GENERAL RETAIL

China Retail Snapshot

Asia Distribution and Retail

April 2016

Note: Photos in this report are from official websites and official social media accounts, and freepik, if not otherwise specified.

EXECUTIVE SUMMARY

- China is now the world's second largest retail market after the U.S. Total retail sales of consumer goods reached 30 trillion yuan in 2015.

- China is entering a "new normal" era. Retail sales growth has slowed slightly due to the decelerating of economy. Store closures are widely seen in various channels.

- The new middle class will spur a significant rise in consumption. Household disposable incomes are also on the rise. Chinese consumers are trading up and they are more sophisticated and quality driven. Post-80s and 90s become the major consumer group. Retail market in China is expected to register modest growth over the coming year.

Trends

1. "Internet Plus" drives retail and e-commerce development
2. Focusing on experiential elements
3. Embracing O2O and new technologies
4. Forming strategic alliance
5. Relaxation of "one-child" policy is set to boost consumption

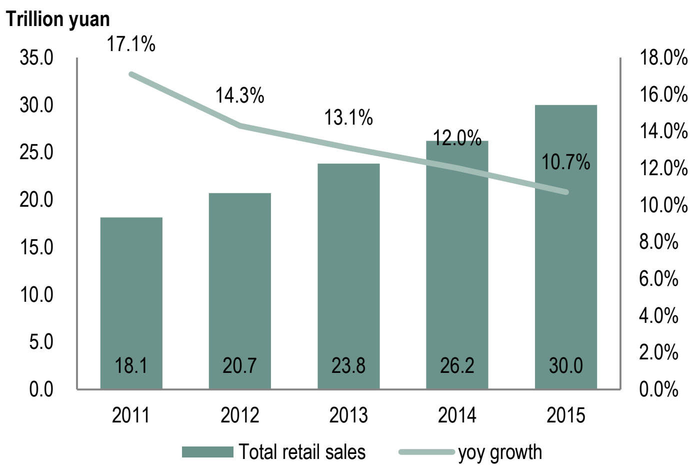
OVERVIEW
CHINA IS THE WORLD'S SECOND LARGEST RETAIL MARKET

- China is now the **world's second largest retail market** after the U.S.
- Total retail sales of consumer goods reached **30 trillion yuan** in 2015.
- Economic deceleration in China in 2015, together with rising uncertainties about the future growth prospects, curbed retail sales growth. The sector is entering a more mature stage of development where high growth rates are unlikely to occur.

Source: Nation Bureau of Statistics

Total retail sales of consumer goods

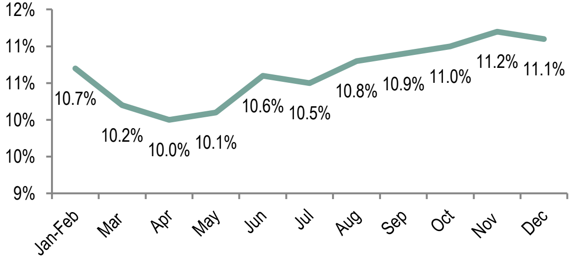
2011 - 2015



OVERVIEW
CHINA IS THE WORLD'S SECOND LARGEST RETAIL MARKET (CONT'D)

Nominal growth of total retail sales of consumer goods, by month

January – December 2015



Total retail sales of consumer goods, by mode

2014 – 2015 (yoy growth, %)

	2014	2015
Total retail sales of consumer goods	12.0	10.7
Commodities	12.2	10.6
of which: enterprises above a designated size*	9.8	7.9
Catering	9.7	11.7
of which: enterprises above a designated size*	2.2	7.0

Nominal retail sales growth of enterprises above a designated size*, by product

2014 – 2015 (yoy growth, %)

	2014	2015
Grain, oil, food, beverages, tobacco and liquor	11.1	n/a
Grain, oil, food	n/a	15.1
Beverages	n/a	15.3
Tobacco and liquor	n/a	12.7
Clothing, shoes, hats and textiles	10.9	9.8
Cosmetics	10.0	8.8
Gold, silver and jewellery	0.0	7.3
Daily use products	11.6	12.3
Home appliances and video equipment	9.1	11.4
Chinese and western medicines	15.0	14.2
Stationery and office accessories	11.6	15.2
Furniture	13.9	16.1
Telecommunications equipment	32.7	29.3
Petroleum and related products	6.6	-6.6
Automobiles	7.7	5.3
Building and decoration materials	13.9	18.7

Source: Nation Bureau of Statistics

** "Enterprises above a designated size" refers to enterprises with annual sales of five million yuan or more and with an employee strength of 60 or more.*

OVERVIEW

RURAL RETAIL SALES GROWTH SURPASSED MARKET AVERAGE

- Although 86% of retail sales occurred in cities, **rural retail sales growth surpassed the market average**. Due to the small base of the rural retail and the saturation in cities, and also the increase of mobile phone penetration and rising popularity of e-commerce platforms in rural areas, growth of rural retail sales will continue to lead the urban growth.

