

China Retail & E-commerce Weekly Update



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I. Sector Review

Internet & E-commerce

Alibaba: Annual active users of Taobao Deals and Taocaicai reach 270 million in total

Alibaba (阿里巴巴) has been scaling up its user base with its various platforms. Taobao (淘宝), Xianyu (闲鱼), and Taobao Deals (淘特) have brought in differentiated supply and generated significant growth for the company. Regarding the less developed markets, as of the end of September 2021, annual active users of Taobao Deals and Taocaicai (淘菜菜) reached 270 million in total – a 200% yoy increase – while their average daily order volume increased by 400% yoy. Furthermore, the market penetration rate of Taobao for users aged 24 and below has reached 90%.¹

Kuaishou E-commerce: 33 brands reach 100 million yuan in GMV; number of new brands up by 186.1% yoy

Kuaishou E-commerce (快手电商) recently announced its brand development achievements from January to November 2021. As of November 2021, the number of new brands entering the platform increased by 186.1% yoy, while brands' in-house livestreaming GMV increased by 841% yoy. From January to November 2021, there were 33 brands with GMV exceeding 100 million yuan and 60 brands with GMV exceeding 60 million yuan. As of November 2021, the number of Kuaishou E-commerce merchants with monthly GMV exceeding 500,000 yuan for the first time increased by 12.8 times yoy, and the GMV of brands which partnered with service providers increased by 10.6 times yoy.²

Xiaohongshu increases investments in new consumer brands

Xiaohongshu (小红书) recently invested in the interlocking blocks toy brand Qiaohe Tenon and Mortise (巧合榫卯) with a 21% stake. Since the beginning of 2021, Xiaohongshu has significantly accelerated its pace of investment, mainly in new consumer brands – as of December 2021, it has announced nine investments, seven of which were made in 2021. On 25 February 2021, Xiaohongshu invested 380 million yuan in MOODY, a new brand of coloured contact lenses; on 8 March, it invested in Jinmiantang (劲面堂), a new instant noodle brand; on 25 October, it participated in the Pre-A funding round for Original Taste (本味鲜物), a domestic high-end low-temperature meat product start-up; on 16 November, it participated in the Pre-A funding round for cosmetics brand DewyLab (得意).³

Tencent slashes stake in JD.com

On 23 December, Tencent announced that it would distribute about 457 million shares of JD.com, in the form of a special dividend, to Tencent shareholders. The distribution leaves Tencent with a 2.3% stake in JD.com from the current 17%, when it was JD.com's largest shareholder. Lau Chi Ping Martin, an executive Director and President of Tencent, has also tendered his resignation as a director of JD.com. Tencent said that the company and JD.com will continue to maintain their mutually beneficial business relationship, including via their ongoing strategic partnership agreement.⁴

Retail Technology

Xiniu Smart Manufacturing launches innovative apparel design solutions

Alibaba's Xiniu Smart Manufacturing (犀牛智造) has expanded its apparel design services with a new 'AI Prototyping Solution', which uses innovative artificial intelligence technology to shorten the development cycle of new apparel products to less than two weeks – five times more efficient than the traditional mode. The AI prototypes are powered by M6, a general AI model with multi-modal and multi-task functions developed by DAMO Academy, which is capable of analysing the latest fashion trends and generating corresponding designs. The designs are then transformed into 3D images for brands to choose from. Compared to the traditional model, the whole process is much more streamlined and efficient.⁵

Retail Logistics

Maersk to acquire LF Logistics for US\$3.6 billion

On 22 December, Maersk announced its acquisition of LF Logistics (利丰物流), a subsidiary of Hong Kong-based supply chain management company Li & Fung (利丰). Through this acquisition, Maersk will add 223 warehouses and fulfilment centres in 14 Asia-Pacific countries to its existing portfolio. This transaction is valued at US\$3.6 billion – once approved, it will be completed by the end of 2022. Maersk is the world's largest container logistics company. It is wholly owned by Maersk Group, which was established in 1904 and is headquartered in Copenhagen.⁶

Apparel

Shenzhou International suspends production sites in Ningbo due to COVID-19

On 3 January, Shenzhou International (申洲国际) announced that some of its production bases in Beilun District, Ningbo were affected by a short-term suspension of production due to a COVID-19 lockdown imposed by the Ningbo government. Then on 10 January, the company announced that some plants have resumed production. Shenzhou International is the largest sportswear original equipment manufacturer in China. Its main customers include Nike, adidas, Puma and Uniqlo.⁷

II. Market Overview

Ministry of Agriculture and Rural Affairs: Coverage of e-commerce service points in administrative villages reaches 78.9% in 2020

