

China Retail & E-commerce Weekly Update



Helen Chin
Vice President

William Kong
Senior Research Manager

Brigitte Ng
Research Analyst

Vivian Liang
Assistant Manager

Fung Business Intelligence
11/F LiFung Tower
868 Cheung Sha Wan Road
Kowloon, Hong Kong
T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: <http://www.fbicgroup.com>



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I. Sector Review

General Retail

Walmart China to establish a community service platform

On 12 August, Walmart China announced that it will build on past public welfare projects targeting local communities to form the Walmart China Community Friendship Platform. The platform will help connect the company's internal and external resources in order to participate in public welfare projects.¹

Walmart China's net sales and comparable sales achieve double-digit growth in quarter ended 31 July

Walmart recently announced its financial results for the quarter ended 31 July. Walmart China performed well, achieving a 15.9% increase in net sales and a 14.1% increase in comparable sales. The Sam's Club and e-commerce businesses performed particularly well. Walmart China's e-commerce net sales increased by 77% yoy, with a 152% growth on a two-year stack.²

Internet & E-commerce

SoftBank slashes its stake in Alibaba

SoftBank Group recently announced its decision to sell down its Alibaba Group (阿里巴巴) stake for a 4.6 trillion yen (about 230 billion yuan) gain. After the deal, SoftBank's stake in Alibaba will drop from 23.7% to 14.6%. The settlement will begin in mid-August and is expected to be completed by the end of September.³

Meituan partners with Rainbow to explore drone delivery

Meituan (美团) and Rainbow Digital (天虹数科) recently announced a new strategic partnership. The two parties will use the Shenzhen Rainbow Longhua Shopping Centre to explore drone deliveries. In addition to food and beverages, the two parties will also test retail products such as fast-moving consumer goods and cosmetics, and will provide residents within a 3km radius from the shopping centre with a new 15-minute delivery service. In the future, this new service will also cover Rainbow's other shopping malls and department stores across the country, expanding its services in the field of instant retail.⁴

Pinduoduo plans to launch cross-border e-commerce platform in September, starting with the US market

Pinduoduo (拼多多) is reportedly planning to launch a cross-border platform designed to connect Chinese and overseas suppliers with global customers. It is expected to launch in mid-September, starting with the US market. The platform will follow SHEIN's business model and is seeking sellers across all product categories to join. The project is currently referred to as 'Project X' internally, and progress remains highly confidential. It is unclear which logistics parties Pinduoduo will cooperate with for cross-border transportation.⁵

Tencent's revenue reaches 134 billion yuan while WeChat's monthly active users increase by 3.8% yoy in 2Q22

Tencent (腾讯) reported its first year-on-year decrease in quarterly revenue on 17 August, earning 3% less in 2Q22 at 134 billion yuan. Monthly active users of its WeChat app hit 1.356 billion by the end of June, representing a 3.8% growth compared to last year. Total in-app video usage exceeded usage of the Moments feature by 80%, alongside a 200% year-on-year increase in video playback overall; the video playback volume based on artificial intelligence recommendations increased by more than 400% yoy; and the number of daily active creators and the average daily video upload volume both increased by more than 100% yoy.⁶

Apparel

Samples from 23 moisture-absorbing, quick-drying and UV-proof clothing items do not meet regulatory standards

The Beijing Consumers Association conducted comparative tests on 86 samples including moisture-absorbing and quick-drying clothing, sun protective clothing, cooling sleeves, and hats. Among them, 23 samples from brands such as Banana in (蕉内), Aimer (爱慕) and Converse failed to meet product standards. The Beijing Consumers Association has already met with various e-commerce platforms, requesting them to stop selling products that do not meet national standards, properly handle consumer complaints, and rectify the situation.⁷

H&M is back on Tmall

Swedish fashion retailer H&M recently reopened its flagship store on Tmall (天猫), 16 months after the brand was taken down by various e-commerce platforms for its refusal to use cotton from Xinjiang. The fallout of the Xinjiang cotton controversy took a toll on H&M's performance in China, resulting in year-on-year sales drop of 28% in 2Q21. The brand also saw 60 store closures in the Chinese mainland by the end of 2021, accounting for 12% of H&M's total stores in the country. The downswing continued into 2022 with another 40 outlets shut down in 1Q22.⁸

