

# China Retail & E-commerce

## Weekly Updates

18 May 2018 – 24 May 2018



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Asia Distribution & Retail

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## Retail in general



**CNCIC: Total retail sales of China's 100 key large-scale retail enterprises drop by 0.4% yoy in April 2018**

According to the statistics from the China National Commerce Information Center, the retail sales of the 100 key large-scale retail enterprises increased by 2.5% yoy in the period of January – April 2018; the growth rate was 0.9 ppt lower than in the same period of last year. Of which, retail sales of the 100 key large-scale retail enterprises fell by 0.4% yoy in April; the growth rate was 6.1 ppts lower than that in April 2017, and 3.8 ppts lower than that in March 2018<sup>1</sup>.

### China to cut tariffs on selected vehicles and auto parts

On 22 May, the Customs Tariff Commission of the State Council issued an announcement on the reduction of import tariffs on vehicles and auto parts. According to the announcement, starting from July 1, 2018, the tariffs for whole vehicles with tax rates of 25% and 20% (135 items) will all be reduced to 15%. Meanwhile, tax rates for auto parts (79 items), which are 8%, 10%, 15%, 20% and 25% respectively, will be reduced to 6%, with the average tax reduction rate of 46%<sup>2</sup>.

## E-commerce



**Frost & Sullivan, Azoya Consulting: Online shoppers in China spend almost US\$850**

**per year on purchases from overseas retailers**

Frost & Sullivan and Azoya Consulting released a report on “The Cross-border e-commerce (Haitao) Opportunity in China”. According to the report, cross-border e-commerce (CBEC) purchases are set to reach US\$125 billion in 2018. Chinese consumers are showing strong interest and expenditure in CBEC, with the average online shopper in China spending almost US\$850 per year on purchases from overseas retailers.

The research also revealed that:

1. CBEC is growing strongly, with 63% of Chinese shoppers planning to increase their spending in 2018 compared to 2017.
2. Fashion, beauty and cosmetics, and baby and maternity products are the top categories bought from overseas retailers.
3. Japan is the overseas origin country that Chinese online shoppers have most confidence in, followed by South Korea, the U.S., Australia, France, Germany and the U.K.
4. Women spend US\$976 on average per year, 20% more than men<sup>3</sup>.

### Alibaba launches real-time AI translation function for CBEC

On 18 May, Alibaba unveiled a real-time translation function for its cross-border e-commerce (CBEC) business with a hope to solve the problem of language barriers between sellers and buyers. It is reportedly the world's first artificial intelligence (AI) translation product for e-commerce. According to Alibaba, it currently supports four languages including Chinese, English, Russian, and Spanish; and is expected to

support other languages such as Thai, Arabic, Vietnamese and Turkish, etc. in the second half of this year. Apart from written translation, Alibaba will also provide real-time voice translation and automatic bilingual subtitle generation for live videos in the second half of this year. Cross-border merchants using different languages will be able to communicate directly through video conferencing<sup>4</sup>.

### JD.com launches Tiangong plan 3.0

On 21 May, JD.com launched Tiangong Project 3.0 and released its 1-2-2 strategy – one set of system for scenario integration, two retail scenes –online and offline, and two types of partners including AR industry partners and retail industry partners. JD.com also took the chance to launch its strategies to enhance its terminals, marketing, and platforms capabilities; it also demonstrated its latest AR make-up mirror, AR fitting mirror, and AR smart glasses during the occasion. In May last year, JD.com formally started Tiangong Project 1.0 and upgraded the project to version 2.0 in December<sup>5</sup>.

### JD.com rolls out new business intelligence project and opens operating data for merchants

On 21 May, JD.com announced its business intelligence project, "Terminator". It is reported that this is a key project under JD.com's "Boundless Retail" initiatives. This business intelligence service aims to provide merchants various operating data including customer traffic, products, transactions, services, warehousing, etc.; it categorizes the data in different areas, namely brands, product categories, individual stores and products<sup>6</sup>.

