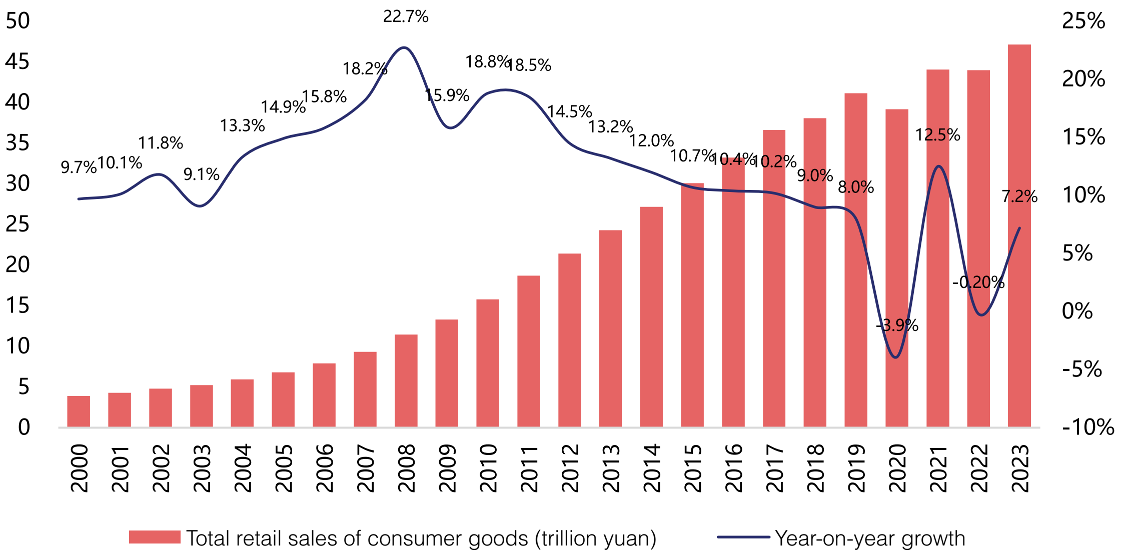
Contents

I. Overview of China's Retail Market Development

1.1 Consumption resumes growth

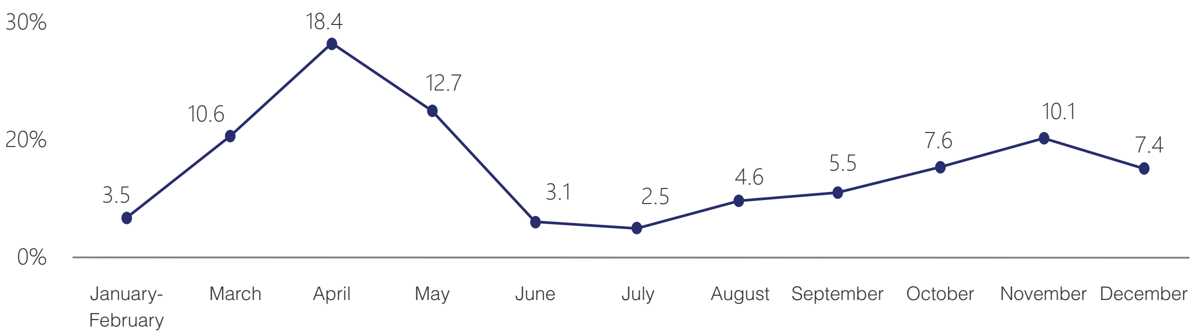
In 2023, China's total retail sales of consumer goods reached 47.1 trillion yuan, a year-on-year increase of 7.2% (Figure 1-1). Among them, the retail sales of physical goods increased by 5.8% yoy, while catering revenue increased by 20.4% yoy. These growth rates were achieved from a lower base in 2022.

Figure 1-1. China's total retail sales of consumer goods, 2000-2023



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

Figure 1-2. Monthly year-on-year growth rates of total retail sales of consumer goods, 2023

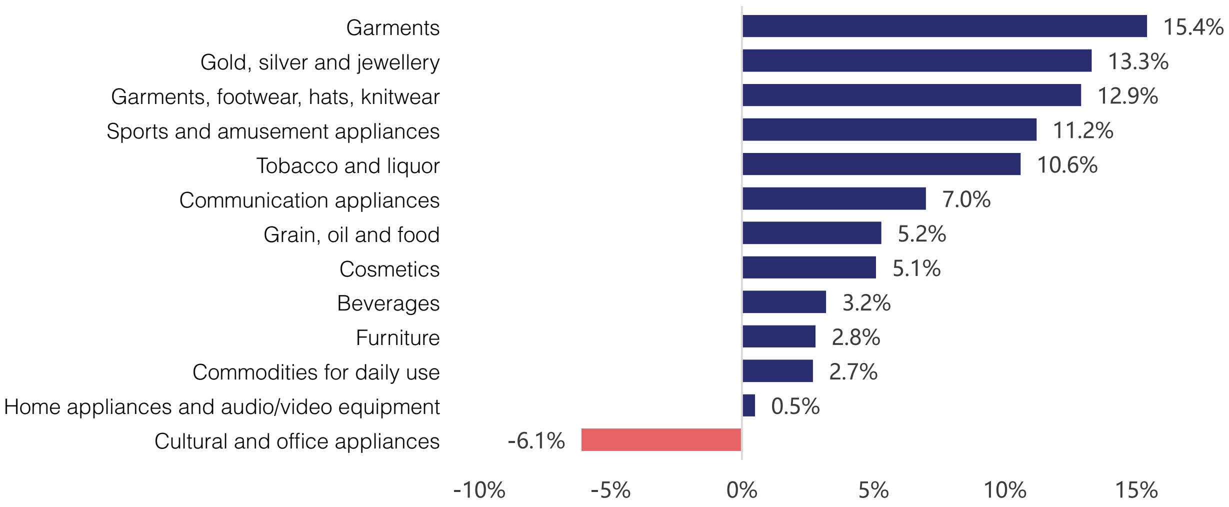


Source: National Bureau of Statistics of China; compiled by CCAGM and Fung Business Intelligence

1.2 Sales performance by product category varies

Sales of fashion items and upgraded goods grew rapidly in 2023. Retail sales of gold, silver and jewellery, sports and amusement appliances, and communication appliances by retail enterprises above designated size increased by 13.3% yoy, 11.2% yoy, and 7.0% yoy respectively. Basic consumer staples showed stable growth, as retail sales of garments, footwear, hats and knitwear by retail enterprises above designated size increased by 12.9% yoy, while retail sales of grain, oil, and food increased by 5.2% yoy.

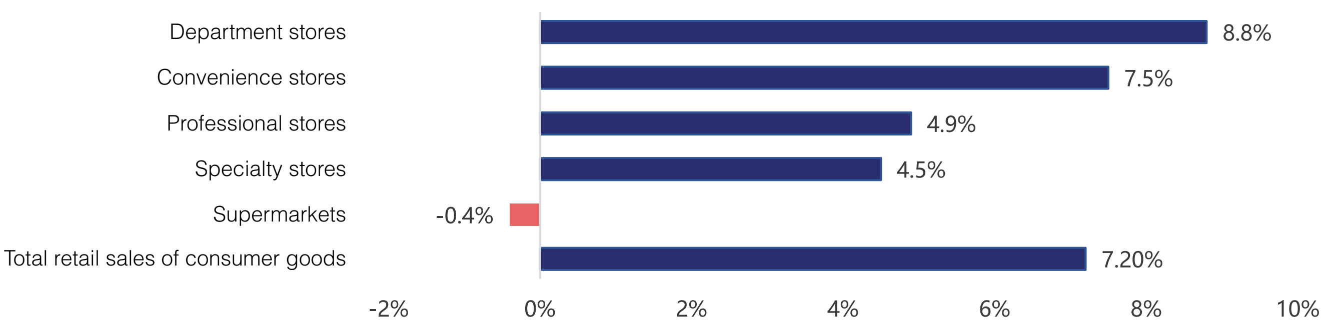
Figure 1-3. Growth rates of retail sales of enterprises above designated size, by product category, 2023



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

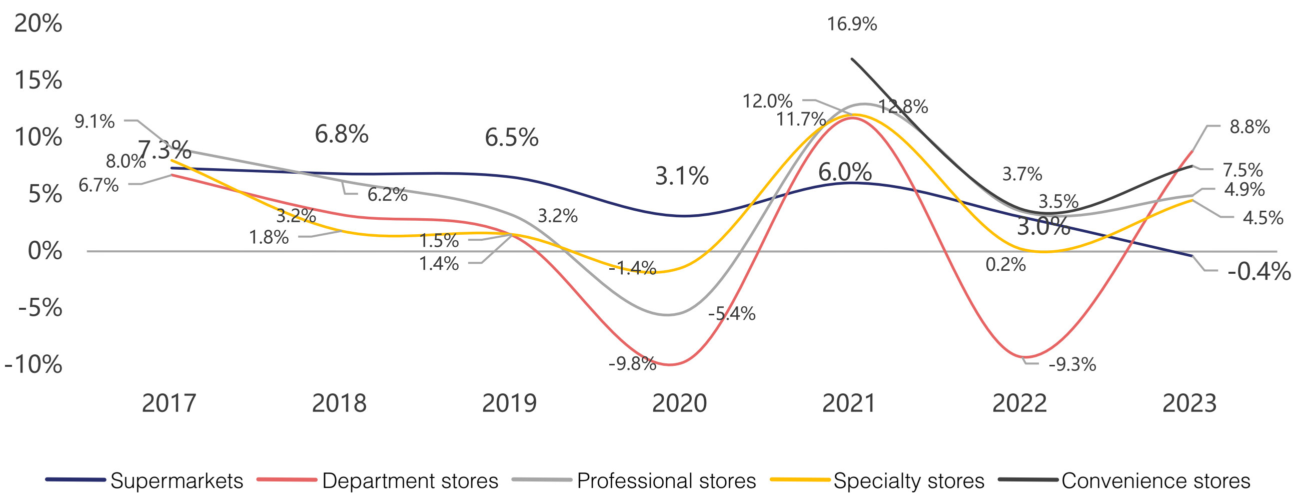
By retail format, in 2023, among retail enterprises above designated size, the retail sales of department stores, convenience stores, professional stores and specialty stores increased by 8.8%, 7.5%, 4.9% and 4.5% respectively over the previous year; the retail sales of supermarkets decreased by 0.4%.

Figure 1-4. Growth rates of retail sales of enterprises above designated size, by retail format, 2023



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

Figure 1-5. Growth rates of retail sales of enterprises above designated size, by retail format, 2017-2023

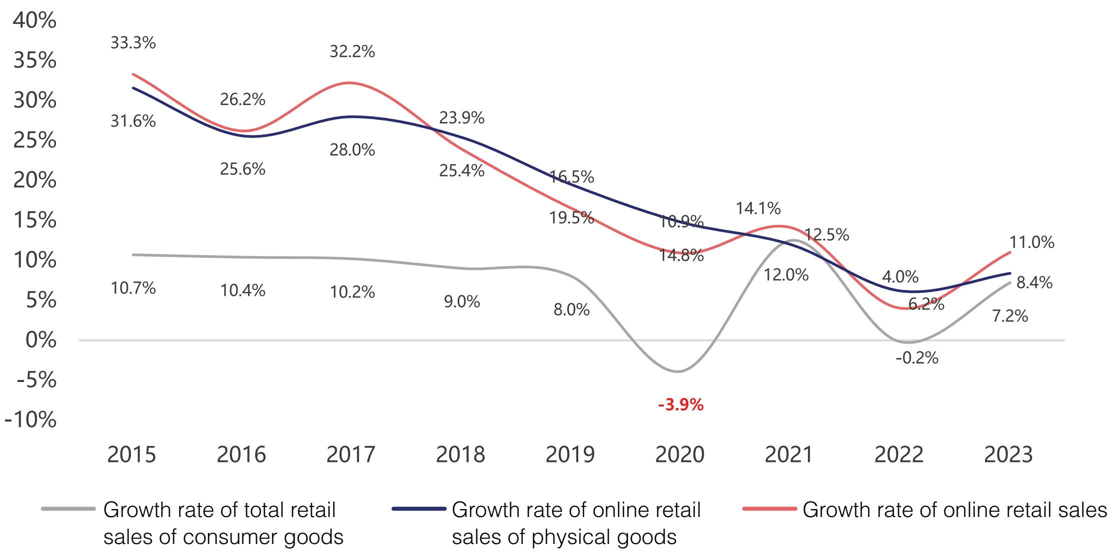


Source: National Bureau of Statistics of China; compiled by CCAGM and Fung Business Intelligence

