

DEPARTMENT STORES

China Retail Snapshot

Asia Distribution and Retail

April 2016



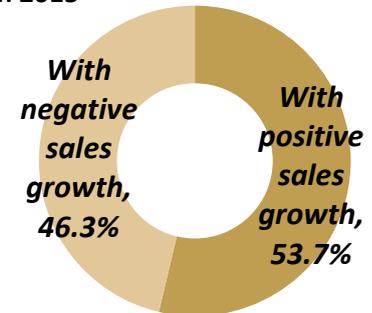
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2015 was a particularly difficult year for China's department store sector.

- According to a survey conducted by the **China Commerce Association for General Merchandise (CCAGM)** among 80 key department store operators from November to December 2015, 46.28% of the sampled department store suffered from underperforming sales with negative year-on-year (yoy) sales growth in 2015.
- Operating environments remain challenging especially under the **“new normal” economy** with slower economic growth. Further, the trend of store closures has been intensified since 2015 on the back of unfavourable factors, both externally and internally.

Proportion of sampled department store operators with positive and negative sales growth in 2015



Source: China Commerce Association for General Merchandise; compiled by Fung Business Intelligence Centre

KEY TRENDS AND DEVELOPMENTS OF THE DEPARTMENT STORE SECTOR IN CHINA

SUMMARY

1



Traditional department stores reinvent and upgrade

- Engaging in multiple retail formats and tapping other business sectors
- Adding lifestyle concepts and focusing on shopping experience

2



Exploring new business models and practices

- Emergence of buyer's shops and multi-label stores
- Increasing the proportion of merchandise direct sales and developing private labels
- Building synergies with suppliers and brands; connecting and integrating with each other's ERP, inventory and POS systems

3



Embracing "Internet plus" – from e-commerce to m-commerce to O2O

- Leveraging the rapid growth of e-commerce and m-commerce
- Collaborating with Internet giants to develop O2O strategies
- Strengthening investment in technology, m-commerce and big data
- Strongly leveraging social media to connect with customers
- Enhancing convenience in shopping via online payment tools
- Cross-border e-commerce brings new business opportunities for traditional department store operators

4



Industry consolidation via M&As activities

5



Revamping the organisational structure and management system

- Optimising organisational management structure
- Segmenting and regionalising operations

DEPARTMENT STORE SALES GROWTH SLACKENS OFF OVER 2015, REMAINS CHALLENGING IN 2016



- Retail sales growth for department stores was **2.8%** yoy in 2014, the lowest among other retail formats.
- The rapid growth of e-commerce has posed an imminent threat to department store operators as department stores continue to lose market share to online sales channel over recent years.

Retail sales growth for different retail formats, 2014

Retail format	Yoy growth (%)
Factory Outlets	47.7%
Convenience stores	11.1%
Specialty stores	3.8%
Supermarkets	3.2%
Department stores	2.8%

Source: National Bureau of Statistics of the PRC



Increasing competition from E-commerce



E-Commerce:

In 2015, the online retail sales of physical commodities increased by 31.6% yoy to 3.24 trillion yuan, accounting for 10.8% of the total retail sales of the consumer goods.

Source: Ministry of Commerce of the PRC

SIGNIFICANT STORE CLOSURES IN 2015

OVERVIEW



- There were **121 store closures** involving major retail enterprises (including department stores and supermarkets) in 1H15, among which, **25 closures** involved department stores*
- Among all department store closures in 2015, foreign players represented 57.9% while domestic players represented 42.1%**
- The trend of store closures has carried into 2016. A recent example was the **closure of Mo Mall** in Chengdu in February 2016.

*Linkshop.com.cn. "Statistics of major shops' closures, 1H15". 21 January, 2016.

