CHINA COMMERCE ASSOCIATION FOR GENERAL MERCHANDISE

THE HONG KONG UNIVERSITY OF SCIENCE AND TECHNOLOGY

HKUST LI & FUNG SUPPLY CHAIN INSTITUTE

China's Department Stores Report 2025-2026

April 2026



Preface

Consumption is the primary engine of economic growth. Department stores, as the core format of brick-and-mortar retail, have evolved over a century to remain a vital component of the commodity distribution ecosystem and an essential platform for quality consumption and trend-setting. In 2025, China's macroeconomy maintained steady growth, with GDP increasing by 5.0% year-on-year. Resident income and expenditure rose steadily, with total retail sales of consumer goods surpassing 50 trillion yuan, reflecting a stable expansion of the consumer market. At the same time, however, the department store industry faced a downturn in sales, profitability, footfall, and average transaction value. Amidst the multiple challenges of subdued demand, online channel diversion, and brand restructuring, the industry has entered a period of deep transformation characterized by asset repositioning and structural upgrading.

This report was jointly written by China Commerce Association for General Merchandise (CCAGM) and the HKUST Li & Fung Supply Chain Institute, drawing on questionnaire survey data from nearly 100 large and medium-sized retail enterprises across the country, supplemented by macroeconomic data from the National Bureau of Statistics (NBS). It systematically reviews the development history and industry status of China's department store sector, analyses 2025 performance, thoroughly explores the policy, market and consumption opportunities driving industry development, and dissects the core challenges in operations, transformation, channel management and digitalization.

The report also assesses 2026 performance expectations and future development trends, offering targeted policy recommendations on core industry issues to provide policymakers with a basis for formulating strategy, while providing a reference for retailers in their transformation. The aim is to help China's department store industry break through development bottlenecks and transition from traditional merchandise trading venues to multi-faceted lifestyle centres, thereby supporting the high-quality growth of physical retail and strengthening the role of consumption as a fundamental driver of economic development.

The research findings in this report provide an objective portrayal of the industry in 2025 and a roadmap for transformation and innovation in 2026 and beyond, seeking to build industry consensus and drive new growth amid the tide of change.

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1 Overview of China's Retail Development

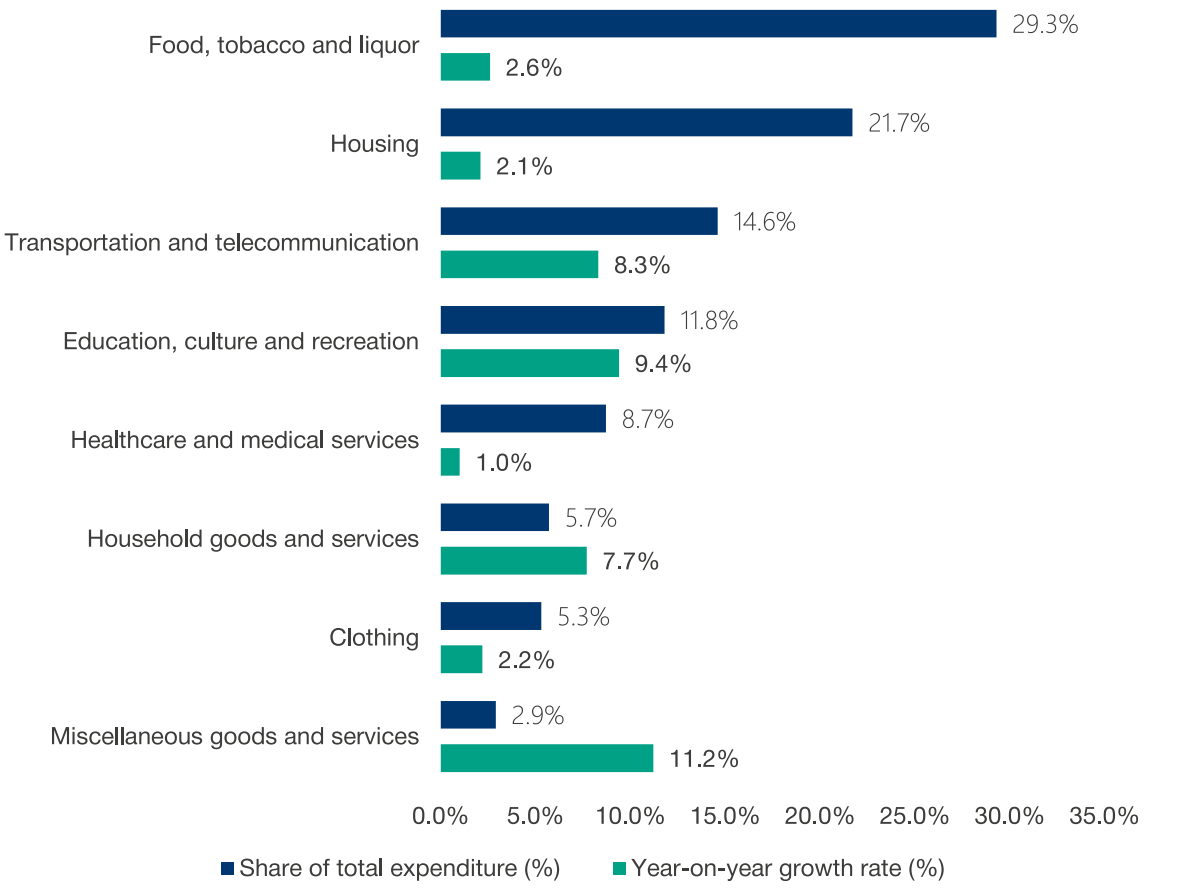
1.1 Macroeconomic Conditions

In 2025, China's gross domestic product (GDP) reached 140,187.9 billion yuan, representing a 5.0% year-on-year (yoy) growth at constant prices.

National per capita disposable income stood at 43,377 yuan, an increase of 5.0% yoy in nominal terms and a 5.0% yoy rise in real terms after adjusting for price factors. Urban residents' per capita disposable income was 56,502 yuan, up 4.3% yoy in nominal terms and 4.2% yoy in real terms. Rural residents' per capita disposable income reached 24,456 yuan, up 5.8% yoy in nominal terms and 6.0% yoy in real terms.

National per capita consumption expenditure was 29,476 yuan, an increase of 4.4% yoy in nominal terms and an increase of 4.4% in real terms after adjusting for price factors. By consumption category, "education, culture and recreation" spending was 3,489 yuan, up 9.4% yoy, accounting for 11.8% of total consumption expenditure; "transportation and telecommunication" spending reached 4,306 yuan, up 8.3% yoy, accounting for 14.6%; "household goods and services" spending was 1,667 yuan, up 7.7% yoy, accounting for 5.7%; "food, tobacco and liquor" spending was 8,631 yuan, growing by 2.6% yoy, accounting for 29.3%; and "clothing" spending reached 1,554 yuan, increasing by 2.2% yoy, accounting for 5.3% (Figure 1-1).

