

RETAIL LOGISTICS

China Retail Snapshot

Asia Distribution and Retail

April 2016



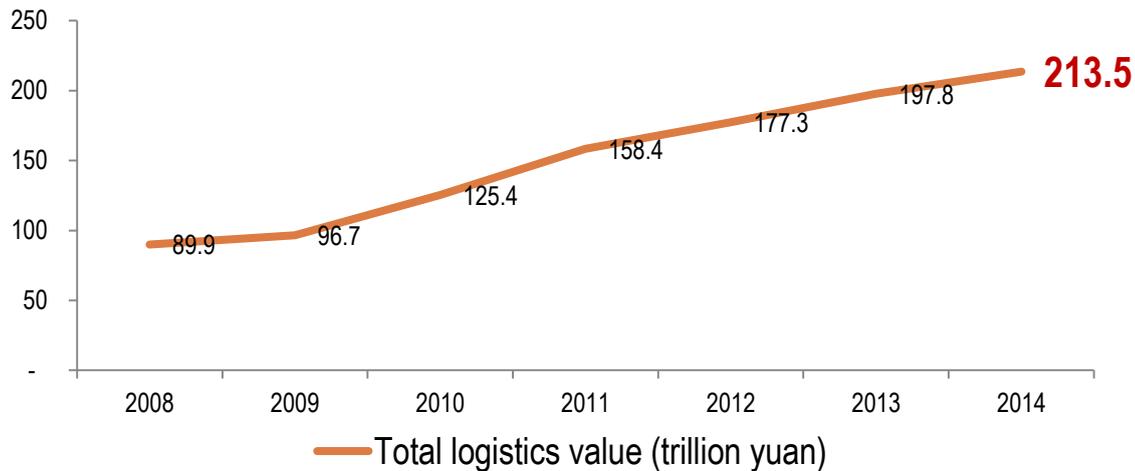
- As China's retail market becomes increasingly sophisticated and consumers expect fast delivery, the efficient movement of goods along the supply chain is a key success factor for retailers .
- The explosive growth of China's e-commerce market, especially rural e-commerce and cross-border e-commerce over recent years has fuelled the demand for retail logistics services, particularly express delivery.
- To cope with the changing needs of the retail sector, many logistics players and e-commerce players have expanded their logistics capabilities and service offerings. Some have leveraged technologies to optimise their logistics processes and provide new logistics solutions for retailers.

Trends

1. Large-scale retailers enhance their own logistics capabilities
2. Internet players set up nationwide logistics network to meet the needs of e-commerce & cross-border e-commerce
3. Strengthening last-mile delivery
4. Booming demand for cold chain logistics
5. Rural logistics see rapid development
6. Express delivery companies transform into integrated logistics services providers
7. Logistics companies step into Internet finance business
8. The Belt and Road Initiative provides development opportunities for China's logistics sector