1.3 Online retail sales continue steady growth

In 2023, national online retail sales increased by 11.0% year-on-year to 15.4264 trillion yuan. Within this figure, online retail sales of physical goods increased by 8.4% yoy to 13.0174 trillion yuan – of which the online retail sales of food, clothing, and consumer goods for daily use increased by 11.2%, 10.8%, and 7.1% 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, 2015-2023

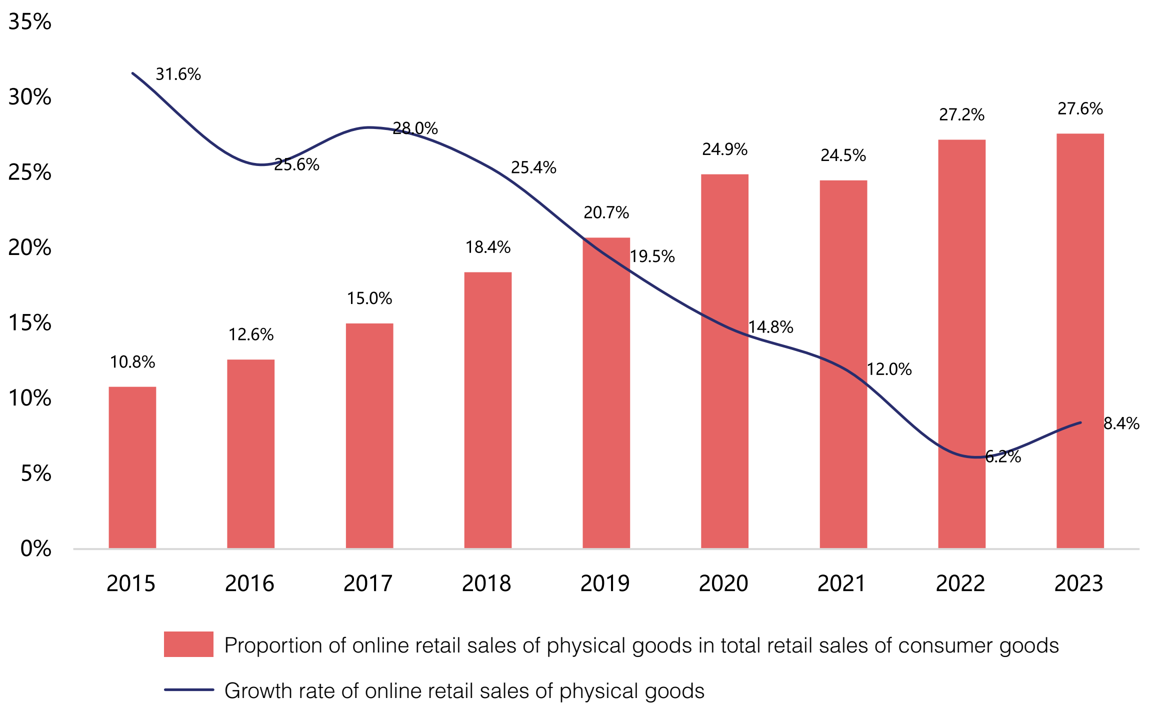


Source: National Bureau of Statistics of China; compiled by CCAGM and Fung Business Intelligence

The growth momentum of online retail sales of physical goods has slowed down since 2015, as its growth rate gradually approaches that of the total retail sales of consumer goods.

In 2021, online retail sales of physical goods made up 24.5% of total retail sales of consumers goods, marking 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%, with another slight increase of 0.4 percentage points to 27.6% in 2023 (Figure 1-7). As the growth rate of online retail sales of physical goods has converged with the overall growth rate of retail sales of consumer goods, the proportion of online retail sales of physical goods to total retail sales has gradually stabilized as well.

Figure 1-7. Growth rate of online retail sales of physical goods and their proportion in total retail sales of consumer goods, 2015-2023



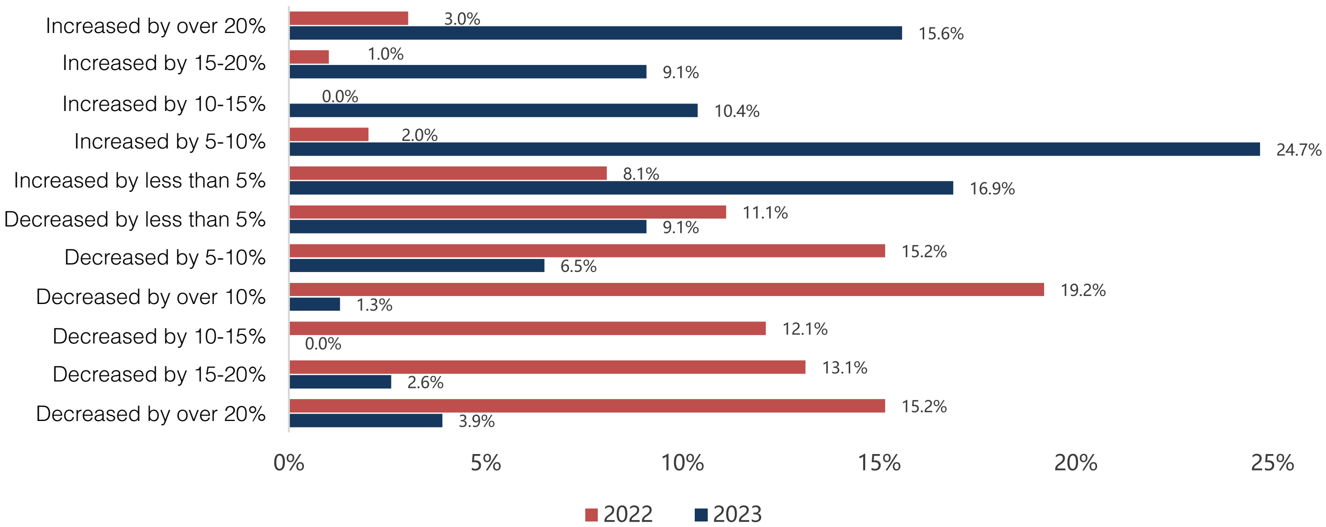
Source: National Bureau of Statistics of China; compiled by CCAGM and Fung Business Intelligence

II. Trends and Developments in the Department Store Industry

2.1 Greater differentiation as recovery continues

A joint survey by the CCGAM and Fung Business Intelligence shows that the department store industry continued to show signs of recovery, with 76.6% of surveyed department store operators experiencing year-on-year growth – a significant increase from 14.1% in the previous year. However, the growth rate generally remains at 10% or below – surveyed operators with less than 5% growth accounted for 16.9%, while surveyed operators with between 5-10% growth accounted for 24.7%. Just 15.6% of department stores experienced rapid growth of over 20%.

Figure 1-7. Growth rate of online retail sales of physical goods and their proportion in total retail sales of consumer goods, 2015-2023

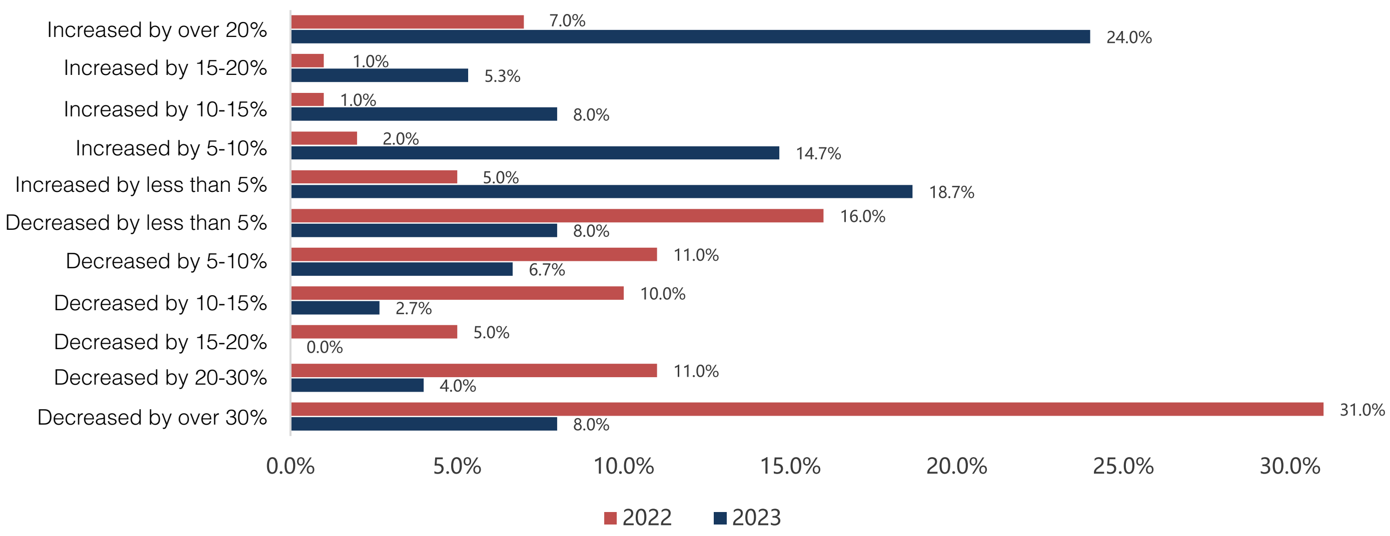


Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

The survey shows that, in 2023, 70.7% of surveyed department store operators' net profits increased year-on-year, while only 16% achieved positive growth in 2022. Within this number, 33.3% experienced year-on-year growth of less than 10%, 18.7% experienced year-on-year growth of less than 5%, and 14.7% experienced year-on-year growth of 5%-10%. Furthermore, 24% of department store operators' net profits increased by more than 20% year-on-year.

However, these increases are based on relatively low base figures in 2022, where 84% of department store operators had negative net profit growth - of which 31% saw net profits decrease by more than 30% (Figure 2-2).

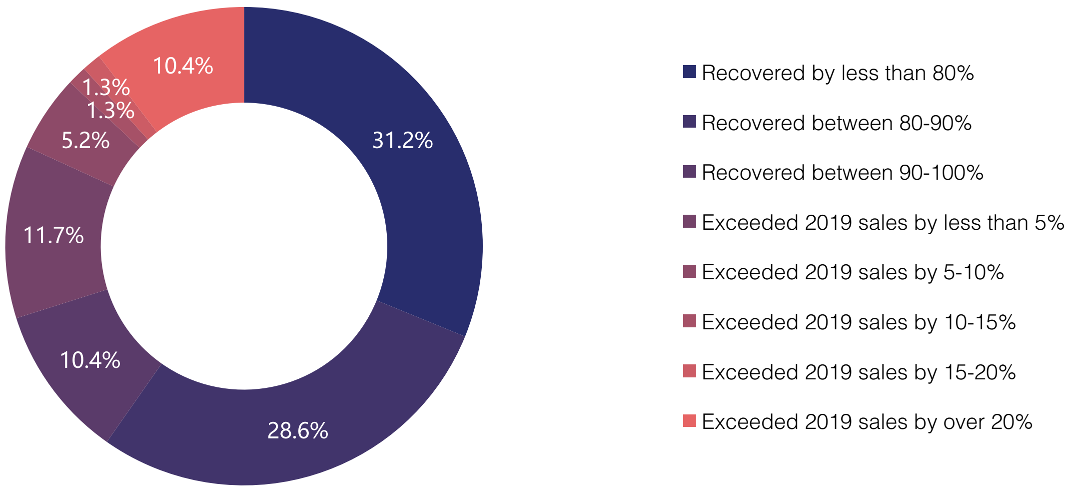
Figure 2-2. Net profit growth of surveyed department store operators in 2022 and 2023



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

Overall, store traffic and sales have not returned to 2019 pre-COVD-19 pandemic levels. According to the survey, 70.1% of surveyed department store operators reported that store traffic in 2023 remained below 2019 levels. 31.1% of respondents reported that store traffic was less than 80% of 2019 levels, while 28.6% reported that store traffic was between 80-90% of 2019 levels; 10.4% reported that store traffic exceeded 90% of 2019 levels. Only 29.9% of respondents' 2023 store traffic exceeded that of 2019, with a few companies performing particularly well – 10.4% of surveyed department store operators said that their store traffic exceeded 2019 levels by 20% or more.

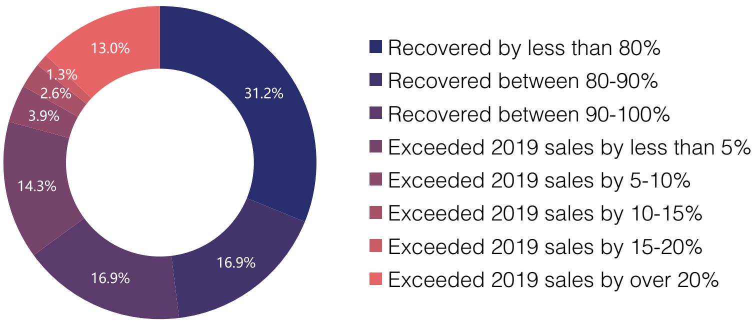
Figure 2-3. Proportion of 2023 store traffic relative to 2019 among surveyed department store operators



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

In terms of sales, 64.9% of surveyed department store operators reported that 2023 sales remained below 2019 levels. 31.2% of respondents reported that their sales were less than 80% of sales in 2019, while 33.8% reported that their sales were between 80-100% of sales in 2019. 35.1% of respondents reported that their sales exceeded 2019 levels, with 14.3% of respondents reporting a less than 5% increase.

