



“New Retail” in Action – Issue 5
Rainbow Department Store –
Pioneer of “New Retail” and an
O2O retail enterprise through
active transformation



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The “New Retail” concept has significantly reshaped the landscape of China’s retail sector. Increasing numbers of traditional retailers especially those with large physical stores have started to adapt to the new online reality by reinventing and transforming their business models and formats. They have set their goals to deploy online and offline (O2O) strategies, and leverage consumer data to integrate physical stores, e-commerce, logistics and payment tools to deliver a better shopping experience for consumers. Among them, Rainbow Department Store Co. Ltd. (“Rainbow”) is considered one of the forerunners.

This issue discusses Rainbow’s business model, in particular its key O2O strategies to identify the successful factors of Rainbow as a sector leader in implementing the “New Retail” concept. It also includes the site visit observations and comments from Fung Business Intelligence on the latest shopping centre of Rainbow – Rainbow Xinsha Shopping Center, and Shennan Rainbow Department Store, which houses Rainbow’s first Sp@ce supermarket in Shenzhen.



Shennan Rainbow Department Store, Shenzhen.

Photo source: Fung Business Intelligence

Company background

Rainbow is one of the largest department store operators in China. Owned by Aviation Industry Corporation of China (with 43.4% controlling stakes), and listed on the Shenzhen Stock Exchange (Stock code: 002419.SZ) in June 2010, Rainbow's core business involves the operation of department stores, shopping centers, supermarkets and convenience stores across China.

Rainbow is considered a sector pioneer in the transformation from a traditional department store operator to an O2O enterprise that engages in multiple retail formats. Long before "New Retail" has become a buzz topic in China, Rainbow has already adopted an innovative O2O retailing model in response to the ever-growing consumer demands for retail experiences, emphasizing the seamless integration of online and offline channels. In 2013, Rainbow strategically implemented digitalization across all physical stores and upgraded and remodelled its supply chain. Thereafter, its inventory system, CRM system and merchandise system were managed on a centralized digital platform that was led by big data analytics. Rainbow also launched its first Wechat account in the same year to leverage the mobile channel to recruit thousands and millions of members.

The company's online strategy has proven to be of huge success as it accumulated over 5 million members, with 2 million active members by end of 2016¹. According to the China Chain Store and Franchise Association (CCFA), Rainbow ranked 2nd on the annual list of the "Top 10 department store operators among the Top 100s" and ranked 23rd on the "the Top 100 Retail Chain Operators in China" in 2016².

Business and operation model

Rainbow operates multiple retail formats in an omnichannel and customer centric approach (Exhibit 1). Its offline business includes the operation of department stores, shopping centers and convenience stores, while its online and mobile platforms comprise Rainbow online store (Tianhong.cn), "Rainbow Scarf" app (Honglingjin), Wechat public account, and Weipin.

Exhibit 1: Rainbow's omnichannel business model



Source: Rainbow Department Stores's Annual Report 2016; compiled by Fung Business Intelligence

1. Physical stores

Department store

Since 2011, Rainbow has adopted a dual-brand strategy for its department store business with Rainbow Department Stores targeting the mid-end market and Dreams On Department Stores targeting the high-end market. As of 2016, Rainbow owned 66 department stores and 22 stores were in Shenzhen.

Shopping center

Rainbow currently operates four shopping centers in China – Rainbow Cool+ in Nanchang, Dreams on 3019 in Shenzhen, Rainbow Xinsha Shopping Center in Shenzhen and Rainbow Zhuhai. In order to bring innovative shopping experience to customers, the shopping malls are decorated with different special themes and lifestyle scenes; they encompass a wide range of leisure and entertainment elements, including food & beverage, bookstores, boutique supermarket, KTV, beauty salon, DIY workshops, etc. According to Rainbow's store opening pipeline, eight new shopping malls are set to open by 2019.