Figure 1-1: National per capita consumption expenditure growth rates and shares, 2025



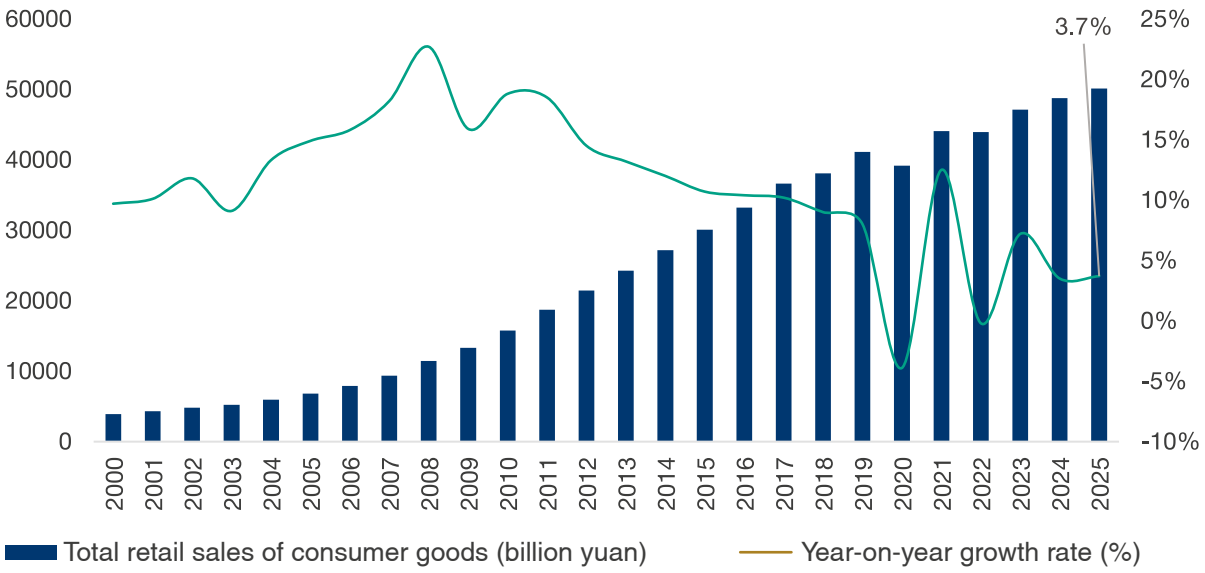
Source: National Bureau of Statistics of China; compiled by CCAGM and HKUST Li & Fung Supply Chain Institute

1.2 Overview of Retail Development

1.2.1 Steady expansion of consumer market and coordinated urban-rural development

In 2025, total retail sales of consumer goods reached 50,120.2 billion yuan, a 3.7% increase from the previous year. Of this, retail sales of consumer goods excluding automobiles totalled 45,141.3 billion yuan, up 4.4% yoy (Figure 1-2).

Figure 1-2: China's total retail sales of consumer goods and growth rates, 2000–2025



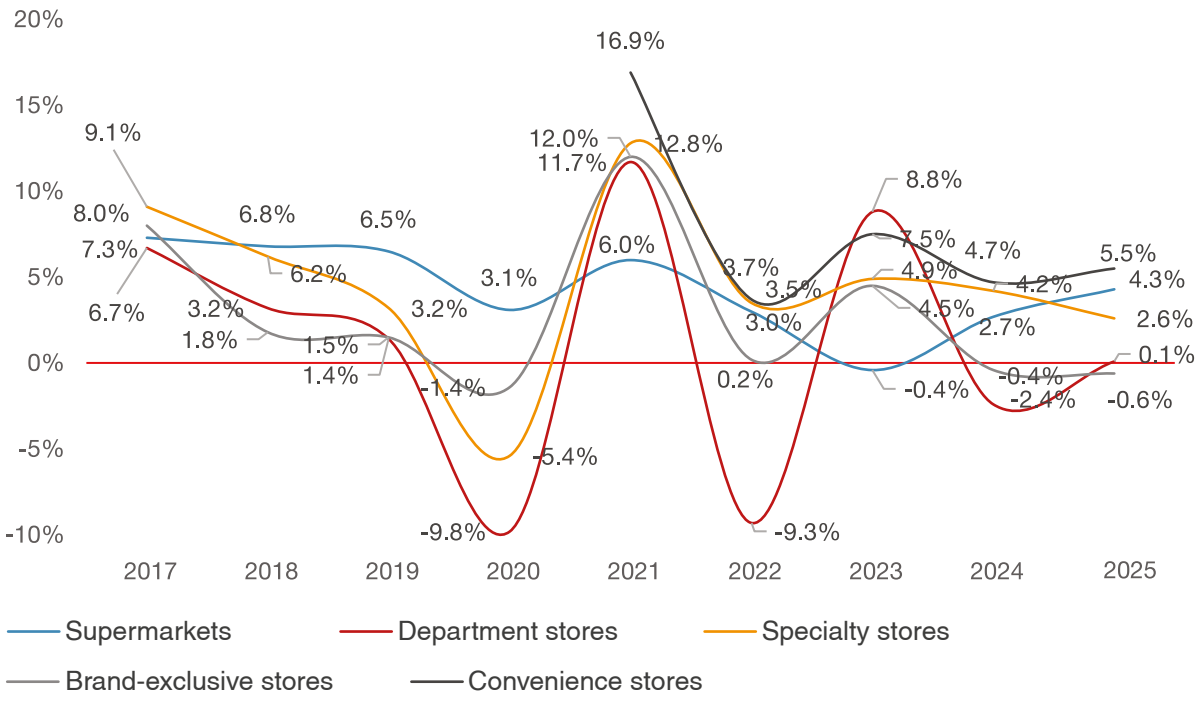
Source: National Bureau of Statistics of China; compiled by CCAGM and HKUST Li & Fung Supply Chain Institute

By location of business unit, retail sales in urban areas were 43,297.2 billion yuan, up 3.6% yoy, while retail sales in rural areas were 6,823.0 billion yuan, reflecting a 4.1% yoy increase.

By consumption type, retail sales of goods totalled 44,322.0 billion yuan, up 3.8% yoy, while catering revenue was 5,798.2 billion yuan, growing by 3.2% yoy.

By retail format, among retail enterprises above designated size, retail sales by convenience stores, supermarkets, department stores and specialty stores grew by 5.5%, 4.3%, 0.1% and 2.6% yoy respectively, while retail sales by brand-exclusive stores declined by 0.6% yoy (Figure 1-3).