Total retail sales of consumer goods, urban vs rural areas
2014 – 2015

	2014	2015
Urban	22.6 trillion (↑11.8% yoy)	25.9 trillion (↑10.5% yoy)
Rural	3.6 trillion (↑12.9% yoy)	4.2 trillion (↑11.8% yoy)

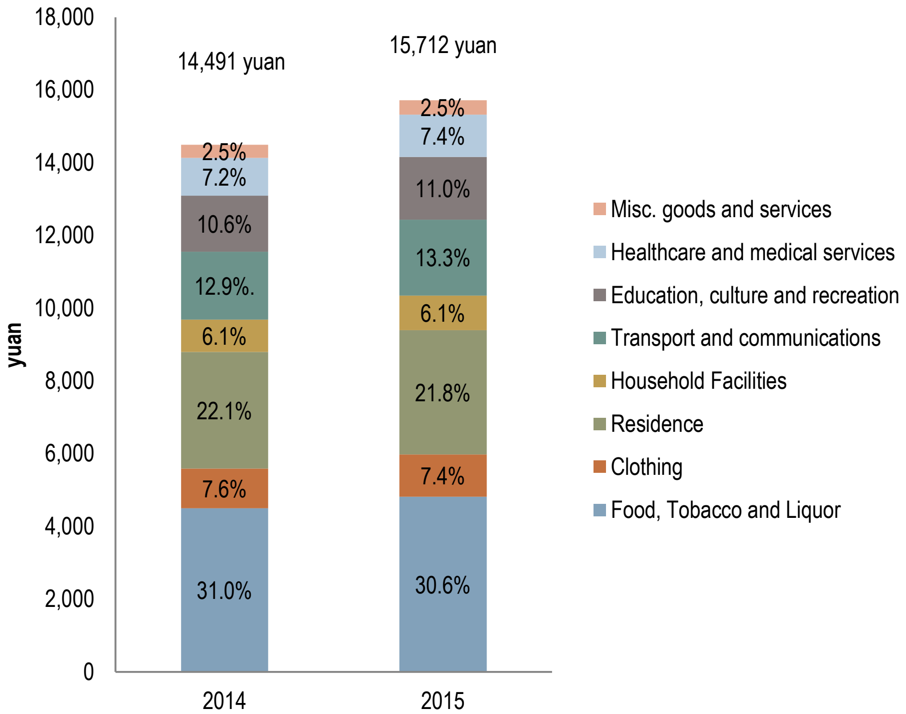
Source: Nation Bureau of Statistics

OVERVIEW

BREAKDOWN OF HOUSEHOLD CONSUMPTION EXPENDITURE

Structure of consumption expenditure per capita, % of total

2014 - 2015



Source: Nation Bureau of Statistics

OVERVIEW
SALES IN STORE-BASED RETAILING BY CHANNEL

OVERVIEW

Sales in Store-based Retailing by Channel

2015

	yoy growth (%)
Grocery retailers*	4.2
Non-grocery Specialists	6.1
--Apparel and footwear specialist	7.4
--Electronics and appliance specialist	1.9
--Health and beauty specialist	6.2
--Home and garden specialist	8.4
--Leisure and personal goods specialist	6.7
--Other non-grocery specialist	5.3
Mixed retailers**	-0.9
Luxury retailing	2.8

** Grocery retailers include convenience stores, discounters, forecourt retailers, hypermarkets and supermarkets*
*** Mixed retailers include department stores, variety stores, warehouse clubs*

Source: Euromonitor International

Mixed retailers (chiefly department stores):
Sluggish retail sales growth and store closures will continue. Department store operators accelerate format revamps and enhance experience.

Non-grocery specialists:
Non-grocery specialists posted better performance in 2015, as many brands preferred to open stand-alone stores in order to promote the shopping experience, offer wider ranges of products and more value-added services.

Overview
Store closures are here to stay

- Among the 76 listed retail enterprises in China, over 60% registered falls in both sales and revenue in 1Q-3Q15.
- China market has witnessed a trend for store closures, especially large-scale retailers such as department stores and hypermarkets.
- Intensified competition from online retailing, increasing operational costs, over-aggressive expansion in the past which led to an oversupply and homogenisation, were some key factors for the closures.

