

China Retail & E-commerce Weekly Update



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I. Sector Review

General Retail

China Resources Group becomes a state-owned capital investment enterprise

The State-owned Assets Supervision and Administration Commission of the State Council (SASAC) has announced that five state-owned enterprises (China Resources 华润集团, China Merchants Group 招商局集团, China National Building Material Company 中国建材, State Development and Investment Corporation 国家开发投资集团, and Baowu 中国宝武钢铁集团) will be turned into state-owned capital investment enterprises. Since 2014, the Chinese government has been rolling out a pilot scheme to reform SOEs. These five enterprises are among the first 19 that have been approved for conversion.¹

Internet & E-commerce

JD.com to establish the JD Intelligent Manufacturing Industrial Park in Zhongshan

The Zhongshan People's Government and Beijing Jingdong Century Trading Co., Ltd (北京京东世纪贸易有限公司) signed a strategic cooperation agreement on 18 June, and the two parties will cooperate across nine major areas to integrate Zhongshan's industrial upgrading with JD.com's high-quality resources. In terms of industrial cooperation, JD.com plans to set up the Smart City Digital Economy Industrial Innovation Base in Zhongshan. It will cooperate with the government and upstream and downstream service enterprises to offer industrial design, intelligent manufacturing, supply chain management, channel access, etc. JD.com will also establish a JD Intelligent Manufacturing Industrial Park and JD Smart Supply Chain Operation Centre. These projects will help Zhongshan achieve further industrial upgrade, increasing its overall manufacturing capabilities.²

Jingxi Pinpin scales down its self-pickup service to only Beijing, Langfang and Zhengzhou

JD.com's (京东) community group purchasing business, Jingxi Pinpin (京喜拼拼), has once again scaled down its operations. At present, only its businesses in Beijing, Langfang (Hebei) and Zhengzhou (Henan) offer self-pickup services. JD.com entered the community group purchasing market in June 2021 with the launch of Jingxi Pinpin. Its business presence once covered over 20 provinces in China. By this March, Jingxi Pinpin had withdrawn from most provinces, leaving only their businesses in Beijing, Shandong, Henan, and Hubei.³

JD Supermarket signs supply agreements with 103 fresh food and FMCG businesses

JD Supermarket (京东超市) recently signed a *Long-term Strategic Cooperation Agreement to Ensure Supply Chain Stability* with 103 leading companies in the fresh food and FMCG industries, which means that JD.com will act as the main sales channel and supply chain partner for these companies. They will strengthen the coordination in technology, data and supply chains further to their existing long-term supply and supply chain cooperation. The 103 companies sell various products across eight sub-categories: snack food and beverage, cereals and oils, fresh food, mother and baby products, personal care, home cleaning products, toys, and pet supplies. It is estimated that in the second half of 2022, companies that have signed the agreement will increase their sales growth on JD Supermarket by up to 150% on average compared to the first half of this year.⁴

Department Stores & Shopping Malls

Rainbow to reduce rent for merchants by a total of 140 million yuan

On June 16, Rainbow Digital Commercial Co., Ltd (天虹股份) announced that it would provide pandemic support by reducing or waiving rent for its merchants. For small and micro enterprises and individual businesses that are leasing Rainbow's own properties, rent reduction and exemption will be provided in accordance with relevant national policies. For other businesses, appropriate rent reductions or exemptions will be provided on a case-by-case basis, accounting for temporary business closures due to pandemic control measures. The rent reduction and exemption for merchants is expected to be around 140 million yuan. This move is expected to reduce Rainbow's operating income by about 130 million yuan, and reduce Rainbow's 2022 net income by about 99 million yuan.⁵

Apparel

American Eagle exits the Chinese mainland market

American Eagle Outfitters has recently shut down its Tmall (天猫) store, following the 2019 closure of its offline stores in the Chinese mainland. The company, founded in 1977, sells casual American apparel. American Eagle's sales fell by 6% to US\$686 million in its fiscal first quarter ended 30 April.⁶

Miscellaneous

Hive Box launches self-operated laundry service nationwide

Hive Box (蜂巢) recently announced the official launch of its self-operated laundry service nationwide. After selecting the 'washing and care package' in the Hive Box mini program, users can drop their clothes in designated smart lockers or arrange free door-to-door pickup through SF Express. The service currently includes down jackets, shirts, wool coats, suits, shoes, etc. It does not cover cheongsam, wedding dresses, furs, and any clothing items worth over 2,000 yuan. Hive Box has also jointly launched a quick shoe cleaning service in collaboration with urban lifestyle service platform Huanxi (浣洗). Users can drop off their shoes in Hive Box lockers after placing an order on the Huanxi platform.⁷

MUJI joins Meituan Instashopping

Japanese lifestyle brand MUJI is ramping up its efforts to gain market share in China. The company recently announced its partnership with Meituan Instashopping (美团闪购). Over 90% of the 240 MUJI stores in China are now connected to the platform. Available products include daily household products, kitchenware, clothing, shoes, bags, beauty and skincare, and office supplies. After users place an order, they can receive the goods in as little as 30 minutes. During the trial operation period, orders over 3 km away accounted for nearly 45% of MUJI's sales on the platform, while late-night orders accounted for nearly 14%.⁸