Figure 1-3: Growth rates of retail sales of enterprises above designated size by retail format, 2017–2025



Source: National Bureau of Statistics of China; compiled by CCAGM and HKUST Li & Fung Supply Chain Institute

1.2.2 Strong growth from trade-in programme; sales of upgraded goods categories accelerating

The consumer goods trade-in programme has yielded significant positive outcomes. In 2025, retail sales of goods by retail enterprises above designated size grew by 3.4% yoy, 0.7 percentage points faster than the previous year, driven primarily by the continued ramp-up and expanded scope of the consumer goods trade-in policy. By category, among retail enterprises above designated size, retail sales of "telecommunication equipment" and "cultural and office appliances" grew by 20.9% yoy and 17.3% yoy respectively, maintaining double-digit growth across all four quarters; retail sales of "furniture" grew by 14.6% yoy, up 11 percentage points from the previous year; retail sales of "home appliances and audio-video equipment" achieved 11.0% yoy growth despite a high base from last year, with high-energy-efficiency appliances performing particularly well.

Demand for upgraded goods continued to accelerate. In 2025, among retail enterprises above designated size, retail sales of "sports and recreational goods" grew by 15.7% yoy, 4.6 percentage points faster than the previous year; retail sales of "gold, silver and jewellery" and "cosmetics" grew by 12.8% yoy and 5.1% yoy respectively, reversing declines from the prior year. The market for basic necessities maintained steady growth, with retail sales of "food", "clothing" and "daily necessities" increasing by 7.1%, 3.2% and 6.3% yoy respectively; the growth in retail sales of "clothing" and "daily necessities" accelerated by 2.9 and 3.3 percentage points respectively compared to the prior year, indicating continued consumer resilience.

1.2.3 Rapid growth of service retail; integration of culture and tourism formats

With the accelerated unleashing of service consumption potential, service retail exhibited a steady and improving growth trend, as policies aimed at expanding service consumption continued to ramp up, service supply became more diverse and quality improved, and service supply became more aligned with consumer demand. For the entire year of 2025, service retail sales grew by 5.5% yoy, 0.3 percentage points faster than the growth rate in the first three quarters of the year, and 1.7 percentage points above the growth in retail sales of goods during the same period.

Cultural and tourism retail formats accelerated their integration and innovation, and new consumption scenarios continued to emerge, driving faster growth in travel-related consumption. In 2025, retails sales of “cultural, sports and leisure services”, “tourism consultation and rental services”, and “transportation services” all grew significantly faster than overall service retail. According to the China Film Administration, national box office revenue in 2025 was 51.83 billion yuan, marking a 21.7% yoy increase. Emerging services such as online medical consultation and online training continued to develop. Information consumption sustained rapid growth; building on last year’s rapid growth, retail sales of “communication information services” achieved double-digit growth in 2025.

1.2.4 New consumption models flourishing; emerging formats growing rapidly

Online consumption saw improvements in both quality and innovation. In 2025, online retail sales increased by 8.6% yoy, 1.4 percentage points faster than the previous year. Online retail sales of physical goods grew by 5.2% yoy, contributing 1.3 percentage points to total retail sales of consumer goods for the year. New formats and models, including livestreaming e-commerce and instant retail, experienced rapid growth. The livestreaming e-commerce sector maintained strong momentum, with transaction values growing by 11.3% yoy. Instant retail and delivery also developed quickly, effectively meeting consumer needs.

Brick-and-mortar stores continued to grow. In 2025, retail sales of goods in physical retail stores above designated size increased by 1.7% yoy. Emerging formats that cater to consumers’ demand for quality and personalized experiences grew rapidly, with warehouse membership stores, multi-brand boutiques and unmanned stores all maintaining double-digit growth. Discount stores, known for high value for money, also saw accelerating growth. The optimization and implementation of visa-free entry and departure tax refund policies further stimulated inbound consumption.



2 History and Current Status of Department Store Industry

2.1 Historical Evolution

Consumption is an essential component of the relations of production, and productivity determines the relations of production. Therefore, the emergence and evolution of retail formats are fundamentally the result of the development of productivity. The world's first department store originated in France in 1852. Its primary background was the First Industrial Revolution, during which production in countries like the UK and France developed rapidly. As consumers began to pursue fashionable, high-quality lifestyles, department stores emerged to meet this demand in France, a country known for its pursuit of fashion and taste. Subsequently, shopping centres (around 1900), supermarkets (around 1930), convenience stores (around 1940), outlets (around 1960) and e-commerce (21st century) emerged and developed in succession. The emergence and development of China's department store industry and other retail formats followed similar patterns.

The development of modern department store industry in China is a history of evolution from guaranteed supply under a planned economy, to diversified competition in a market economy, to iterative upgrading in the digital era. From its nascent growth before the founding of the PRC, through state-run department stores in the early PRC, to today's experiential stores integrating online and offline channels, each transformation of the department store sector has responded to upgrades in consumer demand and broader socioeconomic development. Its development can be roughly divided into six stages:

Pre-1949 (1908–1949): China's department store industry developed simultaneously in Harbin and Shanghai in the early 20th century. The Qiulin Company officially opened in Harbin in 1908, later expanding and opening branches; by the eve of WWII it had become the dominant retailer in Northeast China. Unlike Harbin's dominance by a single player, Shanghai's department store industry saw nearly simultaneous founding of the "Big Four": Sincere (now the Fashion Company Building), Wing On (now the Wing On Department Store Building), Sun Sun (now the Food Store No. 1 Building) and The Sun (now the First Department Store Building). Sincere opened in 1917 and established multiple firsts in Chinese commercial history: open-display counters, transparent and fixed pricing, and issuing receipts for all sales—all modern business practices. Wing On opened in 1918 and was Shanghai's first retailer to use large glass display windows. The Sun's Nanfang Building opened in Guangzhou in 1916; its subsequent Shanghai Nanjing Road store was 10 storeys tall and the first department store to use escalators. These openings officially inaugurated China's modern retail industry.

Planned-economy period (1949–1978): This was an era of state-owned department stores guaranteeing supply. During this stage, China operated under a planned economy of unified purchase and sale. Department stores served as the core channel of commodity circulation, with the primary function of ensuring the supply of daily necessities for the public rather than market-oriented operation. The typical format was the state-owned department store buildings found across the country—such as Beijing Department Store and Shanghai No. 1 Department Store—the most iconic comprehensive shopping venues in cities, carrying goods ranging from food and cloth to daily commodities, operating under a self-purchase, self-pricing model. Since goods were scarce, department stores faced no market competition and their sole objective was to fulfil planned distribution quotas and meet basic living needs.

Early development period (1978–1990): The department store industry reached a turning point of recovery and the start of marketization. Market vitality was gradually reawakened, and department stores shifted from a supply-guarantee role towards a business-oriented operation, with explosive growth in the number of large department stores being built nationwide. Business models began to incorporate market-oriented concession and leasing arrangements; foreign department store retailers also gradually entered the mainland market, bringing new management concepts.

Golden development period (1991–2010): The department store industry entered a golden period of expansion, characterized by chain development and the influx of foreign investment. Land grabs became the industry keyword, and the concession commission model became mainstream, reducing capital occupation for department store operators and enabling rapid expansion. Regional leaders gradually emerged, and national department store groups gradually formed, driving the industry's transition from single-store to chain and branded operations. In December 2004, China fully opened its retail sector to foreign investors[1]; foreign department stores such as Parkson, Ito-Yokado and New World accelerated their expansion in the mainland market, bringing advanced management practices and operational experience, further propelling the upgrade of domestic department stores. The industry entered its heyday, with department stores becoming the core commercial landmarks of cities, meeting people's shopping and social needs.