Figure 2-4. Proportion of 2023 sales relative to 2019 among surveyed department store operators



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

2.2 Improving quality and efficiency with a new focus on digitalization

Previous digitalization efforts were mainly focused on increasing sales and growth through omni-channel development, digitalization of personnel, products and setting, precision marketing, membership operations, and improving user experience. As China's retail market matures, there is growing pressure on companies to increase their market shares. As the marginal sales benefits provided by digital investments are gradually decreasing, companies are shifting their digital focus to improving efficiency and seeking high quality development.

For example, Chongqing Department Store has achieved digital development by improving management efficiency and restructuring organizational processes. It has established unified standards, centralized audits, and optimized operational procedures to streamline financial operations, minimize compliance risks, and enhance the accuracy, timeliness, and security of financial data and transactions. Standardization and process optimization have enabled specialized division of labour and integration of similar tasks across units, leading to resource and service sharing that reduces operational burdens and boosts financial efficiency. Utilizing big data technology and sharing of financial resources, it has developed a data platform to advance financial digital transformation, promote data sharing, and enhance capabilities such as smart settlement, fund management, taxation, account receivables, cost control, and digital archiving. This digitalization has shifted transactional tasks towards managerial responsibilities, resulting in significant labour cost reductions.

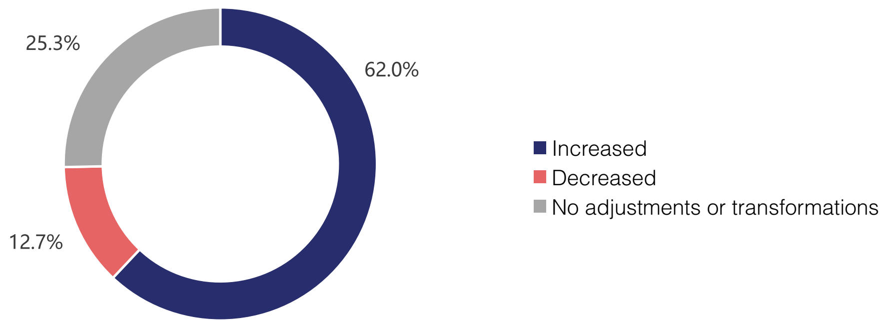
New Yansha Mall has leveraged WeChat Enterprise to address connectivity issues between the company, merchants, and consumers. Through cost-effective investment, it has developed functions for research and operational management, creating a platform that bridges consumer and business internet, boosting operational efficiency and digitization. The company has established automated system maintenance, diverse data visualization, and online merchant management, enhancing internal efficiency while empowering merchants as well.

In addition to integrating business and finance and strengthening merchant management, many enterprises are now focusing on improving quality and efficiency through bottom-up restructuring, internal integration, or utilizing external tools such as the Feishu platform – ongoing improvement of internal efficiency is one of the focal points of future digitalization.

2.3 Refining market positioning through business adjustments and upgrades

According to the CCAGM and Fung Business Intelligence survey, 62% of surveyed department store operators reported that business adjustments and transformations increased in 2023 (Figure 2-5).

Figure 2-5. Adjustments and transformations of surveyed department store operators in 2023



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

Retail companies use a variety of methods to target consumers for precision marketing. Furthermore, companies must establish a clear market position for two main reasons: firstly, in a competitive market landscape where products and services are becoming more homogeneous and market advantages are declining, companies must differentiate themselves to gain recognition in both stock and segmented markets; furthermore, consumer demands become increasingly personalized and differentiated as they are faced with an abundance of information. Therefore, clear positioning is essential for companies as it shapes a unique identity that resonates with consumers, thereby influencing their purchasing decisions.

More commercial projects are shifting away from broad positioning strategies. In first-tier cities, precise positioning can yield significant success, even with a small consumer base,. However, some commercial projects rush to open or prioritize full occupancy over more selective offerings, leading to mismatched tenants and positioning – in turn causing a lack of clear identity and potentially damaging long-term reputation for short-term gains. Overall, operational elements should align with project positioning to foster differentiation and competitive advantage, while consistency and gradual progress are the key to success.

Rainbow Digital Commercial, the operator of the Rainbow retail chain, is upgrading selected stores in densely populated areas to Rainbow Community Living Centres. For example, the Bantian store in Shenzhen has been transformed from a boutique department store into a vibrant space that offers a range of lifestyle services such as restaurants and experiences – as of 2023, these changes led to significant increases in both store traffic and net profits.

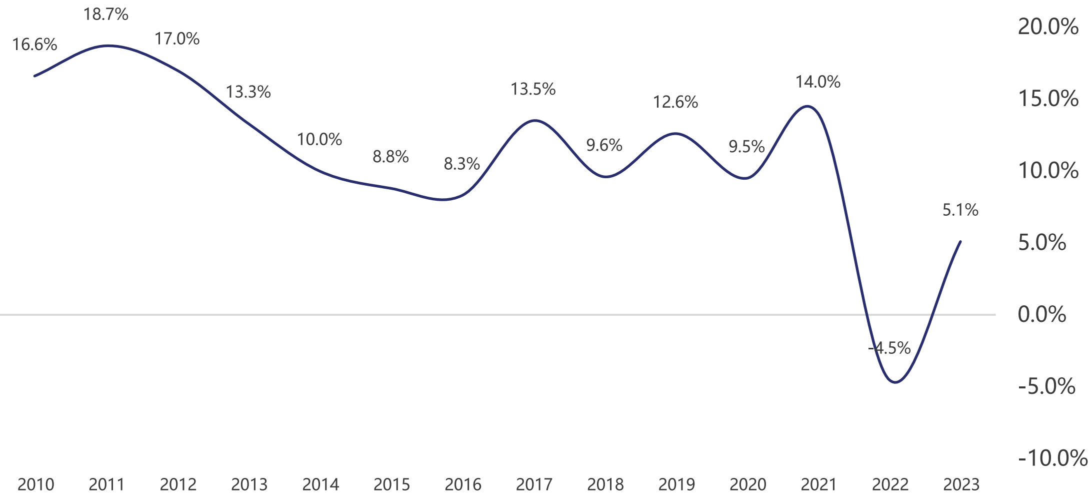
Bailian ZX Creative Centre, formerly the Hualian Shangsha department store, has become a popular destination for small-scale commercial renovation projects. Opened in January 2023 on the Nanjing Road Walkway in Shanghai, it caters to Generation Z's interests and values, leveraging cultural and community ties to reshape brands and resources. The centre creates a multidimensional cultural space by engaging founders, brands, and consumers as collaborators with shared values and interests. This shift focuses on inspiring consumption through cultural value rather than product offerings. During the 2024 Chinese New Year period, store traffic at Bailian ZX surged by 63%, while sales volume increased by 175%.

2.4 Competition intensifies across key categories

Gold, jewellery, and cosmetics are core categories for department store retailers – cosmetics in particular have traditionally been a flagship category over the years. However, despite maintaining high sales and growth rates over the years, cosmetics sales has been sluggish in the past two years.

According to the National Bureau of Statistics, from 2010-2021, the annual year-on-year growth rate of cosmetics retail sales by retail enterprises above designated size remained between 8.3% and 18.7%. This was followed by negative growth in 2022 – the first time in more than ten years. The growth rate in 2023 was 5.1%, which was significantly lower than the years prior to 2022 (Figure 2-6), and this increase was achieved on the basis of negative growth in 2022. Overall, cosmetics – one of the leading categories in the department store retail industry, has shown weak sales performance since 2022.

Figure 2-6. Growth rates of cosmetics sales by retail enterprises above designated size, 2010-2023



Source: National Bureau of Statistics China, compiled by CCAGM

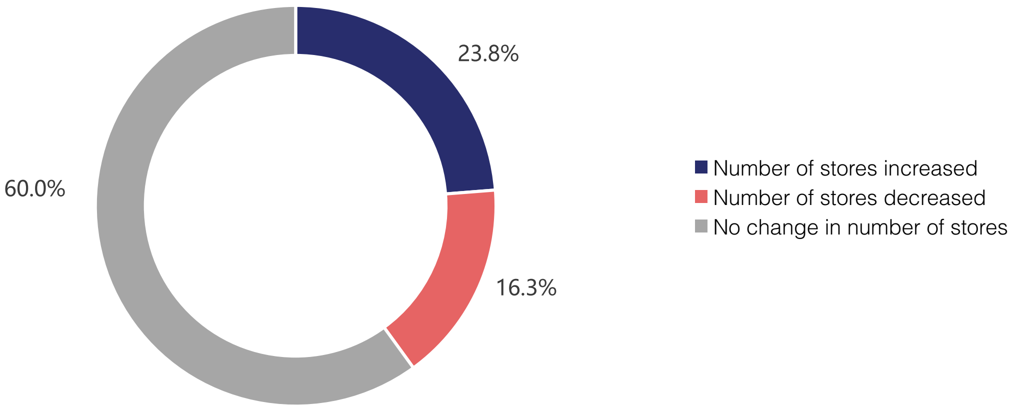
In terms of cosmetics brands, Shiseido Group's net sales for 2023 declined by 8.8% year-on-year to 973 billion Japanese yen, with operating profit down by 39.6% to 28.1 billion yen. Kao Corporation also experienced a 1.2% yoy decrease in full-year revenue, with net profit dropping by 49% yoy and a 6.7% yoy decline in cosmetics business revenue. Procter & Gamble's SK-II also saw a 34% yoy decrease in sales in the Greater China region.

In addition to weaker demand, the industry faces intensified competition from various fronts, including e-commerce platforms and shopping malls expanding their cosmetics offerings. Brands are developing online sales channels and collaborating with e-commerce and livestreaming platforms to boost sales. Additionally, competition within the industry is growing, with major brands now targeting third and fourth-tier cities due to rising consumer demand. Local retailers are introducing key brands through partnerships, self-procurement, and concept stores, contributing to heightened industry rivalry. Other key categories such as gold and silver, jewellery, and sports and leisure products have faced similar challenges.

2.5 Social awareness becomes a main force for expanding consumption

The survey shows that 60% of the sampled department store operators had no change in the number of stores in 2023; 23.8% had more stores opened than closed; and 16.3% had fewer stores opened than closed (Figure 2-7).

Figure 2-7. Store expansion of surveyed department store operators in 2023



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

Contrary to media reports of department store closures, the data shows no obvious signs of store closures and contraction. There are two main reasons for the industry's resilience. Firstly, many department stores have a longstanding presence in city centres, sharing a growth history with local consumers and boasting high brand recognition, often drawing media attention. Secondly, some department stores are undergoing renovation and upgrading, leading to adjustments and transformations post-closure.

The performance of listed retail companies also reflects the relatively healthy state of the department store industry. Among the 36 publicly traded large-scale department store retail companies, 64% of them, or 23 companies, saw year-on-year growth in net profits across the first three quarters of 2023. In comparison, among the 10 publicly listed supermarkets, only 3 companies (i.e. 30%) saw year-on-year growth in total revenue across the first three quarters, while 5 companies (i.e. 50%) saw year-on-year growth in net profits, and 3 companies reported losses.

From the perspective of consumer behaviour, as income increases, the Engel coefficient decreases, corresponding to a decrease in the percentage of income allocated for food consumption. Conversely, there is a rise in quality consumption, hobby-based consumption, and entertainment consumption, which offers new growth opportunities for department stores and contributes to expanding consumption.