British streetwear brand Palace joins JD.com

British streetwear brand Palace Skateboards has opened its first online flagship store in China on JD.com (京东), and it already has 25,000 followers. Palace Skateboards, founded in 2009, is an iconic skate brand created by skateboarders Lev Tanju and Gareth Skewis. The brand opened an official WeChat account in April 2020, marking its initial entry into the Chinese market. However, the brand has yet to establish an offline presence in China.⁹

Li Ning's e-commerce revenue in China up 19.2% yoy to 3.534 billion yuan in 1H22

Li Ning (李宁) recently announced its financial results for 1H22. In the period, Li Ning's revenue reached 12.409 billion yuan, an increase of 21.7% yoy; gross profit increased by 8.8% yoy, reaching 6.201 billion yuan; the overall gross profit margin was 50%, down 5.9 ppts from the same period last year. In addition, in 1H22, Li Ning's e-commerce revenue in the Chinese market was 3.534 billion yuan, a year-on-year increase of 19.2% and accounting for 28.5% of its total revenue. In comparison, the growth rate of the online channel in the same period last year was 77.8% yoy.¹⁰

Cosmetics

MarieDalgar's sister brand YES!IC to exit the market

Cosmetics brand MarieDalgar's (玛丽黛佳) sister brand YES!IC has begun the process of exiting the market. Its flagship store has already been closed, and its public social media accounts were suspended at the end of 2021. At present, only the Sephora Tmall (天猫) flagship store and some Taobao personal stores still carry the brand. YES!IC is a makeup brand launched by MarieDalgar in 2018. It targets Gen-Z consumers and is positioned as a trendy niche high-end makeup brand. After its launch, YES!IC was soon made available in Sephora retail stores, while also opening nearly 150 YES!IC offline sales points in less than half a year. However, YES!IC had yet to reach mainstream success after four years, forcing it to exit the market.¹¹

Consumer Electronics

Gome and Alibaba Cloud establish strategic partnership to further digitalize retail stores

Gome Retail (国美零售) and Alibaba Cloud (阿里云) recently signed a strategic cooperation agreement. The two parties will cooperate in terms of cloud computing, IoT and data technology across retail supply chains, marketing and operations, in order to increase the smart digital capabilities of retail stores. Gome currently operates about 4,000 stores, more than 200 warehouses and more than 1,600 national transportation routes across the country.¹²

II. Market Overview

NBS: Total retail sales of consumer goods up by 2.7% yoy in July

According to the National Bureau of Statistics (NBS), in July, China's total retail sales of consumer goods was 3,587.0 billion yuan, an increase of 2.7% yoy. Retail sales of goods reached 3,217.6 billion yuan, an increase of 3.2% yoy; catering revenue was 369.4 billion yuan, down 1.5% yoy. From January to July, the total retail sales of social consumer goods were 24.6302 trillion yuan, a year-on-year decrease of 0.2%. By retail format, from January to July, the retail sales of supermarkets, convenience stores and professional stores in retail enterprises above designated size increased by 4.1%, 4.6% and 3.7% respectively year-on-year, while that of department stores and specialty stores decreased by 7.4 and 2.3 % respectively. During this period, online retail sales of physical goods reached 6.3153 trillion yuan, an increase of 5.7 %, accounting for 25.6 % of the total retail sales of consumer goods.¹³

iiMedia Research: Scale of China's pet industry to reach 493.6 billion yuan in 2022

On 15 August, iiMedia Research released a report entitled *2022-2023 Development Trends of China's Pet Industry: The New Trends of Diversification and Refinement in Pet Food*. The data shows that the scale of China's pet industry will reach 493.6 billion yuan in 2022, a year-on-year increase of 25.2%. It is estimated that the market will reach 811.4 billion yuan in 2025. It is also estimated that the pet food industry will reach 267 billion yuan in 2022, while the pet supplies market will reach 36.9 billion yuan. With increasing consumer demand, pet products and food continue to develop towards diversification and refinement.¹⁴

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Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including sourcing, logistics, distribution and retail. The Fung Group comprises over 26,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

Listed entities of the Group include Global Brands Group Holding Limited (SEHK: 00787) and Convenience Retail Asia Limited (SEHK: 00831). Privately-held entities include Li & Fung Limited, LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

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