

China Retail & E-commerce Weekly Update



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I. Sector Review

Internet & E-commerce

Tmall Supermarket to provide half-day delivery to 20 cities this year

At its recent service quality upgrade conference, Tmall Supermarket (天猫超市) announced that it will launch 'half-day delivery' services in Hangzhou – customers who order in the morning will receive their delivery in the afternoon, while customers who order in the evening will receive their delivery the next morning. By the end of this year, Tmall Supermarket's half-day delivery will cover 20 cities across the country, including a 100% coverage of cities with a population of more than 10 million. The half-day delivery service will cover than 80% of local orders, with on-time rate exceeding 96%.¹

JD.com requires third-party sellers to dispatch orders within 48 hours

JD.com (京东) recently announced that from April onwards, all third-party merchants on the JD.com platform must guarantee that they will dispatch orders within 48 hours. Products on the JD.com platform can be divided into JD.com's self-operated products and third-party POP (point of purchase) products. For self-operated products, after the customer places an order, it must be dispatched within 24 hours and logistics information must be available within 48 hours. If either requirement is not met, it is considered a delayed delivery. From this month onwards, third-party sellers will be subject to stricter requirements as well, resulting in a quicker turnaround for consumers.²

Douyin's F&B e-commerce up by 133% yoy in 2022

A trend report for the food and beverage (F&B) industry was published at Ocean Engine's (巨量引擎) recent industry summit. The report pointed out that F&B-related short video content grew rapidly in 2022, with average monthly playback volume exceeding 100 billion; furthermore, F&B product link clicks in livestreams more than doubled from the previous year. In addition to short videos and livestreams, users are also actively searching for F&B-related products. Douyin E-commerce's (抖音电商) F&B segment is also growing rapidly, with a year-on-year growth of 133% in 2022, and a compound annual growth rate of 264% from 2018 to 2022, far exceeding the growth rate of the overall e-commerce market.³

Suppliers rush to join Tao Factory

Since March, various suppliers have joined the Tao Factory (淘工厂) programme via the Taobao app. The joining process only takes ten minutes, after which suppliers can access various services including digital product selection, intelligent pricing, marketing, supply chain optimization, logistics and localization. Jiamao Food (佳茂食品), which produces semi-dry noodles for renowned brands such as Haidilao (海底捞) and Ramen Talk (拉面说), has also joined Tao Factory and launched a variety of noodles on the platform. The company hopes that through Tao Factory's '909 product sales champion' programme, it can develop a variety of popular products, expand brand awareness, and grow its e-commerce business.⁴

Tmall's pet health business segment exceeds 10 billion yuan in transaction volume

According to the Tmall New Lifestyle Research Institute (天猫新生活研究所), Tmall's pet health business segment can be divided into five main areas: scientific and technological health monitoring, gastrointestinal health, spa-level grooming and skincare, young and elderly pet care, and medical care. Overall, the transaction volume within this segment has exceeded 10 billion yuan on Tmall, where more than 60% of the top 50 pet health brands are Chinese. Among them, domestic production in the fields of scientific and technological health monitoring and nutritional products has taken the lead and continues to attract investment. Based on demand insights, the Tmall pet segment has added dozens of sub-categories over the past two years to promote the standardization of product categories and supply-side diversity. Furthermore, in response to the lack of knowledge on pet food and products for new owners, Tmall has improved its search and recommendation functions and partnered with third-party merchants to publish professional insights on these topics.⁵

Department Stores & Shopping Malls

Wangfujing opens its first offshore duty-free location in Wanning, Hainan

Wangfujing (王府井) recently launched its International Duty Free Port in Wanning, Hainan. At present, the first phase of the project has introduced nearly 500 brands (including 20 brands that are new to Hainan) across nine product categories, including perfume, gold accessories, healthcare products, food and coffee, and sporting goods. This marks a significant step for China in attracting more tourists to Hainan, which is expected to become one of the largest and most important offshore duty-free markets in the world. A representative of Wangfujing said that Wangfujing International Duty Free Port will combine Wanning's tourism attractions and natural scenery with an international retail experience to provide distinguished shopping experience for consumers.⁶