### JD.com's first batch of seven "Smart Community Stores" open

On 20 May, JD.com opened the first batch of seven "Smart Community Stores" in Guangzhou, Hangzhou, Chongqing, Chengdu, Xi'an and Shaoxing simultaneously. It is reported that the new smart stores will provide delivery services for residents living within five-kilometers of the surrounding area. Products and services that are covered include household appliances, smart healthcare products, and customized reconstruction services<sup>7</sup>.

### JD.com releases FMCG online shopping and JD Worldwide rankings

Recently, JD.com released the rankings of FMCG online shopping for 1Q18. In the shampoo and hair care products category, big brands such as Procter & Gamble, Unilever and Shiseido ranked within the top 10. In the beauty and cosmetics products category, brands under L'Oréal Group including Helena Rubinstein, Biotherm, Vichy, and L'Oréal Paris together with Maybelline were all on the list. For the rankings in JD Worldwide, in the health products category, brands from Australia, the U.S., Germany, South Korea and Japan are most trusted. In the household appliances category, Dyson, with its outstanding performance, ranked first in both sales revenue and sales growth; it also came first in the new product recommendation list<sup>8</sup>.

### NetEase's e-commerce net revenues reach 3.7 billion yuan in 1Q18, up 101.0% yoy

On 17 May, NetEase, Inc. announced its unaudited financial results for the first quarter ended 31 March, 2018. Net revenues were 14.2 billion yuan (US\$2.3 billion), up 3.9% yoy. E-commerce net revenues were 3.7 billion

yuan (US\$595.0 million), an increase of 101.0% yoy. The growth of e-commerce business was attributable mainly to the rapid development of Kaola.com and Yanxuan. Gross profit margin for e-commerce for 1Q18 was 9.5%. Through strengthening its leading position in cross-border e-commerce and private label businesses, as well as optimizing customer experience and establishing closer relationship with international brands, Netease's e-commerce business has continued to see strong growth momentum and enjoy greater economy of scale<sup>9</sup>.

### Suning joins hand with Jinke Property Group to expand offline

On 22 May, Suning signed a strategic cooperation agreement with Jinke Property Group Co., Ltd. According to the agreement, Suning's physical stores will appear in more than 200 Jinke's commercial properties. This symbolizes another attempt of Suning's partnerships with real estate developers following its earlier cooperation with Evergrande, Wanda, Sunac China, and Country Garden. At the same time, both parties will also cooperate in other areas such as investment, finance, procurement, etc<sup>10</sup>.

## E-commerce logistics

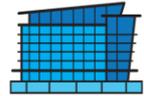


### Miss Fresh forms partnership with Tencent Cloud to develop smart containers

On 24 May, Tencent Cloud and online grocery retailer Miss Fresh signed a strategic cooperation agreement. Both parties agree to leverage Miss Fresh's retail value and Tencent Cloud's strengths in cloud computing, big data and artificial intelligence to jointly

develop smart containers. Miss Fresh and Tencent Cloud will conduct in-depth cooperation in three areas including smart container solution, facial recognition, and cloud services<sup>11</sup>.

## Department stores and shopping malls



### Listed department store companies record sound revenue growth in 2017

Recently, Linkshop has done an analysis based on the 2017 financial statements of 56 listed department store companies in China. According to the financial statements, in 2017, 56 listed department store companies achieved an operating income of 484.655 billion yuan, and the total net profit attributable to shareholders of the listed companies was 15.838 billion yuan. Overall, 36 out of the 56 listed companies saw rising revenues; 33 companies recorded an increase in net profit, of which 24 companies recorded increase in both revenues and net profit, and 10 companies recorded decline in both revenues and net profit. Among the top 10 best performing companies, apart from Chongqing Department Store, Dashang Group and Parkson Group, all companies have all experienced different degrees of positive growth<sup>12</sup>.