Selected examples of store closures in 2015:

- Wanda Group closed 56 underperforming **Wanda Department Stores** in 2015.
- **Marks and Spencer** closed 5 of its 15 stores in China in 2015.
- **Rainbow Department Store** closed 5 stores in 2015.

CONSUMERS
NEW MIDDLE CLASS IS THE FOUNDATION OF CONSUMPTION

- The number of middle class consumers* is expected to reach 630 million by 2020, up from 230 million in 2012.
- According to McKinsey & Company, by 2022, more than 75% of China's urban consumers will become middle class , up from 68% in 2012 and just 4% in 2002.

Source: McKinsey & Co.

** McKinsey defined 'middle class' as those with annual household disposable income of between 60,000 yuan (US$ 9,500) and 229,000 yuan (US$ 36,400)*

CONSUMERS
DEMOGRAPHICS OF CHINESE CONSUMERS

- Growing population continues to support China's retail sector development. By 2030, more than two-thirds of the population will live in urban areas; they become increasingly sophisticated and demand higher-end consumption.
- However, the aging population is getting larger by 2030; consumption pattern would be very different by then.

Population indicators

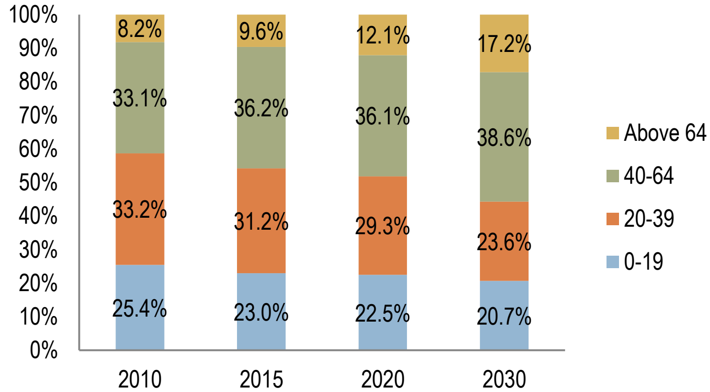
2010 – 2030 (estimates)

	2010	2015	2020e	2030e
Population (million persons)	1,338	1,375	1,398	1,414
Urban population	49.2%	56.1%	61.0%	68.7%

Source: Nation Bureau of Statistics, CEIC

Age structure

2010 – 2030 (estimates), % of total



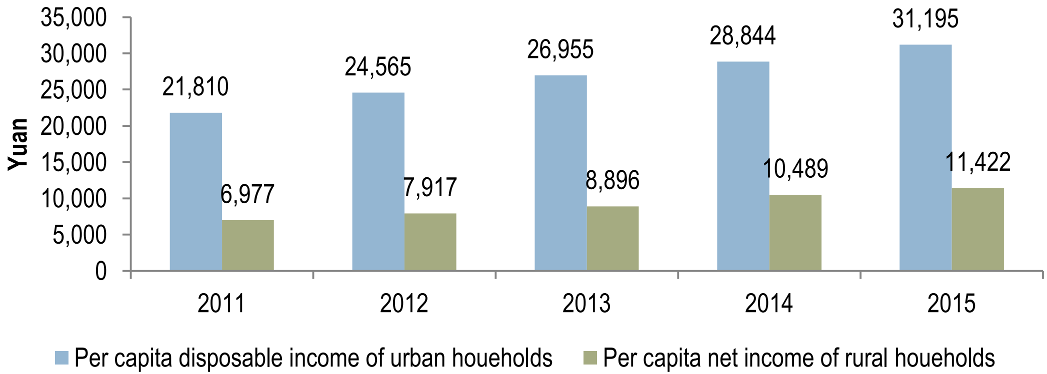
Source: Nation Bureau of Statistics, CEIC

CONSUMERS
HOUSEHOLD DISPOSABLE INCOME IS ON THE RISE

- Household disposable income is on the rise. As Chinese consumers become more affluent, spending is expected to increase further.
- Per capita disposable income for **urban households was around three times more than for rural households**.
- In 2015, growth for both urban and rural household income decelerated compared with 2014.

Urban and rural incomes

2011 - 2015



Source: Nation Bureau of Statistics

CONSUMERS
CONSUMERS ARE TRADING UP

- Chinese consumers are trading up; they are more sophisticated and quality and experience driven.

- Looking for unique, better quality and value-for-money products
- Strong demand for imported products
- Experience driven; shopping is about leisure and enjoyment

CONSUMERS
POST-80S AND 90S BECOME THE MAJOR CONSUMER GROUP

- The Chinese millennials, or the “post-80s and 90s” consumers today have different expectation of products, services, experiences and value.