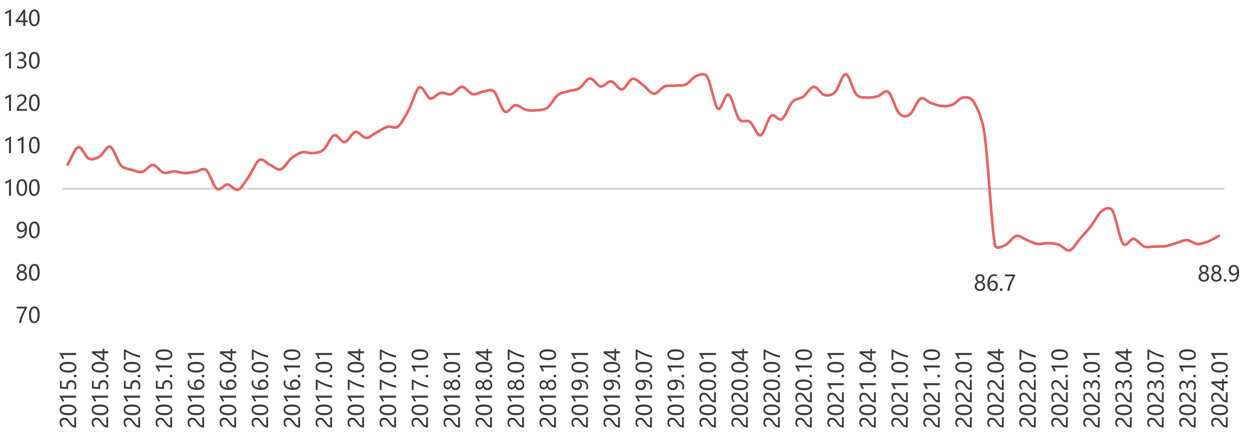
III. Major Development Issues and Challenges

3.1 Insufficient demand

The Central Economic Work Conference at the end of 2023 pointed out that further promoting economic recovery would require overcoming certain difficulties and challenges, primarily the insufficient effective demand.

According to the latest national consumer confidence survey, in January 2024, China's consumer confidence index was 88.9. This number has remained below 100 since April 2020, indicating a persistent lack of consumer confidence since then. In 2023, the national consumer price index remained relatively low, only increasing by 0.2% from the previous year.

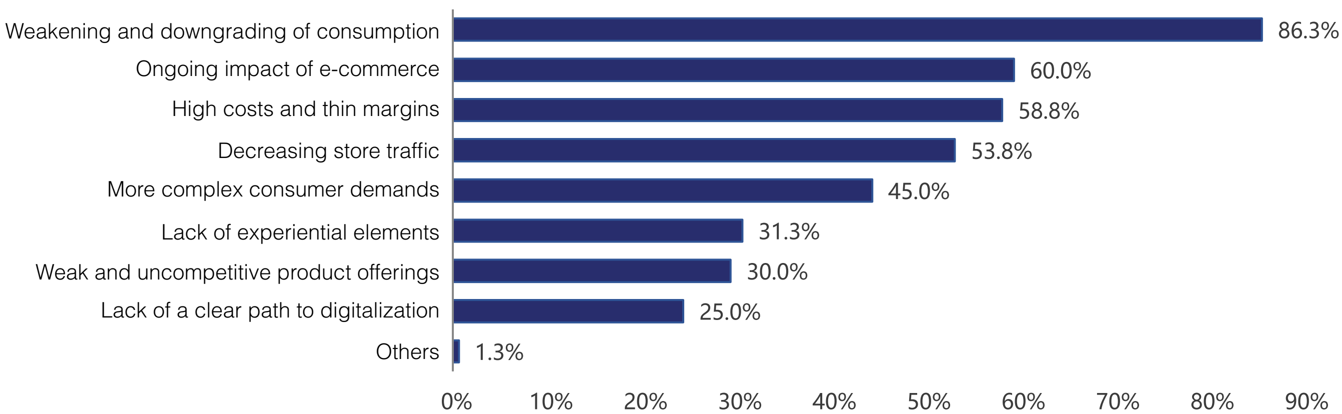
Figure 3-1. China's Consumer Confidence Index



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

The joint survey by CCAGM and Fung Business Intelligence found that 86.3% of surveyed department store operators identified insufficient consumer purchasing power, consumer downgrading, and weak growth as the primary challenges to business development.

Figure 3-2. Main development challenges faced by surveyed department store operators



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

To address the insufficient consumer demand, the Chinese government has proposed a package of policies aimed at stimulating consumption. The March 2024 Government Work Report mentions a target CPI of around 3% for the year and emphasizes expanding domestic demand to promote a virtuous economic cycle. This includes fostering the growth of new consumption modes such as digital, sustainable, and healthcare consumption through supportive policies, while also actively nurturing new consumption hotspots such as smart home appliances, cultural tourism, sports events, and domestic branded products. Additionally, traditional consumption is encouraged by promoting trade-ins for consumer products and boosting consumption of big-ticket items such as smart new energy vehicles and electronics products.

3.2 The ongoing impact of e-commerce

E-commerce has continued to impact the department store retail industry. 60% of survey respondents believe that the continued impact of e-commerce is the second biggest challenge to their development.

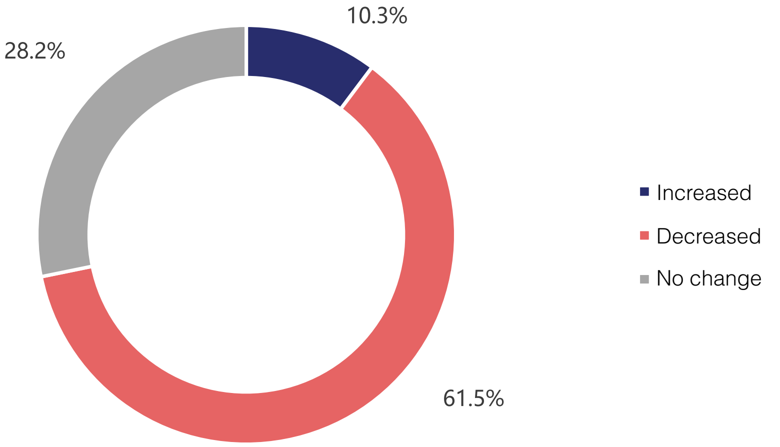
Firstly, traditional platforms like Tmall and JD.com are increasing the proportion of department store products on offer. In May 2022, JD.com established a "New Department Store" division, which saw continuous growth in the number of merchants and sales volume. Furthermore, livestreaming platforms such as Douyin and Kuaishou continue to expand, with cumulative sales from monitored e-commerce live streaming platforms reaching 1.27 trillion yuan in the first half of 2023 – the industry largely focuses on categories like cosmetics and clothing. Instant retail platforms such as Meituan and Dada are also growing rapidly, with total market size exceeding 590 billion yuan in 2022, equivalent to 1.4% of total retail sales of consumer goods. Additionally, brands are intensifying efforts to establish their own online channels, drawing traffic away from traditional department stores. Overall, the multifaceted development of e-commerce channels continues to impact offline retail enterprises.

However, according to the National Bureau of Statistics, the proportion of online retail sales has stabilised over the past two years, and the growth rates of online retail sales are now closer to those of total retail sales – indicating a diminishing impact of online on offline retail. Furthermore, department stores are increasingly adapting to the digital landscape by integrating online and offline channels, enhancing customer service, growing digital memberships and leveraging their physical locations, while also collaborating with e-commerce platforms to mitigate their impact.

3.3 Rising cost pressures

The joint survey by CCAGM and Fung Business Intelligence found that 58% of surveyed department store operators consider 'high operating costs and low profits' as one of their top three challenges. For example, in Beijing, the minimum social security payment base increased by 8% from 5869 yuan in 2022 to 6326 yuan in 2023; in Shanghai, it was adjusted to 7310 yuan per month in 2023, a 12.12% increase from 2022. Businesses contribute around 45% of their employees' five types of insurance and housing fund, creating around 10,000 yuan in labor costs for an individual income of 5500 yuan. As labor-intensive businesses, retail enterprises are particularly affected by these policies. Facing the pressure of rising costs, 61.5% of survey respondents reported a decrease in staff numbers in 2023, while only 10.3% increased hiring and 28.2% maintained the same number of staff.

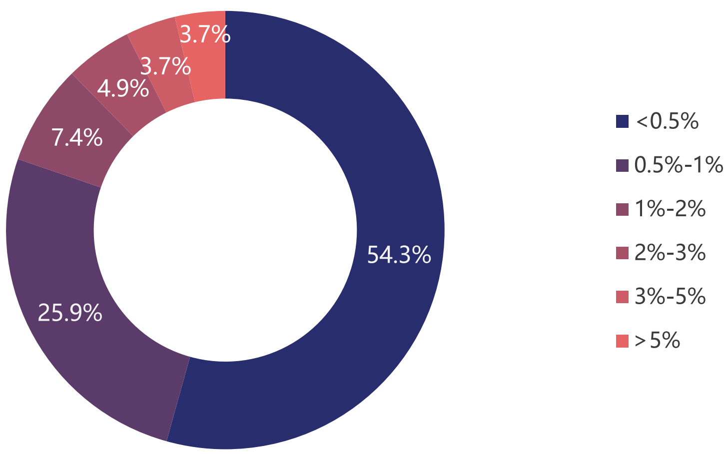
Figure 3-3. Changes in the number of employees among surveyed department store operators in 2023



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

Rising costs also affect businesses' digitalization efforts. 54.3% of surveyed department store operators spent less than 0.5% of their operating income on digitalization, while 25.9% spent between 0.5-1% – together, these two groups made up over 80% of respondents. (Figure 3-4).

Figure 3-4. Overall investment in digitalization as a proportion of operating income by surveyed department store operators



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

3.4 Challenges in attracting and growing store traffic

In a market characterized by intense competition and limited growth, traffic acquisition is becoming increasingly crucial. The reality is that declining foot traffic has been a common challenge in the retail industry in recent years. According to the survey, over half of the surveyed department store operators (53.8%) cited it as a major obstacle (see Figure 3-2).

Prime store locations have traditionally attracted significant foot traffic. Even in the age of online retailing and omnichannel expansion, businesses still aim to capture larger quantities of higher-quality traffic. However, in the current landscape of severe retail homogeneity and saturation of commercial space per capita, traffic acquisition has become increasingly competitive.

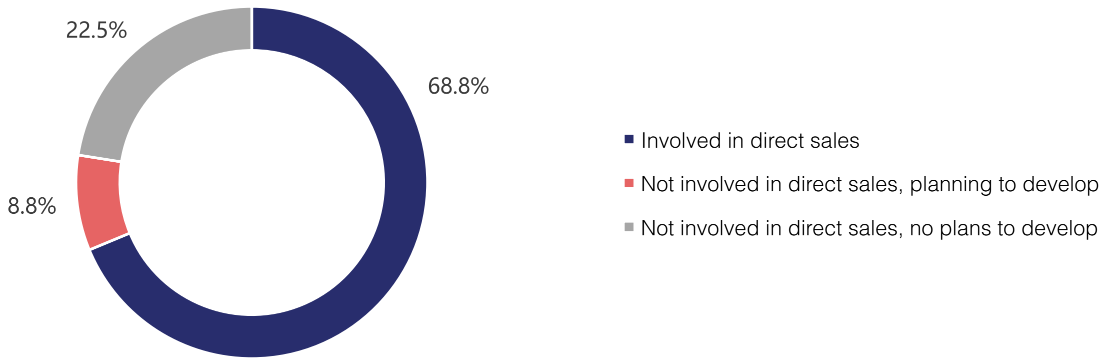
Regardless of the retail format, businesses must focus on community identification and precise customer targeting, followed by fine-tuning of their operations to retain traffic effectively through appropriate product and service combinations.

To address these challenges, department store retailers are adapting by repositioning and seeking innovative ways to attract and manage traffic. For example, Wushang Group has partnered with local lifestyle platforms such as Douyin to drive online-to-offline traffic, strengthening local services and consumer conversion capabilities to channel traffic to stores and boost sales. Other department store operators such as Bailian, Wangfujing, and Zhenghongcheng have successfully implemented similar strategies to boost traffic.

3.5 Direct sales development remains slow

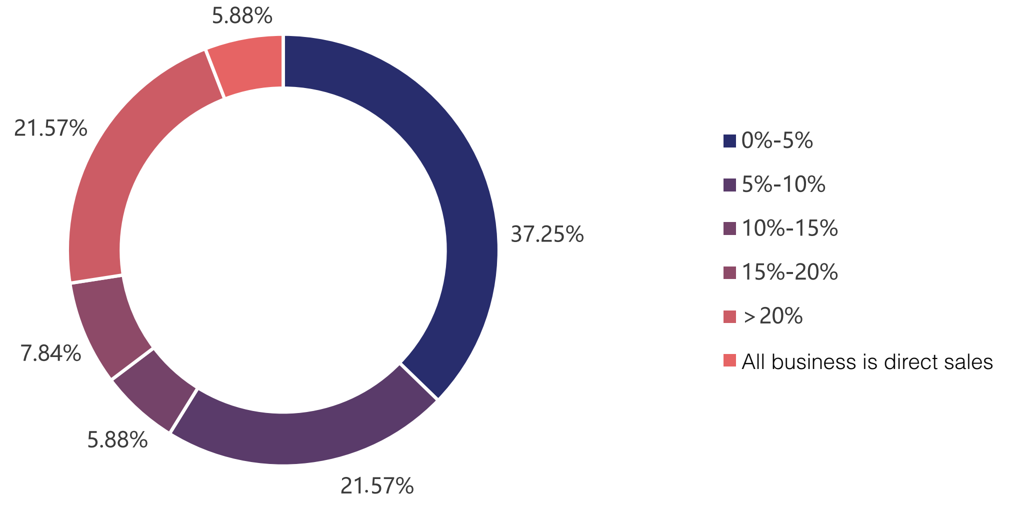
Direct sales development is a significant step on the transformation journey for department store retailers. While some companies have gained a competitive advantage through direct sales, direct sales business remains a small proportion of total sales in the department store industry, and is mostly still in the trial phase. In 2023, around 68.8% of surveyed department store operators were involved in direct sales business, marking a slight decrease from the previous year. The proportion of direct sales revenue relative to total sales remained low, accounting for less than 10% of total sales in most cases (see Figure 3-5). Furthermore, since survey respondents consist mostly of comprehensive retail operators with department stores as the primary format, the data includes other store formats such as supermarkets – hence, the proportion of direct sales in pure department store format would likely be even lower.