Total logistics value in China

2008-2014



Total logistics value in China

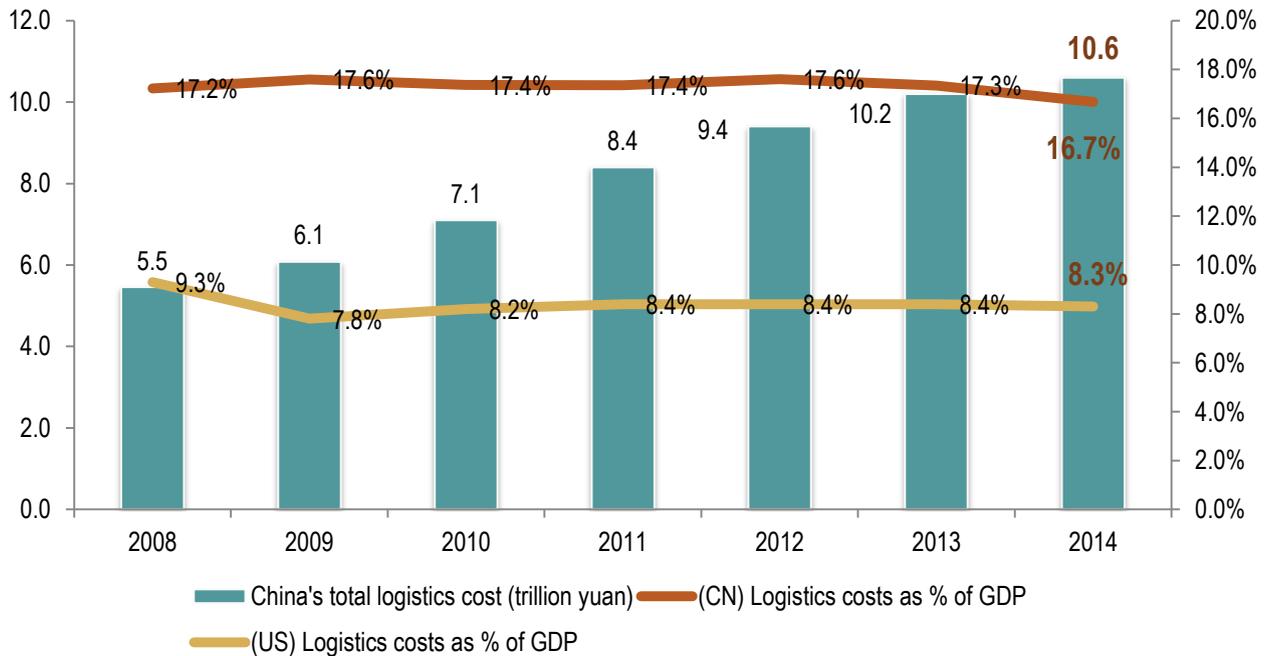
1H15: 104.7 trillion yuan (+5.7% yoy)

2014: 213.5 trillion yuan (+7.9% yoy)

2013: 197.8 trillion yuan (+11.6% yoy)

Logistics costs as % of GDP remain high in China

China & US, 2008-2014

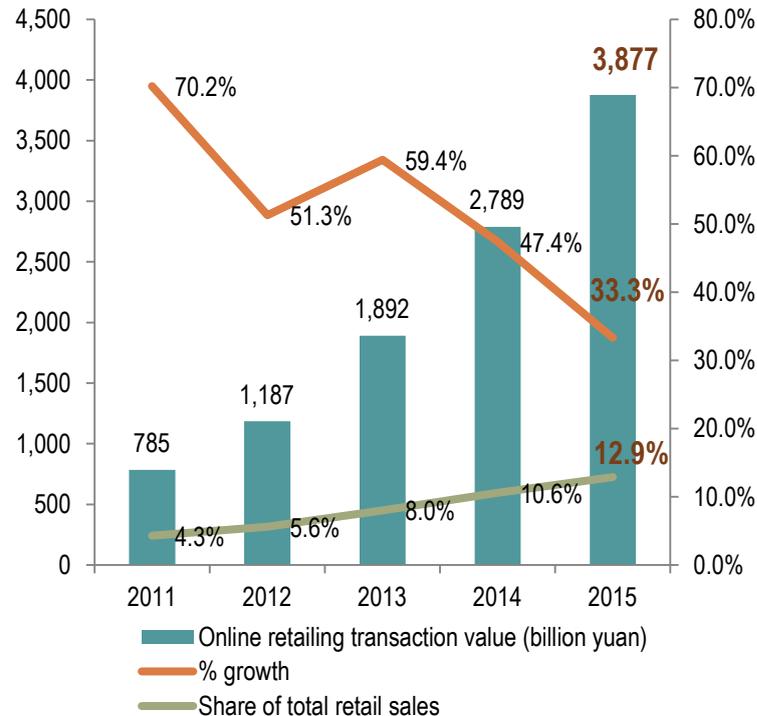


Source: China Federation of Logistics & Purchasing, the Economist.