Growth bottleneck period (2011–2018): The department store industry encountered transformation pains, facing the combined challenges of e-commerce disruption and diversion from multiple formats, and entering a period of deep adjustment. With the rise of e-commerce platforms such as Taobao and JD.com, online shopping's advantages in convenience and value significantly diverted footfall and sales from department stores. At the same time, emerging formats such as shopping centres, specialty electronics stores, supermarkets and hypermarkets, convenience stores, and outlets developed rapidly, with richer scenarios and more flexible format combinations that weakened the one-stop shopping advantage of traditional department stores. The drawbacks of the concession model also gradually became apparent; severe homogeneity and monotonous experience left the department store industry mired in a growth bottleneck. Enterprises gradually closed underperforming stores, and industry growth fell from double digits to single digits or even turned negative, facing challenges on multiple fronts.

Transformation and development Period (2019–Present): The department store industry has entered a period of renovation and revitalization, digitalization, and refined operations, beginning a deep shift from "selling goods" to "delivering experiences and services". Facing industry difficulties, leading enterprises have been exploring transformation paths, with omni-channel integration becoming the core direction; major department store enterprises have deployed mini-programmes, livestreaming commerce and private-domain operations to achieve full-scope operations, with Rainbow and Intime among those at the forefront. In terms of format innovation, department stores have broken the limits of traditional shopping scenarios by introducing experience formats such as dining, cinemas, parent child zones and cultural creativity, and upgrading from pure shopping venues to lifestyle centres to increase customer stickiness. In terms of model optimization, enterprises have

1 MOFCOM Order No. 8 of 2004, "Administrative Measures on Foreign Investment in the Commercial Sector" https://www.mofcom.gov.cn/zcfb/blgg/art/2004/art_ee169577283e469a87bb59f027bdf483.html

gradually increased the share of self-operated business, strengthened supply chain capabilities, and worked with brands on joint business plans to build differentiated competitive advantages; they have also advanced digital membership management to enable precision marketing and improve user operation efficiency. Additionally, the industry has begun to focus on premium boutiques, community convenience, outlets and themed department stores, moving away from extensive operations and entering a new stage of refined operations and high-quality development.

2.2 Current Industry Position

After multiple rounds of transformation, department store retail remains one of the core formats of China's brick-and-mortar retail. National Bureau of Statistics data shows 4,284 chain department stores nationwide at the end of 2024. According to estimates by China Commerce Association For General Merchandise (CCAGM), there are approximately 7,000 department stores nationwide with a gross floor area of 5,000 square metres or more (including chain stores and independent stores), directly employing nearly one million people and indirectly supporting employment for nearly 10 million (including sales associates, security, cleaners, etc.). Department store retailers play an irreplaceable role in consumption upgrading, urban commercial ecosystem development and the real economy.

First, department store retail is the core vehicle for quality and high-end consumption. Department stores are the primary venues for international high-end brands, national first-store brands and regional exclusive brands—especially high-end department stores in prime commercial districts, which carry China's core high-end and fashion consumption demand. Major international cosmetics and luxury brands open their first stores in department stores; leading high-end department stores such as Beijing SKP and Nanjing Deji Plaza regularly rank among the world's top-performing high-end department stores by individual store sales, serving as bellwethers for China's high-end consumer market.

Second, department store retail is the core setting for offline experiential and social consumption. Compared with the convenience of online commerce, department stores, anchored in physical offline space, offers irreplaceable scenario experiential value and social function. As consumer needs shift from "purchasing goods" to "enjoying experiences," department stores have become the core landing scenario for delivering emotional value and the important venue for consumers' offline socializing, leisure and experiences.

Third, department store retail is the core engine of urban commercial development and business district prosperity. Department stores in prime commercial areas often serve as city landmarks and traffic hubs, playing a leading role in integrating commercial resources, driving foot traffic to the district, and promoting regional consumption upgrades. From Beijing's Wangfujing and Shanghai's Nanjing Road to Nanjing's Xinjiekou and Chongqing's Jiefangbei, the development of major domestic commercial districts has centred on department stores; upgrades in the department store formats have spurred coordinated growth in surrounding retail, dining, and cultural tourism sectors. They are a key component of urban commercial systems and an important indicator of a city's consumption vitality.

Fourth, department store retail is the benchmark and mainstay for building international consumption centre cities. Department stores are typically the core vehicles and landmark icons of such cities—like Harrods and Selfridges in London, and Macy's in New York. These global benchmark department stores are both urban commercial landmarks and consumption cultural symbols, bearing core functions of brand aggregation, trend setting, service experience and cultural tourism. Some of China's core department stores, through premium, immersive and international upgrades, have been aggregating global brands and debut economy, merging commerce, culture and services, and progressively enhancing the global appeal of their cities.

Fifth, department store retail is the main driving force behind the transformation and innovation of brick-and-mortar retail. In the face of e-commerce disruption and shifting consumer channels, department store retail led the way in exploring online offline integration, digital transformation and format innovation, providing replicable and scalable practical experience for the transformation of traditional brick-and-mortar retailers. From Intime Department Store's digitalization practice to Rainbow's omnichannel digital operations, the transformation explorations of department store retailers have driven the digital, intelligent and integrated development of China's brick-and-mortar retail.

While the view that department stores have become a sunset industry has long been heard, the reality of industry development shows that, with the profound transformation of the domestic consumer market, the pervasive penetration of digital technology and AI, and evolving consumer needs, the department store industry is encountering new structural development opportunities. The industry is upgrading from a standardized goods selling venue to a commercial space that supports diverse lifestyles, once again becoming a core vehicle for driving offline consumption and invigorating urban commercial vitality.