## Supermarkets and hypermarkets



### Zhongbai Supermarket adds 12 new stores with Dmall self-checkout service

On 17 May, Zhongbai Supermarket added the "Dmall self-checkout service" to 12 more stores, allowing more citizens in Wuhan to

enjoy a more convenient and efficient self-service shopping experience. Dmall self-checkout is a self-service shopping function launched by Dmall. Customers can bring the products that they want to purchase to the self-service cashier counter; they can then scan the products to add the items to the shopping cart. Afterwards, they can open the Dmall app's "scan" function to scan the payment code on the screen to complete the payment process<sup>13</sup>.

### Dmall makes foray into the northeastern region through forming partnership with Harbin Zhongyuanhong Group

Recently, Dmall and Harbin Zhongyuanhong Group announced that they have reached a strategic cooperation agreement. The two parties will leverage their respective resources to jointly explore new retail models that deeply integrate online and offline businesses. Both parties will also open up the system while implementing multiple O2O services and a self-service purchase system to realize the digitization of products, supply chain and membership system. The cooperation with the Zhongyuanhong Group marked the start of the Dmall's new retail business in the northeastern region<sup>14</sup>.

### Carrefour and Tencent jointly launches smart store "Le Marche" in Shanghai

On 20 May, Carrefour, in collaboration with Tencent, launched their first smart store "Le Marche" in Shanghai Tianshan West Road. This is Carrefour's first new store format in the world that focuses on catering, fresh food, imported goods and private labels. With a store size of 4,000 sqm, the store offers around 25,000 SKUs and is linked with WeChat Pay. Similar to Hema Xiansheng, Le Marche offers free delivery service for online

orders, and features an open kitchen where customers can get the fresh food prepared and consumed on the spot. According to Carrefour, it plans to open two such stores in Shenzhen<sup>15</sup>.

### Sam's Club offers one-hour delivery service in Shanghai via JD Daojia

On 22 May, Sam's Club officially connected with JD Daojia to provide one-hour delivery service in Shanghai. The service covers around 1,000 frequently-purchased SKUs including fresh food, baby and maternity products, healthcare products, snacks and other daily necessities. Currently, Sam's Club has two central hubs in Shanghai - one in People's Square and one near Century Park in Pudong area - to handle delivery of online orders via JD Daojia<sup>16</sup>.

### AI venture capital firm Sinovation Ventures invests in YH Super Species

On 24 May, Yonghui Superstore announced that Sinovation Ventures has invested in YH Super Species, with a 3% stake of the company. After the transaction, Yonghui Supermarket will still be the largest shareholder of YH Super Species, holding 46% stake; and Tencent, the second largest shareholder and also the shareholder of Yonghui Superstore, holds 15% stake of YH Super Species. And Mr. Zhang Xuanning, founder of Yonghui Group, holds 9.6% stake. Founded by Dr. Li Kaifu in September 2009, Sinovation Ventures is a venture capital company; the company's areas of interest include AI, consumption upgrade, education, culture and entertainment, corporate services and upgrade, and Internet finance<sup>17</sup>.

## Convenience stores



### CCFA: Convenience store chain operators accelerate expansion outside their home region

On 23 May, China Chain Store and Franchise Association (CCFA) released the “Index for China’s urban convenience stores, 2017”. The index covers 36 cities in China; it was calculated based on the total number of stores of convenience store chain operators and the growth rates, ratio of 24-hour convenience stores, as well as the level of regulatory support in 36 cities. Changsha, Shenzhen, Taiyuan, Dongguan and Chengdu topped the list in 2017.

Below are the features of the development of convenience stores in China in 2017:

1. All cities saw double-digit growth rates in total number of stores.
2. Convenience store markets in tier-1 cities were relatively more mature, while tier-2 cities showed different pace of development.
3. Convenience store chain operators accelerated expansion outside their home region.
4. Ratio of 24-hour convenience stores was still low.
5. Supportive government policies and regulations were needed for the healthy development of the convenience store market<sup>18</sup>.