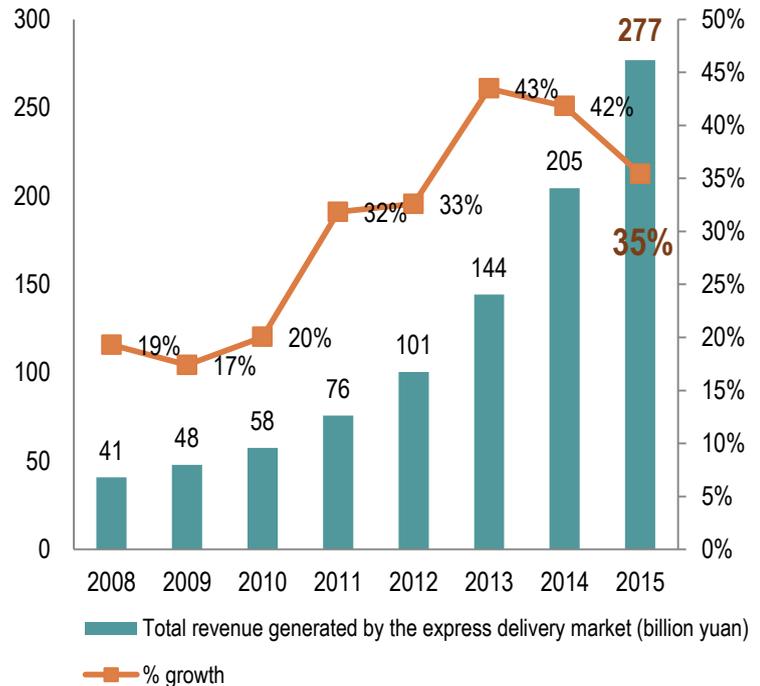
ONLINE RETAILING & EXPRESS DELIVERY SECTOR CONTINUE TO SHOW SIGNIFICANT GROWTH

KEY FACTS

Transaction value of online retailing in China 2011-2015



Total revenue generated by the express delivery market in China 2008-2015



TREND #1 LARGE-SCALE RETAILERS DEVELOP IN-HOUSE LOGISTICS CAPABILITIES

TRENDS

- In the past, most retailers tended to outsource their logistics activities to third-party logistics services providers (LSPs). However, the emergence of **new business models** (e.g. O2O) and **new delivery options** (e.g. “click & collect”, same day delivery), increasingly **complex supply chains, changing needs of consumers**, etc. have prompted some large-scale retailers to develop in-house logistics capabilities.
- Speed to market and flexibility in logistics services are crucial in today’s rapidly evolving retail market.



Example:

Wal-Mart (China) built nine fulfilment centers in China



- *In order to better respond to market situation and improve speed to market, **Wal-Mart (China)** has built nine fulfilment centers to provide warehousing and logistics services for over 400 stores in 160 cities.*

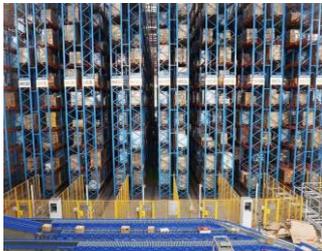
TREND #1 LARGE-SCALE RETAILERS ENHANCE THEIR OWN LOGISTICS CAPABILITIES (CONT'D)

- To enhance **operation efficiency**, some retailers have adopted sophisticated IT systems to facilitate **warehouse automation** and provide more high value-added logistics services.

Suning 苏宁

Example:

Suning Commerce Group established automated warehouse in Nanjing



- *To meet the increasing demand for logistics services both online and offline, **Suning Commerce Group** set up an independent logistics company in 2014.*

- *The company also established a large-scale automated warehouse in Nanjing. With an operating area of 200,000 sqm, the automated warehouse can handle **1.5 million SKUs**, over **20 million pieces of goods** and **complete 1.81 million pieces of shipments per day**.*



- *Warehouse automation reduced the logistics cost per piece of goods by 32% yoy in 2015; and greatly enhanced overall efficiency for the distribution of products, especially small commodities.*

TREND #2 INTERNET PLAYERS SET UP NATIONWIDE LOGISTICS NETWORK TO MEET THE NEEDS OF E-COMMERCE & CROSS-BORDER E-COMMERCE

TRENDS

- E-commerce is a major growth driver of China's "new normal" economy.
- To cope with the needs of e-commerce, especially rural e-commerce as well as cross-border e-commerce, some leading Internet players have set up **nationwide logistics network** and actively deployed big data analytics to enhance distribution efficiency.