- Well-educated, have strong desire to spend on upgrades
- Save less and spend most of their income on entertainment, advanced electronics, and other trendy products
- Shop online and look for products that help distinguish their personalities
- Favor high-quality and convenient products than previous generations
- “Me” generation - they appreciate their own style and to be different with others. "What I like" is the most important criteria for purchasing

CONSUMERS
MOBILE-FIRST RETAIL HABITS AND SOCIAL MEDIA CRAZE

- Chinese consumers have adopted mobile as the dominant device to access Internet and conduct product search.

- Affordable smartphones are becoming popular and have changed the way people shop.

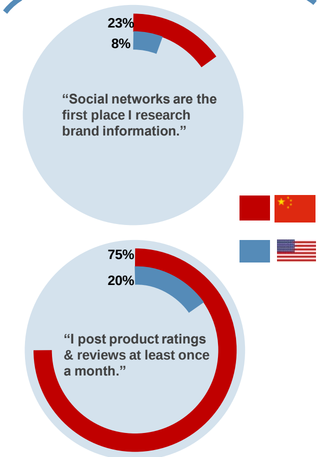
- China consumers rely heavily on social media platforms to discover, research brands and share opinions on purchasing experience.

WeChat

Monthly active user in China

650 million (+39% yoy)
September 2015

Source: Tencent

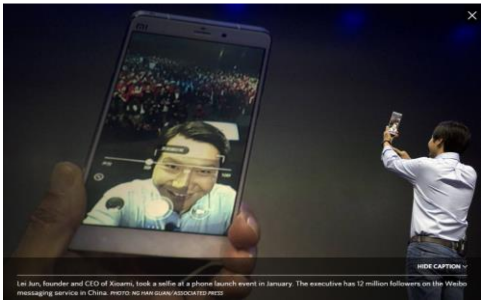


Source: China Digital Landscape 2015

CONSUMERS
"PROSUMERS" LIKE TO ENGAGE WITH BRANDS

- Chinese consumers are enthusiastic participants in product development and marketing. They are also active online influencers.

- Xiaomi treats users as friends and engages customers via social media and fans parties
- Xiaomi incorporates fans' feedback on software and functions of mobile devices and engages "fans" to carry out marketing campaign and flash sales



- Lei Jun, CEO of Xiaomi, at a phone launch event and "fans party"

Consumers

Chinese tourists like to spend overseas

- China's rising middle class and the increasingly wealthy consumers are boosting overseas travel.

- Improved affordability, easing travel restrictions and increasing desire to travel remain the key drivers underpinning the stellar Chinese outbound tourism growth story.

Spending by Chinese tourists

2015:
US$ 229 billion

Source: GfK

Number of **outbound tourists**

2015:
120 million

Source: World Tourism Organization

China is the world's biggest outbound tourism market and the number of Chinese outbound tourists account for 9.6% of the international tourists.

Source: Chinese Tourism Academy forecasts

CONSUMERS
CHINESE TOURISTS LIKE TO SPEND OVERSEAS (CONT'D)

- Chinese tourists no longer focus only on buying luxury products, gold and jewellery overseas, they start to buy more daily necessities.

Source: Asahi Shimbun

- Chinese tourists buy electronic rice cookers, air purifiers, digital cameras, and, most notably, electronic toilet seats in Japan.

COMPETITIVE LANDSCAPE
TOP 100 RETAIL CHAIN OPERATORS IN CHINA

- Total sales of the Top 100 retail chain operators ("the Top 100s") were 2.1 trillion yuan in 2014, up 5.1% yoy. Total sales of the Top 100s increased at the slowest pace since 2007 and the growth rate was slower than for national total retail sales of consumer goods over four consecutive years.

Performance of the Top 100 retail chain operators

2008 - 2014

Year	Retail sales of Top 100 retail chain operators (billion yuan)	yoy growth of Top 100 retail chain operators (%)	yoy growth of national total retail sales of consumer goods (%)
2008	1,199.9	18.4	21.6
2009	1,360.0	13.5	15.5
2010	1,660.0	21.2	18.4
2011	1,650.7	20.0*	17.1
2012	1,870.0	10.8	14.3
2013	2,039.1	9.9	13.1
2014	2,096.4	5.1	12.0

Source: China Chain Store and Franchise Association, compiled by Fung Business Intelligence Centre

COMPETITIVE LANDSCAPE
TOP 100 RETAIL CHAIN OPERATORS IN CHINA (CONT'D)

The Top 100s' share in national retail sales

2001 - 2014

Source: China Chain Store and Franchise Association, compiled by Fung Business Intelligence Centre