## Apparel



### Etam withdraws from China's ready-to-wear market

Agence France-Presse reported on May 18 that French apparel retailer Etam has sold its local businesses of ready-to-wear brands Etam Weekend, ES and E & Joy to a Hong Kong investor with the help of Mr. Zhou Jinuo, founder and chairman of Jaoboo Fashion Group International in Dongguan. The name of the investor remained anonymous and Etam will retain its lingerie business in China after this transaction. Established in 1916, Etam entered the Chinese market in 1994; and had once become the role model of many multi-national apparel retailers with its rapid development after its entry into the China market<sup>19</sup>.

### HLA opens first store in Singapore

On 18 May, HLA opened its first store in Singapore in Suntec City Mall. With an area of 350 sqm, the store has entirely different design compared to HLA’s other stores – the storefront only shows the HLA brand logo in white, instead of showing the usual brand logo with both Chinese and English characters. Indeed, HLA opened its first overseas store in Kuala Lumpur, Malaysia in July last year; and it has opened a total of nine stores in Malaysia in less than a year. According to HLA, the brand will enter the Thai market in the second half of this year; it will further expand in Singapore, Malaysia and Thailand in the next three years<sup>20</sup>.

## Consumer electronics



### Five Star Electric and JD.com jointly launch first experiential store in Luoyang

On 22 May, JD.com and Five Star Electric announced that their first borderless retail experiential store will be opened in Luoyang. Located in Jiudu Spring, Longxi District, the store occupies a floor space of nearly 6,000 sqm, which will become the biggest consumer electronic retail store in Luoyang. The store is equipped with various black technologies such as smart screens to allow customers to view and purchase products, smart cameras to capture and record customers' age, gender, facial expression, and number of visits, and facial recognition system to record traffic flow in-store. There is also a smart advertising machine to perform target marketing by showing relevant advertisements to customers based on their portraits detected in the camera<sup>21</sup>.

## Luxury sector



### Deloitte: Nine Chinese companies are on the list of Global Powers of Luxury Goods

Deloitte recently announced the Global Powers of Luxury Goods 2018, which examines and lists out the 100 largest luxury goods companies globally, based on publicly available data for consolidated sales of luxury goods in FY2016. According to statistics, in the 2016/2017 financial year ending on 30 June, 2017, the global top 100 luxury goods companies had total sales of US\$216.6 billion, and each company's sales averaged

approximately US\$2.2 billion. In terms of geographical distribution, China has a total of nine companies on the list, of which eight are jewelry companies and one is an apparel company. Specifically, Chow Tai Fook Jewelry Group Co., Ltd. ranked 10th; Lao Feng Xiang Co., Ltd., ranked 13th; Chow Sang Sang Group International Co., Ltd., ranked 30th; Luk Fook Group (International) Co., Ltd., ranked 35th; Oriental Kimberly Co., Ltd., ranked 50th; Zhejiang Mingpai Jewelry Co., Ltd., ranked 64th; Tse Shui Luen Jewelry (International) Co., Ltd. (TSL), ranked 71th; Chow Tai Seng Jewelry, ranked 72th; Trinity Holding Co., Ltd., ranked 95th. Among the nine Chinese companies, TSL and Chow Dai Seng were newly listed. Chow Tai Fook dropped from 9th to 10th in this year's ranking, and sales decreased 9.45% yoy to HK\$51.246 billion<sup>22</sup>.

### Shoqlinq's first luxury membership store opens in Hangzhou

On 20 May, Shoqlinq's first luxury membership store dedicated exclusively to its members officially opened in Intime City, Hangzhou. Members can enjoy professional and high-quality service in this store. It also offers the latest fashion items and one-on-one clothes matching guide for members. At the same time, Shoqlinq has collaborated with two affordable luxury brands, Melimelo and Coccinelle to open a pop-up store inside this membership store<sup>23</sup>.

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