Convenience store

Rainbow launched the first convenience store in Nanshan district in Shenzhen in July 2014 under the brand name "Weiwo". Rainbow acquired Shenzhen-based convenience store operator Shenzhen Q-mart Trade Co. Ltd. in the same year and obtained an additional 153 branches of convenience stores from the latter. It positioned its convenience stores as a "last-mile lifestyle platform." As of March 2017, Rainbow owned 160 convenience stores in total.

Supermarket

Rainbow introduced the notion of "independent development of experiential and digital supermarket format" in April 2017. As such, Rainbow dedicated to separately develop the supermarket format in the coming years to provide customers with a brand new and enhanced experience of mid-to-high-end digitalized supermarkets. Rainbow now operates the supermarkets under two brand names, i.e. "Sp@ce" and "Rainbow Supermarket". The first Sp@ce was opened in Shenzhen in January 2017. The new store was previously an ordinary Rainbow Supermarket and has been transformed and upgraded into the first store of the new brand. It aims to open 100-150 self-owned supermarkets in the coming three years.

2. Online and mobile platforms/ social network channels

Online and mobile channels play an increasingly important role in fuelling Rainbow's growth. In 2016, Rainbow's revenue from its e-commerce business was up by 60% yoy. Listed below are selected major online, mobile and social commerce platforms of Rainbow.

Tianhong.cn

It is the official transactional website of Rainbow. It is the PC version of its mobile app Rainbow Scarf.

Rainbow Scarf app

Launched in October 2016, Rainbow Scarf app is positioned as a local lifestyle service platform to offer lifestyle services to the local communities. It also provides door-to-door delivery services (Rainbow Daojia). The Rainbow Scarf app informs customers about membership discounts, marketing statistics, online ordering of supermarket products, overseas products, movie tickets, car park information, etc. Requested products will be directly delivered to customers from the offline store. Not only does the app integrate all the online channels of Rainbow, it also connects with all of Rainbow's physical stores nationwide. It leverages big data to do precise mobile marketing and helps the physical stores undergo digital transformation and omnichannel retailing.

Wechat public account

Rainbow's Wechat account mainly serves the function of sending promotional materials to subscribers. It also supports mobile payments; customers can make purchases both online and offline with Wechat Pay.

Weipin

Rainbow's Weipin is a mobile social commerce platform. Each of Rainbow's staff can become individual online store owner and participate in the selling of Rainbow's merchandise on Weipin. They can sell and promote products through other social networks such as Weibo and QQ. They would receive cash rebate as commissions from every transaction. By end of 2016, there were approximately 250,000 Weipin store owners³.

Key transformation strategies and recent developments

Rainbow has outperformed the market in transforming itself towards an O2O enterprise that fully harnessed the “New Retail” concept to deliver a better shopping experience for consumers. Selected key strategies of Rainbow in recent years include:

1) Retail format and experiential upgrade – to entice and engage customers by adding experiential elements at physical stores

Rainbow regards satisfying consumers’ demand for unique and engaging experiences an important factor to succeed in the “New Retail” regime. It has been constantly upgrading its facilities, retail formats and experience along its transformation journey. Apart from placing strong emphasis on upgrading the hardware and software of its physical stores with better shopping facilities and lifestyle and service offerings, Rainbow has also increased the proportion of experiential elements substantially to around 45%-70% in its shopping centers.



*A multi-storey indoor-slide located at Rainbow Xinsha Shopping Center.
Photo source: Fung Business Intelligence*

Selected examples of experiential elements in Rainbow’s shopping centers are shown in Exhibit 2.