Figure 3-5. Direct sales business of surveyed department store operators in 2023



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

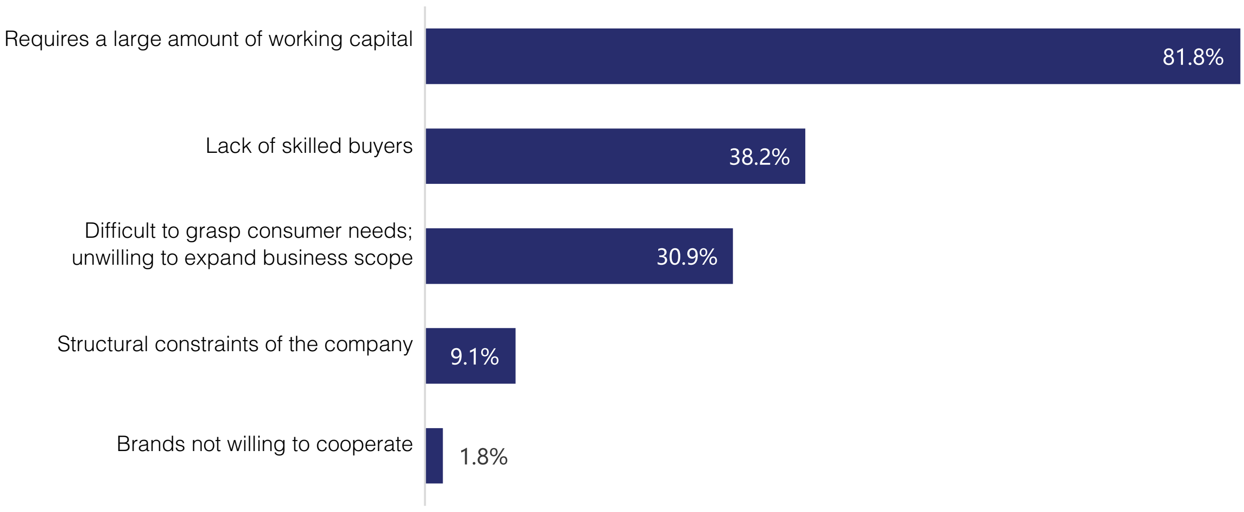
Figure 3-6. Proportion of direct sales revenue across surveyed department store operators that engage in direct sale business



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

There are several challenges surrounding the development of direct sale business. According to the survey, 81.8% of department store operators believe the primary obstacle lies in the amount of working capital required.

Figure 3-7. Main obstacles for surveyed department store operators in developing direct sales business (by number of selections)



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

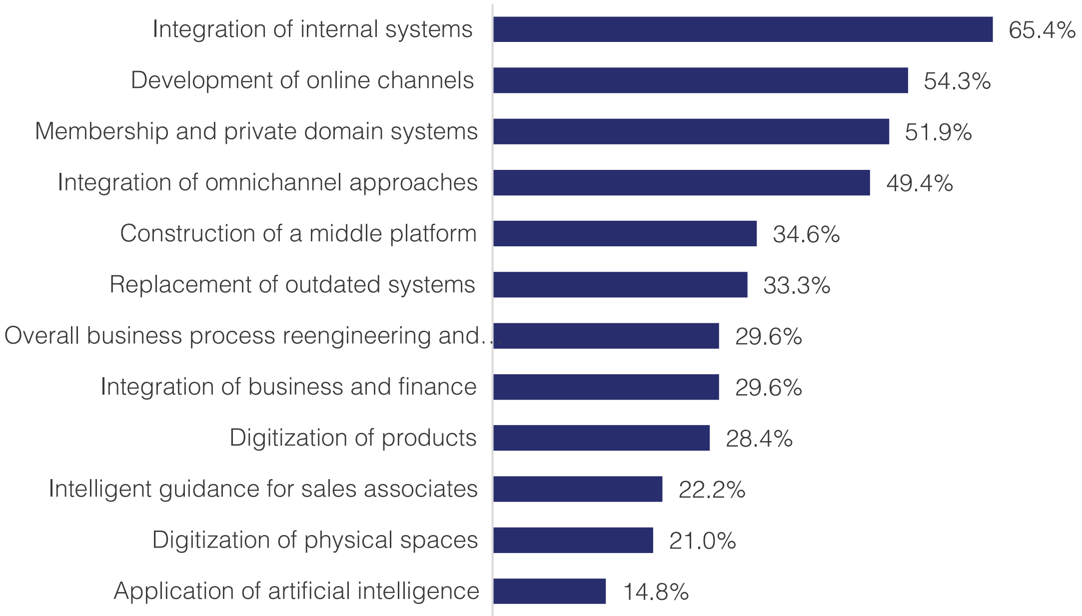
However, from another perspective, the low proportion of direct sales business has required less working capital and made operations easier, allowing the industry to survive the most difficult period of the COVID-19 pandemic.

IV. Key Areas of Digital Transformation of the Department Store Industry

4.1 Integration and interconnection of internal systems

Our survey shows that for the sampled department store operators, the primary focus of digital investments is on the integration and interconnection of internal systems, with 65.4% of these companies identifying it as the key area of digitalization. This is followed by the development of online channels, membership and private domain systems, and the integration of omnichannel approaches.

Figure 4-1. Primary digital investment focuses of surveyed department store operators



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

As department stores deepen their digitalization, integrating internal systems gains critical importance. Technological investments previously only targeted isolated issues rather than overarching system challenges. Despite notable digitalization at customer touchpoints — such as parking, checkout, and coupon distribution — and the establishment of online channels like mini-programs and live streaming, significant challenges persist. Ensuring inventory synchronization across channels and accurate user identification are crucial. Transitioning from single-channel operations to omnichannel and evolving from basic to precision marketing demands the seamless integration of internal systems.

Large retailers are leading the way of system integration, which is a complex process and demands substantial investment. The Wangfujing Group is reconstructing an integrated online and offline new commercial ERP system, aiming to push forward seamless online-offline operations and smart collaboration. The objective is to accelerate the integration of business resources and deepen the digital transformation, striving to establish a leading platform that spans across the department store's operations.

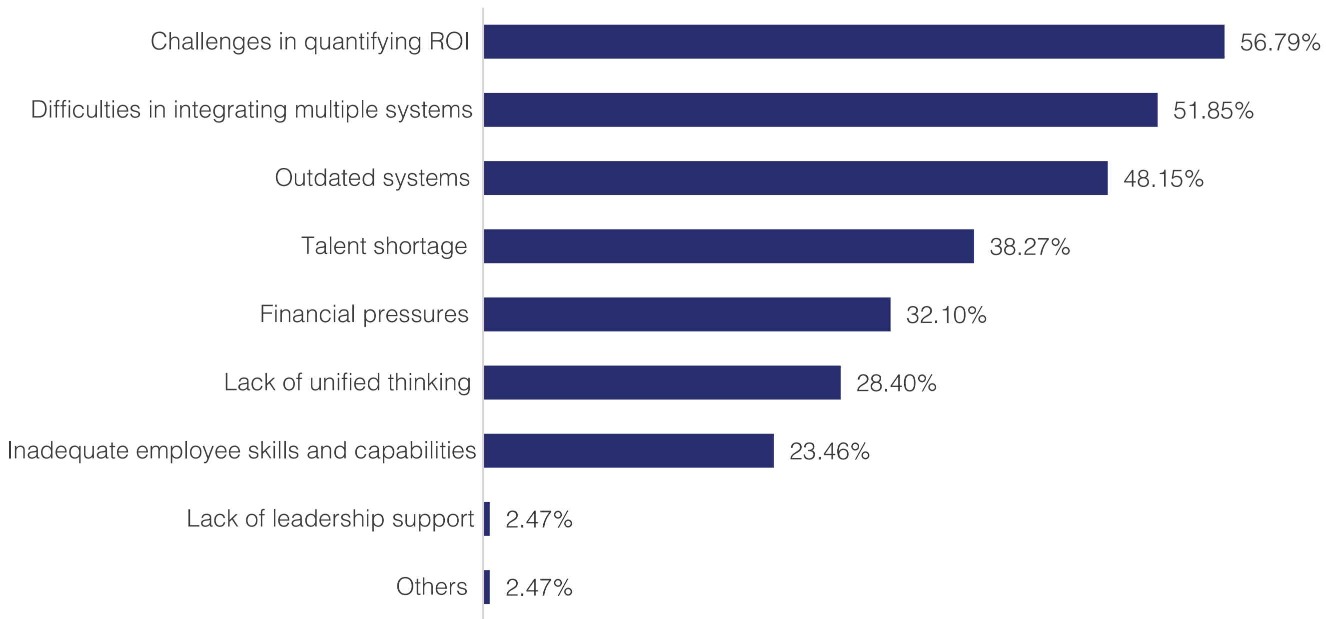
4.2 Overcoming the bottlenecks of complex systems

One of the major persistent issues hindering digital construction has been the difficulty in quantifying return on investment. Digitalization construction is a comprehensive system project aimed at enhancing overall efficiency, where improvements in sales or cost reductions are not easily quantifiable. This has led to decision-making difficulties in advancing digital initiatives, with 56.8% of companies citing this as the biggest challenge (Figure 4-2).

Furthermore, the presence of numerous systems complicates integration and requires significant investment. Services provided by different vendors for various applications or systems, combined with insufficient technical capabilities and cost considerations, result in a lack of full interconnectivity and synergy in digital efforts. Additionally, many companies' core systems were built years ago and thus lack scalability and cannot meet new demands. For IT teams, addressing the bottlenecks in these numerous, sometimes hundreds, sets of systems becomes a critical task.

A third challenge is system obsolescence. A 2021 survey by the China Commerce Association for General Merchandise found that the core systems of most retail companies, implemented over 10 years ago, were struggling with outdated architecture and limited scalability. Despite ongoing digital advancements, many updates have been makeshift, resulting in complex, isolated systems that are hard to integrate. Nevertheless, this issue is slowly being tackled, with some companies embarking on digital restructuring, though most continue to face difficulties in integrating and modernizing existing systems.

Figure 4-2. Challenges of digital transformation encountered by surveyed department store operators

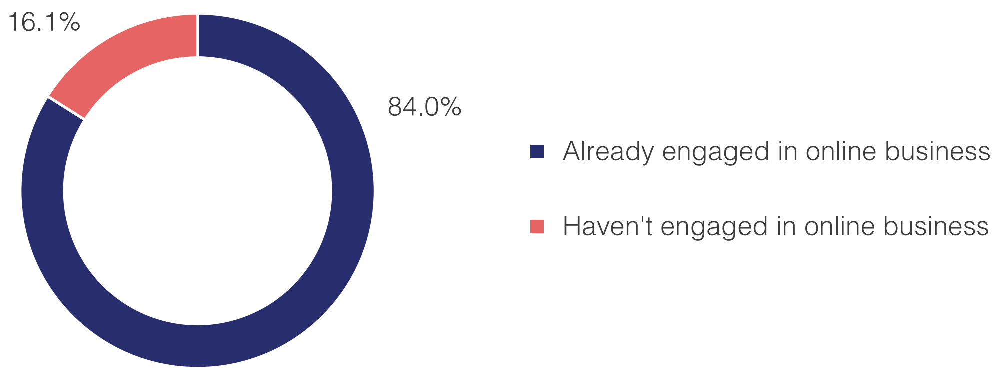


Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

4.3 Emphasis on online sales and marketing

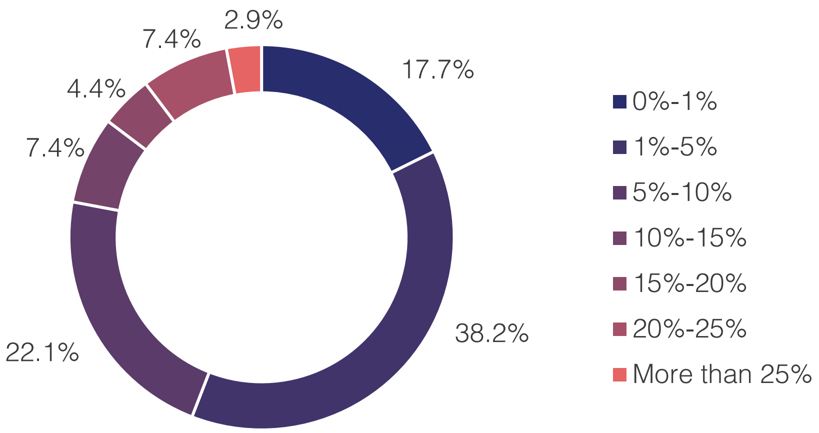
The survey reveals that 84% of the sampled companies have launched online operations (Figure 4-3). However, online sales are not the primary focus for department store operators. Data show that for 77.9% of these companies, online sales account for less than 10% of their total sales. Specifically, companies with online sales making up less than 1% of their total sales account for 17.7% of the surveyed department store operators; those with 1-5% account for 38.2% of the surveyed department store operators; and those with 5-10% make up 22% of the surveyed department store operators (Figure 4-4).