TOP 100 RETAIL CHAIN OPERATORS IN CHINA (CONT'D)

The Top 100s' share in national retail sales

2014

Rank in 2014	Rank in 2013	Name of company	Place of Origin	Sales, pre-tax (million yuan)	yoy growth (%)	Number of stores	yoy growth (%)
1	2	Gome Electrical Appliances Holding Ltd.	China	143,483	7.6	1,698	7.1
2	1	Suning Commerce Group Co., Ltd.	China	142,761*	3.5	1,696	4.3
3	3	China Resources Vanguard Co. Ltd. ①	China	104,000	12.6	4,127	7.6
4	4	RT-Mart Shanghai Ltd.	Taiwan	85,670	6.9	304	15.2
5	5	Wal-Mart (China) Investment Co., Ltd. ②	US	72,376	0.2	411	1.0
6	7	Shandong Commercial Group Co., Ltd.	China	63,923	4.6	638	11.0
7	6	Lianhua Supermarket Holdings Co., Ltd.	China	61,751	-10.3	4,325	-6.0
8	9	Chongqing General Trading (Group) Co., Ltd.	China	61,484	2.0	335	2.8
9	8	Bailian (Group) Co., Ltd. ③	China	59,860*	1.2	4,400	-6.4
10	10	Yum! Brands Inc., China Division	US	50,700	1.0	6,600	10.0

**Note:* *Estimated value*

①*Sales of China Resources Vanguard Co. Ltd. included sales of Tesco (China).*

②*Sales of Wal-Mart (China) Investment Co., Ltd. excluded sales of Yihaodian.*

③*Shanghai Friendship Group Inc., Co. has been renamed to Bailian (Group) Co., Ltd. in July 2014.*

Source: China Chain Store and Franchise Association, compiled by Fung Business Intelligence Centre

TOP 100 RETAIL CHAIN OPERATORS IN CHINA (CONT'D)

Foreign retail chains among the Top 100s in China

2014

Rank in 2014	Rank in 2013	Name of company	Place of origin	Sales (million yuan)	yoy change (%)	Number of stores	yoy change (%)
1	1	RT-Mart Shanghai	Taiwan	85,670	6.9	304	15.2
2	2	Wal-Mart (China) Investment Co., Ltd.	US	72,376	0.2	411	1.0
3	3	Yum! Brands Inc., China Division	US	50,700	1.0	6,600	10.0
4	4	Carrefour China Inc.	France	45,722	-2.1	237	0.4
5	7	Parkson Retail Group Ltd.	Malaysia	19,449*	-4.2	57	-1.7
6	9	Metro Jinjiang Cash & Carry Co., Ltd.	Germany	18,900	8.0	81	11.0
7	10	Lotte Mart	South Korea	18,000*	16.1	123	11.8
8	13	Zhengzhou Dennis Department Store Co., Ltd.	Taiwan	17,200	21.1	226	24.9
9	11	Auchan (China) investment Co., Ltd.	France	16,500	5.1	68	15.3
10	15	A.S. Watson & Co., Ltd. (Guangzhou)	Hong Kong (China)	16,381*	14.0	2,088	23.3
11	14	C.P. Lotus Corporation	Thailand	13,782	0.2	77	0.0
12	17	McDonald's Corporation (China)	US	11,500*	11.7	2,100	20.0
13	19	IKEA China	Sweden	10,220	24.4	16	14.3
14	18	AEON Co., Ltd.	Japan	9,765	11.4	50	13.6
15	20	Ito-Yokado Co., Ltd	Japan	7,272	0.1	12	-14.3
16	22	FamilyMart	Japan	4,200	13.5	1,281	20.4
17	21	Park'n Shop (China)	Hong Kong (China)	3,920	4.3	70	7.7
18	12	New World Department Store China Limited	Hong Kong (China)	3,239*	-1.4	43	0.0
19	23	Emart China	South Korea	1,800*	-20.0	10	-33.3
		Total		**426,596**	**4.5**	**13,854**	**13.9**

**Note: Estimated value*

Source: China Chain Store and Franchise Association, compiled by Fung Business Intelligence Centre

Trends

1# “Internet Plus” drives retail and e-commerce development

“Internet Plus”

- Bringing together mobile Internet, cloud computing, big data and IOT with modern manufacturing, and fostering the development of new industries and new business models

- E-commerce is now a major driver of growth in the “new normal” economy, many traditional industries have now embraced this digital channel.
- The Ministry of Commerce further released the “Internet Plus Circulation” action plan in May 2015 to facilitate the application of the Internet in the commercial sector.