2015

Total online sales: 3.88 trillion yuan
accounting for 12.9% of total retail sales



People with Internet access: 688 million
(50.3% penetration)



60% were
online
shoppers



90.1% used mobile
devices to access
Internet



(Of all mobile internet users)
54.8% used mobile devices to
shop

**~20 million people shopped online via
overseas buying platforms**



Example:

JD.com made huge investments to build nationwide logistics network

- *As at the end of 2015, JD.com has built six "Asia No.1" smart logistics centers in China, each equipped with high degree of automation and used big data applications to streamline operation processes. It also has **213 large warehouses** in 23 cities across China, with a total operating area of over **400 million sqm**, and over **5,300 local delivery stations and self-pickup stations** in more than 2,000 counties and towns across the country.*

TREND #2 INTERNET PLAYERS SET UP NATIONWIDE LOGISTICS NETWORK TO MEET THE NEEDS OF E-COMMERCE & CROSS-BORDER E-COMMERCE (CONT'D)

TRENDS

- The GMV of China's cross-border e-commerce is estimated to reach **5.2 trillion yuan in 2015** (up 30.0% yoy) and account for 17.6% of the total foreign trade volume, of which **export was expected to account for 85.4% of the total GMV**, while import to account for 14.6%*.
- Increasing popularity of China's cross-border e-commerce has provided tremendous opportunities for logistics players. **Demand for warehousing and fulfilment services, transport of goods, last-mile delivery**, etc. are expected to rise enormously.



*Source: Ministry of Commerce, iResearch Consulting Group

TREND #2 INTERNET PLAYERS SET UP NATIONWIDE LOGISTICS NETWORK TO MEET THE NEEDS OF E-COMMERCE & CROSS-BORDER E-COMMERCE (CONT'D)

TRENDS

Export e-commerce

- Over the past years, many export e-commerce platforms have evolved from providing matching services between sellers and overseas buyers into providing trade-related services for them.
- Some have started aggregating all service providers, buyers and sellers and managing the whole supply chain.
- To provide better logistics and fulfilment services, some platform operators have even set up overseas warehouses in foreign markets.

Import e-commerce

- For cross-border import e-commerce, foreign products are shipped to Chinese consumers via two major logistics modes – the “direct mail” and “bonded area import models”.
- **“Direct mail”** – products are fulfilled and shipped from overseas
- **“Bonded area import models”** – goods are shipped and stored in e-commerce player’s bonded warehouses in China and shipped by local logistics companies to customers.

Examples of authorised cross-border export-commerce platforms:



Examples of authorised cross-border import e-commerce platforms:



- **Customers now demand fast delivery.** Both retailers and logistics players have introduced various means to enhance last-mile delivery capabilities.
 - Some retailers have introduced “click & collect” services, while e-tailers and logistics companies have invested in logistics infrastructure such as **smart lockers**, or partnered with **convenience stores or community stores** to provide **pick-up services**.
 - Recently, some e-commerce players have started to use **crowd sourced delivery**, a new type of web or mobile-based courier service which leverages large groups of geographically dispersed individuals to match demand with supply digitally. This share-based service not only helps enterprises reduce their logistics costs, it also solves part of the last-mile delivery problems resulting from e-commerce promotion spike periods, and is particularly valuable for categories in which fast delivery is needed, such as fresh produce.



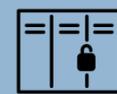
Store
Pickup



Convenience
Store



Smart
Locker



Crowd sourced
Delivery



- Retailers introduce “**click & collect**” services.



Example:

Wal-Mart (China) provides self-pick up services for online orders



- *Wal-Mart (China) provides **self-pickup** service at its Shenzhen branches. Customers can collect their online purchases at the physical stores.*

- E-tailers partner with **convenience stores or community stores** to provide **pick-up services**.



Example:

Rainbow Departments Store launched own convenience stores

- *Rainbow Department Store, a leading Shenzhen-based chain, opened its own convenience stores “O2O Store” in Shenzhen in 2014 to act as “last-mile” delivery points for its online consumers. Customers can also return their online purchases in the O2O Store.*





*Example:
Logistics players invested in smart lockers*

- In 2015, several logistics companies including **SF Express, STO Express, ZTO Express, Yunda** and **Global Logistics Properties** jointly established **Shenzhen Hive Box Technology Co. Ltd.**, a company that provides self-pickup services at smart lockers located at different locations. The group planned to deploy **over 10,000 service points** in **33 cities** by end of 2015.*
- To collect their online purchases, consumers simply enter an unique code at the smart locker. This provides convenience and flexibility for both consumers and logistics companies as it eases the manpower strain.*



- Some e-commerce platforms have started experimenting with **crowd sourced delivery service**.



