China Retail & E-commerce Weekly Update

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I. Sector Review

Internet & E-commerce

JD.com's 'the J Shop' launches first flagship store in Chengdu

JD.com's department store brand 'the J Shop' (京东新百货) recently launched its first flagship store in Chengdu. The 1,000-sqm J Shop store is located in the Chunxi Road shopping district, bringing together a selection of 2,000 products from around 400 domestic and international brands across cosmetics, apparel, lifestyle, sports, luxury fashion and watches. The store also features several immersive experience areas featuring different themes for social media posting and live streams. The online channel of the J Shop became available on JD.com's App from early May, followed by the opening of pilot offline stores in five cities of Xi'an, Shenzhen, Chengdu, Yinchuan and Beijing.[1]

JD Fresh has signed direct procurement agreements with nearly 20 countries and regions

JD.com's online fresh food business JD Fresh (京东生鲜) has signed fresh food procurement and partnership agreements with nearly 20 countries and regions around the world, and has already set up 15 country-specific online shopping malls. The company expects to have completed 50 such stores by the end of 2022. JD Fresh has also established strategic partnerships with world-renowned brands such as FIRST CUT, Tyson, Silver Fern Farms, and Anchor. Furthermore, the annual compound growth rate of JD Fresh users has reached 53%, of which paying members account for more than 60%, higher-tier city users account for 67.4%, and home users account for 76.5%.[2]

Douyin to launch product recommendation app 'Kesong'

On 6 July, Douyin (抖音) launched a new product recommendation app called 'Kesong' (可颂). The internal project code for Kesong is 'G', and it is positioned as a community for young people with the slogan: 'New lifestyles for young people'. Industry experts said that Kesong can be regarded as a Douyin version of Xiaohongshu (小红书). Outside of the Chinese mainland, ByteDance is also engaging in product recommendations apps overseas, such as the Japanese online community 'Sharee', which was also rebranded as 'Lemon8' for the Southeast Asian market.[3]

Tmall sets new regulations for children's cosmetics

Tmall (天猫) issued the *Tmall Children's Cosmetics Regulations* on 5 July, which took effect on 12 July. The term 'children's cosmetics' refers to cosmetics that are suitable for children aged 12 or under and have the functions of cleaning, moisturizing, cooling, sun protection, etc. Under the new regulations, specific terms such as 'safe and non-toxic', 'environmentally friendly', 'natural ingredients', etc. cannot be used if the product in question lacks the relevant certifications.[4]

Maternal and baby e-commerce platform Mia.com to shut down its mobile app

Maternal and baby product platform Mia.com (蜜芽) will terminate its mobile app on 10 September amid increasing competition with new e-commerce players. The decision to close the app is made because of 'changes in users' shopping habits', according to an announcement on the company's website. However, its WeChat (微信) and Youzan (有赞) mini programs will remain active.[5]

Apparel

SHEIN faces at least 50 US lawsuits for copyright infringement over past three years

Chinese fast fashion brand SHEIN and its Hong Kong-based parent company, Zoetop Business Co., have been named in the past three years as a defendant in at least 50 federal lawsuits in the US alleging trademark or copyright infringement. Plaintiffs range from independent designers to widely known brands such as Ralph Lauren and Stussy. In response, SHEIN claimed that any copyright infringements were unintentional and it placed the blame on their suppliers.[6]

Three of ZARA's sister brands to exit Chinese mainland market

Zara's sister brands, Bershka, Pull&Bear and Stradivarius, are to shut their Tmall (天猫) stores by 31 July, ceasing all operations in the Chinese Mainland after closing their physical stores in late 2021. However, Inditex's other brands, including ZARA, ZARA Home, Massimo Dutti and underwear brand Oysho, will remain operating in the market.[7]

Cosmetics

Estee Lauder's cosmetics brand Too Faced shuts Tmall Global flagship store

Too Faced, the seventh-largest prestige makeup brand in the US that Estée Lauder acquired for US$1.45 billion in 2016, is shutting down its Tmall Global (天猫国际) flagship store by August, prompting speculation on Chinese social media that the brand is exiting the market. All products in the store have already been taken down, but membership services and points redemption will remain open until 27 July. The brand, which was founded in 1998, entered the Chinese market in July 2020.[8]

Food & Beverage

Naixue's Tea launches 'Naixue coins' and virtual stocks

Chinese bubble tea company Nayuki / Naixue Tea (奈雪的茶) has launched a promotional campaign including tokens and virtual stocks. A Naixue coin can be earned after spending one yuan on Naixue's products. Customers can then use the Naixue coins to redeem products in Naixue's online shopping mall, as well as using the coins to buy or sell virtual Naixue stocks. According to a statement published by Naixue, the company's virtual stock price equals the actual closing price of Naixue stocks on the Hong Kong stock exchange. The virtual stocks can be redeemed for gift coupons. A Naixue employee has stated that unlike other crypto tokens, Naixue coins have no monetary function.[9]

