GROCERY RETAILING

- CONVENIENCE STORES, SUPERMARKETS, HYPERMARKETS

China Retail Snapshot

Asia Distribution and Retail

April 2016

Note: Photos in this report are from official websites and official social media accounts, and freepik, if not otherwise specified.

CONVENIENCE STORES

EXECUTIVE SUMMARY

- Convenience stores (CVS) is the fastest-growing retail format among all other retail formats in China, but the development of CVS in China is still unbalanced.
- The development of CVS along coastal areas is more mature and concentrated than in inland areas.
- Most leading players in China's CVS sector are regionally based. Currently, there is no national leader.

Trends

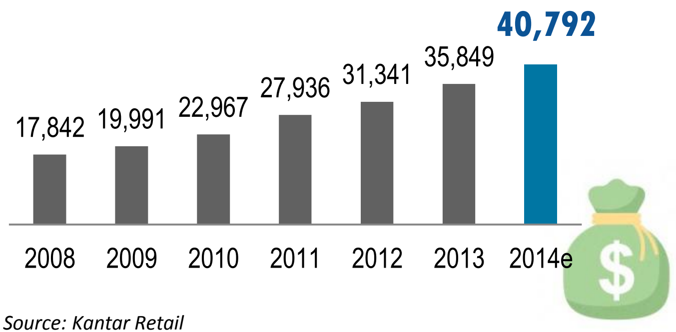
1. Implementing O2O initiatives
   - Providing pick-up services in-store
   - Establishing cross-border e-commerce platform
   - Accepting mobile payment
   - Selling via social networks
2. Offering more fresh food products
3. Launching more private labels
4. Providing tailored services for local communities
5. Retailers of other formats to tap the CVS sector

CVS IS THE FASTEST-GROWING RETAIL FORMAT IN CHINA

- CVS is the **fastest-growing retail format** among all other retail formats in China.
  - According to Kantar Retail, sales revenue of CVS in 2014 reached 40.8 billion yuan, more than double the sales in 2009.
  - The number of stores reached 26,345*, doubling the store number in 2008.

Sales revenue of CVSs

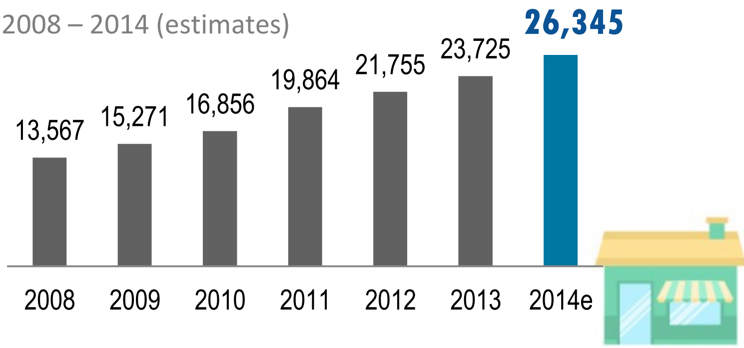
2008 – 2014 (estimates), million yuan



Source: Kantar Retail

Store counts of convenience stores

2008 – 2014 (estimates)



Source: Kantar Retail

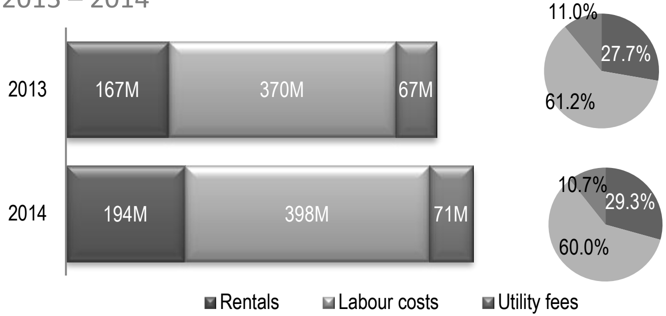
** Excluding forecourt retailers such as Easy Joy and uSmile*

Labour costs increase rapidly

- **Labour costs** have increased rapidly over recent years, accounting for >60% of the total operating costs. Higher labour costs were attributed largely to longer operating hours of CVS (>16 hours a day).
- Total number of staff decreased by 2.2% year-on-year (yoy) in 2014, while labour costs increased by 7.6% yoy, indicating that the increase in wages was still significant in 2014.