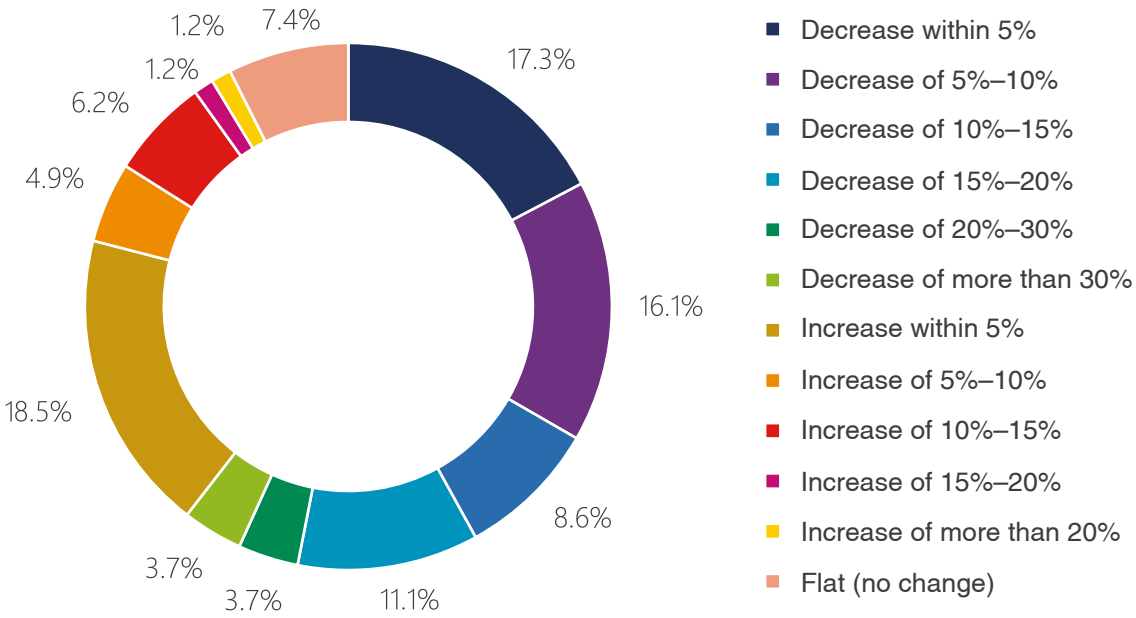


3 Department Store Industry Performance in 2025

3.1 Overall Sales Contraction; Insufficient Growth Momentum

Sales are the fundamental measure of business performance. A joint survey by CCAGM and the HKUST Li & Fung Supply Chain Institute (hereinafter "the survey")[2] shows that department store retailers' sales generally contracted in 2025. 60.5% of surveyed enterprises reported year-on-year declines in sales, 32% achieved year-on-year growth and 7.4% were flat with the prior year (Figure 3-1). The industry's overall growth momentum was weak.

Figure 3-1: Year on year change in sales revenue in 2025



Source: National Bureau of Statistics of China; compiled by CCAGM and HKUST Li & Fung Supply Chain Institute

Among enterprises reporting declines, small declines were most common, with some enterprises declining significantly. Enterprises with sales down less than 5% accounted for 17.3%, and those down 5–10% accounted for 16.1%, totalling 33.4%. Enterprises with declines exceeding 15% totalled 18.5%, of which those down 15–20% accounted for 11.1% and those down 20–30% and more than 30% each accounted for 3.7%, reflecting that nearly one in five enterprises suffered significant declines, with some facing dramatic shrinkage in sales.

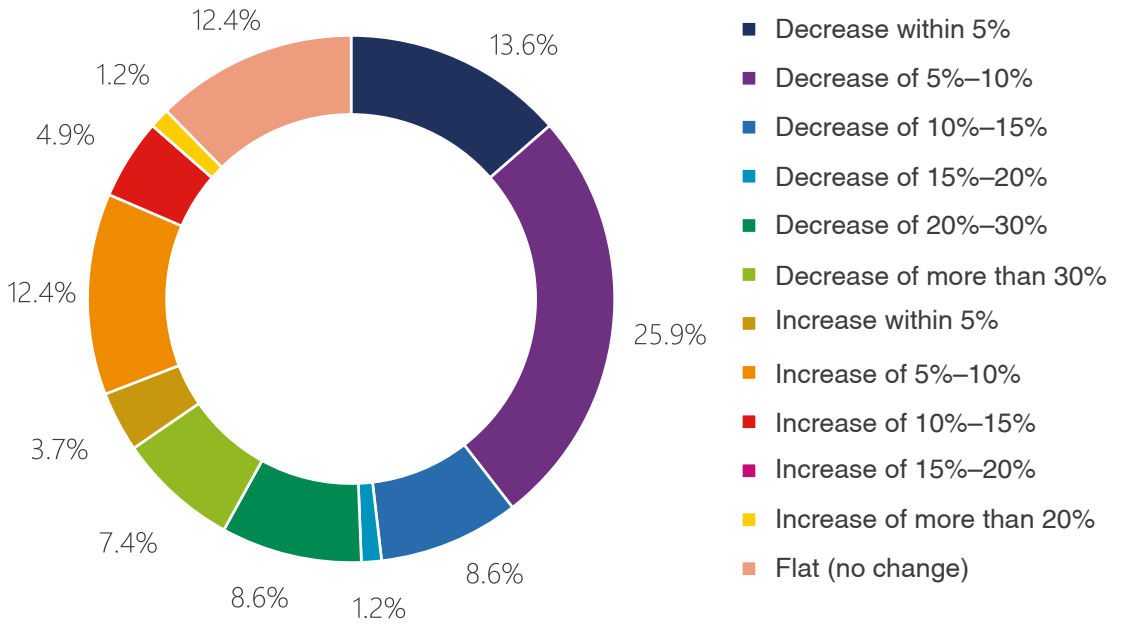
Among enterprises reporting growth, both the number and magnitude were generally low. Among the 32% that achieved sales growth, those growing less than 5% accounted for 18.5%—nearly three-fifths of the growth camp; those growing 5–10% accounted for just 4.9%, those growing 10–15% for 6.2%, and those growing 15–20% and above 20% each for just 1.2%. This reflects that it has become difficult for enterprises to achieve breakthrough growth in sales, with most of those that did grow remaining in the micro-growth zone.

2 This annual survey, jointly launched by the China Commerce Association ror General Merchandise (CCAGM) and the HKUST Li & Fung Supply Chain Institute, comprised two questionnaires: "2025–2026 Retail Enterprise Basic Situation Survey" and "2025–2026 Enterprise Digital Application Survey". Nearly 100 responses were collected for each questionnaire, covering representative medium and large retail enterprises nationwide at the corporate headquarters level. Most respondents are multi format operators (including department stores, shopping centres, outlets, supermarkets, convenience stores, etc.), and 60% of these enterprises identify department stores as their primary format.

3.2 Intensified Profitability Pressure; Narrowing Profit Margins

While declining sales reflect the contraction in industry market scale, net profit performance more accurately reflects the true operational quality of enterprises. The survey shows that in 2025, net profit pressure exceeded sales pressure. 65.3% of surveyed enterprises reported year-on-year declines in net profit, while only 22.2% achieved year-on-year growth—9.8 percentage points lower than the share of enterprises that achieved sales growth—and 12.4% were flat with the prior year (Figure 3-2). This shows that enterprises are broadly under pressure: even those that managed to hold sales volume often could not avoid profit erosion.

Figure 3-2: Year on year change in net profit in 2025



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

Among enterprises with profit declines, medium-magnitude declines were most common, with pressure widespread across all ranges. Enterprises with net profit down 5–10% accounted for the highest proportion at 25.9%, meaning nearly three in ten enterprises experienced moderate profit declines; those down under 5% and down 5–10% combined for 39.5%. Enterprises with declines exceeding 20% totalled 16%, of which those down 20–30% accounted for 8.6% and those down over 30% for 7.4%.