<http://www.linkshop.com.cn/web/archives/2015/329313.shtml>

**PE Daily. "List of shop closures in 2015". 11 January, 2016.

http://news.pedaily.cn/201601/20160111392370_all.shtml

SIGNIFICANT STORE CLOSURES IN 2015 (CONT'D)

OVERVIEW

Examples of department store closures in 1H15

Department store	Country of origin	City	Branch	Closing month	Opening year
Rainbow Department Store	China	Huzhou	Huzhou	Feb-15	2010
		Quanzhou	Quanzhou	May-15	2010
		Chengdu	Honhpailou	Jun-15	2011
Wanda Department Store	China	Ningbo	Yuyao	Jan-15	2012
		Yixing	Yixing	Jan-15	2012
		Taicang	Taicang	Jan-15	2013
		Wuhu	Jinghu	Jan-15	2012
		Jinjiang	Jinjiang	Jan-15	2013
		Wenzhou	Longwan	Feb-15	2013
		Dongguan	Chang'an	Feb-15	2013
		Shenyang	Beiyilu	Mar-15	2012
		Shenyang	Hunnan	Mar-15	2012
		Qingdao	Licang	Jun-15	2012
Far East Department Store	China	Tianjin	Tianjin	Mar-15	2006
Sunshine Department Store	China	Shenyang	Shenyang	Mar-15	2013
Parkson Department Store	China	Tianjin	Tianjin	Apr-15	2004
Golden Eagle Department Store	China	Hefei	Dadong	May-15	2010
		Hefei	Baihuajing	May-15	2010
La Vita Department Store	China	Tianjin	Tianjin	May-15	2001
Ito Yokado Department Store	Japan	Beijing	You'anmen	Apr-15	2007
Marks and Spencer	UK	Changzhou	Xinbei	Mar-15	2012
		Changzhou	Wuyue sq.	Aug-15	2012
		Shanghai	Jiadingjiangqiao	Aug-15	2012
		Wenzhou	Longwan	Aug-15	2012
		Wuxi	Jiangyin	Aug-15	2012

Source: Linkshop, various Internet sources; compiled by Fung Business Intelligence Centre

1. Engaging in multiple retail formats and tapping other business sectors

Numerous department store operators in China have diversified their retail businesses by engaging in multiple retail formats, such as **shopping malls, factory outlets, supermarkets and convenience stores** so as to strengthen their core competencies, increase market share and expand revenue streams



E.g. **Wangfujing Department Store** has invested heavily in business transformation, particularly in developing shopping malls and factory outlets:

- By 2016: Two **mega-scale shopping centers** with floor area over 200,000 sqm in Harbin and Sichuan;
- By 2020: 15 to 20 shopping centers with size no less than 100,000 sqm each will be built.
- Two **factory outlets** will be opened in September and October 2016 in Xian and Yingchun respectively, and another large-scale factory outlet in Kunming will also be opened in 2017.

TRENDS #1 TRADITIONAL DEPARTMENT STORES REINVENT AND UPGRADE (CONT'D)

TRENDS

Also, tapping into other business sectors especially the **food & beverages (F&B)** and **entertainment** sector has become a strategic move of many department store operators.



E.g. **Parkson Retail Group** announced to venture into F&B business in January 2015. The Group has entered into a joint venture agreement with **AUM Hospitality Sdn. Bhd.** to establish a joint venture company for the purposes of developing its F&B business in China.

TRENDS #1 TRADITIONAL DEPARTMENT STORES REINVENT AND UPGRADE (CONT'D)

TRENDS

Selected department stores that have tapped into the shopping mall sector (as of February 2016)

Department store	Shopping mall project	Location
Intime Department Store	Intime City	Heilongjiang: Haerbin Hebei: Tangshan Shandong: Zibo Hubei: Wuhan Zhejiang: Hangzhou, Jinhua, cixi, Ningbo, Jiaxing, Taizhou Hunan: Hengyang Sizhuan: Neijiang, Panzhihua, Chengdu Shanxi: Xian Anhui: Hefei, Wuhu
Rainbow Department Store	Rainbow Shopping Center	Guangdong: Shenzhen Jiangxi: Jian Zhejiang: Hangzhou
Grandbuy Department Store	Grandbuy Sunny Mall	Guangdong: Zuhai, Heyuan
Haiya Department Store	Haiya Mega Mall	Gugndong: Shenzhen
Better Life Department Store	BBG Plaza	Hunan: Changsha, Jishou, Xiangtan, Liuzhou
Xinhua Department Store	CC mall	Ningxia: Yinchuan
Parkson Retail Group	City Lifestyle Mall (a joint venture with Korean-based E-Land Group)	Shanghai (to be opened in end of 2016)

Source: Company websites; compiled by Fung Business Intelligence Centre

TRENDS #1 TRADITIONAL DEPARTMENT STORES REINVENT AND UPGRADE (CONT'D)

TRENDS

2. Adding lifestyle concepts and focus on shopping experience



Shopping mall-oriented approach – provide more leisure facilities, such as kids’ play area, entertainment, F&B, cinemas, etc. to attract more foot traffics, encourage repeated patronage and enhance their customer experience.