Figure 4-3. Online business development of surveyed department store operators



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

Figure 4-4. Proportion of online sales to total sales of surveyed department store operators



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

Overall, despite years of development in online business, the proportion of online sales remains low for most companies, except for a few with notable online success. The primary reasons are the high cost of implementing omnichannel strategies, limited support from brand merchants under consignment and leasing models, and thirdly, the lack of technology and expertise. The digitalization of products in the department store industry faces practical challenges, such as the need for coordination with brands and suppliers and rapid seasonal changes in products. These issues result in inefficient, costly, and uneconomical digitalization efforts for individual companies, also hindering the development of online business. The China Commerce Association for General Merchandise is actively exploring product digitization at the industry level, advocating for the establishment of a platform for the digitization of products of retail enterprises, which has received a positive response from the industry.

Table 4-1. Main factors limiting online sales for surveyed department store operators (the lower the score, the stronger the limitation)

Limiting factors	Score
High cost of implementing omnichannel	3.1
Limited support from brand merchants under consignment and leasing models	4.0
Difficulty in digitizing products, which is a foundation for online business	4.1
Lack of relevant technology and management talent	4.1
Unclear online development strategy	4.6
Limited proportion of online sales, not worth significant investment	4.8
Problems with incentives and assessment mechanisms for online business development	5.2
Warehouse logistics and distribution do not support online business	6.1

Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

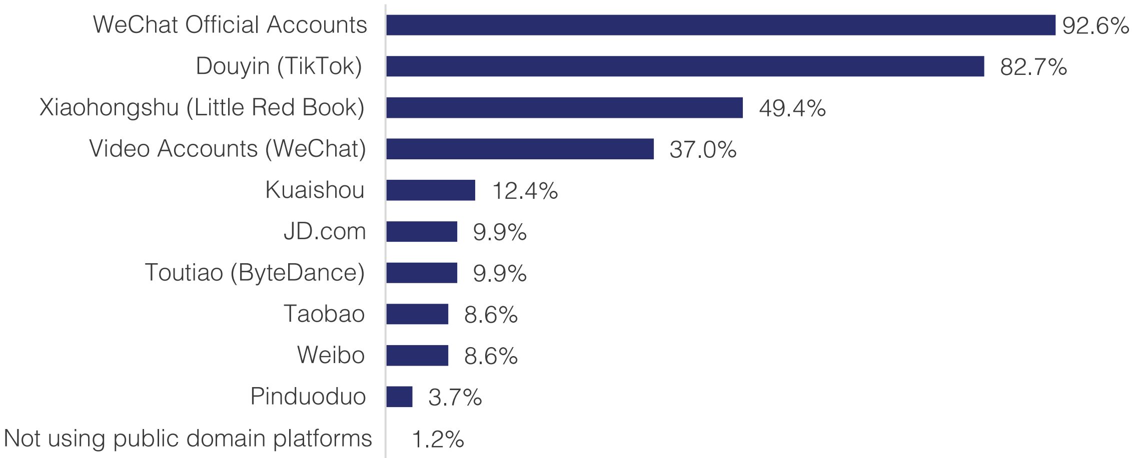
Brick-and-mortar retailers initially developed online channels to expand their sales avenues, including community and livestream selling. While the revenue of online sales is a common focus, prioritizing only the share of online sales over costs and marketing effectiveness is not advisable. Online channels are not merely for sales, but should also serve as tools for marketing and customer service. Strategies such as content marketing and early product teasers can enhance customer engagement, while private domain management and coupon distribution can deepen customer relationships. The aim is to evolve the customer journey — from pre-visit research to after-sales feedback — into a continuous cycle of creating new value.

4.4 Building comprehensive operational capability

Operating in both public and private domains has become a standard for businesses. Our survey shows that the vast majority use public platforms, with 92.6% employing WeChat Official Accounts for public marketing or sales, followed by 82.7% using Douyin. Xiaohongshu and Video Accounts rank third and fourth, respectively (Figure 4-5).

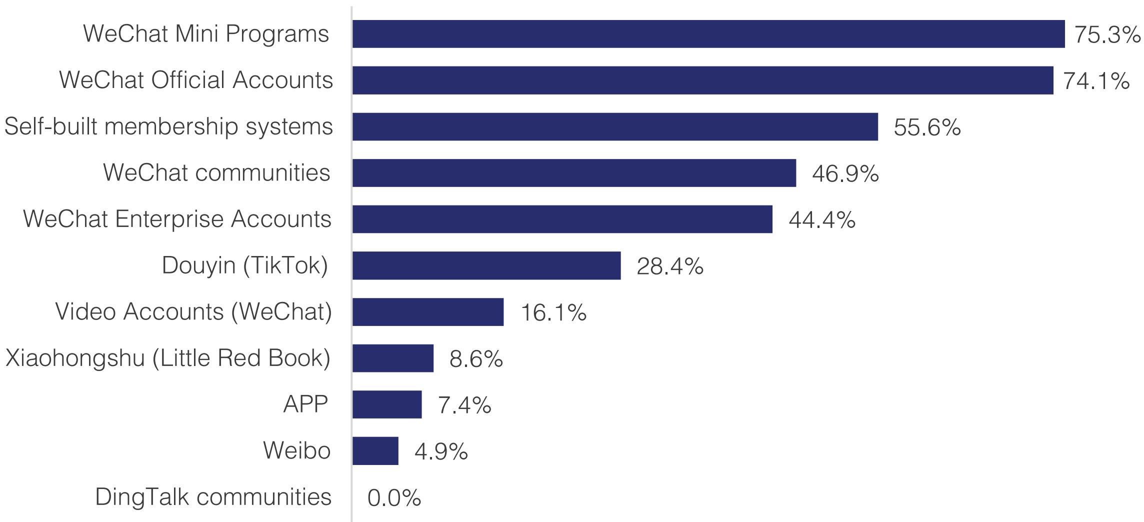
In terms of private domain operations, the main channels are WeChat's mini-programs, WeChat Official Accounts, proprietary membership systems, WeChat groups, and Enterprise WeChat (Figure 4-6).

Figure 4-5. Most used public domain traffic platforms by surveyed department store operators



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

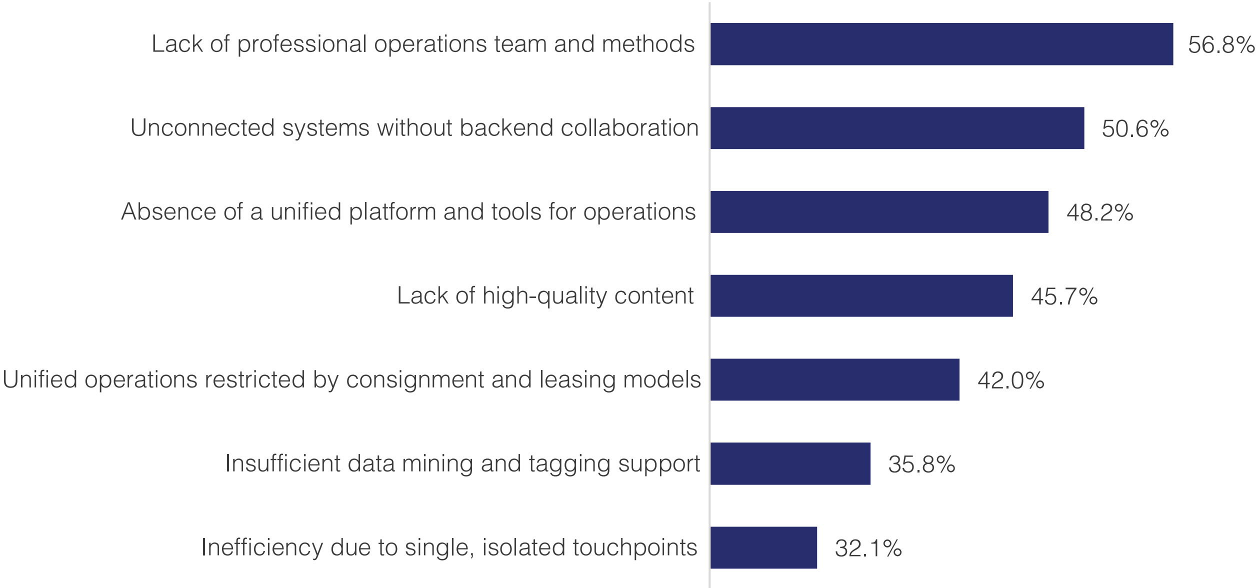
Figure 4-6. Most used private domain traffic platforms by surveyed department store operators



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

While comprehensive domain operations are widespread, challenges remain. The biggest challenge is the lack of a professional operating team and methods, followed by unconnected systems with no backend collaboration, a lack of unified operating platforms and tools, a shortfall of continuous high-quality content, and restrictions on unified operations due to consignment and leasing models (Figure 4-7).

Figure 4-7. Main challenges in private domain and membership operations encountered by surveyed department store operators



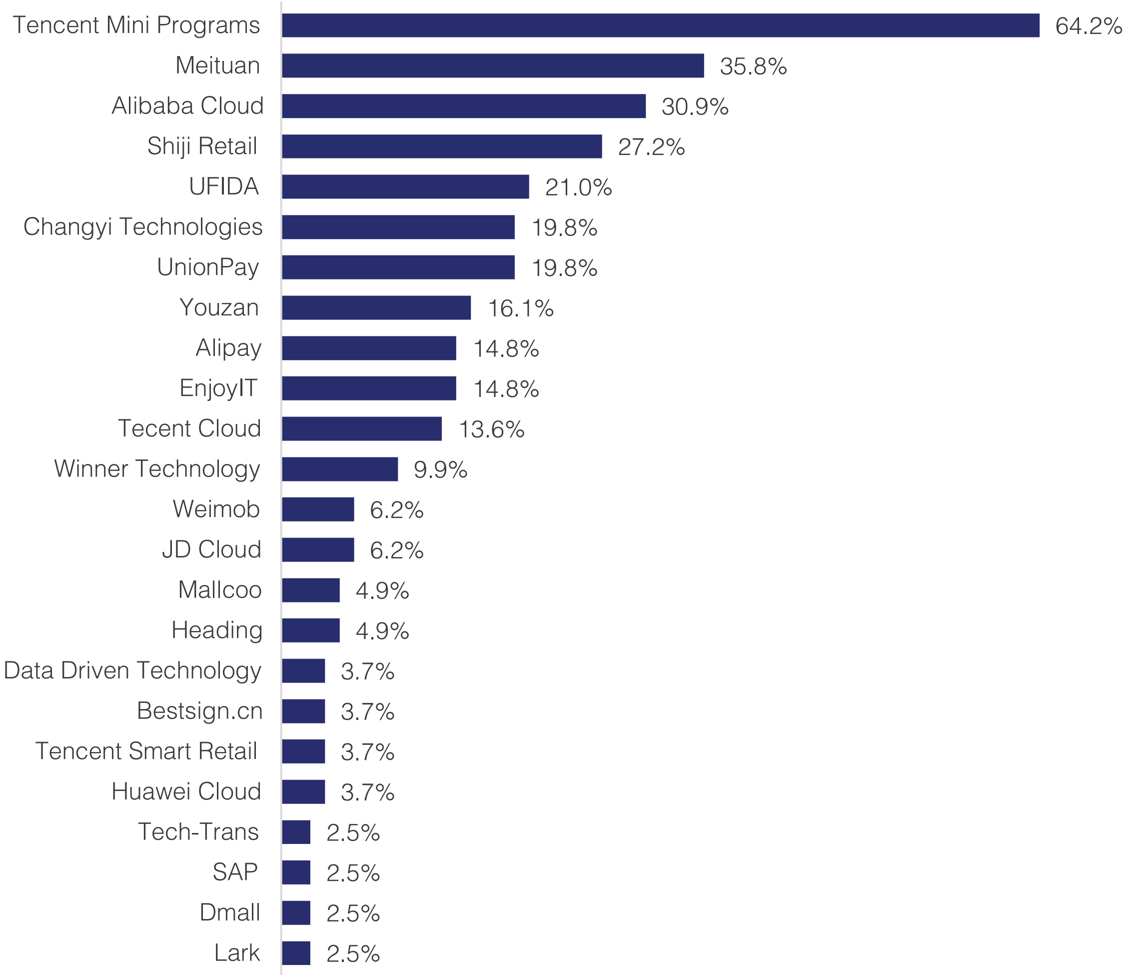
Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

4.5 Collaborative development of retail ecosystem

The retail industry is a vast ecosystem involving not just the management of retail enterprises but also numerous interdependent components such as various merchandise and service providers, consulting agencies, and multiple tech service firms. In the digital transformation of retail, service providers are indispensable, with the evolution of retail technology including merchandise management, customer service, and business process control. In the mobile and digital era, retail is becoming increasingly tech-intensive. Supported by tech service providers, the retail industry has seen significant improvements in quality and scale in recent years. The advancement of retail digitization is also a collaborative effort within the digital ecosystem, where retailers and service providers drive mutual growth and prosperity.