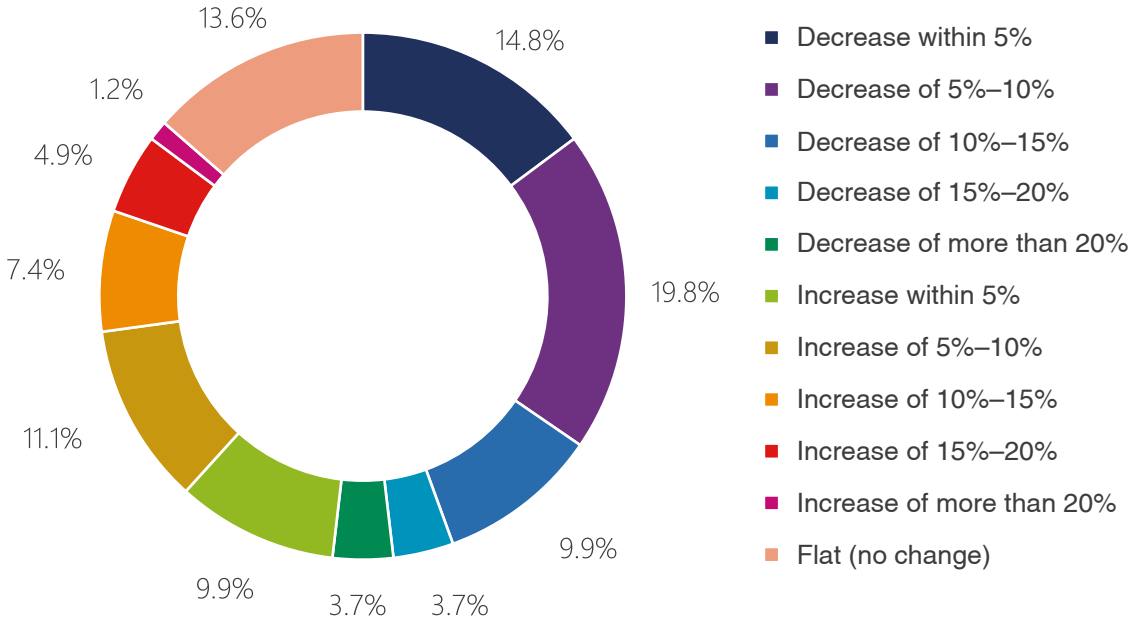
Only 22.2% of surveyed enterprises reported net profit growth, and the gains were generally small. Of all enterprises, 12.4% achieved 5–10% growth and just 3.7% grew by up to 5%; these two low-growth bands together totalled 16.1%, accounting for over 70% of the firms in the growth cohort. Firms with 10–15% growth account for only 4.9%, and just 1.2% achieved high growth above 20%.

The pressure on profits is fundamentally a result of both revenue decline and rigid cost squeezes. On one hand, the contraction in revenue directly compressed profit space; on the other, department store retailers face rigid operating costs in the form of rent, labour, utilities and property management, with limited room to reduce them. Simultaneously, frequent promotions and discounts to retain footfall further eroded merchandise margins, ultimately creating a vicious cycle of “revenue decline—margin squeeze—rigid costs—profit decline”. Multiple listed department store enterprises’ 2025 preliminary results announcements confirmed this trend.

3.3 Declining In-Store Traffic; Weak Offline Recovery

Footfall is the lifeblood of brick-and-mortar retail and the fundamental prerequisite for revenue and profit growth. The survey shows that footfall decline at department store retailers persisted in 2025: 51.9% of surveyed enterprises reported year-on-year declines in footfall, 34.5% achieved year-on-year growth and 13.6% were flat (Figure 3-3), with more than half of enterprises facing the core challenge of fewer shoppers.

Figure 3-3: Year on year change in footfall in 2025



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

Footfall declines were predominantly moderate. Enterprises with footfall down less than 5% accounted for 14.8%, those down 5–10% for 19.8%, totalling 34.6%—over a third experiencing moderate footfall loss. Enterprises with declines exceeding 15% totalled 7.4%, but reflecting that some enterprises have already faced significant footfall loss that, if not reversed, will pose an existential threat.

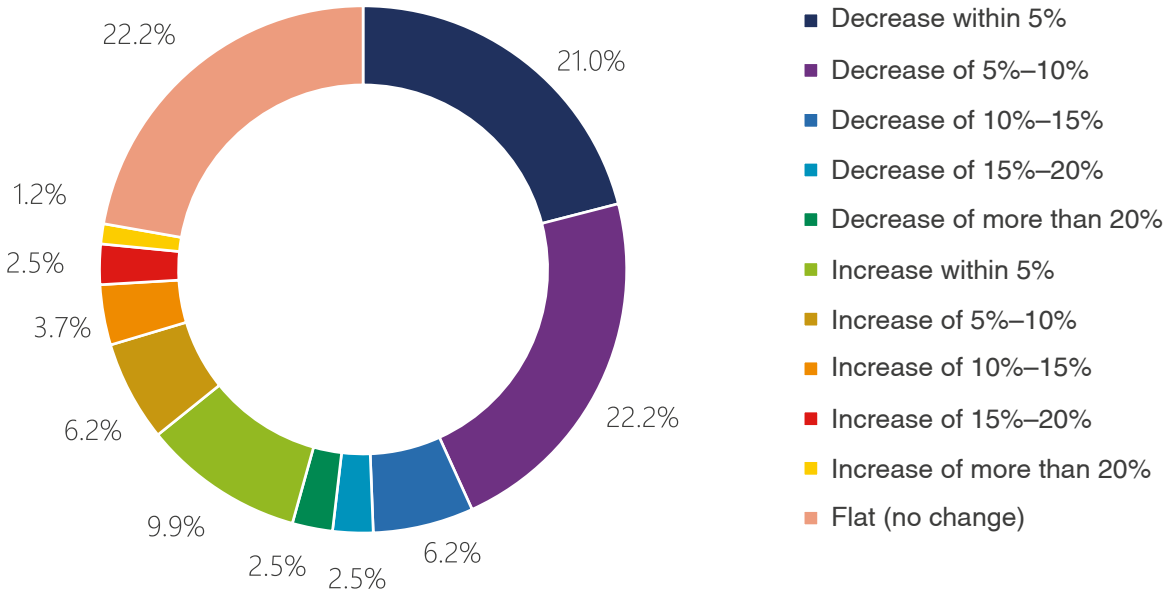
Among enterprises with footfall growth, micro-growth was most common. Among the 34.5% with footfall growth, those growing less than 5% accounted for 9.9% and those growing 5–10% for 11.1%, totalling 21%—over three-fifths of the growth camp; only 1.2% achieved footfall growth exceeding 20%.

