

May 2017



## Key highlights

On 28 May, 2017, Alibaba Group Holding Limited announced that it is acquiring an 18% stake in Lianhua Supermarket Holdings, an affiliate of China’s leading retailer Bailian Group. Alibaba will acquire a total of 201.53 million shares of Lianhua Supermarket from Shanghai Yiguo E-Commerce Co., Ltd., a fresh food e-commerce company, to become Lianhua Supermarket’s second largest shareholder, according to a stock exchange filing from Bailian Group. The deal will be subject to domestic regulatory and shareholder meetings’ approvals. The deal could be worth US\$100.33 million according to Reuters’ calculations.

As per Alibaba’s announcement, the two parties are laying out specific plans for future business collaboration. They would leverage big data capabilities to build “smart stores” and achieve integration across bricks-and-mortar stores, merchandise, payment tools, logistics and membership with the aim to deliver a better overall customer experience across each other’s ecosystem.

Shanghai Yiguo E-Commerce Co., Ltd. also agreed to sell 22.39 million shares, or about 2% stake of Lianhua Supermarket, to Bailian Group. Shanghai Yiguo E-Commerce Co., Ltd. will still hold about 1.17% stake in Lianhua Supermarket to complement each other in terms of supply chain and logistics operations.

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## Comments and implications

The announcement came after the signing of a strategic partnership with Bailian Group in February this year. In our view, Alibaba's move to tie with Lianhua Supermarket is an extension of the Alibaba-Bailian partnership to drive the use of big data to improve and profit from brick-and-mortar sales under Alibaba's "New Retail" vision. Alibaba's "New Retail" concept highlights the importance of online and offline integration, logistics and data in shaping the future of retail. Alibaba has already expanded its involvement in offline retail businesses by forming strategic cooperation with Bailian in February 2017<sup>1</sup> and announcing the privatization of Intime Retail Group in December 2016<sup>2</sup>.

Fung Business Intelligence believes that this is another strategic move for Alibaba to strengthen its market position in the supermarket sector. Lianhua Supermarket operates three major retail formats, including hypermarkets, supermarkets and convenience stores under the brand names of "Century Mart", "Hualian Supermarket", "Lianhua Supermarket" and "Lianhua Quik Convenience Store". As of December 2016, Lianhua Supermarket has more than 3,618 physical outlets in 19 provinces and municipalities, of which, more than 60% of the stores are in Shanghai. The initiative is also a strategic move to better compete with JD.com in the supermarket segment, as JD.com has invested 4.3 billion yuan for a 10% stake in Yonghui Superstores back in August 2015. In June 2016, Wal-mart sold YHD, its online grocery marketplace, to JD.com, which further strengthens JD.com's leading position in the online supermarket segment.

### Alibaba and Bailian announced the formation of strategic partnership in February 2017

In February 2017, Alibaba and Bailian announced the formation of a strategic partnership to explore new forms of retail opportunities across each other's ecosystem. The two companies will leverage Big Data capabilities to achieve integration across bricks-and-mortar retail outlets, new retail technology, customer relationship management system, supply chain management, payment tool, and logistics infrastructure with the aim to deliver a better overall customer experience.

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<sup>1</sup> For more information, please refer to our earlier publication "New Retail" in action: Alibaba, Bailian Group Announced New Retail Strategic Partnership.

[https://www.fbicgroup.com/sites/default/files/Alibaba\\_Bailian.pdf](https://www.fbicgroup.com/sites/default/files/Alibaba_Bailian.pdf)

<sup>2</sup> For more information, please refer to our earlier publication "New Retail" in action: Alibaba proposes to privatize Intime Retail Group. [https://www.fbicgroup.com/sites/default/files/Alibaba\\_privatizes\\_Intime.pdf](https://www.fbicgroup.com/sites/default/files/Alibaba_privatizes_Intime.pdf)

For Lianhua Supermarket, it has been putting a lot of efforts in exploring innovative ways to promote the upgrade and transformation of its retail outlets since 2016. It has revamped its fresh food procurement system and expanded sourcing channels to enrich its fresh food offerings. The company has also been actively carrying out omni-channel strategies by partnering with O2O platforms for home deliveries, providing pick-up services in-store for online orders, developing its own B2C platform, etc. According to Lianhua Supermarket, over 500 stores in Shanghai are involved in these O2O strategies and achieved total sales revenue of over 100 million yuan. After the acquisition, Lianhua Supermarket will be able to leverage Alibaba's Big Data capabilities to streamline its fresh food supply chain. This will enable Lianhua Supermarket to roll out its O2O strategies more effectively and deliver better service to customers.

