

# China Retail & E-commerce Weekly Update



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## I. Sector Review

### General Retail

#### PDL launches new wholesale market business

PDL Commerce and Trade Group (胖东来) recently launched a new wholesale market business through an in-store pop up event. With this new business model, products are directly distributed to the store without passing through the logistics centre, and they are sold at low prices – allowing consumers to enjoy high-quality seasonal fruits. The wholesale market has a separate payment channel, allowing customers to make purchases without entering the PDL supermarket. PDL is planning to host this wholesale market once a week.<sup>1</sup>

### Internet & E-commerce

#### Tencent begins testing 'Penguin Huimai' content-based demand-generation platform

Tencent (腾讯) is reportedly testing a content-based demand-generation project called 'Penguin Huimai' (企鹅惠买), where Tencent's regional portals and partner brands will work together for demand generation and product recommendation. Users can shop via the Penguin Huimai mini program on WeChat. Product categories include food and beverage, fresh food, personal care and others. It is positioned as a new type of demand-generation platform which relies on private domain marketing and operations.<sup>2</sup>

#### Douyin begins testing its self-operated 'Douchao Home Delivery' business

Douyin (抖音) has started a self-operated business similar to JD Supermarket, called 'Douchao Home Delivery' (抖超送货上门), which has begun trial operations in Guangzhou, Shenzhen and Hangzhou. The business is developed by ByteDance's (字节跳动) e-commerce department, and is a separate unit than Douyin's local lifestyle business. The Douchao project hopes to target young high-income consumers in first- and second-tier cities in order to increase their usage of Douyin e-commerce. In the early stages, it will mainly focus on beverages and fresh food products.<sup>3</sup>

## **Meituan's revenue reaches 46.3 billion yuan while adjusted net loss narrows to 3.6 billion yuan in 1Q22**

On 2 June, Meituan (美团) released its financial results for 1Q22. Meituan's revenue for the quarter was 46.3 billion yuan, a year-on-year increase of 25%; adjusted net loss was 3.6 billion yuan, which narrowed both year-on-year and quarter-on-quarter. During this quarter, Meituan's food delivery revenue increased 17.4% yoy to 24.2 billion yuan, the number of transactions reached 3.36 billion, and both transacting users and transaction frequency achieved steady growth. Thanks to increases in user base and transaction frequency, Meituan Instashopping business achieved strong growth, with orders increasing by nearly 70% year-on-year.<sup>4</sup>

## **Retail Logistics**

### **JD.com opens its first warehouse in the US**

JD.com (京东) recently launched the 'Los Angeles No. 2' automated warehouse in the US, which covers an area of 220,000 square feet and provides warehousing services for merchants. Through warehouse network collaboration, products are distributed to the warehouses closest to consumers in advance. Delivery time has been shortened from 7 days to 2-3 days. With the support of the Los Angeles warehouse, JD.com has also established its first overseas maintenance centre, which will provide after-sales technical support, customer service, quality inspection, maintenance, and on-site technical support for Chinese brands, cross-border trade factories, and overseas traders and brands.<sup>5</sup>

### **Hema opens up various self-built logistics bases and supply chain parks for external use**

Some of Hema's (盒马) self-built logistics bases and supply chain parks have recently become available for external commercial use. Hema's locations in Wuhan, Hangzhou, Xi'an, Chengdu, Guangzhou and other cities, including both regular temperature and cold storage facilities, are now available for lease. These warehousing facilities were previously part of Hema's self-built and self-use warehousing and logistics network. The other main selling points include 5,000 logistics vehicles for fresh food, nearly 10,000 logistics management personnel, upstream and downstream logistics equipment, systems, packaging, human resources, logistics and warehousing enterprises and other partners – all of which make these locations highly attractive to enterprise clients.<sup>6</sup>

## Department Stores & Shopping Malls

### 16 brands at Intime department stores now collect used clothing for recycling

Intime Department Store (银泰百货) recently established the ‘Sustainable Fashion Brand Alliance’ – so far, 16 brands have joined, including Anta (安踏), Aimer (爱慕), eifini (伊芙丽), Youngor (雅戈尔), Biemlfdlkk (比音勒芬), Joeone (九牧王) and Baoxiniao (报喜鸟). There are now nearly 60 smart collection points for used clothing. Customers can scan a code through Alipay at participating brand counters in Intime department stores and put the old clothes into the recycling bin for weighing. After the process is completed, they can receive Ant Forest (蚂蚁森林) ‘green energy’ points and Intime department store coupons. At present, these brand counters are mainly concentrated in cities in Zhejiang such as Hangzhou, Ningbo, Shaoxing, Jinhua, and Wenling, but they will expand to more locations in the future.<sup>7</sup>