The continued loss of footfall is the result of multiple factors: first, persistent diversion from online channels—livestreaming e-commerce, instant retail and other new retail formats continue to iterate, using information reach, price advantages and convenient delivery to capture market share from offline retail, with consumers' habit of "ordering online and receiving within 30 minutes" having taken hold; second, oversupply of urban commercial space, with per capita commercial floorspace far exceeding international norms in some cities; and third, insufficient scenario appeal in most offline stores—severe format homogeneity and a lack of experiential, social and immersive consumption scenarios that meet consumers' evolving needs.

3.4 Continued Decline in Average Transaction Value; Discretionary Consumption Under Pressure

While footfall determines store traffic, average transaction value (ATV) determines revenue quality; the two together form the core pillars of store revenue. The survey shows that in 2025, department store retailers not only faced footfall loss but also experienced widespread ATV decline, creating a dual-decline pattern of falling footfall and falling ATV. 54.4% of surveyed enterprises reported year-on-year declines in ATV—2.5 percentage points higher than the share with footfall declines—while only 23.5% achieved year-on-year growth and 22.2% were flat (Figure 3-4).

Figure 3-4: Year on year change in average transaction value in 2025



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

ATV declines were concentrated in small-to-moderate ranges across the board. Enterprises with ATV down under 5% accounted for 21.0%, those down 5–10% for 22.2%, totalling 43.2%—over four-tenths experiencing moderate ATV declines.

The number of enterprises recording an increase in ATV was relatively small, and growth levels were generally modest. Of the 23.5% of enterprises that achieved growth in ATV, those with growth within 5% accounted for 9.9%, and those with growth of 5%–10% accounted for 6.2% — together these two bands represented nearly 70% of the growth cohort. Enterprises with growth of 10%–15% accounted for 3.7%, and those with growth of 15%–20% accounted for 2.5%; only 1.2% of enterprises achieved high growth in ATV exceeding 20%. The challenges surrounding ATV growth are more pronounced than those seen in either revenue or footfall.

The widespread ATV decline stems from two core factors. On one hand, consumer confidence and spending power recovered less than expected, precautionary saving intent remained elevated, consumption became more rational and cautious, and non-essential, discretionary spending continued to contract. The core categories of department store retailers—clothing, cosmetics, jewellery and home goods—are precisely discretionary consumer goods and bore the brunt of consumption contraction. On the other hand, intensifying market competition drove a negative price-war cycle: in an environment of persistent footfall loss, most enterprises used heavy discounting and promotions as their core tool for retaining footfall, continuously depressing ATV.

3.5 Exploring Growth Paths; Format Innovation Leading Transformation

In 2025, amid structural adjustment, the department store industry continued to diverge. Despite industry-wide growth pressure, a group of high-quality department store retailers bucked the trend, achieving improvements in operational quality and brand value through clear strategic positioning and solid operational capabilities. Some enterprises with deep focus on the premium consumption track and commanding control over scarce commercial resources—such as Beijing SKP, Nanjing Deji Plaza and Hangzhou Tower—continued in 2025 to expand their luxury brand matrices, landing a large number of national first stores, Asian first stores and exclusive brand resources, firmly locking in high-net-worth consumers with irreplaceable scarcity, achieving new breakthroughs. Most benchmark enterprises saw further increases in the revenue share of premium categories and rising member contribution ratios, while strengthening customer stickiness through bespoke member service systems, building deep competitive moats in a bifurcating market.

Format convergence and innovation—breaking traditional commercial boundaries to create immersive lifestyle experience venues—was another characteristic of high-performing department store retailers in 2025. These enterprises moved beyond the single positioning of traditional merchandise trading venues, progressively transforming into urban lifestyle centres. Shanghai Jiuguang Centre, Wushang MALL and Guangzhou Teem Plaza significantly optimized their format mix in 2025, integrating art exhibitions, sports and leisure, family-oriented leisure activities, and immersive entertainment into their commercial spaces to create urban micro-vacation destinations. Hundreds of themed art exhibitions, trendy bazaars and cultural and IP events throughout the year effectively activated young consumers' enthusiasm to visit stores, achieving strong year-on-year footfall growth at core locations; by deepening night-time economy layouts and creating late-night consumption zones, they extended dwell time and broadened consumption scenarios. Rainbow, Intime and other enterprises further leveraged omnichannel layouts, connecting online stores, instant retail and livestreaming channels to overcome physical space and time constraints and open up stable second growth curves.

The deep local cultivation and multidimensional upgrade in commercial value by regional leaders was also a highlight of the department store industry in 2025. Shandong Inzone, Henan Dennis, Chongqing New Century Department Store, GrandBuy Group and other regional leaders, with decades of local brand accumulation, deeply aligned with regional consumption habits, created localized distinctive marketing activities, and introduced brands and formats tailored to local needs, achieving steady operations. These enterprises also continued to deepen supply chain reform, optimize operating models and effectively improve merchandise gross margins and risk resilience. In addition, most benchmark enterprises actively embraced green development, completed green store certifications, advanced energy saving and emissions reduction, and participated in rural revitalization and public welfare projects.



4 Development Opportunities for Department Store Industry

4.1 Deepening Consumption Promotion; Industry Reaps Policy Dividends

The Chinese government has continued to prioritize expanding domestic demand and boosting consumption, and a series of policies have created a favourable policy environment for the development of the department store industry. In 2025, multiple government departments issued a series of policies—including the *Special Action Plan for Boosting Consumption, the Urban Commerce Quality Improvement Action Plan, Implementation Opinions on Accelerating Scenario Cultivation and Opening-up to Promote Large-scale Application of New Scenarios, Notice on Strengthening and Expanding the Implementation of Policies for Large-scale Equipment Upgrades and Consumer Goods Trade-ins in 2025, Notice on Further Optimizing Departure Tax Refund Policies to Expand Inbound Consumption,* and *Notice on Carrying out Pilot Programmes for New Consumption Business Formats, Models and Scenarios*—providing policy support for development of the department store industry through consumption subsidies, trade-in programmes, business district upgrades, first-store economy support and tax relief.

At the local level, cities across the country issued targeted measures to boost consumption. Beijing, Shanghai and Guangzhou launched first-store economy subsidy policies; Chengdu, Chongqing and Xi'an rolled out consumer vouchers and special support for business district upgrades, driving format upgrading at department stores in core commercial districts. Many localities introduced VAT reductions and social insurance contribution deferrals for brick-and-mortar retailers, effectively easing operational pressure. Inbound consumption policies continued to be optimized, with visa-free access expanded to more countries and departure tax refund points increasing and procedures simplified, driving a recovery in inbound consumption and bringing new incremental space for high-end department stores. Nationwide urban renewal and renovation of old commercial districts also created prime opportunities for hardware upgrades and format restructuring at department stores.

4.2 Rise of "Guochao" (National Trend) Brands; Opening a Differentiated New Track

The rise of "Guochao" (national trend) and domestic brands has paved the way for differentiated competition in the department store sector. For a long time, domestic department stores have over-relied on international brands, limiting their bargaining power and making homogeneous competition inevitable. The sustained popularity of Guochao consumption and the all-round rise of homegrown brands now present an excellent opportunity for the industry to break this impasse.