Exhibit 2. Selected examples of experiential elements in Rainbow’s shopping centers

Store	Opening year	Ratio of experiential elements	Description
Rainbow Xinsha Shopping Center	16 Dec, 2016	45%	Rainbow Xinsha Shopping Center is seen as a one-stop shopping and entertainment destination for families. The shopping center has large arrays of specialty stores, a themed food & beverage street known as “Yes! Street”, and the first indoor cross-storey slide in Shenzhen.
Rainbow Dreams On 3019	9 Dec, 2016	70%	The shopping center is positioned to be "a place to sell lifestyle". With the concept of “culture, creativity and slow living”, the mall houses bookstore, flower arrangement shop, painting studio, cooking studio, wood and leather carving workshop, cinema, fitness center and other experience formats.
Rainbow Cool+ in Nanchang	23 Sep, 2016	50%	A shopping center to tailor-made for the “Post-90s” generation, with the concept of customized retail space of “trendy, fun and vibrant”.

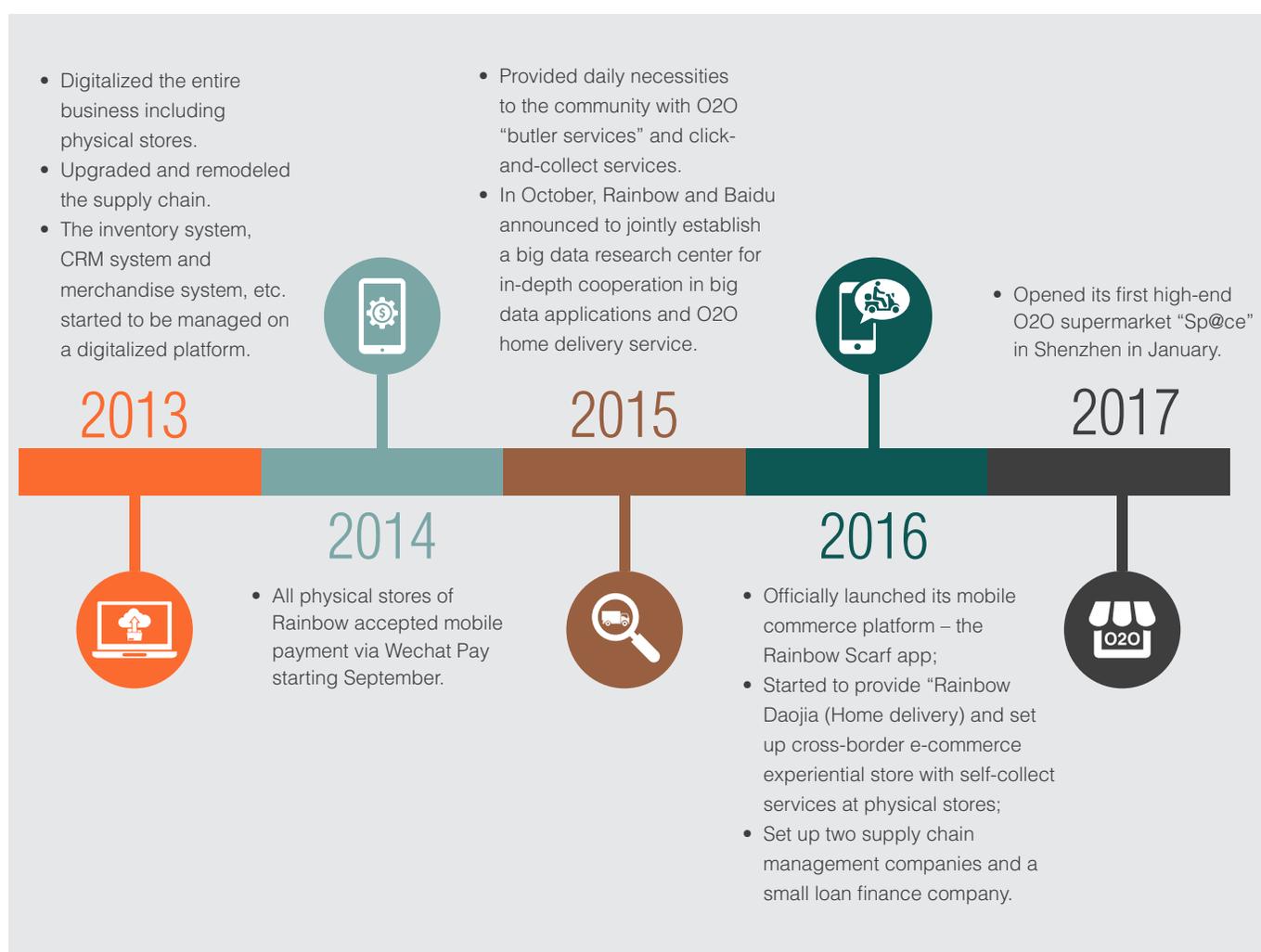
Source: Rainbow’s official website; Rainbow’s Annual Report 2016; compiled by Fung Business Intelligence