JD.京东
JD.COM

Example:

JD Crowdsourcing (crowd sourced delivery service offered by JD.com)

- JD Crowdsourcing first started crowd sourced delivery service in Shenzhen in May 2015 where **orders are delivered by part-time couriers**.*
- JD.com's O2O service platform **JD Daojia** (literally "JD.com to your home") is the first service which leverages the **JD Crowdsourcing** service. **JD Daojia** users can buy products from local supermarkets or takeout meals online, and experience fast delivery services provided by **JD.com's part-time couriers**.*



- Chinese consumers are more quality-driven and health-conscious nowadays, leading to an increasing demand for **fresh produce and drugs**.
- Temperature control is necessary in the handling of these products to retain their efficacy. This offers great development prospect for **cold chain logistics**.



Market size of cold chain logistics services:

2015: **150.9 billion yuan**

2017: **470 billion yuan (estimation)**

Number of registered temperature-controlled trucks:

> 90,000

Total storage capacity for temperature-controlled warehouses:

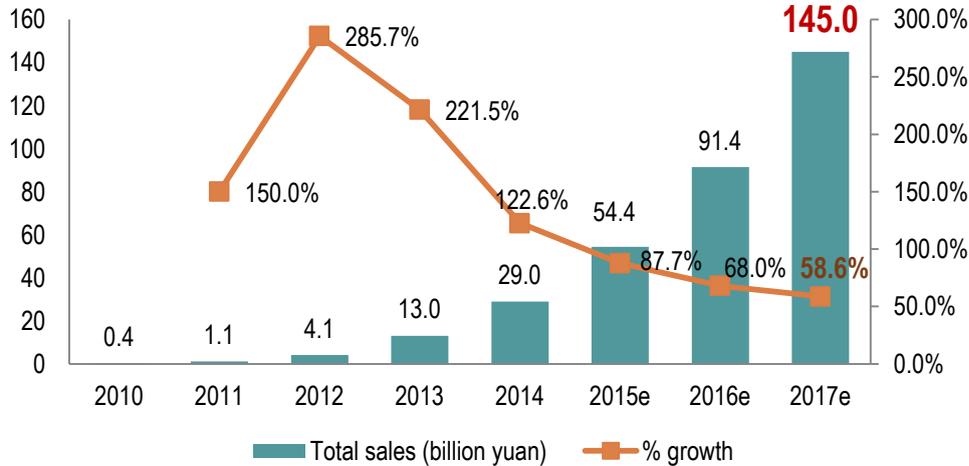
37 million tonnes

Total operating area of temperature-controlled warehouses:

92.75 million m³

- An increasing number of e-tailers, e-commerce players and logistics companies have set up fresh produce channels to tap the burgeoning **fresh produce market**.

Total sales of fresh produce e-commerce in China 2010-2017



Examples of e-tailers, e-commerce giants and logistics companies that have tapped the fresh food produce market:



Source: Analysys International.

- There has been strong demand for pharmaceutical and medical products such as medicines, flu vaccines, etc. over recent years;
- Increasing numbers of enterprises have set up **healthcare and medical logistics infrastructure** to suit the needs of the growing size of the **pharmaceutical industry**.

Market size of pharmaceutical industry has grown significantly:

2010

675 billion yuan

2014

1,241 billion yuan



EXPRESS
顺丰速运

Example:

SF Express increased investment in pharmaceutical logistics infrastructure

- *SF Express set up a specialised pharmaceutical division in 2014 and opened up a transport route dedicated for the delivery of temperature-controlled pharmaceuticals – the Guangzhou-Xiamen-Shanghai route. The company has around **100 temperature-controlled trucks** and **over 500 temperature-controlled containers** for pharmaceutical and medical products.*



- **China's rural market is a new source of growth for the logistics sector.** Increasing popularity of online shopping in rural areas has boosted the demand for logistics services.
- Leading e-commerce players have made substantial investment in rural areas to expand their distribution networks.