Our views

- The Internet Plus initiative will continue to drive retail and e-commerce development, and ultimately lift domestic consumption
- More supportive measures from the government are expected
- Retailers must embark on a comprehensive digital strategies – mobile and social – to enhance consumer experience

TRENDS
#2 FOCUSING ON EXPERIENTIAL ELEMENTS

- Changing consumer needs have forced traditional retailers to think of new ways to operate their businesses. Traditional retailers are making shopping more "experiential" - moving towards a **lifestyle-cum-shopping destination model** and creating a **unique shopping experience**.

TRENDS
#2 FOCUSING ON EXPERIENTIAL ELEMENTS (CONT'D)

Hi Department Store

- First domestic upscale lifestyle department store to fully engage in direct merchandise sales
- Boutique buyers and multi-label store
- 3 physical stores – Guangzhou, Beijing and Shanghai
- 2,000 – 3,000 sqm
- All merchandise are sourced by in-house buyers from around the world

Bookstore - Hi Book

DIY Workshops - Hi Class

Café - Hi Café

Store entrance

TRENDS
#2 FOCUSING ON EXPERIENTIAL ELEMENTS (CONT'D)

"Joy Yard" – Joycity Chaoyang Beijing

- Launched in March 2015, it demonstrates the concept of experiential shopping by integrating a "lifestyle experience" in its retail space
- 10,000 sqm on level 5 & 6 of the mall
- Large open area and green facilities
- Over 50% of retail space are allocated to lifestyle shops and F&B
- Special in-store elements are incorporated to provide social gathering places and occasions for consumers to enrich their shopping experience.


Interior decorations

Bookstore & Café

Candy Lab


Interior decorations


Art jamming shop

Trends
#2 Focusing on experiential elements (Cont'd)

Our views

- Shopping mall and department store operators are endeavouring to provide more “experiential” elements such as leisure, dining, entertainment.
- Retail business will no longer be a simple relationship of buying and selling but involve the emotional and social interactions between retailers and consumers.

TRENDS
#3 EMBRACING O2O AND NEW TECHNOLOGIES

- "Online and offline integration" (O2O) has gone mainstream since 2015.

- To adapt to the digital era, many retailers have leveraged advanced technologies to create a seamless shopping experience across all channels. **Rolling out O2O service platforms on mobile**, **forming strategic alliance to drive synergies**, **improving mobile payment services**, are some common ways of deploying O2O strategies.

85%

of the top 100 enterprise chains in China have tapped into e-commerce and pursued digital expansion

TRENDS
#3 EMBRACING O2O AND NEW TECHNOLOGIES (CONT'D)

Rolling out O2O service platform on mobile

- Some department stores (e.g. Wangfujing Department Store, Intime Retail) have partnered with third-party shopping apps such as **Alibaba's "Miaojie"**. These apps have incorporated with beacon and WiFi technologies and can create individualized, in-store experience for customers.

- **Wal-Mart (China)** launched a shopping app "Wal-Mart to Go" in 2015 to offer more than 10,000 items in Shenzhen, Guangzhou and Dongguan.

TRENDS
#3 EMBRACING O2O AND NEW TECHNOLOGIES (CONT'D)

Forming strategic alliance to drive synergies

- Many retailers in China have formed partnerships with Internet companies to better equip them with tools that facilitate online and offline shopping, such as payment tools, social media platforms, logistics capabilities and big data analytics. In turn, Internet companies could leverage the retailers to reach consumers through physical touch points.

Alibaba Group 阿里巴巴集团 Jahwa 上海家化

- **Alibaba Group** and **Shanghai Jahwa United Co., Ltd.** signed a strategic cooperation agreement in December 2015.
- The two companies will use big data to explore consumer buying preferences, optimize and upgrade product supply chains.
- Meanwhile, the two parties will jointly establish China's first big data daily chemical products R&D lab.

TRENDS
#3 EMBRACING O2O AND NEW TECHNOLOGIES (CONT'D)

Improving mobile payment services

- **Alipay** and **WeChat Payment** have been adopted by many retailers in China and overseas. Nowadays, retailers are looking for some other more innovative ways to provide different payment methods for the convenience of customers.

UnionPay International

- **China UnionPay's Quickpass** payment is a new payment tool which provides more convenience for consumers. Quickpass is based on host card emulation (HCB) and token technologies, offering safe and convenient mobile payment service.

- Quickpass payment service is available in Pacific Coffee, McDonald, Costa Coffee, honeymoon-dessert, BurgerKing, Carrefour, StarBucks Coffee, FamilyMart, Haagen-Dazs, 7-11 Convenience Store, Circle K Convenience Store in China.