Cost structure for CVS in China

2013 – 2014



Major KPI for CVS

2013 – 2014

	2013	2014	Yoy change
Sales revenue (billion yuan)	4.5	4.7	4.4%
Store number	1,490	1,580	6.0%
Operating area (sqm)	417,000	429,000	2.9%
Number of staff	7,220	7,060	-2.2%
Rentals (million yuan)	168	194	15.9%
Labour costs (million yuan)	370	398	7.6%
Utility fees (million yuan)	67	71	6.7%

Source: China Chain Store and Franchise Association, Deloitte. "Report on the performance of major China retail chain enterprises 2014-2015".
** The survey by the China Chain Store and Franchise Association covered 41 major CVS chains.*

Development of CVS in China is still unbalanced

- The development of CVS in China is still unbalanced.
  - Guangdong and Shanghai have the highest store concentration, each with >5,000 stores.
  - Development of CVS along coastal areas is more mature and concentrated than in inland areas, while development in the Southern region is more mature than in the Northern region.

Store count by provinces for CVS in China

February 2015

Store Counts

- Above 5,000
- 1,000 - 5,000
- 500 - 1,000
- Below 500

Source: Kantar Retail, compiled by Fung Business Intelligence Centre

CVS in Shenzhen, Guangzhou is more mature

- China Chain Store and Franchise Association (CCFA) released the "Convenience Store Service Index 2016"* in May 2016.
  - Shenzhen ranked the first, followed by Xiamen, Changsha, Dongguan and Beijing. This shows that the service of CVS in Shenzhen is relatively more mature than in other cities.

Convenience Store Service Index 2016

May 2016

City	Index
Shenzhen	94
Xiamen	87
Changsha	87
Dongguan	83
Beijing	81
Taiyuan	81
Shijiazhuang	80
Guangzhou	80
Changchun	80
Shenyang	80
Nanchang	80
Wuhan	79
Shanghai	78
Nanning	78
Guiyang	78

Source: China Chain Store and Franchise Association

** The index is a ranking of service level of CVS in different provinces. It is compiled based on store density, store growth rate, convenience, and supportive policies in the city.*

LEADING PLAYERS IN THE CVS SECTOR IN CHINA

- Most leading players in China's CVS sector are **regionally based**. Currently, there is no national leader.
  - Meiyijia is the market leader in terms of store count, with 7,400 stores in Guangdong*, followed by Tianfu, Hongqi, Sun-high and Quik.

Top convenience store operators by number of stores

2015

Rank in 2015	Enterprise	Place of origin	Convenience store brand	No. of stores	yoy growth (%)
1	Sinopec Group	China	Easy Joy	25,000	5.4
2	PetroChina Co., Ltd.	China	uSmile	17,000	13.3
3	Dongguan Sugar & Liquor Group Meiyijia Convenience Store Co., Ltd.	China	Meiyijia	7,400	15.8
4	Guangdong Tianfu Chain Business Co., Ltd.	China	Tianfu	2,830	10.2
5	Chengdu Hongqi Chainstore Co., Ltd.	China	Hongqi	2,274	44.2
6	Guangdong Sun-high Convenience Store Co., Ltd.	China	Sun-high	2,200	6.3
7	Shanghai Lianhua Quik Convenience Stores Co, Ltd.	China	Quik	1,650	-4.0
8	C&U Group	China	Shizu; Zhishang	1,633	4.9
9	Shanghai FamilyMart Co.,Ltd.	Japan	Family Mart	1,501	17.2
10	Nonggongshang Group	China	Kedi; Alldays	1,500*	-9.5

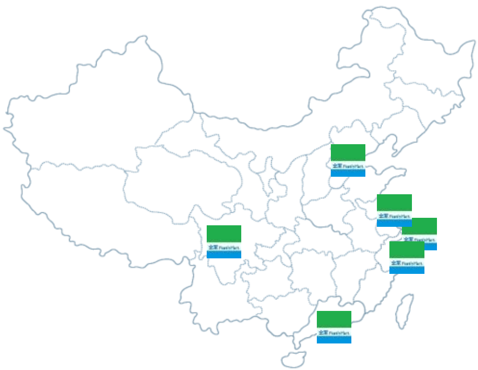
Source: China Chain Store and Franchise Association, modified by Fung Business Intelligence Centre

** Excluding the stores of forecourt retailers Easy Joy and uSmile*

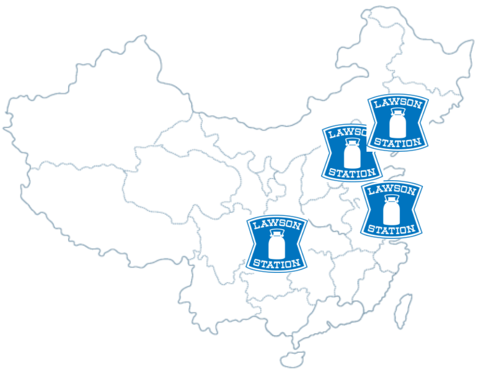
*** Estimated value*

LEADING PLAYERS IN THE CVS SECTOR IN CHINA (CONT'D)

- In general, foreign CVS chains are more active in expanding nationally, while domestic enterprises are mostly regionally focused.