Nanning Department Store turns into a loss in 2022

Nanning Department Store (南宁百货) released its financial results for 2022 on 12 April. In 2022, the company's operating revenue reached 656 million yuan, a year-on-year decrease of 18.84%; net profit attributable to shareholders was -64.4931 million yuan, a year-on-year decrease of 2544.11%; net profit attributable to shareholders after deducting non-recurring gains and losses was -72.6137 million yuan, a year-on-year decrease of 247.99%. In 2022, its department store business – which is the company's main revenue source – achieved an operating revenue of 426 million yuan, accounting for 72.8% of total revenue. The gross profit margin was 21.6%, which was 2.81 percentage points lower than that of the previous year, mainly due to rent reduction and preferential support given to some merchants, as well as discounts for brand suppliers.⁷

Miscellaneous

Lego plans to open 80 new retail stores in China in 2023

Niels B. Christiansen, the CEO of Lego Group, recently announced that the group will continue to make strategic investments in China, open more offline retail stores, and expand its online retail presence in the market. To date, the Lego Group has opened more than 380 retail stores in China, covering over 100 cities. Among the 155 new retail stores opened by the Lego Group around the world in 2022, more than 90 were located in the Chinese market. Lego Group also plans to open 80 new retail stores in the country this year. At present, more than 40% of the company's retail stores are located in third-tier cities and below.⁸

Watsons to open 300 new stores in China this year

Watsons plans to open 300 stores in China this year as part of its plans to expand its O+O (offline plus online) platform strategy. In the past three years, Watsons China has opened nearly 850 physical stores and renovated around 440 stores in over 300 cities, the retailer said. Its customer insights show that the spending of its O+O customers who shop at both physical and online stores is 3.1 times higher than those who shop only at physical stores. Looking ahead, the company plans to focus on the O+O platform as its main growth strategy.⁹

II. Market Overview

Hurun publishes 2022 list of most valuable brands

Hurun Research Institute recently released the *2022 Hurun Most Valuable China Brands*, which ranks the top 300 most valuable Chinese brands. Brands which made the list come from 62 cities in China. In terms of regional distribution, Beijing, Shanghai and Shenzhen are still the top three cities with the most brands on the list. In addition, 121 new brands such as Freshippo (盒马), Mixue Bingcheng (蜜雪冰城), and Manner were added to the list this year. According to Rupert Hoogewerf, Hurun's Chairman and Chief Researcher, 'Chinese consumers' trust in private brands has increased significantly in recent years. 62% of the brands on the list this year are private brands, while it was 61% last year, and 39% 10 years ago.' The 121 new brands this year include three new retail brands: Freshippo, KKV, and Guoquan Shihui (锅圈食汇).¹⁰

JD.com: Online demand for alcoholic beverages maintains steady growth over past four years

During the 2023 Spring National Food and Drinks Fair, the China Alcoholic Drinks Association, JD Supermarket (京东超市), and the JD Research Institute for Consumption and Industrial Development (京东消费及产业发展研究) jointly released the *2023 Online Alcohol Consumption Trend Report* to provide an in-depth analysis of the online alcohol market. The report shows that from 2018 to 2022, online sales of alcoholic beverages maintained steady growth, and the compound annual growth rate of foreign wine, wine, and liquor sales exceeded 50%, 40%, and 25%, respectively. Consumption upgrades and changing drinking habits have led to a significantly higher increase in per capita consumption than the per capita number of alcohol purchases, indicating that more and more consumers are paying attention to high-quality alcohol products. According to the report, as wine consumption scenarios continue to diversify in 2023, demand will also further rebound and increase.¹¹

Hainan's offshore duty-free sales exceed 20 billion yuan in 1Q23, up over 30% yoy

On April 12, Hainan held a special press conference on its free trade port development. At the conference, it was announced that the sales of offshore duty-free shops in Hainan exceeded 20 billion yuan in 1Q23, a year-on-year increase of more than 30%. According to Shen Danyang, executive vice governor of Hainan, offshore duty-free sales in Hainan exceeded 60 billion yuan in 2021, and it is expected to exceed 80 billion yuan in 2023 – becoming a main driver of consumption recovery for the province.¹²

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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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