TRENDS
#3 EMBRACING O2O AND NEW TECHNOLOGIES (CONT'D)

- Manifestation of different forms of O2O business practices across various industries, particularly service subsectors.

Catering	Education
Travel	Housekeeping

TRENDS
#3 EMBRACING O2O AND NEW TECHNOLOGIES (CONT'D)

Our views

- The interaction between online and offline enterprises will continue to become one of the most active underlying developments in the "new normal" era.
- New business models driven by technologies will emerge and will have a huge impact on the market.
- Transformation and testing of new formats by traditional retailers will accelerate.

TRENDS
#4 FORMING STRATEGIC ALLIANCE

- China's commercial sector witnessed robust business collaborations and partnership activities in 2015 - collaborations between rival companies; between companies from different sectors; and between traditional retailers and Internet giants.

- Distinctive features of commercial sector strategic collaboration
  - **Modest strategic collaborations** (e.g. joint ventures, strategic cooperative agreements or co-investments with counterparts) to combine collective resources and achieve win-win situations
  - A **"step out" approach** to diversification: tap into completely new businesses via strategic partnerships
  - An **integration of offline and online businesses** e.g. Traditional retailers form partnerships with Internet players to facilitate O2O deployment

TRENDS
#4 FORMING STRATEGIC ALLIANCE (CONT'D)

- Retailers form strategic partnerships with leading Internet players

Alibaba Group 阿里巴巴集团

Suning 苏宁

Alibaba invested 28.3 billion yuan for 19.99% stake in Suning; Suning invested up to 14 billion yuan for 1.1% stake in Alibaba

- Alibaba can capitalise on Suning's extensive network of offline stores, and expand its offline presence.
- Suning has opened a flagship store on Tmall, and became a partner of Cainiao
- Suning will also leverage Alibaba's edge in technology and big data.
- The alliance will put pressure on JD.com (leading in home electronics sector and second largest B2C platform)

JD.COM 京东

YH 永辉超市 YONGHUI SUPERSTORES

JD.com invested 4.3 billion yuan for 10% stake in Yonghui

- The partnership enables the companies to strengthen SCM through joint procurement; jointly explore O2O development opportunities
- JD.com will leverage Yonghui's store network for distribution
- Yonghui will leverage JD.com's logisitcs network to strengthen last-mile delivery

TRENDS
#4 FORMING STRATEGIC ALLIANCE (CONT'D)

- Retailers form strategic partnerships with upstream supply chain partners or competitors

Formed an alliance to improve supply chain competitiveness; share information, collect big data and integrate logistics systems

+ 22 enterprises such as

Established a global joint procurement platform

Formed a JV to develop private and proprietary brands

TRENDS
#4 FORMING STRATEGIC ALLIANCE (CONT'D)

Selected major M&As in China's retail sector

2015

Date of announcement	Bidder company	Target company	Deal value	Remarks
7 August	JD.com	Yonghui Superstores	4.31 billion yuan	Acquired 10% share of Yonghui
10 August	Alibaba Group	Suning Commerce Group	28.3 billion yuan	Acquired 19.99% share of Suning
28 August	Yonghui Superstores	Lianhua Supermarket	n/a	Acquired 21.17% share of Lianhua; became second largest shareholder of Lianhua
19 November	Pagoda	Guoduomei	n/a	Conducted strategic mergers and acquisitions by means of capital injection and stock swap

Source: Internet resources, compiled by Fung Business Intelligence Centre

TRENDS
#4 FORMING STRATEGIC ALLIANCE (CONT'D)

Selected major business alliances in China's retail sector

2015

Date of announcement	Companies involved	Features/objectives of collaboration
14 May	• Dalian Wanda Group Co. • China Vanke Co.	• To jointly develop commercial and residential real estate projects and boost O2O businesses
18 May	• Intime Retail (Group) Co. • Alibaba Group	• Intime Retail appointed Alibaba's CEO Zhang Yong as chairman of the board and chairman of the strategic development committee of Intime Retail, with effect from 5 June, 2015 • To jointly explore business opportunities and develop O2O businesses
23 May	• Li & Fung Ltd. • Bailian Group Co. • Beijing Wangfujing Department Store Group Co.	• To form a joint venture company in Shanghai to develop private labels of apparel and home product items • To establish 300 new retail stores within three years
30 June	• Dianping.com • Parkson Department Store	• To provide O2O business solutions to 60 Parkson stores
15 July	• Lianhua Supermarket • Yonghui Superstores • Zhongbai Holdings Group Co. • Bailian Group Co.	• To integrate respective strengths of the companies in supply chain management, procurement, data analysis and logistics areas and to further develop their presence in China's retail market
17 July	• Dangdang.com • Better Life Group	• Dangdang.com to open an offline store in Better Life Group's shopping mall in Mexihu, Changsha City, Hunan Province
6 September	• Dalian Wanda Group Co. • Suning Commerce Group	• To work together to strengthen O2O development • To introduce Suning.com products in Wanda Group retail stores
4 November	• Better Life Group • 22 Chinese retailers	• To jointly develop a global platform for group purchasing • To integrate overseas sourcing capabilities of all companies involved and leverage the aggregated purchasing power of the consortium to obtain better pricing and contractual terms and conditions from external suppliers
20 November	• Yonghui Superstores • CJ Group	• To form two joint venture companies to engage in overseas procurement, fresh food processing, and development of intermediate goods as well as B2C, B2B and O2O businesses