Family Mart has stores in Shanghai, Guangzhou, Suzhou, Wuxi, Chengdu, Hangzhou, Beijing, Dongguan and Shenzhen.



Lawson has presence in Shanghai, Hangzhou, Ningbo, Jiangyin, Wuxi, Zhenjiang , Beijing, Dalian and Chongqing.

Tianfu operates mainly in Guangdong, Hongqi in Sichuan, and Suguo in Nanjing.

RETAILERS ADOPT MULTI-FORMAT STRATEGY

- Many retailers often adopt a **multi-format strategy**, hoping to leverage the sourcing capabilities of stores across different retail formats.

- According to a survey by Deloitte and the CCFA, 60% of the surveyed samples* are multi-format operators.

Better Life Group operates supermarkets, department stores and electric appliance specialty stores, and recently it rolled out its "Yunhou Wifi convenience stores" programme in June 2015. The Yunhou Wifi convenience stores, located in residential communities, not only sell goods, but also provide courier services, fresh breakfast, and offline payment services, etc.

CR Vanguard has been operating in multi-format for long, involving in hypermarket, supermarket, premium supermarket and convenience store operations. In September 2015, it added the "Tesco Express" brand to its portfolio, offering fresh food products to local communities.

** The survey by the Deloitte and China Chain Store and Franchise Association covered 206 major retail enterprises in China.*

TRENDS #1 IMPLEMENTING O2O INITIATIVES

- CVS is transforming to stay relevant in the "Internet Plus". Given the vast network of stores, CVS can better support O2O initiatives. Providing pick-up services in-store, establishing cross-border e-commerce platform, accepting mobile payment, selling via social networks are some of the examples.

Touching devices in Rainbow's CVS for customers to browse and order online.

Source: Fung Business Intelligence Centre

TRENDS #1 IMPLEMENTING O2O INITIATIVES (CONT'D)

Providing pick-up services in-store

- Since 2013, major CVS chains including **Family Mart**, **Dongguan Meiyijia**, **Taiyuan Tangjiu** have teamed up with online retailers to provide pick-up services. CVS chains can benefit from the potential increase in customer flow, while online retailers can offer additional pick-up option for customers and enjoy lower logistics costs.

Accepting mobile payment

- Japanese CVS chain **Lawson Inc**. has reached a cooperation agreement with Alipay. In August 2015, over 400 Lawson convenience stores in Jiangsu, Zhejiang and Shanghai started to accept Alipay.

Establishing cross-border e-commerce platform

- **FingerShopping.com**, is a distinctive O2O shopping platform backed by an extensive offline retail network of more than 300 Circle K convenience stores.
- Customers place orders online and they can choose to pick up and pay in a select Circle K store.
- As of April 2016, FingerShopping.com features approximately 1,200 brands and 17,000 SKUs.

Selling via social networks

- In April 2014, **Quik** started to sell their merchandise via social networks by allowing their franchisees to open micro-stores on WeChat. Quik also offers home delivery services to consumers making orders via WeChat from the stores nearby.

TRENDS #2 OFFERING MORE FRESH FOOD PRODUCTS

- Some community CVS stores are offering more fresh food products such as vegetables, fruits etc. to attract footfall. Selling fresh food is set to become a new growth point for CVS.

- That said, **profit margin of fresh food produce is low**, the proportion of these products sold at CVS is usually small.

- Moreover, additional investments in cold chain logistics and storages are needed.

TRENDS #2 OFFERING MORE FRESH FOOD PRODUCTS (CONT'D)

CP Fresh Mart enters the China market

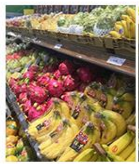
正大集团 CP GROUP

- Since April 2015, the **CP Group**, a Thailand-based conglomerate, has opened several "CP Fresh Mart" in Shanghai, Chengdu, Wuhan, Zhengzhou, Beijing.
- The stores focus on selling fresh foods such as eggs, meat, and frozen seafood.
- Light meals are also offered and customers can also eat in-store.
- CP Group plans to open 50 "CP Fresh Mart" in Beijing in 2016.