2) Actively deploy O2O strategies – merging online and offline shopping experience

While the majority of its competitors have suffered from lackluster sales and poor performance in recent years due to retail headwinds, Rainbow showed satisfactory performance with growing sales and soaring profit margins thanks to its innovative business models, “New Retail” concepts and constant efforts in upgrade and transformation. In 1Q17, the company achieved operating income of 4.75 billion yuan, up 2.08% yoy; total profit amounted to 295 million yuan, up 22.51% yoy; net profit amounted to 223 million yuan, increased 21.33% yoy⁴.

Since 2013, Rainbow has started to implement digitalization across all physical stores to pave the way for its O2O strategies thereafter (Exhibit 3).

Exhibit 3. Selected key O2O initiatives of Rainbow



Source: Rainbow’s official website; Rainbow’s Annual Report 2016; compiled by Fung Business Intelligence

3) Develop private labels and increase the proportion of direct merchandise sales

To enhance its unique positioning with differentiated products, Rainbow has built its professional buyer team and develop multi-label stores. It has set up a “buyer platform”, known as “Rain” to coordinate all of Rainbow’s self-owned multi-label stores. By 1Q17, there were three fashion multi-label stores "Rain&Co", 14 womenswear multi-label stores "Rain&Color", two kidswear multi-label stores "Rain&Kids", and 14 home products multi-label stores "Rain&Home".



*Rain&Co in Shennan Rainbow Department Store.
Photo source: Fung Business Intelligence*

For its supermarket business, Rainbow owns four private label brands, namely TEEMFUL (snacks and sweets, drinks, oil and sugar), FIFO (household products, kitchen products, cleaning products), Aobeisi (premium grocery products), and Tianhouwei (food). In 2016, Rainbow’s sales generated by private-labels of supermarket business rose 22% yoy.

In 2016, Rainbow further expanded its direct sales businesses and obtained the distributorship rights of domestic womenswear brands KBNE, Aster grass and Siastella. As of the end of 2016, the company owned a total of 21 stores of CACHE CACHE, JOJO, KBNE, Weasengyi and Siastella. In 2016, Rainbow’s sales revenue generated by direct sales reached 30.7% of total revenue⁵. Ultimately, Rainbow hopes that the proportion of direct merchandise sales can increase to 10%-15% of total sales, up from the current 2%.

4) Upgrade supply chains and establish own sourcing team

To provide better merchandise and greater variety of fresh food products at its supermarkets, Rainbow has upgraded its supply chains and created its own professional buyer and sourcing team to directly source merchandise from different parts of the world. Direct sourcing networks are established in five regions including Southeast Asia, South Korea, Europe, the U.S. and Australia. In 2016, Rainbow’s sales generated by global direct sales enjoyed skyrocketed growth at 392% yoy; while sales generated by fresh produce direct sales up 50% yoy⁶.

Observations and comments from Fung Business Intelligence

Fung Business Intelligence visited the latest shopping center of Rainbow – Rainbow Xinsha Shopping Center, and Shennan Rainbow Department Store, which houses Rainbow's first Sp@ce supermarket in Shenzhen on 11th July 2017.