Department Store	Lifestyle and shopping experience elements 
Golden Eagle Retail Group	The Group has accelerated its strategic transformation from fashion department store to “Comprehensive Lifestyle Center” in recent years. Dining, entertainment, gourmet supermarket G-Mart, aquarium, beauty and personal care, hair styling, cinemas and preschool education facilities are introduced in these lifestyle centers. As at 30 September 2015, the Group has opened nine comprehensive lifestyle centers with a total gross floor area of 936,569 sqm. The operating area of these comprehensive lifestyle centers accounted for 28.8% of the Group’s total operating area.
Maoye International Holdings Limited	The Group has been restructuring the trade categories in its physical stores by allocating more than 20% of retail space to lifestyle amenities in its Zibo and Taiyuan branch.
JiuGuang Department Store (Suzhou)	The department store has introduced the world renowned Fissler Academy in July 2015 which comprises a café and a cooking studio.

1. Emergence of buyer's shops and multi-label stores

Some department store players have adopted a **self-operated model** or **buyer's model** to enhance the quality of products and services and improve the competitiveness of the stores.

Case study: Hi Department Store

An upscale lifestyle department store in China to fully engage in **direct merchandise sales**.

- Three physical stores – Guangzhou, Beijing and Shanghai
- 2,000 – 3,000 sqm each
- All merchandise are sourced by in-house buyers
- Bypassing distributors and agents
- Each store has a bookstore “Hi Book”, a cafe “Hi Café”, and a DIY area called “Hi Class”
- This new retail format has brought a brand new shopping experience to consumers
- Helps enhance the evolution of China’s department store sector and provides customers with more choices



2a. Increasing the proportion of merchandise direct sales

- Having experienced the drawbacks of the concessionary model, many department store operators have placed greater emphasis on increasing the proportion of direct sales and developing private labels and treated this as a key theme of business transformation.
- They hope to increase product differentiation so as to stay unique in the market and strengthen their competitive edge.

信誉楼

E.g. **Xinyulou Department Store** is engaging entirely in merchandise direct sales. Leveraging its strong local networks and long-standing relationship with suppliers, Xinyulou purchases all of its products directly from suppliers. **98% of their merchandise is sourced by a team of in-house buyers.**

The group runs an “apprenticeship program” in nurturing its own buyers, in which junior buyers are apprenticed to and trained by experienced buyers.

2b. Developing private labels

- Some operators have sought to differentiate themselves by developing private labels, hoping to enjoy better profit margins and increase competitiveness
- The gross margins generated from private labels are usually much higher than that from concessionary sales



FIRST WERT

E.g. **Wangfujing Department Store** launched its first private label “**First Wert**” in January 2015, which covers menswear and accessories. The reason for choosing menswear as its first private label category is that menswear usually involves relatively smaller changes in style and lower inventory risks.



E.g. **Dashang Group** has set up a dedicated private label company to focus on research and development of private label lines, including packaged food, tissue and hygiene products, apparel, footwear and homecare products

TRENDS #2 EXPLORING NEW BUSINESS MODELS AND PRACTICES (CONT'D)

TRENDS

Private labels of selected department stores

Department Store1	Private Label	Category
Intime Department Store	Just Intime	Womenswear
New World Department Store	LOL (Love • Original • Life)	Lifestyle
Wangfujing Department Store	FIRST WERT	Menswear
Golden Eagle Department Store	Aquila D'oro	Menswear
	IVREA	Menswear
	LISALEN	Womenswear
	WONDERFUL LIFE	Home textile
	Antonghui	Childrenswear
Parkson Department Store	Zie Zac	Apparel
	Zie Zac Junior	Childrenswear
	Serena	Womenswear
	Style Unlimited	Womenswear
Mopark Department Store	Mopark	Socks and accessories
Dashang Group	Newmart	Tissue and hygiene products, laundry care, slippers, underwear, socks
	Baidaiyi	Tissue and hygiene products
	Aomashi	Women's apparel and footwear
	Maizhesen	Men's apparel and footwear
	Arthur	Men's shirts
	Qiaohui	Dishwashing detergents