Source: Chaoshi Weekly

Tesco Express focuses on fresh food products

- In CR Vanguard's **Tesco Express**, around 30% of the operation area is for selling fresh food products.



TRENDS #3 LAUNCHING MORE PRIVATE LABELS

- Many CVS operators are developing their own private labels or importing unique goods to differentiate themselves. According to the CCFA, 60% of CVS operators have launched their own private labels, but the share of private labels in the total sales is low at around 5%.

Share of private labels in the total sales is low

- **Quik**'s private label products accounted for only around 3.5% of the total sales.

Trends #4 Providing tailored services for local communities

- CVS is the most relevant format serving local communities. Instead of offering standardised products and services, CVS can better understand its target customers, such as the elderly, families or university students in nearby areas, and provide tailor-made services for them.

Family Mart in Beijing offers delivery services and partners with catering services companies

- **Family Mart** in Beijing offers delivery service for select commercial districts and buildings.
- It also partners with third-party catering services companies such as Baidu Takeaway, Meituan Takeaway, Ele.me to provide take-away services.

Trends #5 Retailers of other formats to tap the CVS sector

- Eyeing the success of small format shops, some traditional retailers have branched out into smaller-scale stores. By adopting a multi-format strategy, they hope to expand their business scope and create multiple income streams.

- Compared with large-scale stores, smaller outlets provide a quicker and more convenient shopping experience for customers. Many retailers opened community stores recently to serve residents in neighbourhoods. Many retailers, especially the supermarket and hypermarket players, are actively entering the CVS format leveraging their sourcing ability and supplier network.

TRENDS #5 RETAILERS OF OTHER FORMATS TO TAP THE CVS SECTOR (CONT'D)

Carrefour steps into the CVS sector

- **Carrefour** opened its first convenience store "Easy Carrefour" in China in November 2014. This is a unique format only for the China market.
- "Easy Carrefour" is a community store with store size around 400 sqm, selling approximately 4,000 SKUs.
- As of December 2015, there are seven "Easy Carrefour" stores in Shanghai.

Easy Carrefour in Shanghai

Source: Fung Business Intelligence Centre

Conclusion

- The Fung Business Intelligence Centre believes that the CVS sector will continue its **high growth momentum** in the coming two to three years, given its eagerness to roll out various O2O initiatives and its willingness to innovate and change according to the needs of the market.

- Meanwhile, CVS chains with **precise and unique positioning**, particularly those targeting local communities, have been growing rapidly, offering convenient lifestyle to the surrounding neighbourhoods.

- Some CVS operators reflected that there is **insufficient government support** for the sector in some cities, which make them difficult to launch new services.

- In addition, **high labour turnover** and **high training costs** remain a significant challenge for CVS players.

While facing governments restrictions for launching catering services in CVS in some cities, some domestic CVS chains also encounter operational problems along their own supply chain when launching catering services. Moreover, even within the same city, policies for different enterprises may vary.

According to a survey by the CCFA, among the 27 surveyed cities, only two cities reflected that they had received high level of support from the local governments.

-- Pei Liang, CCFA Secretary General

SUPERMARKETS AND HYPERMARKETS

Executive summary

- Many hypermarket and supermarket operators in China have been facing hard times over recent years. The sector has lost lustre to the fast growing e-commerce sector. Slowing economic growth, weak consumer sentiment, and increasing operating costs have all hindered growth.

- Over recent years, domestic retailers have increasingly become the dominant force. Sales growth of domestic retailers outpaced foreign retailers.

- While higher-tier cities remain a critical market for many FMCG players, growth in lower-tier cities has been phenomenal.

Trends

1. Format evolution
   - Small-sized format
   - Shopping mall format
   - Premium supermarket
2. Embracing "O2O" strategies
3. Focusing on fresh food produce
4. Taking part in direct procurement
5. Embracing cross-border e-commerce businesses
6. Actively pursuing in M&As
7. Investing in logistics infrastructure to improve efficiency
8. Investing in private label development
9. Rolling out partnership program

SALES REVENUE REMAINS SIMILAR IN 2013 AND 2014

- Total sales revenue for hypermarkets and supermarkets amounted to 464.7 billion yuan and 298.2 billion yuan in 2014, respectively, similar to the sales revenue in 2013.