II. Market Overview

Bain: Chinese consumers are increasingly price sensitive

On 21 June, Bain & Company and Kantar Worldpanel jointly released the *2022 Chinese Shopper Report*. The report pointed out that COVID-19 had a devastating impact on China's FMCG market in 2020, which then saw a strong rebound since 1Q21 till 1Q22. However, with the resurgence of COVID-19 in some areas, the situation began to change in March and April. In the four-week period from 26 March to 22 April 2022, FMCG sales increased by 5.6% year-on-year. However, the average selling price fell by 5.7%, the largest price drop in recent years which reflects consumers' increasing price sensitivity.⁹

Bailian: Community businesses in community living circles to evolve from basic functions to comprehensive improvements

Bailian Group (百联集团) and the Shanghai Municipal Commerce Development Research Centre recently released the *15-minute Community Living Circle Commerce Development Report 2022*. According to the report, in the future, the community businesses in 15-minute community living circles will transition from 'basic functions' to 'comprehensive improvements'. To meet consumer expectations, businesses must improve their service quality in terms of understanding consumer demand, business format, store space, supply chain, and operations.¹⁰

Syntun: Total online sales reach 695.9 billion yuan during 618 shopping event

Syntun (星图数据) recently released the sales data for e-commerce platforms during the 618 shopping event. During the event, total online sales reached 695.9 billion yuan. Overall e-commerce sales performance during the 618 period was slightly lower than expected, but the growth of livestreaming e-commerce exceeded expectations. E-commerce sales only increased by 1% year-on-year to 582.6 billion yuan, but livestreaming e-commerce grew by 124% year-on-year to 144.5 billion yuan. Tmall (天猫) still ranks first among e-commerce companies, followed by JD.com (京东) and Pinduoduo (拼多多); the top three livestreaming e-commerce companies are Douyin (抖音), Kuaishou (快手), and Diantao (点淘) respectively.¹¹

iiMedia Research: Over 60% of clothing consumers choose online shopping

iiMedia Research recently released the *China's Apparel Industry Development and Consumption Trend Investigation and Analysis Report 2022-2023*. It forecasts that the retail sales of garments enterprises above designated size in China will grow from 997.46 billion yuan in 2021 to 1.107 trillion yuan in 2025. The proportion of consumers that purchase clothing online reaches 62.0% in 2022, against 38.0% shopping offline. The top three most popular clothing styles are leisure, sports, and seasonal trends, which were favoured by 59.5%, 45.6% and 29.0% of consumers respectively. In addition, the influence of 'guochao' (domestic) clothing brands is continuously growing, while Gen Z has gradually become the largest consumer group for clothing.¹²

iiMedia Research: China's manicure market grows by 25% in 2021

According to iiMedia Research, the scale of China's manicure market increased by 25.3% year-on-year to 185.48 billion yuan in 2021; and the market is expected to increase to 266.25 billion yuan in 2027. In 2022, most manicure consumers (82.0%) receive services in offline manicure salons. Some 63.4% of consumers choose to paint their own nails, while 60.7% of consumers buy press-on nails. Even fewer consumers (22.2%) choose door-to-door manicure services. The manicure market continues to diversify as manicures gain popularity, but traditional offline manicure salons are still the most common consumption channel.¹³

Oliver Wyman: Many luxury brands lower their forecasts for their Chinese market performance

According to an Oliver Wyman survey, many luxury brand executives have lowered their forecasts for business performance in China due to the impact of COVID-19, with an average drop of 25% in performance forecasts. They believe that 'revenge spending' will not appear again, and the growth forecast for China's high-end consumer goods and luxury brands in 2022 has been lowered from 18% to 3%. Furthermore, 45% of survey respondents believe that there will be negative growth in 2022.¹⁴

Douyin Sports and Trend Insight release the 2021 Douyin Sports Ecosystem White Paper

Douyin Sports (抖音体育) and Trend Insight (巨量算数) recently released the *2021 Douyin Sports Ecosystem White Paper* on 22 June. As of February 2022, there were a total of 120 million+ sports content creators on Douyin and 63,000+ of them had over 10,000 followers, providing content for over 470 million users. As of May 2022, the number of sports-related creators that had over 10,000 followers on Douyin exceeded 63,000, including sports organizations, sports media or institutions, sports athletes, and fitness KOLs. In addition, Douyin has further developed its sports ecosystem, creating a positive loop of content creation, consumption, and broadcasting.¹⁵

Xinhuanet, Dewu App: Post-90s and Post-00s consumers make up 74% of 'guochao' consumption

Xinhuanet and Dewu (得物) App recently released the *Young Consumers of Guochao Brands Insight Report*. According to the report, post-90s and post-00s consumers (largely overlapping with Gen-Z) have become the main consumers of domestic 'guochao' brands, making up 74% of total consumption. Within the Dewu App, this proportion has reached 87%. Guochao brands has gained the attention of younger consumers through attractive new products, breaking through its original product lines and market to become a 'social symbol' among this consumer group.¹⁶

III. Policy Spotlight

Beijing unveils plan to transform traditional commercial entities

Recently, the Beijing Municipal Bureau of Commerce released the *Guidelines for Improvement Projects in Traditional Shopping Malls and Commercial Districts (Characteristic Commercial Streets) 2022*. The plan mainly includes two main aspects: 1. Hardware renovation and upgrades for traditional shopping malls and commercial entities in commercial districts, including facade renovation, store decoration, equipment purchase, water, electricity, heating and other facilities; 2. Supporting the digitalization of commercial entities in commercial districts including data centres and smart facilities, data sharing, and smart security. A one-time subsidy will be made available for these projects. Financial support for a single project will be capped at 4.35% of the actual investment or 5 million yuan.¹⁷

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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.

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