3. Building synergies with suppliers and brands; connecting and integrating with each other's ERP, inventory and POS systems



- An increasing number of department store operators have formed strategic alliances with players along the supply chain in order to build synergies and outperform their competitors
- Some have tried to connect and integrate their **Enterprise Resource Planning (ERP), inventory and point-of-sale (POS) systems** with suppliers and brands



E.g. In May 2015, **Wangfujing Department Store** and **Bailian Group** teamed up with **Li & Fung Trading (China) Holdings Ltd.** to form a JV aiming to transform China's retail industry through **enhancing supply chain efficiency**. The key business of the JV includes facilitating the development and management of private labels and licensed brands. The JV will develop one to three private labels and up to six licensed brands over the coming three years.

TRENDS #3 EMBRACING “INTERNET PLUS” – FROM E-COMMERCE TO M-COMMERCE TO O2O

TRENDS



Strengthening investment in technology, e-commerce, m-commerce and big data

Social media to connect with customers

Order online and pick up in-store

Collaborate with Internet companies

Online payment tools

Cross-border e-commerce

1. Leveraging the rapid growth of e-commerce and m-commerce

Faced with losing customers to online retailers, an increasing number of department store players have stepped into the e-commerce space, by:



Launching their own standalone transactional website

OR



Opening online store on third-party platforms

TRENDS #3 EMBRACING “INTERNET PLUS” – FROM E-COMMERCE TO M-COMMERCE TO O2O (CONT'D)

TRENDS

Online stores of selected department stores in China (as of February 2016)

Enterprise	Standalone transactional website	Store on third-party online platform
Shanghai Friendship Group Incorporated Company	✓	Nil
Dalian Dashang Group Co., Ltd.		Tmall
Chongqing Department Store Co., Ltd.		Nil
Changchun Eurasia Group Co., Ltd.		Nil
Beijing Wangfujing Department Store (Group) Co., Ltd.		Tmall
Rainbow Department Store Co., Ltd.		Tmall
Zhenghua Department Store Development Co., Ltd.		Nil
Parkson Retail Group Ltd.		Nil
Intime Department Store (Group) Co., Ltd.		Tmall, JD.com, Yihaodian
Wei Bai Group		Nil
New World Department Store China Ltd.		Tmall
Beijing Caishikou Department Store Co., Ltd.	✗	Tmall, JD.com, Yihaodian
Guangzhou Grandbuy Co., Ltd.	✓	Tmall
Nanjing Central Emporium Group Stocks Co., Ltd.		Tmall
Hunan Friendship and Apollo Co., Ltd.		Nil
Jinan Hualian Commercial Group		Nil
Handan Sunshine Department Store		Nil
Guangzhou Friendship Group Co., Ltd.		Nil
Nanning Department Store Co., Ltd.		Nil
Shanghai Xujiahui Commercial Co., Ltd.		Nil
Wuhan Zhongbai Group Co., Ltd.		Tmall
Jiahua Stores Holdings Ltd.		Nil

Source: Company websites; various Internet sources; compiled by Fung Business Intelligence Centre

TRENDS #3 EMBRACING “INTERNET PLUS” – FROM E-COMMERCE TO M-COMMERCE TO O2O

TRENDS



Mobile shopping has been the major driving force behind the growth of e-commerce.

By 2015:



340 million of mobile shoppers in China



An increase of **43.9%** yoy



The proportion of mobile shopping to e-commerce expenditure increased from 42.4% in 2014 to **54.8% in 2015**

In view of this, an increasing number of department store players have launched **mobile apps** that support mobile shopping.



TRENDS #3 EMBRACING “INTERNET PLUS” – FROM E-COMMERCE TO M-COMMERCE TO O2O (CONT’D)

TRENDS

2. O2O strategies become an industry consensus

Many department stores in China have demonstrated growing sophistication with regard to O2O adoptions. It has become a mainstream for operators to actively deploy O2O strategies across all channels – brick-and-mortar, online and mobile.

Case study: Rainbow Department Store

Rainbow Department Store is one of the earliest department store operators to roll out an O2O business model.