464.7 billion yuan
Hypermarket
2014 Sales revenue

473.4 billion yuan
Hypermarket
2013 Sales revenue

298.2 billion yuan
Supermarket
2014 Sales revenue

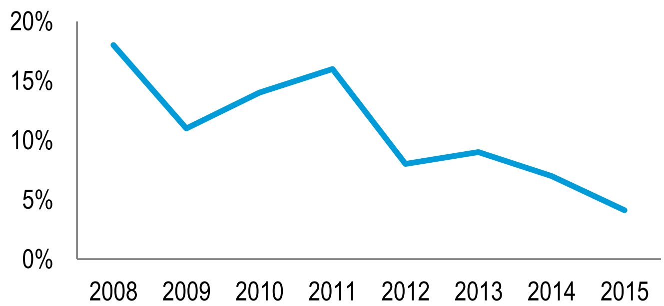
288.9 billion yuan
Supermarket
2013 Sales revenue

SALES REVENUE REMAINS SIMILAR IN 2013 AND 2014 (CONT'D)

- According to the "top 100 fast-moving consumer goods (FMCG) chain operators in China" released by the CCFA, hypermarkets and supermarkets that topped the list achieved sales growth of 4.1% yoy growth in 2015 to reach 105.7 billion yuan.
- The growth rate was 0.2 percentage points lower than that of the "Top 100 retail chain operators" (Top 100s) in general.

Yoy sales growth of fast-moving consumer goods chain operators among the Top 100s in China

2008 – 2015



Source: China Chain Store and Franchise Association, Deloitte

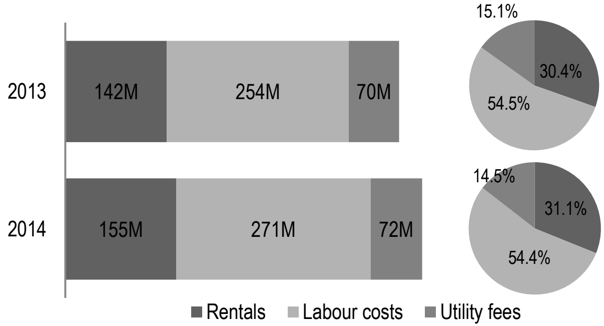
LABOUR COSTS INCREASE RAPIDLY

- **Labour costs** have increased rapidly over recent years, accounting for more than 54.4% of the total operating costs in 2014.

- Total number of staff decreased by 2.2% yoy in 2014, while labour costs increased by 7.6% yoy, indicating that the increase in wages was still significant in 2014.

Cost structure for hypermarkets and supermarkets in China

2013 – 2014



Major KPI for hypermarkets and supermarkets

2013 – 2014

	2013	2014	Yoy change
Sales revenue (billion yuan)	11.1	11.4	2.6%
Store number	430	440	1.4%
Operating area (sqm)	734,000	797,000	8.6%
Number of staff	10,200	10,200	-0.5%
Rentals (million yuan)	142	155	9.2%
Labour costs (million yuan)	254	271	6.7%
Utility fees (million yuan)	70	72	2.9%

Source: China Chain Store and Franchise Association, Deloitte. "Report on the performance of major China retail chain enterprises 2014-2015".
** The survey by the China Chain Store and Franchise Association covered 103 major hypermarket and supermarket chains.*

RETAILERS INVEST MORE IN ONLINE BUSINESSES

- With further penetration of e-commerce, increasing numbers of online shoppers, and changing consumption behaviour of consumers, online sales of grocery and fresh food products is expected to grow fast. FMCG companies have been putting more resources in developing their **online business**.

Among the FMCG retailers in the Top 100s

37% have launched their online platforms

Average sales (2014): **37.6** million yuan (0.9% of total sales)

Source: China Chain Store and Franchise Association

Leading players in the FMCG sector in China

S&H OVERVIEW

Top 10 FMCG players among the Top 100s by sales

2015

Rank in 2015	Name of company	Place of origin	Sales, pre-tax (million yuan)	yoy growth (%)	Number of stores	yoy growth (%)
1	China Resources Vanguard Co. Ltd. ①	China	109,400	5.2	3,397	-17.7
2	Sun Art Retail Group Ltd. ②	Taiwan	107,906	4.8	409	9.9
3	Wal-Mart (China) Investment Co., Ltd. ③	US	73,547	1.6	432	5.1
4	Lianhua Supermarket Holdings Co., Ltd. ④	China	60,474	-2.1	3,912	-9.5
5	Yonghui Superstores Co., Ltd.	China	49,309*	14.8	394	16.9
6	Carrefour China Inc.	France	40,102	-12.3	234	-1.3
7	Better-Life Commercial Chain Share Co., Ltd.	China	31,017	14.7	577	9.9
8	Nonggongshang Supermarket (Group) Co., Ltd.	China	28,511	-3.0	2,493	-2.8
9	Wumart Stores Inc.	China	26,255	19.5	552	-2.3
10	Sinopec Group (Easy Joy)	China	24,800	44.8	25,000	4.2

** Estimated figures*

① Sales of China Resources Vanguard Co. Ltd. included sales of Suguo Supermarket.