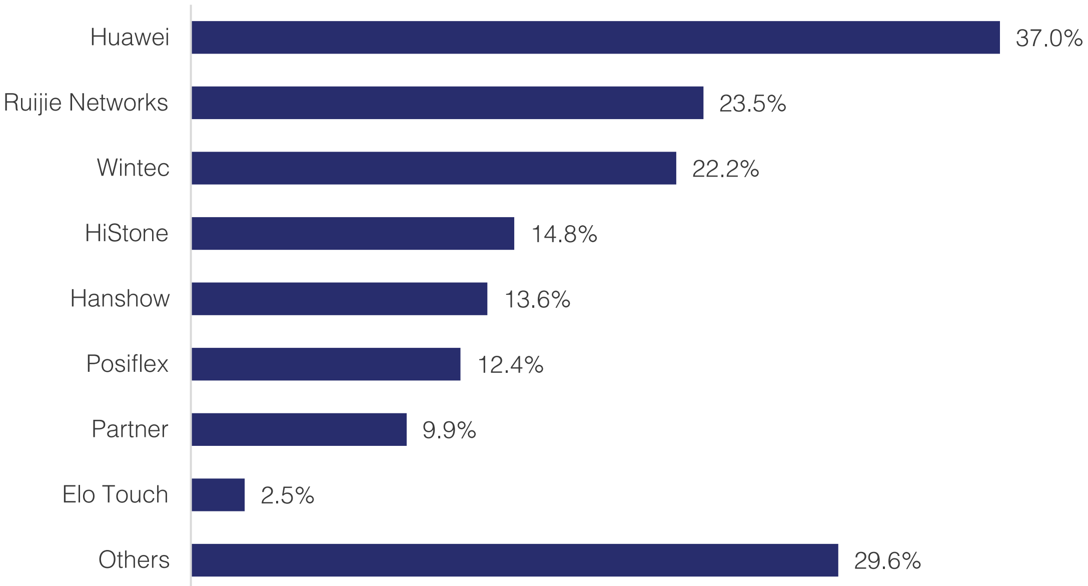
Our survey shows that among the services, platforms, or tools used by the sample companies, Tencent's mini-programs are widely used by 64.2% of businesses, followed by Meituan at 35.8%, Alibaba Cloud at 30.9%, Shiji Retail at 27.2%, UFIDA at 21%, and China UnionPay's tech at 19.8%. Other platforms like Changyi Technology, Youzan, EnjoyIT, and Alipay also have a notable presence. Hardware usage is more varied, with brands like Huawei, Ruijie Networks, Wintec, HiStone, and Hanshow, among others, such as H3C, Inspur, Lenovo, and Sangfor being employed.

Figure 4-8. Third-party systems and tools used by surveyed department store operators (based on frequency of selection)



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

Figure 4-9. Hardware service providers currently used by surveyed department store operators



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

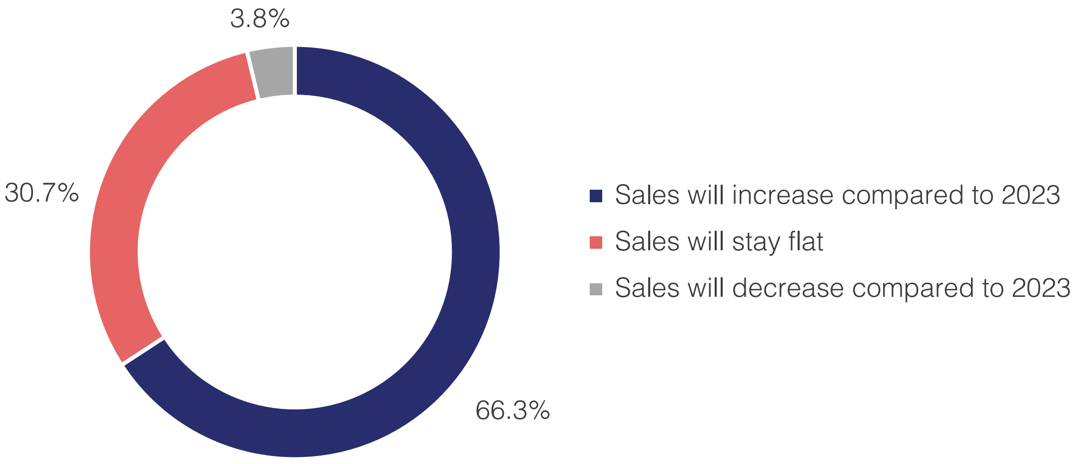
V. Direction of Development and Transformation Initiatives

5.1 Cautious optimism persists

In 2023, most Chinese department store operators achieved growth amidst difficulties. Data from the China National Commercial Information Centre (CNCIC) indicate that the total retail sales of 50 key large-scale retail enterprises (most of which are department stores) nationwide increased by 15.6% in 2023.

Overall, department store operators are optimistic about the outlook for 2024; however, their optimism is more cautious compared to a year ago. Our survey reveals that 66.3% of the surveyed department store operators expect sales growth in 2024, significantly lower than the previous year's 85.7% result. Among the enterprises anticipating sales growth, less than half believe that the growth rate will exceed 5%. About 30% of the surveyed department store operators expect sales to remain the same as in 2023, while only 3.8% of the enterprises predict a decline in sales (Figure 5-1).

Figure 5-1. 2024 sales expectations among surveyed department store operators



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

In 2023, to stimulate private investment and the private economy, enhance consumption, boost cross-border e-commerce, and support high-quality business growth, the Chinese government issued several initiatives. These include measures to restore and expand consumer spending, unleash the potential of tourism, promote home and electronic product consumption, and others. The 2024 government work report further outlined strategies to increase income, optimize supply, reduce restrictive measures, and foster new consumption trends focusing on digital, green, and healthy aspects. These policies are poised to positively impact 2024, aiding in the sustained recovery of consumer spending.

5.2 Renovation and transformation has been continued

According to our survey, most department store operators increased their efforts in store renovations in 2023. Sixty-two percent of the surveyed department store operators increased their investments in store renovations (Figure 2-5); while 67.5% believe that renovation and upgrading of physical stores will be the key focus of future operations in the department store industry.

In 2023, Chongqing Department Store accelerated the transformation and upgrading of its stores by integrating elements of commerce, culture, and tourism, creating diversified consumption scenarios such as the stereoscopic museum “Time Tower” in the Chongqing Department Store and the “Life Aesthetics Academy” in the New Century Department Store. These initiatives further enhanced consumer stickiness. Hefei Department Store also implemented several measures to continuously optimize store transformation and upgrading.

The Chongqing Department Store Building, themed around the relationship between “the century-long evolution of the era, urban development in Chongqing, and the memories of the people,” has collaborated with art institutions, experts, and scholars to create a three-dimensional urban art and cultural public space called the “Time Tower” (Image source: Tencent News)

Regarding the direction of transformation, our survey shows that 46.3% of the sampled department store operators believe that community-focused commerce will be the direction of development for the department store retail industry in the next three years. Meanwhile, many surveyed enterprises also anticipate the trend of transformation towards shopping centre (38.8%) and the continuation of polarization (36.3%). Furthermore, there is an expected increase in mergers and acquisitions (36%) (Figure 5-2).

Figure 5-2. Expectations for development directions among surveyed department store operators in the next three years (based on frequency of selection)

Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

As consumers increasingly pursue convenience and quality of life, community-focused commerce has become a major trend. With the major e-commerce retail companies Alibaba and JD.com rejoining the competition with Pinduoduo in community group buying, department store enterprises have also recognized the business opportunities in community commercialization. Some of them are transforming into community lifestyle centres, aiming to attract consumers by providing more convenient shopping experiences and community services.

Unlike the community-oriented group buying in e-commerce, department store community commercialization focuses more on leisure, entertainment, and scene design to increase foot traffic and enhance consumer experiences. The transformed community centres, originating from department stores, also host community-oriented activities and services such as fire safety campaigns, health education, community cultural evenings, as well as services like hairdressing and clothing repair.

In 2023, the department store chain Tianhong upgraded 28 medium-sized department stores located in densely populated communities into community lifestyle centres, deeply integrating into community life. These stores saw a significant increase in total revenue and average foot traffic. Wangfujing, the owner of the department store Chang'an Shopping Mall, has also undergone community-oriented renovations. The mall, in collaboration with Huafang Meal Distribution Centre for Home-based Elderly Care, has set up a community canteen and opened various shops such as pharmacies to meet the service needs of the elderly in the community.

Some other department store operators are transitioning into shopping centres and innovating in terms of shopping environment, business formats, and brands to attract consumers through diversified shopping and entertainment experiences. In January 2023, the first commercial complex in China focused on anime, comics, and games (ACG) culture, "Bailian ZX Fun Field", officially debuted. This shopping centre was transformed from the landmark building Hualian Commercial Building located on Shanghai's Nanjing Road. The transformation of department stores into shopping centres not only brings consumers back to physical stores but also promotes the development of online and offline integration, enhancing the overall competitiveness of the retail industry.

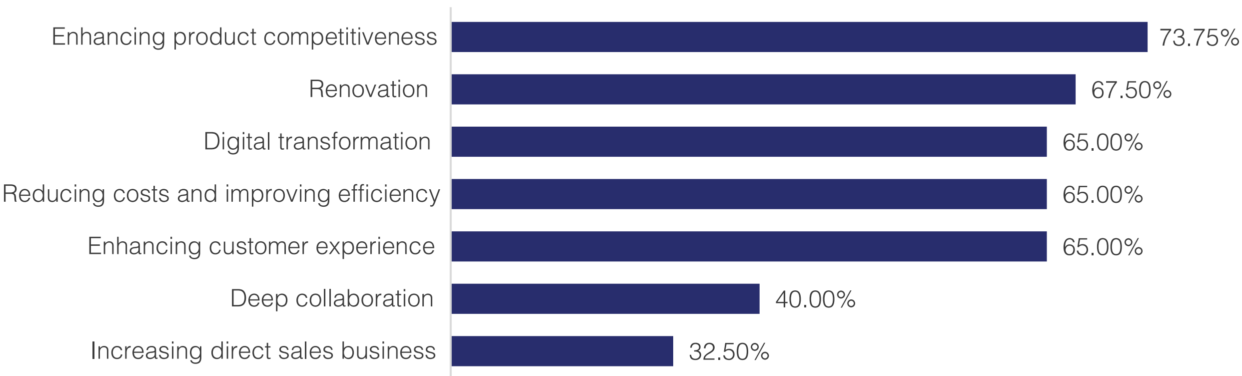
Opening scene of Bailian ZX fun Field (Image source: Sohu.com)

However, the transformation direction for department store retail businesses lacks a clear consensus. The joint survey by the China Department Store Business Association and Fung Business Intelligence revealed that for the sector's development over the next three years, neither community-focused commerce nor a shift towards shopping centres, the two most popular strategies under consideration, were planned by more than half of the respondents. Not all department stores are suitable for transformation into community-focused businesses, with many such transformations not proving successful. Similarly, transitioning to shopping centre models isn't a predominant trend, as most department stores face challenges with building structure, fire safety facilities, and utilities such as gas and electricity, making it difficult to shift towards shopping centre models. Conversely, shopping centres are keenly exploring synergies with department store formats, aiming for a more integrated approach. The essence of transformation in the department store retail sector lies in tailoring strategies to individual conditions and the consumer environment to identify the most viable path forward.