Rapid development of rural e-commerce

December 2015:



**Rural Internet
users**

195 million
(28.4% of total)



**Rural online
shoppers**

92.5 million
(22.4% of total)



**Mobile
usage**

Over 80% of rural internet users access via mobile devices

- The government has launched a series of **policies to support rural e-commerce development** and established sound e-commerce infrastructure in rural areas.
- A number of leading retailers and e-commerce players such as **Suning, Alibaba, JD.com** are actively adopting **“going rural”** strategies.



*Example:
JD.com tested out drone delivery in rural areas*

- *JD.com hired over 100,000 brand promoters as couriers for their rural distribution centers. It also tested out drone delivery as a possible means to reach out to outlying rural areas.*
- *According to JD.com, drones will be able to deliver to over 400,000 villages in the future.*





Example:
Cainiao Logistics set up information system to facilitate rural distribution

- **Cainiao Logistics**, the logistics affiliate of Alibaba, has created an **information system** that can share data and facilitate the flow of cold-chain products from rural producers to warehouses/pick-up locations in cities.
- **It has created a logistics network that connects 2,800+ counties across the country and allow rural products to reach cities more easily.**



TREND #6 EXPRESS DELIVERY COMPANIES TRANSFORM INTO INTEGRATED LOGISTICS SERVICES PROVIDERS

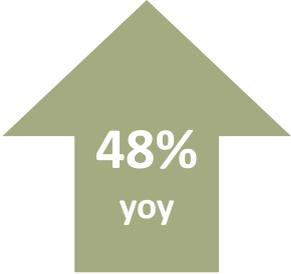
TRENDS

- **China's express delivery market** has been growing at an average rate of over 50% annually over the past 46 months, making it the **world's largest express delivery market**.
- Many express delivery companies are constantly **expanding their service offerings** and **improving service quality** to keep pace with the changing needs of the market. Some leading companies such as SF Express and YTO Express have even invested in their own aircraft.

China's express delivery market in 2015

Aggregate business volume: **20.6 billion orders**

Total revenue generated by express delivery companies: **277 billion yuan**



48%
yoy



35%
yoy

TREND #6 EXPRESS DELIVERY COMPANIES TRANSFORM INTO INTEGRATED LOGISTICS SERVICES PROVIDERS (CONT'D)

TRENDS



Example:

SF Express – expanding from express delivery to other parts of the supply chain

- Express delivery & logistics
- Cold chain logistics
- Cross-border e-commerce
- Online shop, APP
- Physical shop
- Internet Finance
- Rural logistics



- China's internet finance market has grown rapidly over recent years. Some logistics companies have started to provide **Internet-based financial** and **payment services** (e.g. trade finance, mobile payment, parcel and cargo insurance) to consignees.
- At the same time, some integrated logistics platforms have also tapped the supply chain finance business by **providing trade finance** to small LSPs that encounter cash flow problems due to long account receivable cycle.





Example:

SF Express is a forerunner in offering Internet finance services

- SF Express, together with BOC Consumer Finance Co. Ltd.* jointly launched SF Express Finance to provide small cash loans up to 10,000 yuan to individual consignees. SF Express has also introduced SF Value Card, a payment settlement tool which allows users to earn rewards for spending. It has also rolled out SF Pay, a mobile payment tool that allows users to pay bills and purchase financial products.*

