China Retail & E-commerce Weekly Update

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I. Sector Review

Internet & E-commerce

Tmall and JD.com announce results for 11.11 shopping festival

As of the end of 11 November 2021, the gross merchandise sales of Tmall's (天猫) 11.11 shopping festival reached 540.3 billion yuan, up from last year's 498.2 billion yuan. Over 2,600 brands saw their sales in the first hour of the day exceeded that in a full day last year. As of 11 pm on 11 November, 698 small and medium-sized brands saw their sales increase from over one million yuan in last year's gala to over 10 million yuan this year, and 78 brands saw their sales skyrocket from over 10 million yuan last year to over 100 million yuan this year. On JD.com (京东), the cumulative sales exceeded 349.1 billion yuan over the 11-day promotion that started from 8 pm on 31 Oct. The sales of 31 brands exceeded 1 billion yuan, and the sales of more than 5 million farmers increased. The turnover of 43,276 merchants increased by over 200% yoy, and the number of new small and medium-sized brands increased by more than four times yoy.[1]

Meituan Maicai launches home delivery service for live seafood in Beijing, Shanghai, Guangzhou, Shenzhen and Wuhan

On 17 November, Meituan Maicai (美团买菜) announced the launch of home delivery services for live seafood in Beijing, Shanghai, Guangzhou, Shenzhen and Wuhan. Consumers in the aforementioned cities can place orders through Meituan Maicai, which will arrive within 30 minutes. The seafood currently available through this delivery service is 'palm-sized abalone', which comes from an exclusive abalone farm in Lianjiang, Fujian. Meituan Maicai also signed a strategic cooperation agreement with Mengniu (蒙牛) recently – the two companies will collaborate in the fresh milk supply chain and Internet retail.[2]

JD.com sees net income of 218.7 billion yuan and net profit of 2.6 billion yuan in 3Q21

JD.com (京东) announced its 3Q21 results on 18 November. The company's net income was 218.7 billion yuan (US$33.9 billion), a year-on-year increase of 25.5%. Operating profit was 2.6 billion yuan (US$$400 million) and the operating profit margin was 1.2%. As of 30 September, JD.com's annual active customer accounts reached 552 million, a net increase of 110 million over the same period last year. The consumption frequency and number of orders for both new and existing users have continued to increase.[3]

Bilibili's 3Q21 revenue from e-commerce and other businesses up by 78% yoy to 734 million yuan

Bilibili (哔哩哔哩 / B 站) released its 3Q21 financial results on 18 November. The company's total net revenue was 5.21 billion yuan, an increase of 61% yoy; gross profit was 1.019 billion yuan, an increase of 34% yoy. Its net loss was 2.686 billion yuan, compared with 1.1 billion yuan in the same period last year, an increase of 144% yoy. According to Bilibili, the revenue growth was mainly due to enhanced monetization efforts and a higher number of paying users, including for premium membership programme, live broadcasting services and other value-added services. Furthermore, income from e-commerce and other business was 734 million yuan, an increase of 78% yoy.[4]

Kuaishou: Branded apparel sales increase by over 164% from January to September

The Kuaishou (快手) non-branded apparel market showed a steady growth from January to September this year: Sales increased by 23.56% and sales volume increased by 65.15%. Meanwhile, branded apparel sales increased rapidly: from January to September, branded apparel sales increased by more than 164% and sales volume increased by over 227%. As the consumption power of Kuaishou users grows stronger and they increasingly demand high-quality items, branded clothing will become a new consumption trend.[5]

Secoo's 2020 net loss totals 71.86 million as the company is near delisting

Luxury e-commerce platform Secoo (寺库) recently released its 2020 financial results, which showed that the company's revenue was 6.02 billion yuan and gross profit was 881 million yuan. The net loss attributable to the company's common shareholders was 71.864 million yuan, compared with 154 million yuan of profit in the same period last year. As of market close on 19 November, Secoo's share price was US$0.79, a severe drop compared to US$10 on its first day of listing. According to the NASDAQ listing rules, Secoo will be delisted if its share price falls below US$1 for 120 consecutive days.[6]

Apparel

SHEIN suppliers accused of violating labour laws

The Swiss organization Public Eye recently investigated 17 factories of cross-border e-commerce company SHEIN in Guangzhou and discovered several labour law violations. Workers were forced to work 75 hours a week in a three-shift system, with only one day off per month and immense work pressure. SHEIN has promised to investigate the issue and emphasised that they have strict code of conduct for suppliers, which includes provisions to protect the health and safety of employees and requires suppliers to operate in compliance with local laws.[7]

Moschino to take back distribution rights for the Chinese market

Moschino continues to reorganise its operations after Italian fashion group Aeffe acquired the 30% remaining equity interest in Moschino for 66.5 million euros this July. It will take back the distribution rights in the Chinese market from Chinese luxury goods distributor Scienward Fashion and Luxury (Shanghai) Co. Ltd, and the transition period will end next June. Moschino currently operates around 20 stores in China, which will increase to 50 in the next five years.[8]