## Food & Beverage

### JD Supermarket to provide traffic and cold chain support for pre-made dishes brands

On 6 June, JD Supermarket (京东超市) and the China Premade Food Alliance held a media communication meeting. The two parties announced the Food Standards for Pre-made Food for e-commerce channels. JD Supermarket also took the lead in announcing the inclusion of pre-made dishes in its strategic support plan. The package of support measures covers sales data, traffic, activity IP, omni-channel, market investment, and cold chain logistics. In the next three years, JD Supermarket plans to support 20 pre-made dishes brands with sales of over 100 million yuan, and 5 pre-made dishes brands with sales of over 500 million yuan.<sup>8</sup>

### Coca-Cola enters the herbal tea market in Chinese mainland

Coca-Cola’s official flagship store recently launched a new series of *Prunella vulgaris* herbal teas, marking the company’s first entry into the Chinese mainland’s herbal tea market. Each 500ml bottle of this product is around 10 yuan, more than double the price compared to a similar product from popular herbal tea brand Wanglaoji (王老吉). In addition to the above herbal tea product, Coca-Cola has also sold alcohol, coffee, dairy products and other products in the Chinese mainland market.<sup>9</sup>

## China Post's first Post Coffee campus store opens at Southeast University

On 6 June, Post Coffee's (邮局咖啡) first campus store officially opened at Southeast University. The store sells tea drinks, desserts, and stamp-shaped cup stickers. Since the first Post Coffee shop began trial operations on 14 February in Xiamen, Post Coffee has opened a number of coffee shops in first- and second-tier cities such as Beijing, Shanghai, Guangzhou, and Shenzhen.<sup>10</sup>

## Miscellaneous

### Amazon is closing its Kindle store in China

On 2 June, Amazon China announced that it would stop supplying retailers in China with its Kindle e-readers immediately and would stop operating the Kindle China e-bookstore by 30 June 2023 – after this date, Kindle users will not be able to buy e-books online. Existing customers can download previously purchased e-books until 30 June 2024 and can continue reading after that date. Amazon will continue to provide customer service and warranty services for the Kindle e-book readers. It will also provide returns for eligible users who purchased Kindle e-book readers after 1 January 2022.<sup>11</sup>

## II. Market Overview

### Quest Mobile: 692 million monthly active mobile Internet users in lower-tier cities

On 7 June, Quest Mobile released its lower-tier cities market insight report for 2022. As of April 2022, there were 692 million monthly active mobile Internet users in lower-tier cities, accounting for 58.4% of total mobile Internet users. At the same time, the monthly per capita online duration and frequency of mobile Internet usage were 163 hours and 3,932 times respectively, an increase of 10.9% and 12.5% year-on-year. In terms of user demographics, female users accounted for 53.5% of all mobile Internet users in lower-tier cities. Middle-aged and elderly groups over 51 years old accounted for 26.4%, and users under 24 years old accounted for 21.5%. The spending power of these consumer groups, especially that of middle-aged and elderly users, has continuously increased.<sup>12</sup>

### **Linkshop Retail Research Centre: 22 new commercial projects open nationwide in May**

According to the Linkshop Retail Research Centre, 22 new commercial projects opened nationwide in May 2022, a year-on-year decrease of 4.3%. The 22 new commercial projects opened in May were mainly distributed in six regions: East China, Southwest China, Central China, South China, Northeast China, and Northwest China – East China and South China have the highest number of openings, while North China had no projects opening.<sup>13</sup>

## **III. Policy Spotlight**

### **Hangzhou issues 52 measures to stabilize the economy, including support for first store economy and retail enterprises**

Recently, the Hangzhou Municipal People's Government issued the *Hangzhou Implementation Plan for the State Council and Zhejiang Province's Policies and Measures to Stabilize the Economy*. There are a total of 52 support measures across eight aspects. Alongside the digital renminbi pilot, the government will distribute consumption vouchers for automobiles, shopping, catering, tourism, sports and agricultural products to promote the continued recovery of consumption. In terms of developing the first store economy, rewards will be provided for the first (flagship) stores of renowned international brands introduced in 2022. Furthermore, certain incentives will be given to eligible wholesale enterprises, retail enterprises, accommodation and catering enterprises from June to December 2022.<sup>14</sup>

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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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