5.3 Enhance product management capability

With the consumer market becoming more mature, consumers are more rational in their purchasing decisions, placing a stronger emphasis on the products themselves. Having strong product capabilities plays a vital role in the sales of retail businesses. Our survey shows that 73.8% of the surveyed department store operators believe that enhancing product competitiveness will be a key focus for their future operation. (Figure 2-3)

Figure 5-3. Future focus areas of surveyed department store operators (based on frequency of selection)



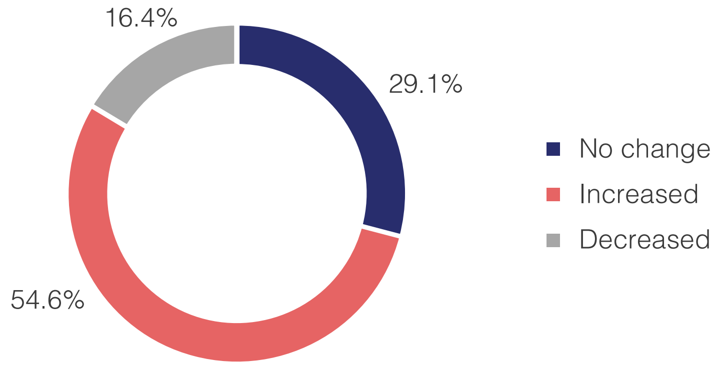
Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

Product competitiveness refers to the ability to meet customer product demands, converting visitors into buyers by selling "the right product" at "the right place" in "the right way" and at "the right price" to "the right customer."

On one hand, the department store retail industry is intensifying its deep collaboration with brands and suppliers, taking on more responsibility. Department stores are expanding their management scope from categories and brands to individual products and inventory, sharing demand information and data with brands and suppliers, conducting corresponding consumer analyses, deepening the relationship between retailers and suppliers, and co-developing with brands and suppliers to enhance product management capability.

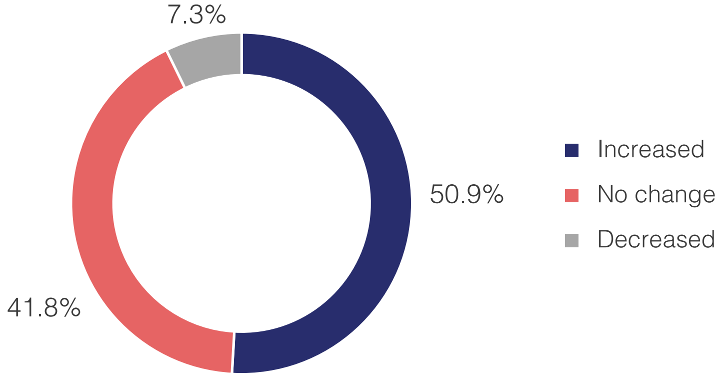
On the other hand, department store operators are actively exploring direct sales. Our survey shows that, in 2023, 54.6% of surveyed department store operators saw an increase in the proportion of direct sales business compared to the previous year. In contrast, in 2022, only 32.1% of the surveyed enterprises increased their direct sales business (Figure 2-4). When asked about their plans for expanding direct sales business in the coming year, about half of the companies indicated they would continue to expand, while 41.8% stated they would maintain the current proportion of direct sales business (Figure 2-5).

Figure 5-4. Change in the proportion of direct sales business in 2023, compared to 2022 among surveyed department store operators



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

Figure 5-5. Expectations of surveyed department store operators engaged in direct sales business regarding the proportion of direct sales in the coming 12 months



Source: China department store survey 2023-2024 by CCAGM and Fung Business Intelligence

5.4 Shifting from secondary landlord to consulting advisors

Department store operators are increasingly prioritizing establishing a mutually beneficial relationship with brand partners. As brands diversify their sales channels through e-commerce platforms, live streaming platforms, their own online channels, and offline stores, the role and positioning of department store retailers are evolving. They are moving towards becoming specialized consultants focused on refined operations.

Department store operators increasingly recognize the need to serve as consulting advisors, offering merchants professional operational advice and data support. By partnering closely with merchants, they aim to collaboratively enhance sales performance, sharing both successes and challenges.

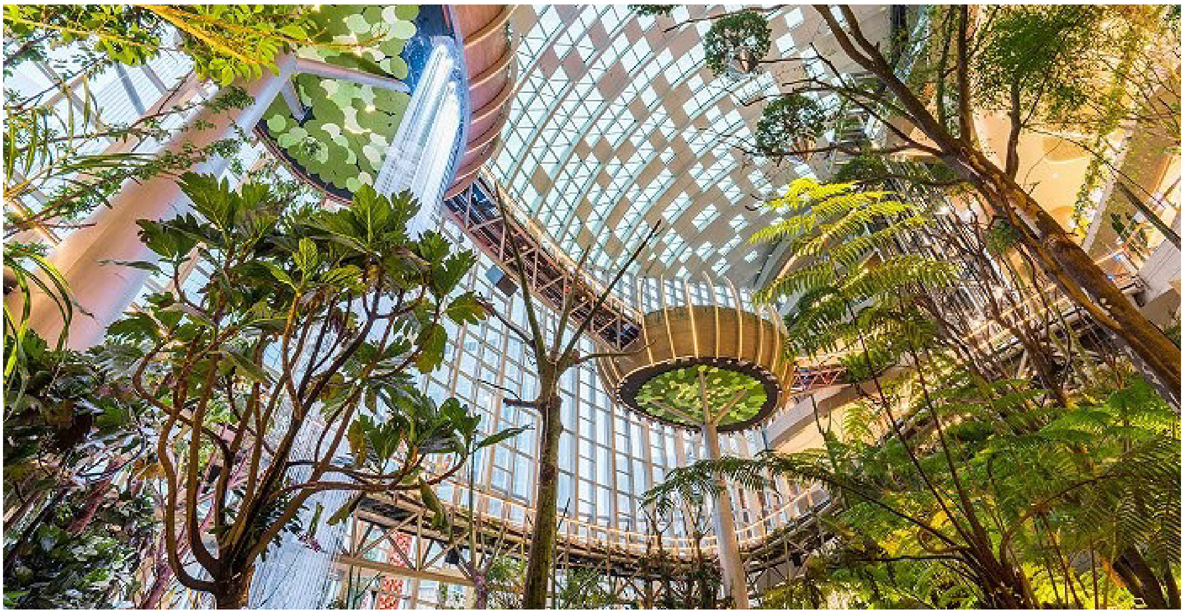
Through digitalizing its operational data, Guofang Department Store generates various reports for brands, encompassing sales, competitor analyses, new customer and member insights, as well as average customer spending. These reports are compared against previous year and historical data to dissect performance trends, pinpoint issues, and source solutions for targeted improvements. Monthly, and particularly during key promotional periods, the department store collaborates with brand merchants to craft tailored operational strategies, supported by in-depth data analysis. In a similar vein, New Yansha Mall adopts a consultancy advisor role, delivering value to brand merchants through enhanced human capabilities, effective management practices, and the strategic use of data.

The department store industry was once seen as a role like a secondary landlord. By boosting their operational capabilities and working closely with brands and merchants, they are transitioning towards a consultancy-focused model, marking a significant shift in the industry's landscape.

5.5 Embracing green development

In response to the national green transformation and the goal of achieving "dual carbon" targets, as well as the increasing environmental awareness among consumers, many department store operators are actively transitioning towards green and low-carbon development through innovative means.

Firstly, there is the green transformation of energy in department stores. Shopping parks in Chongqing such as Lead8, Sunac Mall, and Times Square have adopted advanced intelligent management systems to finely manage store energy consumption, effectively monitoring and optimizing energy efficiency. Intime Department Store, on one hand, improves energy efficiency through its self-developed "Smart Energy Management System." On the other hand, it has built rooftop photovoltaic power stations with a total installed capacity of 1,500 kilowatts in Haining and Ouhai, producing renewable energy. In the 2023 fiscal year, Intime completed energy-saving renovations for 12 stores, using clean electricity of 300 million kilowatt-hours and reducing carbon emissions by more than 210,000 tons. Hangzhou Wulin Intime Department Store has achieved carbon neutrality.



Chongqing Lead8 Shopping Park utilizes an intelligent platform to monitor environmental conditions in real-time and optimize the operation strategies of heating, ventilation, and air conditioning (HVAC) systems to save energy usage (Image source: Jiemian News)

Environmentally friendly packaging is also an important measure for department store enterprises in their green transformation. In the 2023 fiscal year, Intime Department Store upgraded traditional zipper boxes to hook-and-loop boxes, reducing the use of approximately 316 tons of paper materials, and decreasing adhesive usage by about 60%. Additionally, by replacing plastic with paper or biodegradable materials, Intime reduced the use of approximately 31.4 tons of plastic packaging materials.

Some companies are also incorporating the promotion of green, low-carbon, and sustainable development into their brand campaigns. Shanghai Grand Gateway Plaza launched a summer-themed event called “Walk and Stop”, using environmentally-friendly and harmless materials to create art installations. They also organized a sustainable forum, inviting experts and brands to discuss sustainable design and ecological conservation topics with customers and children. Grand Gateway Plaza has also signed a sustainable development cooperation agreement with LVMH Group, collaborating on water resource management, renewable energy, carbon footprint assessment, low-carbon materials, energy management, environmental governance, waste auditing, and recycling. Wanda Group has launched the “Wanda Tech Innovation Festival—Green Energy Research Institute” in over a hundred Wanda Plazas nationwide, promoting the concept of green consumption through both online and offline activities. They have also collaborated with in-house brand merchants to advance their green initiatives.

VI. Policy recommendations for the Sector's Development

6.1 Prioritize the real economy and stronger regulations for online retail

Online channels such as e-commerce and livestreaming have transformed many businesses, becoming crucial sales channels for retail enterprises – however, the quality of these platforms remains highly uneven. In March 2024, a report by various research institutions (including the Beijing Sunshine Consumption Big Data Research Institute and the New Business Economy Research Institute of Beijing Technology and Business University) highlighted key issues in consumer rights protections and public opinion regarding online shopping – including exaggerated or false marketing and advertising, low-quality or counterfeit products, and unethical marketing practices.

While online business development continues to play a significant role in developing omnichannel strategies, optimizing supply chains, and enhancing customer service, the pain points must be addressed as well. Policy recommendations include enhancing regulations and industry standards, strengthening content auditing and supervision, and promoting industry self-regulation to ensure fair competition and healthy development. Ultimately, the goal is to fully integrate digital and physical retail, advancing the application of digital technologies in the real economy.

6.2 Better planning for logical commercial layouts

Amidst insufficient consumer demand and saturation within existing commercial layouts, the commercial network continues to grow. Many companies have expressed concerns about the surplus of local commercial projects and large areas of vacant urban commercial space. The development of new large-scale commercial properties, such as urban complexes and shopping centres, often spanning hundreds of thousands of square meters, has significantly impacted existing businesses, affecting the healthy growth of the retail industry. Additionally, in cities with already developed commercial sectors, clear market segmentation, and sufficient supply, the introduction of new large-scale commercial projects, sometimes adjacent to existing ones, has led to unhealthy non-market competitive strategies.

Policy recommendations include giving further consideration to the layout and scale of commercial outlets at the macro planning level, more detailed planning processes, and promoting logical layouts to facilitate healthy sector development.

6.3 Provide subsidies to stimulate business investment

Rising operating costs present a significant challenge to sustainable business growth. These costs can be alleviated through appropriate subsidies covering areas such as energy-efficient renovations, technological advancements, and labour expenses.

For example, the “One Store, One Strategy” initiative spearheaded by the Beijing Municipal Bureau of Commerce offers financial assistance to individual enterprises for upgrading and renovating their facilities. Malls that have benefited from this initiative include Cuiwei Department Store, Shuang’an Mall, and Ganjiakou Department Store. There’s optimism about replicating this successful model nationwide. Moreover, some businesses are actively pursuing energy-efficient renovations and gradually replacing energy-intensive equipment with more eco-friendly alternatives. Subsidizing green investments could further incentivize such endeavours.

6.4 Relax restrictions on outdoor displays

Common marketing methods for offline retail companies often include outdoor displays, mobile vending carts, door-to-door promotions, outdoor commercial performances, decoration, etc. However, these methods are generally subject to strict restrictions, and policy requirements vary by location. Although such policies have eased up slightly, companies still experience many obstacles in the actual implementation process.

Policy recommendations include relaxing restrictions on outdoor displays and related marketing measures in specific areas, cancelling administrative charges for promotional decorations such as colourful flags and arches, and encouraging large-scale, high-quality businesses to create outdoor displays in order to foster a more lively atmosphere which encourages consumption. Participating companies will remain conscious of the environment in order to protect their brand image.

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 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**

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