"New Retail" in action:

Alibaba proposes to privatize Intime Retail Group

- Key highlights and takeaways

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Key highlights

Alibaba has recently announced to take Intime Retail Group private. Upon the successful privatization of Intime, Alibaba will take over Intime's physical networks across the country, including 29 department stores and 17 shopping malls. This signifies a strategic move of Alibaba to promote O2O integration with physical retailers, gain offline presence, and most importantly, put the "New Retail" strategy as the group's core direction in 2017.

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What happened?

On 28 December, 2016, Hong Kong-listed Intime Retail Group ("Intime") received a proposal for privatization from joint offerors – Alibaba Group Holding ("Alibaba") and Intime International Holdings Limited (with Intime's founder, Shen Guojin being the director). The buyer will pay HK$ 10 per share for Intime stock, a 42% premium over the closing stock price of Intime on the last trading date. Upon completion, Alibaba will become the controlling shareholder of the company, with controlling stake of 73.7% from current 27.8%; Shen Guojin's shareholding in Intime will increase to 16% from current 9%. The joint offer is estimated at HK$19.8 billion at maximum.

A win-win situation

For Alibaba – it can leverage Intime's offline retail expertise and network, allowing deeper and more comprehensive integration of its online and offline business. The deal will further expand Alibaba's growing physical footprint, therefore tapping a much bigger market in the long run. In addition, it will provide significant opportunities for "Tao-brands" (the Internet brands of Taobao) to connect with consumers through physical touch-points.

For Intime – the deal will possibly help the group to achieve a new breakthrough under the difficult market condition. It may help Intime to relief from the pressure of market and share price fluctuation due to the lackluster sales and dropping profitability under the "new normal" of slower economic growth. In terms of merchandise, Intime can leverage the gigantic network of Alibaba's Taobao and Tmall to source hundreds and thousands of brands, from both local and overseas suppliers. Furthermore, the deal will allow Intime to gain access to Alibaba's ecosystem (see Chart 1), particularly its online selling platforms, advertising venues (like its Youku Tudou video site), and cloud computing offerings, etc. After privatization, Intime can have more flexibility in overall business operations.

Chart 1: Intime will gain access to Alibaba's ecosystem

* This graph includes part of the business units and invested companies of Alibaba Group within China

Source: Internet resources; Fung Business Intelligence ("Business Innovation in China –Embracing New Opportunities by Adopting O2O Strategies & Building Business Ecosystem", November, 2016.)

For both Alibaba and Intime – both parties can collaborate in big data analytics and implement more comprehensive O2O strategies so as to optimize customer experience, improve inventory turnover, and increase operation and supply chain efficiencies. Alibaba and Intime can explore ways to modernize, rejuvenate and transform China's department store sector, as the sector has been struggling to cope with the growing popularity of online shopping.

Intime’s collaborations with Alibaba started since 2013…

Alibaba and Intime have a track record of successful O2O collaboration over the years. In 2013, Intime’s 35 stores partnered with Alibaba on Singles’ Day promotions, piloting a model of seamless O2O transactions – selection of merchandise in store, then make purchase and payment online. The two companies also jointly promoted in-store payment using Alipay.

In 2014, Intime received Alibaba’s HK$5.37 billion strategic investment to cooperate on O2O initiatives. During the “Mobile Taobao 3.8 Life Festival” in 2014, Intime encouraged customers to use Taobao app to buy and send virtual gift cards.

In 2015, Intime adopted Alibaba’s newly launched one-stop shopping and location-based mobile app “Miao Street” in its stores nationwide in order to enhance customer shopping experience.

In 2016, Intime's first online supermarket launched on Tmall Supermarket (chaoshi.tmall.com). By now, more than 40 “Tao-brands” including Inman, Sugargirl and Deerflyer have debuted in Intime stores. All these Tao brands have implemented O2O strategies to ensure full integration of online and offline resources in merchandise, price, warehousing, and logistics.

Key takeaways

“New Retail” to take off, online and offline cooperation deepens

The privatization offer clearly signifies a strategic move of Jack Ma’s “New Retail” initiatives, which is set to become a new model of online and offline retail in China. The impetus behind this deal is to ensure that Alibaba has control of a physical retail platform to advance its ambitions from clicks to bricks. In 2016, Jack Ma pointed out that pure e-commerce players would soon face tremendous challenges.