② Sales of Sun Art Retail Group Ltd. included sales of RT-Mart Shanghai and Auchan.

③ Sales of Wal-Mart (China) Investment Co., Ltd. excluded sales of YHD.

④ Sales of Lianhua Supermarket Holdings Co., Ltd. included sales of Carrefour in Shanghai.

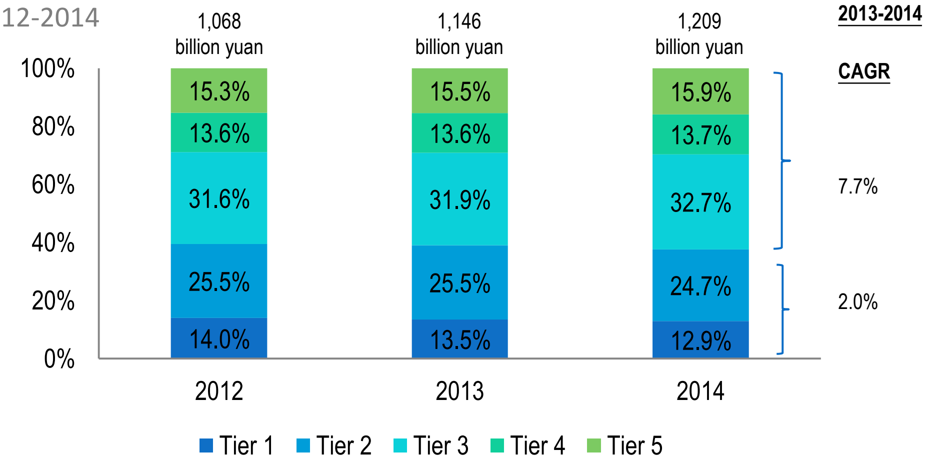
LEADING PLAYERS IN THE FMCG SECTOR IN CHINA (CONT'D)

- Over recent years, domestic retailers have increasingly become the dominant force. Among the FMCG players in the Top 100s, sales growth of domestic retailers was 7.5% yoy, while sales growth of foreign retailers was 4.4% yoy in 2014.

- While higher-tier cities remain a critical market for many FMCG players, growth in **lower-tier cities** has been phenomenal over the past few years.

Value share in urban FMCG retail market by city tier

2012-2014



Source: Kantar Worldpanel; Bain analysis

PACE OF NEW STORE OPENINGS HAS SLOWED

- The pace of hypermarket and supermarket store openings has slowed over recent years. The growth in the number of new store openings of the Top 100 FMCG players fell from 5.0% yoy in 2014 to 4.2% yoy in 2015. Many undertook store revamps and closed unprofitable stores.

- According to Linkshop, as many as 178 hypermarkets and supermarkets closed in 2014 and 95 in 1H15.

Major reasons for store closures

Wrong store location

Excessive supply of hypermarkets in some places

High rental and labour costs

Hypermarket and supermarket operators stepping in small-sized format

- Small format shops have gained popularity over the years as they can better address the ever changing consumption demand for convenience, personalization, and services. Some hypermarket and large-scale supermarket operators, such as Carrefour, Metro, China Resource Vanguard and RT Mart, have branched out into smaller-scale stores.

- **China Resources Vanguard** has shifted its focus to smaller-sized retail formats. By the end of 2015, it has over 1,500 stores in the smaller-sized retail format.

TRENDS #1 FORMAT EVOLUTION (CONT'D)

Hypermarket and supermarket operators stepping in shopping mall format

- Some retailers would go for a larger-sized shopping mall format which incorporates more experiential elements and services for consumers.

- **Wal-Mart (China)** will open its first shopping mall in Zhuhai in 2016. Wal-Mart has invested 600 million yuan in building the 100,000 sqm mall, and formed strategic partnership with around 30 brands in this project.
- In December 2015, Wal-Mart (China) announced the kick-start of the construction of its first community shopping centre project in Central China. Wal-Mart (China) will invest over 600 million yuan to build an international shopping centre in Nanchang, Jiangxi Province.

