China Retail & E-commerce Weekly Update

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I. Sector Review

Internet & E-commerce

JD.com unveils four 'J Shop' pilot stores

JD.com (京东) has opened its first four luxury J Shop (京东新百货) pilot stores in Xi'an, Chengdu, Shenzhen and Yinchuan. As a selected collection store, the Xi'an store displays about 300 brands of selected products, covering 150 categories of goods including cosmetics, kitchenware, home textiles and more. The other three stores are jointly developed by JD.com and Italian luxury retailer COSCIA, featuring luxury, designer brands, affordable luxury and lifestyle, with a total of over 2,000 products available. Integrating JD.com's businesses in apparel, lifestyle, cosmetics, sports, luxury fashion and watches, the J Shop leverages JD.com's commodity and service capabilities to enable full omnichannel integration. With COSCIA's operational advantages as a chain store, JD.com hopes to jointly explore a new model of digital omni-channel open ecosystem. Customers can place an order by scanning the code on the electronic product labels, with next-day delivery options available.[1]

JD.com has established multi-level logistics network

JD.com (京东) recently announced the results of its 'Net Weaving Plan' (织网计划) for the first time. The company aims to build a highly coordinated multi-level logistics infrastructure and warehouse distribution network, centred around 43 large-scale intelligent 'Asia No.1' logistics parks and about 1,400 warehouses nationwide. The network will provide same-day and next-day delivery for 90% of JD.com's self-operated online orders, along with 93% of districts and counties and 84% of towns and townships across the country. The logistics ecosystem will also help many companies optimize inventory management, reduce operating costs, and allocate internal resources more effectively. It will also promote the coordinated development of regional economies and the transformation of county economies, and provide supply chain services for more than 1,000 agricultural specialty areas and industrial belts across the country.[2]

JD Worldwide joins Xiaohongshu with 20 overseas brands

JD Worldwide (京东国际) has joined the Xiaohongshu (小红书) platform with the opening of an official account and official store. The JD Worldwide store on Xiaohongshu will feature its first batch of 20 overseas brands. Consumers can search for 'JD Worldwide' on Xiaohongshu, and then they can directly make a purchase through the JD Worldwide store. Orders will be sent directly from JD Worldwide's bonded warehouse to consumers. Furthermore, JD Worldwide and Xiaohongshu will also explore a new cross-border e-commerce ecosystem in terms of supply chain building and brand marketing.[3]

Alibaba launches new digital collection platform 'Youwu'

Alibaba Digital Media & Entertainment Group (阿里大文娱) recently launched a digital collection platform called 'Youwu' (鱿物) which features ancient Chinese cultural artworks. On 18 May, Youwu launched its first digital collection of intangible cultural heritage. The limited edition of 2,000 copies sold out in seconds. Currently, Ali Fish Art (阿里鱼), the publisher of the digital collection on Youwu, has already established close partnerships with well-known museums and cultural institutions, including the National Museum, Louvre Museum, Dunhuang Museum, Summer Palace, Qin Shi Huang Mausoleum Site Museum, etc.[4]

Vipshop's net revenues reach 25.2 billion yuan in 1Q22

On 19 May, online discount retailer Vipshop (唯品会) released its financial results for 1Q22. During this quarter, Vipshop achieved total net revenues of 25.2 billion yuan, a non-GAAP net income of 1.4 billion yuan, and a non-GAAP net profit margin of more than 5%. Although its performance was affected by the COVID-19 pandemic, Vipshop's margins remained resilient, and the company has remained profitable for 38 consecutive quarters. Against a backdrop of relatively weak domestic consumption and pressure on the online retail market, Vipshop's Super VIP active customers increased by 37% yoy in 1Q22, accounting for 38% of the online net GMV in the quarter.[5]

Kuaishou posts a net loss of 3.72 billion yuan in 1Q22

On 24 May, Kuaishou (快手) released its financial results for 1Q22. The company's total revenue in the quarter was 21.07 billion yuan, a year-on-year increase of 23.8%, and the adjusted net loss was 3.72 billion yuan, down 34.1% yoy from 5.65 billion yuan in the same period last year. Online marketing services, live streaming and other services (including e-commerce) accounted for 53.9%, 37.2% and 8.9% of the total revenue respectively. In addition, in the quarter, Kuaishou's e-commerce gross merchandise value (GMV) reached 175.1 billion yuan, a year-on-year increase of 47.7%. In terms of users, Kuaishou's daily active users reached 346 million in 1Q22, a year-on-year increase of 17%; its monthly active users reached 598 million, a year-on-year increase of 15%. The company's user retention rate also continued to improve.[6]

Supermarkets and Hypermarkets

Sun Art Retail achieves 88.134 billion yuan in revenue in fiscal 2022

Sun Art Retail (高鑫零售) recently released its financial results for the 2022 fiscal year, which ended on 31 March 2022. During the reporting period, Sun Art Retail achieved a revenue of 88.134 billion yuan, a year-on-year decrease of 5.3%; a net loss of 826 million yuan, compared with a net profit of 2.294 billion yuan in the 2021 fiscal year. RT-Mart's (大润发) e-commerce revenue reached 24 billion yuan, accounting for 29.1% of the total revenue. As of 31 March, Sun Art Retail had a total of 490 hypermarkets, 9 medium-sized supermarkets, and 103 small supermarkets, covering 239 cities in 29 provinces, municipalities and autonomous regions across the country.[7]