Its omni-channel retail platform comprises of:

- **Physical store** - “Department Store + Shopping mall + Convenience Store (Weiwo)” model
- **Online store** - “Tianhong.cn”
- **Mobile apps**
 - Red Scarf (Honglingjin) – provides daily services
 - Rainbow Home Delivery – provides express delivery
 - Weipin – microshop on WeChat
 - WeChat public account – supports mobile payments

By 1H15, its mobile apps had **3 million+ registered users**; its e-commerce business enjoyed a growth of **66% yoy** in total sales.



TRENDS #3 EMBRACING “INTERNET PLUS” – FROM E-COMMERCE TO M-COMMERCE TO O2O (CONT’D)

TRENDS

3. Collaborating with Internet giants to develop O2O strategies



A common means for department store operators to develop their O2O strategies is to form **strategic partnerships with Internet companies**, especially the Internet giants, so as to expand their offline business to online and leverage their:



Gigantic consumer base



Logistics capabilities



Data analytics capabilities



Mobile payment tools

TRENDS #3 EMBRACING “INTERNET PLUS” – FROM E-COMMERCE TO M-COMMERCE TO O2O (CONT’D)

TRENDS



December 2015: Intime Retail Group announced to strengthen the partnership with Alibaba Group for omni-channel commodity integration. Intime would support the distribution of Alibaba’s online products in Intime’s stores; Alibaba would accelerate the online sales of Intime’s products.

天猫超市
CHAOSHITMALL.COM



January 2016: Intime Retail Group formed a partnership with **Alibaba’s Tmall Supermarket** – Intime would issue a new single-purpose stored-value card which can be used offline in all Intime’s stores and online on Tmall Supermarket.

TRENDS #3 EMBRACING “INTERNET PLUS” – FROM E-COMMERCE TO M-COMMERCE TO O2O (CONT’D)

TRENDS

4. Strengthening investment in technology, m-commerce and big data

Increasing numbers of department store operators are adopting innovative technologies to better engage with their customers and **enhance customer experience**. Examples include:



TRENDS #3 EMBRACING “INTERNET PLUS” – FROM E-COMMERCE TO M-COMMERCE TO O2O (CONT'D)

TRENDS

Case study: Alibaba's Miao Street



- Miao Street is a one-stop shopping and **location-based mobile app** developed by Alibaba with the aim of enhancing customers' shopping experience in brick-and-mortar stores.
- Its customer service-oriented features include **free WiFi, indoor navigation, finding of car parking space, restaurant reservation and purchase of movie tickets**, etc.
- Miao Street allows stores to send **personalised messages** to shoppers based on their location or demographics. When customers arrive at the store, the app can also send store coupons to customers and direct them to facilities such as ATM, restroom or escalator.
- By the end of 2015, Miao Street has been expanded to **more than 10 cities** in China including Beijing, Shanghai, Shenzhen, Nanjing, Wuhan, Hangzhou, Ningbo, etc. **Over 60 department store operators** such as Intime Retail Group, Beijing Capital Retailing Group, Incity Mall, Wuhan Zhongbai Group support Miao Street in their stores.



TRENDS #3 EMBRACING “INTERNET PLUS” – FROM E-COMMERCE TO M-COMMERCE TO O2O (CONT’D)

TRENDS

5. Strongly leveraging social media to connect with customers

Department store operators have put tremendous emphasis on **social media marketing**. Influential and popular social media platforms such as **Weibo** and **WeChat** are some of the key channels that department store operators use to connect with customers, and to perform targeted marketing.

Case study: Yangsha Youyi Shopping City



Yangsha's social media strategy



Beijing-based Yangsha Youyi Shopping City has adopted a comprehensive social media strategy to carry out interactive marketing activities. These social media platforms serve different purposes:

Weibo – a channel to post information of marketing events, sales activities, hot topics;

Wechat – pushes marketing and sales information among WeChat’s Moment or “circle of friends”;

Miao Street app – directly pushes notifications to customers;

Weidian – supplements the other channels and strengthens the marketing impact by blasting product discounts information to shoppers.

TRENDS #3 EMBRACING “INTERNET PLUS” – FROM E-COMMERCE TO M-COMMERCE TO O2O (CONT'D)

TRENDS

6. Enhancing convenience in shopping via online payment tools such as Alipay and Tenpay



Mobile online payment has been increasingly popular and has replaced physical wallet to become the most common payment option to some extent.