TRENDS #1 FORMAT EVOLUTION (CONT'D)

S&H TRENDS

Hypermarket and supermarket operators stepping in premium supermarket

- Premiumisation is a focus for many supermarket operators. With increasing income, some consumers, especially the middle-class, are more willing to pay extra on premium products.

- **RT Mart** launched its first premium supermarket "RH Lavia" in Changzhou in September 2015.

- **Suguo** also opened its premium supermarket "SG life" in November 2015.
- Fresh food products account for 40% of the total products in the store, while other food items account for 40% and non-grocery goods account for 20%.

SG Life in Nanjing

Rolling out O2O service platform on mobile

- **Wal-Mart (China)** launched an O2O service platform for its hypermarkets in Shenzhen in May 2015, and in Guangzhou and Dongguan in December 2015.

- The three platforms each includes a mobile shopping app "Wal-Mart to Go", service center for products pick-up and multiple O2O e-payment options. Customers can shop online via the mobile app, and they can choose to have the online orders delivered to their home or self-pickuped at select physical stores.

TRENDS #2 EMBRACING "O2O" STRATEGIES (CONT'D)

Forming strategic alliance to drive synergies

- Traditional grocery players have formed partnerships with Internet companies to better equip them with tools that facilitate online and offline shopping, such as payment tools, social media and big data analytics. In turn, Internet companies could leverage the hypermarkets or supermarkets to reach consumers through physical touch points.

永辉超市 YONGHUI SUPERSTORES   JD.COM 京东

- In August 2015, **JD.com** entered into an agreement with **Yonghui Superstores**. The strategic partnership provides Yonghui a cost efficient way to acquire online customers and improve inventory turnover, leveraging on JD.com's strong online platform. While Yonghui's extensive physical store network plays an important role in the distribution of fresh food products and deployment of O2O strategies.

TRENDS #2 EMBRACING "O2O" STRATEGIES (CONT'D)

Supermarkets lining up with delivery apps

- Some grocery retailers have cooperated with third-party service platforms to provide faster O2O delivery services to consumers.

- In December 2015, **Yonghui Superstores** allied with **JD Daojia**, an O2O service platform under JD.com, to provide fresh food delivery services. The delivery is committed within 2 hours for the neighborhood within 3 km to Yonghui store.

- **Dmall**, a startup grocery shopping service platform has partnered with Wumart, Metro, CR Vanguard, A.Best in Beijing, Shanghai, Guangzhou and Shenzhen . After a consumer places an order on Dmall, Dmall will collect the products from supermarkets and deliver them within one to two hours. The operating costs of Dmall are relatively low because it does not keep any inventory.

TRENDS #3 FOCUSING ON FRESH FOOD PRODUCE

- A number of major online retailers, including Amazon, JD.com, and Yihaodian, have developed fresh food channels and invested in cold chain logistics and supply chain platforms.

Source: *Fung Business Intelligence Centre*

- In August 2015, **JD.com** launched its **JD Daojia** service in Ningbo. It cooperates with domestic supermarket Sanjiang to provide 2-hour delivery for fresh food produce in select districts.

Trends #4 Taking part in direct procurement

- In general, direct procurement from manufacturers only accounts for less than 10% of hypermarkets and supermarkets' total procurement. Many retailers realise that more direct procurement will lead to margin improvement and enhance supply chain efficiency, and thus are keen to improve the proportion.

CJ FRESHWAY YH 永辉超市 YONGHUI SUPERSTORES

- **Yonghui Superstores** and **CJ Freshway Corporation**, a South Korean food giant, have reached a strategic cooperation agreement to jointly develop a global procurement platform for fresh food products.
- Each company will contribute 100 million yuan to establish two joint ventures in China, one in Shanghai and another in **Beijing**.

TRENDS #5 EMBRACING CROSS-BORDER E-COMMERCE BUSINESSES

- Incorporating cross-border e-commerce into retail has been a significant trend in China’s retail sector in 2015 and 2016. Many hypermarket and supermarket operators have built their own cross-border e-commerce website and set up areas for displaying bonded imported goods.

Vanguard*
华润万家

- **CR Vanguard** has opened a cross-order experiential store EWJ Zone in Hangzhou. Located in CR Vanguard’s Paradise Walk store in Xiasha of Hangzhou, the experiential store has a business area of 136 sqm, offering nearly 1,500 types of products.