Food & Beverage

Nayuki to transform its largest global flagship store into 'Nayuki Living'

Construction recently began on Nayuki's (奈雪的茶) largest global flagship store, 'Nayuki Fantasy Factory' (奈雪梦工厂), as it transforms into 'Nayuki Living' (奈雪生活). The renovated store will offer baked goods, tea, reading spaces, flower arrangements, and simple meals – marking a new era in cultural lifestyle experiences. To date, Naixue's Tea has nearly 900 stores in more than 80 cities across the country. As of March this year, Nayuki had more than 45 million tea members.[8]

Luckin Coffee achieves profitability for the first time in 1Q22

Luckin Coffee (瑞幸咖啡) recently announced its financial results for 1Q22. During this quarter, Luckin's total net revenue reached 2.405 billion yuan, a year-on-year increase of 89.5%; net income was 19.8 million yuan, compared to a net loss of 232.5 million yuan in the same period last year. Its non-GAAP net income was 99.1 million yuan, compared to a net loss of 176 million yuan in the same period last year. Non-GAAP operating profit was 92.1 million yuan, compared to an operating loss of 308 million yuan in the same period last year. This was the company's first profitable quarter. It also opened 556 new stores in the quarter, bringing the store count to 6,580, including 4,675 self-operated stores and 1,905 partnership stores.[9]

Miscellaneous

Airbnb to close its Chinese mainland business

Shared homestay business Airbnb will close its business in the Chinese mainland and suspend support for domestic travel listings and experiences and other bookings from 30 July 2022. Airbnb China stated that the company will realign its priorities and integrate resources in anticipation of the return of outbound tourism. It will focus on serving Chinese travelers' outbound travel and accommodation opportunities while maintaining its offices in China.[10]

II. Market Overview

Linkshop Retail Research Centre: Over 1,000 store closures nationwide since the beginning of 2022

According to incomplete statistics from the Linkshop Retail Research Centre, as of the end of April, more than 1,000 stores across the country had closed since the beginning of 2022, and more than 1,300 stores will be closed in the next three months. Catering and retail (mainly clothing and beauty) have been hit the hardest. The traditional catering industry has seen the highest number of store closures, followed by supermarkets, department stores, cinemas, clothing, and beauty retail; this is then followed by gyms, entertainment, fresh food, sports halls, early education centres, etc.[11]

JD Supermarket: High quality IP products are key to attracting consumers

On 23 May, JD Supermarket (京东超市) released the *Toy Consumption Report 2022*. The report shows that China's toy market grew to 77.9 billion yuan in 2020. The top three choices for gift-giving are domestic-brand building blocks, IP designer toys and blind boxes, and programmable robot and STEAM toys. In addition, the report also pointed out that high-quality IP has become the key to attracting consumers for trendy/anime products.[12]

Xiaohongshu: Male cosmetics consumers increase by 60% yoy in 2021

In the first half of 2021, male consumption of beauty and personal care content on Xiaohongshu (小红书) increased by 46% yoy. In 2021, male beauty and cosmetics consumers on Xiaohongshu increased by 60% yoy, while the proportion of male creators rose to 14%. Within the skincare field, moisturizing, oil control, hydrating, soothing, and acne removal are the top search keywords of male users.[13]

III. Policy Spotlight

Suzhou to build at least 150 15-minute community living circles in the next five years

The Suzhou Municipal Bureau of Commerce recently issued the *Implementation Opinions on Promoting the Construction of 15-minute Community Living Circles in Suzhou*. No less than 150 15-minute community living circles will be built in Suzhou within the next five years, with no less than 15 community living circles built in each county-level city and district. These will be smart, convenient, standardized and well-laid out living circles with comprehensive business formats, complete functions, high-quality services, and well-balanced commercial and residential properties. The 15-minute living circles should prioritize meeting basic consumer demands such as catering, daily necessities, and household lifestyle services. They should also include convenience stores, wet markets, fresh supermarkets (grocery stores), breakfast shops, laundromats, beauty salons, photo printing shops, maintenance points, pharmacies, postal express service points, recycling points, etc.[14]

Shenzhen launches its first smart fresh produce mini-program 'Yantian Smart Vegetable Basket'

Shenzhen recently launched its first smart fresh produce platform mini-program, 'Yantian Smart Vegetable Basket'. Residents can enjoy services such as online grocery shopping, vegetable price lists, product tracing and home delivery. Unlike traditional wet markets and e-commerce platforms, the system also includes market inspection data, data analysis, and a Yantian food map. The stalls at the market are equipped with electronic display screens and cameras. Through the mini program, customers can view the camera live feeds in real time. The system page also displays the merchant's information, price lists, business licenses, sampling records and other information.[15]

Shenzhen offers subsidies for buying mobile phones, computers and other goods

On 26 May, the Shenzhen Municipal Government issued the *Measures on Promoting the Continuous Recovery of Consumption*, which is valid until December 31, 2022. Varying amounts of subsidies will be provided for the purchase of electronic equipment such as mobile phones and computers, as well as household appliances such as TV sets, refrigerators, and new energy vehicles. For example, consumers who purchase eligible TV sets, air conditioners, refrigerators, washing machines, kitchen appliances, small household appliances and other household appliances will be reimbursed 15% of the sales price, with a cumulative maximum of 2,000 yuan per person.[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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