KFC enters China's tea beverage market with 'Grandpa Comfy Tea' brand

Kentucky Fried Chicken (KFC) opened its first Grandpa Comfy Tea location in Suzhou, signalling its entry into China's huge and popular market for tea-based beverages. The store also offers snacks and ice creams. According to industry experts, KFC's brand power, the multi-brand catering experience of its operator Yum China Holdings, and strong supply chain support are all competitive advantages for Grandpa Comfy Tea.[10]

Miscellaneous

Pop Mart opens its first overseas flagship store in Seoul

Collectible toy retailer Pop Mart has launched its first overseas flagship store in South Korea as part of its regional expansion strategy, which first began in 2018 with the South Korean market. Later on, Pop Mart opened its first overseas store in Seoul in 2020. To continue the expansion, Pop Mart said that it is looking for more opportunities in Southeast Asia – specifically in Vietnam, the Philippines, and Thailand.[11]

II. Market Overview

Roland Berger: China's luxury consumption growth remains at the top of the Asia-Pacific region

Strategic consulting firm Roland Berger's *White Paper on Tmall Luxury Product Strategy* shows that the consumption scale of China's luxury goods market increased during the COVID-19 pandemic. According to the report, China's market share in the global luxury market will continue to increase, becoming the main driver of market by 2025. The growth rate of China's luxury goods consumption will remain the highest in the Asia-Pacific region over the next few years. Luxury purchasing channels have shown a trend of diversification, and online luxury consumption has gradually become the mainstream. Among them, Tmall Luxury's (天猫奢品) online consumers have maintained an extremely high growth rate, their purchasing power has increased significantly, and they are rapidly taking over the domestic online luxury market.[12]

Linkshop Retail Research Centre: Five listed apparel companies see declines in both revenue and net profit in 2021

According to the Linkshop Retail Research Centre, 51 listed apparel companies achieved total revenue of 275.431 billion yuan and net profit of 26.731 billion yuan in 2021. A total of nine companies achieved 10 billion revenue or more: Anta Sports (安踏体育), Li Ning (李宁), Shanshan Co. (杉杉股份), Heilan Home (海澜之家), Semir (森马服饰), Youngor (雅戈尔), Peacebird (太平鸟), Stella Holdings (九兴控股) and Xtep (特步国际). In 2021, 30 of the listed companies achieve growth in both revenue and net profit. Only five companies saw declines in both revenue and net profit: Souyute (搜于特), Anzheng Fashion (安正时尚), Red Dragonfly (红蜻蜓), Hodo (红豆股份) and Modern Avenue (摩登大道). Overall, the apparel industry is showing signs of recovery.[13]

CCFA: Top 100 convenience store chains operate over 160,000 stores in 2021

According to a survey conducted by the China Chain Store & Franchise Association (CCFA), the total number of stores operated by the top 100 convenience store enterprises exceeded 160,000 in 2021, an increase of 16.1% yoy. Among them, 71% of businesses achieved positive growth over the previous year in terms of store locations, while 23% of business have fewer locations compared to the previous year. In addition, there were 27 convenience store companies with more than 1,000 stores, three more than the previous year; and 22 companies with 500-1,000 stores, seven more than the previous year. The growth of key enterprises has driven the stable development of the convenience store industry.[14]

China's lingerie market scale to reach 495.3 billion yuan by 2030

According to the Chinese Women's Underwear White Paper published by the Underwear Committee of the China Textile Commerce Association, the Qianzhan Industry Research Institute and lingerie brand Cosmo Lady (都市丽人), China's lingerie market is expected to see rapid growth in the near future. The domestic market for women's undergarments reached 176.9 billion yuan in 2021, and the market scale is expected to reach 495.3 billion yuan by 2030. At present, lingerie only accounts for a small portion of clothing consumption. However, as the market matures and women's values continue to evolve, the report predicts explosive market growth in the future.[15]

III. Policy Spotlight

Shenzhen to support local retail and catering businesses through various relief measures

The Shenzhen Municipal Government has rolled out a 30-point package, including tax incentives, cash subsidies and consumption stimulus, to aid the local economy, which has been hit hard by strict COVID-19 control measures. The city's government pledged to refund excess tax credits to pandemic-riddled businesses in the catering, accommodation, retail and wholesale, and other industries. For the retail sector, Shenzhen has promised to provide up to 1 million yuan to any new flagship stores and first stores in town.[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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