Catering

Chain restaurant Wagas is available for sale

According to Bloomberg, Chinese health food and bakery chain Wagas is available for sale with an estimated valuation of US$800 million to $1 billion. Yum China Holdings, Jollibee Foods, and the parent company of Burger King and Tim Hortons Coffee are considering a bid. Wagas was founded in Shanghai in 1999 by John Fohlmann Christensen (from Denmark). It sells light meals including meal salads, pasta, sandwiches, juices and coffee, and other products. Wagas has 143 stores, of which 65 are in Shanghai, 32 are in Beijing, and 10 are in Shenzhen.[9]

Supermarkets & Hypermarkets

Hema opens its first Hema Fresh outlet in Shanghai

Hema (盒马) has transformed an Hema Mini store into a Hema Fresh outlet, the first in Shanghai, which covers around 480 sqm. Following 'Hema Neighbourhood' (盒马邻里), Hema Fresh is another new Hema store format that was launched this year. Hema Fresh focuses on discounted fresh food sourced from Hema's surplus orders. The product categories cover all fresh products such as daily supplies, frozen items, and standardized products. This format benefits Hema by selling redundant products as soon as possible.[10]

II. Market Overview

NBS: Total retail sales of consumer goods up by 4.9% yoy in October

In October, the total retail sales of consumer goods reached 4.05 trillion yuan, a year-on-year increase of 4.9%, and 9.4% higher than that in October 2019. Of which, the retail sales of goods reached 3.60 trillion yuan, an increase of 5.2% yoy; catering revenue was 4.46 billion yuan, an increase of 2.0% yoy. During the January-October period, the total retail sales of consumer goods reached 35.9 trillion yuan, an increase of 14.9% yoy. During this period, online retail sales of goods reached 8.50 trillion yuan, an increase of 14.6% yoy, accounting for 23.7% of total retail sales of consumer goods.[11]

Altagamma: China's luxury goods spending to grow by 13% in 2022

On 14 November, Altagamma released the research report *Altagamma Consensus 2022*, which predicts that the global luxury industry's earnings before interest, taxes, depreciation and amortization (EBIDTA) in 2022 will increase by 11% compared with 2021, and 50% of luxury purchases will be done through e-commerce. Sales through digital wholesale channels will grow by 13%, while sales through physical retail and physical wholesale are expected to grow by 9% and 4%, respectively. In addition, Chinese consumers' demand for luxury goods will continue to grow in 2022, with an expected growth rate of 13%. Chinese consumers will spend the most on luxury goods among global consumers, but most of their purchases will be made within China.[12]

Dada Group, Mars Wrigley China, Kantar Consulting: China's O2O market of snacks exceeds one billion yuan

On 15 November, Dada Group (达达集团), Mars Wrigley China and Kantar Consulting jointly released the *White Paper on Snack Food Category in O2O Consumption*. According to the white paper, the O2O market size of snacks in China has exceeded one billion yuan, with online sales growing at a rate of 32%, and the average transaction value on JD Daojia is around 51 yuan, which is higher than offline consumption. Snack food has become one of the most important categories for O2O commerce for its high growth rate and average transaction value. Consumers in East China and South China are the main buyers of snacks on O2O platforms, while sales in the Northeast China and Northwest China are also growing rapidly.[13]

III. Policy Spotlight

SAMR: Internet companies' aggressive entry into community group buying market are encroaching upon small vendors

The State Administration for Market Regulation (SAMR) recently pointed out that as major Internet platform companies have entered the community group buying market, issues such as flawed regulations, disorderly conduct, and illegal operations have become increasingly apparent. This has disrupted the normal development of the supply chain industry. Furthermore, predatory pricing disrupts the market order, and large businesses are putting pressure on the employment of small stall owners and small vendors, which affects social stability. The SAMR will respond as follows: continue to strengthen regulation of and law enforcement on the platform economy; improve the regulation system and its effectiveness for the platform economy; and consolidate the responsibilities of Internet platform companies.[14]

Guangzhou's 11.11 online retail sales rank first in the province

Guangzhou's online retail sales increased 4% yoy to 98.511 billion yuan during this year's 11.11 shopping event, ranking among the best in the country and first in Guangdong province. For 11.11 this year, the Guangzhou Municipal Bureau of Commerce encouraged Taobao and Tmall (淘宝、天猫), JD.com (京东), Suning (苏宁), Vipshop (唯品会) and other e-commerce platforms to connect resources with local brands, while also introducing a series of preferential measures. The top three sectors in Guangzhou's physical online retail sales are apparel, personal care and cosmetics, and home decorations. Online retail sales of these sectors accounted for 22.1%, 19.9%, and 14.2%, respectively, of their total retail sales. 46 of the 2020 Tmall TOP 500 new brands came from Guangzhou.[15]

E-commerce transactions in Xi'an to exceed 700 billion yuan by 2023

The General Office of the Xi'an Municipal People's Government recently issued the *Three-year Action Plan for Accelerating High-quality E-commerce Development in Xi'an*. By 2023, Xi'an's e-commerce transaction volume will exceed 700 billion yuan, and Xi'an will become a first-class e-commerce hub in the country and an e-commerce centre city for the Belt and Road initiative. The plan requires deeper application of e-commerce, refined service systems, improved scale and quality, and over 13% average annual growth in transaction volume.[16]

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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

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