By 2015:



358 million of mobile online payment users in China



An increase of **64.5%** yoy



Utilisation ratio of mobile online payment increased from 39.0% in 2014 to **57.7% in 2015**

In view of this, an increasing number of department store players have already supported **mobile payment tools** in their physical stores.



TRENDS #3 EMBRACING “INTERNET PLUS” – FROM E-COMMERCE TO M-COMMERCE TO O2O (CONT’D)

TRENDS

7. Cross-border e-commerce provides new business opportunities for traditional department store operators

- An increasing number of department store operators which have suffered from slowing sales growth over recent years are actively tapping into cross-border e-commerce business.
- Currently, most department store operators run the cross-border e-commerce business via two channels:



Establishing online cross-border shopping websites

OR



Launching physical experiential stores which sell both duty-paid and bonded imported products

Case study: Guangzhou-based Mopark Department Store (<http://www.imopark.com>)



In April 2015, it opened a cross-border e-commerce experiential store in Guangzhou which mainly sells baby products, healthcare products, cosmetics and skincare products and personal care goods. In October 2015, the store was expanded from 400 sqm to 800 sqm, with SKU increased from 1,000 to 1,600. Since then, Mopark Department Store further added five more experiential stores in different branches.

TRENDS #3 EMBRACING “INTERNET PLUS” – FROM E-COMMERCE TO M-COMMERCE TO O2O (CONT’D)

TRENDS

Selected department stores that have started cross-border e-commerce business

Department Store	Started since	Location of the first cross-border e-commerce experiential store	Website
Mopark Department Store	Apr-2015	Guangzhou	http://www.imopark.com
Better-Life Commercial Chain Share Co.	Apr-2015	Hunan	http://www.yunhou.com/
Grandbuy Department Store	May-2015	Guangzhou	http://www.gbhui.com
Intime Department Store	Jun-2015	Hangzhou	https://westchoice.tmall.hk
Rainbow Department Store	Jul-2015	Shenzhen	http://www.tianhong.cn/ht/ht.html
Hunan Friendship and Apollo	Jul-2015	Hunan	http://www.tepin.hk/
Yihua Holdings Ltd.	Aug-2015	Zhongshan	http://www.yihua888.com/
JiaHua Stores Holdings Ltd.	Sep-2015	Shenzhen	http://go.szbjh.com/
Dalian Dashang Group Co. Ltd	Sep-2015	Dalian	http://www.51tiangou.com/

Source: Various Internet sources, compiled by Fung Business Intelligence Centre

TRENDS #4 INDUSTRY CONSOLIDATION VIA MERGER AND ACQUISITIONS ACTIVITIES



As a way out amid slowing growth, mergers and acquisitions (M&A) in the department store sector have been very active in recent years.

Major M&A deals in China's department store sector, 2014- 2015

Date	Bidder company	Target Company		
		Company Name	Sector	Origin
Apr-2014	Nanjing Xinjiekou Department Store	House of Fraser	Department Store	UK
May-2014	Better-Life Commercial Chain Share Co.	Nancheng Department Store	Department Store, supermarket, consumer electronics	China
Aug-2014	Beijing Cuiwei Tower Co., Ltd.	Beijing Modern Plaza; Beijing Ganjiakou Plaza	Department Store	China
Oct-2014	SanPower Group	Lashou.com	Group-buying website	China
Jan-2015	SanPower Group	Meici.com	Online shop	China
Aug-2015	SanPower Group	Brookstone	Online shop	USA
Oct-2015	Dalian Dashang Group	Xinjiang Youhao Group	Department Store	China
Nov-2015	Dalian Dashang Group	Shandong Weihai General Merchandise Mall Group Co., Ltd.	Department Store	China

TRENDS #5 REVAMPING THE ORGANISATIONAL STRUCTURE AND MANAGEMENT SYSTEM

TRENDS

1. Optimising organisational management structure

In the “Internet plus” era, it is imperative for department store operators to create a flexible, streamlined organisational structure, and establish a reasonable and effective decision-making mechanism in order to adapt to the rapidly changing market.

Case study: Rainbow Department Store



Rainbow Department Store had adopted a vertical organisational structure in the past. It has now transformed into a flat-structured corporation by splitting the organisation into several smaller business units. The “borderless” and horizontal management structure has successfully reduced institutional barriers. It has also advocated the use of mobile devices as major means of internal communication to increase efficiency.