Source: Internet resources, compiled by Fung Business Intelligence Centre

TRENDS
#4 FORMING STRATEGIC ALLIANCE (CONT'D)

Our views

- Consolidation provides an opportunity for companies to expand their business either in new territories or in new segments.
- More M&A cases are expected in the near future.

TRENDS
#5 RELAXATION OF "ONE-CHILD" POLICY IS SET TO BOOST CONSUMPTION

- In October 2015, the Chinese government announced the easing of family planning restrictions to allow all couples to have two children.
- The relaxation of the one-child policy in China is expected to boost consumption and drive the growth of the economy. Sectors that will benefit most include **baby and child-related products and services** sector as well as **mother care products** and **maternity clothes**.
- Many shopping malls and department stores are also shifting their focus to cater more children-related facilities, services and products. Competition will be fierce.

Our views

- Cost of education in China has been increasing sharply, especially in major cities. Raising children is getting more expensive in China and there is less demand for a second child. Upper middle class parents are more likely to have a second child as they can afford the additional cost of raising an extra child.
- New policy will affect rural families the most, as 60% of the newly eligible citizens are rural residents who tend to be more interested than urban citizens to have a bigger family.

STRATEGIES

COMMON STRATEGIES ADOPTED BY RETAILERS

- Looking for expansion in lower tier cities outside the coastal regions
- Forming partnership with Internet giants to pursue O2O deployments
- Developing and maintaining an effective multi-channel distribution network, with a strong focus on online presence, sometimes reducing the number of the regular brick-and-mortar stores
- Deploying mobile and social media strategies to create a consistent and seamless shopping experience across all touch points
- Refining supply chain operations to keep pace with omni-channel consumer demands
- Investing in various data management and analysis technologies (big data, cloud computing)
- Downsizing physical stores
- Innovating new business models
- Strengthening "last mile" capabilities by investing in infrastructure

Challenges

Common challenges for retailers

- Increasing costs of doing business
  - Increasing labour and rental costs
  - Increasing investments in technologies and data analytics

- Uncertainty of the success of embracing O2O strategies

- More fragmented consumer segments
  - Demand for standardised products decreases while demand for personalised and customised products and services increases

- The mobile revolution is set to continue. Retailers failing to respond run the risk of losing relevance

- Supply chains are becoming more complex in today's highly inter-connected digital world. The rise of new delivery and fulfillment options such as "click and connect" and same-day delivery has further put a strain on enterprises' supply chains

- New technologies and new business models are disrupting the retail landscape

- Chinese consumers are becoming increasingly more discerning and demanding unique products, services as well as seamless shopping experience

CONCLUSIONS

- **Domestic consumption** will continue to be the major driver of growth in China's 13th Five-Year Plan period (2016 – 2020). The government is expected to announce more new measures to boost consumption, especially mass consumption, commodity housing, automobiles and travelling categories, and at the same time improve the quality of consumer products and services. Total retail sales of consumer goods are expected to grow at 10.2% yoy in 2016.

- **Entrepreneurship** and **innovation** will become major generators of growth in the coming year. Innovative business models will facilitate the creation of new retail formats, new distribution channels and new consumption patterns as well as helping industrial transformation and upgrading.

Contacts

Asia Distribution and Retail

Teresa Lam
Vice President
Tel: (852) 2300 2466
Email: teresalam@fung1937.com

Christy Li
Research Manager
Tel: (852) 2300 2476
Email: christyli@fung1937.com

Fung Business Intelligence Centre
10/F, LiFung Tower,
888 Cheung Sha Wan Road,
Kowloon, Hong Kong
Tel: (852) 2300 2470
Fax: (852) 2635 1598
Email: fbicgroup@fung1937.com
http://www.fbicgroup.com/

FBIC_2000

@fbicgroup

Fung Business Intelligence Centre

fbicgroup.com