Rainbow Xinsha Shopping Center

The Rainbow Xinsha Shopping Center had fairly high foot traffic even on a weekday. There were families with kids, young couples, and students during our visit in the afternoon. The entire shopping center has a well-mixed of shops with high proportion of food and beverage and children's facilities. The "Yes!Street" located on the 6th and 7th floor houses more than 30 restaurants which offer abundant dining options to shoppers. There are also large numbers of entertainment and gaming centers, an IMAX movie theatre and a KTV.

The experiential elements in the shopping center – including the indoor multi-storey slide, indoor children playground, and other entertainment facilities such as the pop-up KTV rooms – have successfully enhanced the ambiance of the shopping center. As observed, families with children particularly enjoyed using the facilities.



A child was using the sports facility in the shopping center.

Photo source: Fung Business Intelligence



Some children were playing at the gaming center.

Photo source: Fung Business Intelligence



Some children and teenagers were singing inside the "mini K" (karaoke) room.

Photo source: Fung Business Intelligence



A mother and her children enjoyed using the leisure facilities in the shopping center.

Photo source: Fung Business Intelligence

Sp@ce at Shennan Rainbow Department Store



Sp@ce supermarket at Shennan Rainbow Department Store.
Photo source: Fung Business Intelligence

Sp@ce supermarket was located on the 2nd floor of Shennan Rainbow Department Store. Sp@ce positions itself as an urban lifestyle supermarket which mainly sells premium imported products. Since its opening in January 2017, it has become an anchor store to attract shoppers.

During our visit, the supermarket had good foot traffic, with housewives and grandparents with children being the major customers. As observed, numerous posters are hung within the supermarket to emphasize the advantages of ordering and paying online by with the Rainbow Scarf app – especially the two-hour delivery services.



A promotion poster in Sp@ce which highlights the Rainbow Daojia service – orders made online/ in-store can be delivered door-to-door within two hours.
Photo source: Fung Business Intelligence

In terms of products, there are a wide variety of of both locally and globally imported goods, ranging from food and grocery products (e.g. frozen and cooked food, drinks, baby and healthcare products, and drinks) to home products (e.g. bed sheets, and towels) to skincare products (e.g. cosmetics and skincare products). With a floor area of 3,000 sqm, the store sells 6,000 kinds of imported good and more than 500 for organic. There are large signs hanging on the ceiling to guide customers where to locate the products they are searching for.

To provide a new and special shopping experience for customers, Sp@ce is divided into six zones, namely the “fridge” zone, where a range of frozen food is available; the “kitchen” zone, where customers could cook their food at the cooking studio; the “dining room” zone, where there are chairs and tables provided for them to eat what was cooked earlier or any dry food they purchased; the “sitting room” zone, where daily necessities are sold; the “bathroom” zone, where customers can choose personal care and skincare products; and the “bedroom” zone, where products such as bed sheets are sold.

Moreover, to further enhance customers’ shopping experience and gain their trusts, there are some food tasters around the supermarket for customers to try out before buying.



Customers can cook in 'My Kitchen'.
Photo source: Fung Business Intelligence



Self-service wine machine.
Photo source: Fung Business Intelligence

Several self-checkout kiosks are located near the cashiers. Every product has a barcode for scanning. Customers can pay by app or mobile payment using Wechat Pay, Alipay and also by credit card as card machines are also available at the counters.



Staff are located in payment area to aid customers if they need any help during self-checkout process.
Photo source: Fung Business Intelligence

In the “New Retail regime”, the transformation of China's department store sector with new retail formats and business models is inevitable. The forerunners who keep innovate and embrace the “New Retail” concept would win. On the other hand, retailers that are slow to adapt will be marginalized and get left behind.

We believe that Rainbow's early adoption of O2O, clear visions and bold actions to address consumers' needs, to offer products and services with the best experience for them; together with its highly diversified retail formats in an omnichannel approach will render it a successful retailer in the upcoming “smart era”.

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