Starting in 2017, Alibaba would not mention the word “e-commerce”, as it would be replaced by “New Retail”. In fact, after years of explosive growth, Chin’s online retail sales growth has slowed down. Online retail sales of goods and services growth rate in Jan-Nov 2016 was 26.2% yoy (-8.3 ppt). Alibaba’s 11.11 2016 sales growth has slowed down to 32% yoy (-28 ppt). Pure-clicks players now aim for new growth paths and opportunities to expand their offline presence. Indeed, Alibaba started to invest in several offline retail players a few years ago, including Suning Commerce Group, Haier and its subsidiary RRS, Sanjiang Shopping Club, etc. – in a bid to extend its online dominance into physical retail (see Chart 2).

Chart 2: Selected acquisitions of offline retailers by Alibaba

Date of announcement	Bidder company	Target company	Deal Value (USD million)	Remark
Dec 2013	Alibaba Group	Haier Electronics Group Ltd	361	Alibaba acquired a 2% stake in Haier and a 9.9% stake in Haier's logistics arm RRS.
Jun 2016	Taobao	Suning Commerce Group	4,280	Taobao became the second largest shareholder of Suning with a stake of under 20%.
Dec 2016	Alibaba Group	Sanjiang Shopping Club	305	Alibaba will acquire a 32% stake in the supermarket chain to further expand its retail presence.

Source: Internet resources; compiled by Fung Business Intelligence

We expect the privatization of Intime to transform the traditional department store sector with new business models, store formats and concepts, etc. It will allow Alibaba to do more experiments with Intime in the retail arena, which will impose profound long-term impact to the entire retail sector in China. Nonetheless, since the physical retail business is considered more complex than online retail business – from facing requirements of different supply chains for different regions, to regional differences in consumer behaviors and shopping patterns. We reckon that it may take some time for both Alibaba and Intime to fine-tune and align their business strategies and development.

Moving forward, we believe that deeper integration of offline and online players will become more prevalent in the "New Retail" era. Collaborations between leading e-commerce companies and physical retailers will enable these entities to gain a stronger foothold in the market and tap a larger market of both offline and online consumers in the long-run.

Companies snapshots

Intime

- Intime, one of the leading players in China's department store sector, operated and managed 29 department stores and 17 shopping malls across the country as of end-June 2016, mainly in eastern Zhejiang province, and also in Anhui and Beijing. The group has been listed on the Hong Kong Stock Exchange since 2007. Despite declining sales growth over recent years, its performance has been outgrowing other Chinese department store operators such as Golden Eagle, Parkson and New World Department Store. Its total gross sales proceeds in first nine month of 2016 reached 11 billion yuan, and same store sales growth at -3.7%.

Alibaba

- Founded by Jack Ma in 1999, Alibaba is a leading Chinese e-commerce company that provides consumer-to-consumer, business-to-consumer and business-to-business sales services via web portals. It also created a business ecosystem that covers commerce, on-demand services, logistics, data & technology, social media, marketing, finance, and other services.
- In the quarter ended September 30, 2016, Alibaba's revenue was 34,292 million yuan, an increase of 55% year-on-year (yoy).
- Its core commerce, Taobao, is a highly engaged social commerce platform empowered by content and data. As of September 2016, there were over six million Taobao App users across China and the rest of the world.
- Alibaba's 11.11 Global Shopping Festival has constantly gained worldwide attention due to its magnificent amount of sales and it fully demonstrated the strength and scale of the entire Alibaba ecosystem. The total GMV of 2016's 11.11 reached 120.7 billion yuan, a 32% increase compared to 2015.

Source: Internet resources; companies websites; Fung Business Intelligence

“Our combination with Intime will enable us to tap into the long-term growth potential of a new form of retail in China powered by internet technology and data…we are working with offline retailers to create a new consumer shopping experience and use actions to embrace future opportunities under the new retail model.”

Picture source: Sina.com

Daniel Zhang Yong

Chief Executive Officer of Alibaba Group

“Many people think that the winter of China's retail industry has arrived, but we see the Internet as a new opportunity for physical retailing…the future of new retail direction should be – in-depth integration of offline and online retail, a fully integrated and connected logistics system, supplier systems and merchandise system, coupled with the use of big data and other innovative technologies.”

Picture source: ebrun.com

Chen Xiaodong

The CEO and President of Intime

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