Case study: Wangfujing Department Store



In order to get rid of the bureaucratic inefficiencies, Wangfujing Department Store has introduced the partnership business structure and allowed top management to hold shares of the company.

2. Segmenting and regionalising operations

In order to alleviate the impact of shrinking consumption on business performance, some department store operators have started to carry out in-depth adjustment of business strategies in accordance with consumption characteristics of different business districts and regions.

Case study: Wangfujing Department Store



Wangfujing Department Store has implemented a **"one shop, one policy" initiative** across its branches throughout the country, so as to make sure that needs that are unique to the particular region or area are met.



The company has delegated a director who have full autonomy to make business decisions for each store based on the characteristics and consumption habits as well as competitive landscape in that particular business district.

External headwinds

- Slowdown in economic growth;
- Rising competition from other retail segments such as shopping malls and specialty stores;
- Mounting pressures from the booming e-commerce and changing needs of consumers, particularly the Chinese Millennials...

...have all imposed pressures on department store operators.

Internal challenges

- Institutional limitation, specifically the concessionary business model adopted by department store players;
- Lack of talents;
- Obscured strategic directions to transform and upgrade the business...

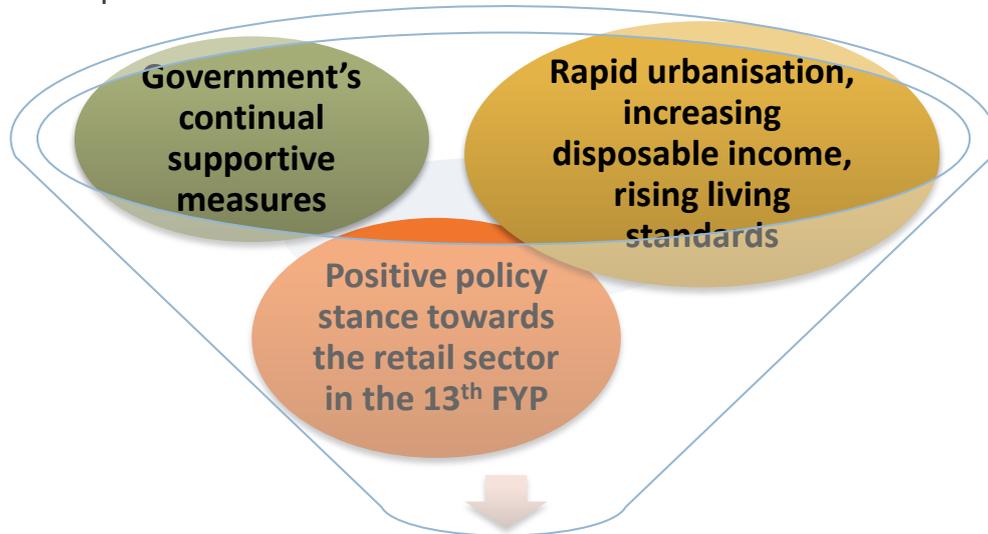
...have further put a strain on the sector.

CHINA'S DEPARTMENT STORE SECTOR TO ENJOY SUSTAINABLE GROWTH IN THE LONG TERM

OUTLOOK



China's department store sector is not expected to recover in the short term as we expect to see some **downward corrections in the economy** as well as the retail market in China in 2016. However, the department store sector is set to **enjoy sustainable growth in the long term** – against the backdrop of:



**Sustainable growth of
China's department store sector**

WHAT'S NEXT IN THE SECTOR

OUTLOOK



1 Back to basics of retail: pursuit of the right merchandise mix and high quality customer service

Adhere to the principle of “putting the customer first” and take into account consumers’ rapidly evolving shopping preferences. Maintain the right proportion of catering, shopping and entertainment facilities, as well as superior customer service.



2 The adoption of hybrid concessionary and merchandise direct sales models

Due to lack of talent, financial pressure and other external challenges, department store operators would likely adopt the hybrid model of concessionary and merchandise direct sales.



3 Embrace Internet; Capturing the big data; Create an intelligent business

The department store sector should move along the track of intelligent business operations with digital innovation. E.g., Use big data appropriately to spot trends and better adapt to consumers’ changing needs and preferences.



4 Achieve operation synergies on multi-format development

Consumers nowadays are becoming more discerning and looking for better shopping experience, department store operators which diversify their retail business by operating multiple formats have a higher chance to succeed.

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