The Ministry of Agriculture and Rural Affairs recently issued the *Agricultural and Rural Areas Informatization Development Report 2021*. According to the report, the overall informatization development level in county-level agricultural and rural areas reached 37.9% in 2020, up 1.9% from the previous year. In 2020, online sales accounted for 13.8% of total agricultural product sales in counties. E-commerce service point coverage in administrative villages reached 78.9%, while the coverage of agri-rural information management services in counties was at 78.0%.⁸

JD.com: Self-pleasure consumption accounts for over 60% of 2021 consumption

The JD Research Institute for Consumption and Industrial Development (京东消费及产业发展研究院) recently released the *High-Quality Development – 2021 Consumption and Industry Insights Report*, which interprets industry and consumption trends in 2021 and forecasts consumer market trends for 2022. In 2021, consumption for self-pleasure (悦己消费) accounted for more than 60% of consumption, and has already proved to be comprehensive, varied and of high quality. Health services, local lifestyle/tourism, alcohol, jewellery, and pet products are the fastest-growing categories of self-pleasure consumption in 2021.⁹

Sales of Hainan duty-free stores up 84% yoy to 60 billion yuan in 2021

According to the Hainan Provincial Department of Commerce, the total sales across 10 duty-free stores in Hainan reached 60.173 billion yuan in 2021, an 84% yoy increase. Among them, duty-free sales reached 50.49 billion yuan, up 83% yoy; there were 96.66 million duty-free shoppers who purchased a total of 53.49 million items, up 73% yoy and 71% yoy respectively. Currently, there are five duty-free operators in Hainan, and the number of duty-free stores has increased to 10 in total. The 10 duty-free stores host more than 720 brands in a total shopping area of 220,000 sqm. Cosmetics are the dominant product category, but there has also been an increase in jewellery, watches, luggage, apparel and electronics brands.¹⁰

Accenture: 80% of Chinese social media users use social commerce to make purchases

According to a recent Accenture report, social commerce growth will be triple that of traditional e-commerce, with the global social commerce industry reaching 7.6 trillion yuan (US\$1.2 trillion) by 2025. Gen-Z and millennial consumers are the main driving force behind this growth – by 2025, they will account for 62% of social commerce expenditure worldwide. The report also pointed out that 80% of social media users in China use social commerce to make purchases for a given category, while the majority of social media users in the UK and US have yet to make a purchase via social commerce.¹¹

III. Policy Spotlight

Xiamen business development plan: Online retail sales to reach 300 billion yuan by 2025

Special Plan for the Business Development of Xiamen for the 14th Five-Year Plan Period ('the Plan') was released on 29 December. The Plan specifies seven anticipatory indicators for Xiamen's business development during the 14th FYP period: total retail sales of consumer goods will increase by 8% annually, reaching 337.2 billion yuan by 2025; online retail sales will increase by 15% annually, reaching 300 billion yuan by 2025; total imports and exports of goods will increase by 5% annually, reaching 884 billion yuan by 2025; utilized foreign investment will total US\$12 billion yuan over five years, while domestic investment will reach 2 trillion yuan and outward investment will reach 17 billion yuan. The economic benefits of trade exhibitions will increase by 10% annually, reaching 72.7 billion yuan by 2025.¹²

14th FYP for Domestic Trade Development: Promote digitalization and intelligentization of trade circulation

22 government departments (including the Ministry of Commerce) recently jointly issued the 14th Five-Year Plan for Domestic Trade Development ('the Plan'). According to the Plan, by 2025, China's total retail sales will reach 50 trillion yuan, while online retail sales will reach around 17 trillion yuan. New technologies, new business formats and models will develop rapidly, and the modern trade circulation systems will be further improved. The Plan also calls for the development through innovation, which will promote the digitalization and intelligentization within the trade circulation sector. It also proposes nine major tasks including the improvement and expansion of consumption to form a strong domestic market; building a national unified market with high-standard market systems; promoting agri-rural commerce and the circulation of agricultural products to drive rural revitalization; and driving the integration of commerce and industry in order to achieve a higher-level dynamic equilibrium where supply and demand boost each other.¹³

Cyberspace Administration of China: Businesses must not use algorithms to engage in unfair pricing

The Cyberspace Administration of China recently issued the *Management Regulations for Algorithmic Recommendations in Internet Information Services* ('the Regulations'), which will come into effect on 1 March 2022. The Regulations clearly state that the providers of algorithmic recommendation services shall protect the consumers' rights to fair transactions and must not leverage consumers preferences or transaction habits to use algorithms to carry out unreasonable differentiation in treatment in terms of prices or other transaction conditions, or carry out other unlawful conduct. In particular, providers of algorithmic recommendation services shall safeguard the rights and interests enjoyed by the elderly, fully consider the needs of the elderly in travel, medical care, consumption, etc., and facilitate the elderly's safe use of algorithmic recommendation services.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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