### **Alibaba's New Retail Regime – online and offline cooperation deepens**

The concept of "New Retail" was propagated by Jack Ma in October 2016, which is set to become a new model of online and offline retail in China. According to Jack Ma, five major development trends are going to shape the world in the coming three decades: namely "New Retail", "New Manufacturing", "New Finance", "New Technology" and "New Energy". The trends are expected to fundamentally change all industries. He remarked that the upcoming technology revolution will provide tremendous opportunities for small enterprises from around the world. Technology, data and innovation will be the keys. Jack Ma also pointed out that pure e-commerce players will soon face tremendous challenges. "E-commerce" will be replaced by "New Retail" in 10-20 years. Exhibit 1 highlights selected major M&A activities of Alibaba in rationalizing its online and offline retail businesses in 2016 and 2017.

**Exhibit 1: Alibaba's recent investments in offline retail businesses (March 2016 – May 2017)**

<b>Date</b>	<b>Target</b>	<b>Amount</b>	<b>Details</b>
<b>28 May, 2017</b>	<b>Lianhua Supermarket</b> (Hypermarket, supermarket and convenience store)	Around US\$100.33 million	18% stake of Lianhua Supermarket
<b>20 February, 2017</b>	<b>Bailian Group</b> (Department store, shopping mall, factory outlet, supermarket, convenience store, specialty retail store)	N/A	Alibaba and Bailian formed strategic partnership to explore new forms of retail opportunities across each other's ecosystem
<b>10 January, 2017</b>	<b>Intime Retail Group</b> (Department store and shopping mall)	HK\$19.8 billion	73.7% stake of Intime
<b>18 November, 2016</b>	<b>Sanjiang Shopping Club</b> (Supermarket chain)	2.1 billion yuan	32% stake of Sanjiang
<b>17 November, 2016</b>	<b>Ruhnn</b> (Online celebrity Incubator)	300 million yuan	9.58% stake of Ruhnn
<b>8 August, 2016</b>	<b>52shangou</b> (Online shopping platform focusing on communities)	267 million yuan	Series C Funding
<b>2 June, 2016</b>	<b>Suning Commerce</b> (Home electronics chain, integrated online shopping platform)	28.3 billion yuan	19.99% stake in Suning
<b>28 March, 2016</b>	<b>Yiguo</b> (Online shopping platform focusing on fresh food)	N/A	Alibaba invested in Series A, B, C Fundings of Yiguo
<b>March 2016</b>	<b>Hema Xiansheng</b> (Online shopping platform focusing on fresh food)	US\$ 150 million	Series A Funding

Source: ebrun, modified by Fung Business Intelligence

## Company snapshots

### Lianhua Supermarket

- Headquartered in Shanghai, Lianhua Supermarket is an affiliate of China's leading retailer Bailian Group. Lianhua Supermarket was listed on the Hong Kong Stock Exchange in June 2003.
- As of 31 December, 2016, Lianhua Supermarket and its subsidiaries operated a total of 3,618 outlets spanning 19 provinces and municipalities across China.
- The Group's major retail businesses include hypermarkets, supermarkets, and convenience stores under the brand names of "Century Mart", "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik Convenience Store".
- Turnover of Lianhua Supermarket was approximately 26,666 million yuan in FY16, down by 2.0% yoy. Same store sales dropped by 2.79% yoy, while gross profit margin decreased by 0.26 ppt to 14.45% in FY16.
- Lianhua Supermarket is ranked 7th in the latest list of "Top 100 Retail Chain Operators in China in 2016" released by the China Chain Store and Franchise Association.

### Alibaba Group

- 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 FY17, Alibaba's revenue was 158,273 million yuan, an increase of 56% yoy. GMV transacted on China retail marketplaces in FY17 was 3,767 billion yuan, an increase of 22% yoy, with mobile GMV rising to 2,981 billion yuan, or 79% of total GMV, an increase of 49% yoy.
- Annual active buyers on Alibaba's China retail marketplaces reached 454 million, an increase of 31 million from the 12-month period ended on 31 March, 2016; and mobile MAUs reached 507 million in March 2017, an increase of 97 million over March 2016.

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