家家悦 JIAJIAYUE

- In August 2015, Shandong-based **Jiajiayue Group** launched its cross-border e-commerce business by operating an online store (Jiajiayue.com) which offers bonded imported goods. There is also offline experiential centre located at Weihai Kowloon City Plaza Shopping Mall in Shandong.

TRENDS #6 ACTIVELY PURSUING M&AS

- Mergers and acquisitions (M&As) in the China's commercial sector have been robust over recent years. In particular, a number of significant M&As among hypermarket and supermarket players took place in 2015. It is expected that an increasing number of grocery retailers will continue the process and more industry consolidation will be seen in 2016 and 2017.

Select examples of M&As in the supermarket and hypermarket sector:

- **China Resources Enterprise** spun off its food retail business to its parent company in April 2015.
- In October 2015, **Wumart** announced its privatisation proposal to delist from The Stock Exchange of Hong Kong, as it plans for more M&A activities.
- **Yonghui** has introduced strategic investor Dairy Farm and JD.com on its share placements. Yonghui has also invested in Lianhua and Zhongbai to work together in sourcing and expansion.
- In 2015, Sichuan leading retailer **Chengdu Hongqi Chain Co., Ltd.** announced to acquire Chengdu Hongyan Supermarket, Chengdu Huhui Co. Ltd., and Leshan Sihai Supermarket.

TRENDS #7 INVESTING IN LOGISTICS INFRASTRUCTURE

- Some grocery retailers have invested heavily in logistics infrastructure to improve supply chain efficiency over recent years. One way is to build more logistics and distribution centers.

- **Carrefour** has announced that it will enhance investments in logistics distribution centers in China over the next two years. By the end of 2016, Carrefour will have six modern distribution centers across China.

- **Wal-Mart (China)** announced in February 2016 that it will build its first domestic large-scale fresh food distribution center in Dongguan, and is currently considering potential sites.

Carrefour's distribution centre in the Western China started operation in April 2015

TRENDS #8 INVESTING IN PRIVATE LABEL DEVELOPMENT

- An increasing number of supermarket and hypermarket players have launched their private labels. According to the CCFA and Deloitte*, 42% of the 103 surveyed enterprises have launched private label. However, sales of private labels accounted for only 6.4% of the total sales .

- The development of private label is slower in China than in other foreign developed countries. According to Nielsen, the U.K., Spain and Switzerland all have value shares of more than 40% in 2015 for private labels.

Walmart 中国

- **Wal-Mart (China)** announced in December 2015 that it will increase investment in its private label "Great Value" to cover 53% or more SKUs. In the future, it will cooperate directly with more manufacturers so as to offer better products with cheaper prices to consumers.

Source: China Chain Store and Franchise Association, Deloitte. "Report on the performance of major China retail chain enterprises 2014-2015".
** The survey by the China Chain Store and Franchise Association covered 103 major hypermarket and supermarket chains.*

TRENDS #9 ROLLING OUT PARTNERSHIP PROGRAM

飞牛网 feiniu.com

- In July 2015, RT-Mart's e-commerce platform **Feiniu.com** announced the launch of a partnership program which focuses on its customers. Under this partnership program, these customers ("partners") share products or services on Feiniu's WeChat account or other social media channels. When somebody purchase on Feiniu with the QR code of the partners, they can get 1-3% commission based on the product price . As of December 2015, Feiniu has attracted over 500,000 partners.

SG 苏果

- **Suguo** also runs a partnership program for fresh food products in October 2014, which targets its staff based on a profit sharing concept. If the sales of fresh food products of a branch exceed the target, all staff in the fresh food products department ("partners") can get extra bonus from Suguo. Having more incentives, staffs are willing to perform better. As of May 2015, sales value of fresh food products in 30% of the stores have exceeded the same period in 2014.

Conclusion

- China's hypermarket and supermarket sector is in the midst of a challenging business environment – fierce competition, increasing costs of operation, lower profits margins, among others. **Pure retail elements are no longer the focus for the sector**; by contrast, online grocery becomes more popular.

- However, the hypermarket and supermarket format is still having great opportunities in those less competitive regions and cities, or places where last-mile delivery is not that efficient. Retailers need to **adjust their expansion strategies** to fit into the opportunities.

- Also, retailers have to make their brands stay relevant in this digital era by adopting more **innovative technologies and business models**, and more importantly, to enhance customers' shopping experiences.

Source: Fung Business Intelligence Centre

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