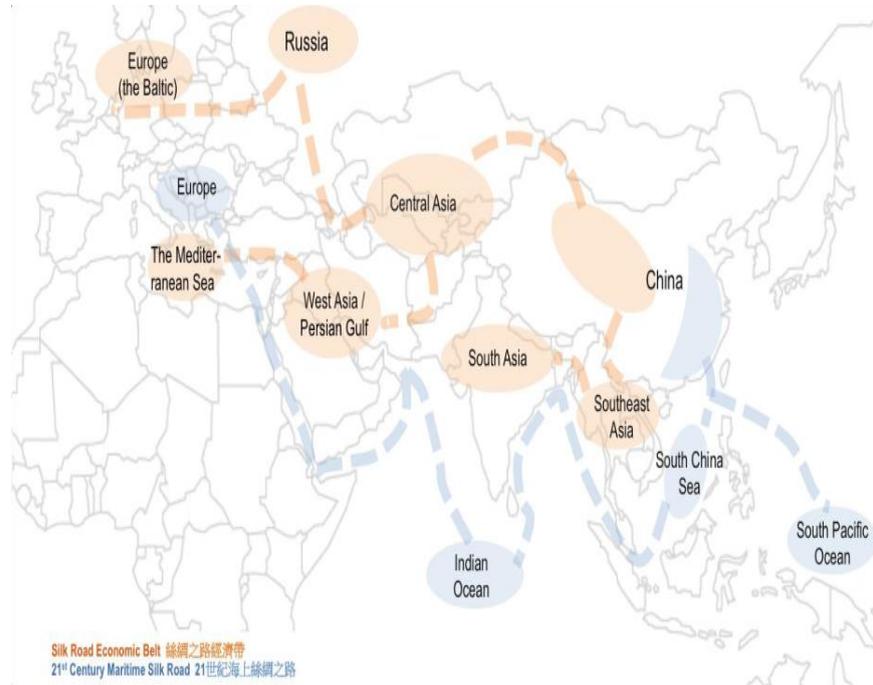
**BOC Consumer Finance Co. Ltd. is a joint venture established by Bank of China, Balian Group and Shanghai Lujiazui Financial Co. Ltd.*



TREND #8 THE BELT AND ROAD INITIATIVE PROVIDES DEVELOPMENT OPPORTUNITIES FOR CHINA'S LOGISTICS SECTOR

- The **Belt and Road Initiative** (also referred to as the Silk Road Economic Belt and the 21st Century Maritime Silk Road), a significant development strategy launched by the Chinese government with the intention of promoting economic cooperation among countries along the proposed Belt and Road routes in Asia, Europe and Africa.
- The Initiative has been designed to **improve flow of resources and commodities** along participating countries. The Initiative's current priority is **infrastructure connectivity**. Towards that end, the Chinese government has facilitated the establishment of the Asian Infrastructure Investment Bank and set up a US\$40 billion Silk Road Fund.

Geographical coverage of the Belt and Road Initiative



Source: Compiled by the Fung Business Intelligence Centre

TREND #8 THE BELT AND ROAD INITIATIVE PROVIDES DEVELOPMENT OPPORTUNITIES FOR CHINA'S LOGISTICS SECTOR (CONT'D)

TRENDS

- This Initiative is expected to provide huge development opportunities for the logistics sector. Demand for logistics services will increase tremendously as economic cooperation between the participating countries strengthen.
- Moreover, the Chinese government is set to speed up the development of logistics infrastructure development such as ports, railways, roads, warehouses, etc. in large- and mid-sized cities across the country to facilitate commercial development.



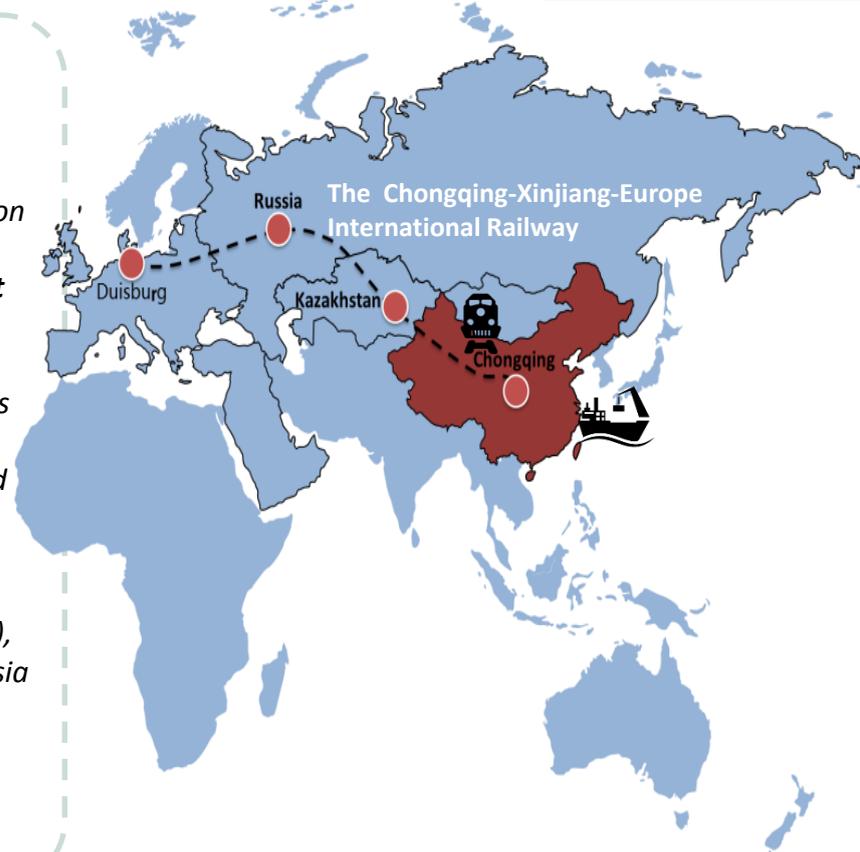
TREND #8 THE BELT AND ROAD INITIATIVE PROVIDES DEVELOPMENT OPPORTUNITIES FOR CHINA'S LOGISTICS SECTOR (CONT'D)

TRENDS

Case study:

The Belt and Road Initiative spurs the development of Chongqing

- **Chongqing** is located at the strategic juncture on the route of the Belt and Road Initiative. **Through rail-sea intermodal transportation, it connects with the “Maritime Silk Road” and links directly with South Asia and South-east Asia.** The Chongqing municipal government has made huge investments on logistics infrastructure over recent years and is expected to spend over 1.2 trillion yuan in total by 2020.
- Among these, the **Chongqing-Xinjiang-Europe International Railway** (or the Yuxinou Railway), which was launched in 2011, is the major Eurasia land linkage **between western China and Europe.** Stretching 11,179 kilometers, **it takes just 16 days on average to transport goods from China to Europe by rail, 20 days fewer than by sea from ports in eastern China.**



KEY BOTTLENECKS FOR THE DEVELOPMENT OF THE RETAIL LOGISTICS SECTOR

CHALLENGES



Retail logistics sector is highly fragmented

- The top 50 logistics companies only account for ~12% share of the sector in terms of revenue;
- Limited operation and efficiency of LSPs;
- Inadequate capacity of small LSPs to meet spring logistics demand during peak seasons;
- Size and capital limitation hindering the adoption of technologies and development of high value-added logistics services;
- Most LSPs only provide homogeneous and simple logistics services that are under fierce competition, with high operation cost and low profitability.



Changing consumer demand and new retail practices put pressure on LSPs

- Changing consumer demand such as O2O requirements are posing a lot of challenges for LSPs;
- The rise of e-commerce has also resulted in huge reverse logistics challenges.



Last-mile delivery remains a major problem in the sector

- Many logistics players are unable to provide fast, cheap and innovative last-mile delivery services to retailers. And the cost of “last-mile” of e-commerce fulfilment remains very high.



Shortage of logistics practitioners

- Lack of competent frontline staff who have practical experience in handling retail products;
- Lack of professional logistics practitioners with adequate knowledge of modern logistics management.

- New technologies and new business models, such as O2O and omni-channel retailing, created by greater adoption of the Internet are reshaping China's retail landscape. Many LSPs, along with leading e-commerce players **are enhancing their logistics capabilities and expanding their logistics infrastructure and facilities**. Moreover, they are developing state-of-the-art information systems to enhance operation efficiency, with a hope to reduce logistics costs.
- To succeed in the increasingly sophisticated and rapidly changing retail sector, logistics players are advised to **speed up the construction of automated warehousing and logistics facilities, enhance logistics informatisation and fully utilise advanced technologies** such as big data analytics and the Internet of Things. They should also **build a nationwide logistics infrastructure network** in order to meet the rising logistics demand from rural e-commerce and cross-border e-commerce. Meanwhile, logistics enterprises should **invest in training and nurturing logistics professionals**.



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