On one hand, new domestic brand challengers are in a phase of expanding from online to offline. New brands in domestic cosmetics, trendy fashion, home goods and other new consumer segments urgently need offline scenarios to showcase brand image, enhance user experience and build brand value. Department stores, as the core commercial venue in cities, have become the first-choice channel for domestic brands to land offline; their deep cooperation benefits department stores with differentiated merchandise supply and gives domestic brands the core support for offline growth. On the other hand, an increasing number of department stores are leveraging local culture by curating intangible cultural heritage creative zones, time-honoured brand sections and regional specialty halls, giving regional department stores a distinctive local identity and cultural core that build competitive moats that are hard to replicate.

4.3 Quality Consumption Upgrade; Unlocking Structural Growth Space

Consumption upgrading and demand segmentation have unlocked structural growth opportunities for the department store industry. China's consumer market has already passed the stage of homogeneous growth, entering a phase of parallel, tiered development of high-end, high-quality and high-value-for-money consumption. The department store industry, leveraging its years of channel advantage, brand resources and offline scenario capabilities, has become a core vehicle for meeting consumption demand at different levels. In the high-end consumption space, department stores are one of the main channels for international brand sales, as exemplified by SKP, Deji Plaza and Hangzhou Tower; high-end cosmetics, gold and jewellery, and affordable luxury apparel categories have particularly strong dependence on the department store channel. The "first-store economy" has emerged as a core lever for driving high-end consumption: by introducing national, regional and city debuts, department stores not only build differentiated competitive advantages but also consistently drive footfall and enhance the influence of the business district.

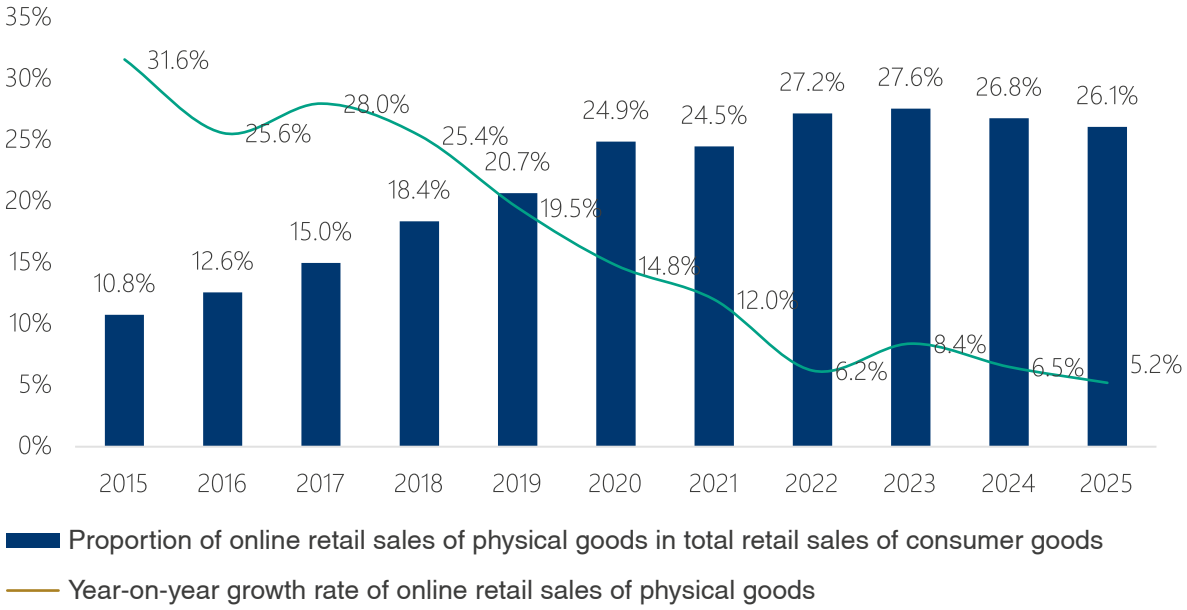
China's advantage as a hyper-scale market remains prominent as the middle-income group expands, purchasing power rises, and the trend towards quality consumption gains momentum. These factors present fresh development opportunities for the department store industry. As disposable incomes grow, consumer demand has shifted from "quantity to quality", driving a surge in demand for premium goods, superior services, and branded consumption. The department store industry, as the core vehicle for quality consumption, is well-positioned to capture the dividends of this structural upgrade.

In lower-tier markets, the dividend from consumption upgrading at the county level continues to be released. County-level department stores, leveraging their inherent advantages of local network presence and local customer trust, are precisely filling the quality consumption gap in lower-tier markets through merchandise upgrading, brand introduction and service optimization. Meanwhile, the explosion of niche demands—Gen Z self-gratification consumption, health and leisure consumption of the silver group, and family one-stop consumption—also provide targeted directions for the industry's breakthrough.

4.4 Online Dividend Fading; Offline Commercial Value Returning

After more than a decade of rapid expansion, China's online retail market has gradually entered a stage of zero-sum competition for existing users, with traffic dividends fading and customer acquisition costs rising, while the market is revisiting the value of offline brick-and-mortar commerce. Data shows that the year-on-year growth rate of national online retail sales of physical goods fell to 5.2% in 2025, down sharply from 19.5% in 2019, marking several consecutive years of slowing growth. Structurally, the share of online sales in total physical goods retail has declined for three consecutive years: in 2025 it was 26.1%, down 1.5 percentage points from the peak of 27.6% in 2023 (Figure 4-1).

Figure 4-1: Growth rates of online retail sales of physical goods and their proportions in total retail sales of consumer goods, 2015-2025



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

Against this backdrop, both brands and consumers have begun to re-evaluate the intrinsic value of physical retail. For brands, department stores are no longer mere sales channels; they have evolved into strategic hubs for brand storytelling, consumer experience, and private-domain asset cultivation—essential vehicles for fostering deep engagement. An increasing number of new consumer brands and digitally native brands are expanding from online to offline, establishing a presence in department stores and bringing with them fresh brand resources and incremental footfall. For consumers, the initial novelty of online shopping is gradually wearing off. Their growing appetite for experiential, scenario-based, and social consumption continues to highlight the irreplaceable nature of brick-and-mortar commerce.

4.5 Active Lower-Tier Markets; County-Level Markets Seeing Upgrade Opportunities

Driven by the Rural Revitalization Strategy, China's county-level commercial infrastructure is undergoing continuous improvement. Rising disposable incomes and accelerating consumption potential in lower-tier markets have positioned these regions as a vital incremental growth engine for the department store sector.

In 2025, national rural retail sales of consumer goods reached 6.8 trillion yuan, up 4.1% yoy—outpacing urban growth for several consecutive years. In Q1 2025, retail sales in counties and townships (including rural areas) accounted for over 40% of the national total, establishing lower-tier markets as a pivotal growth pole for China's consumer market.

However, significant gaps in supply remain: many county-level markets are still characterized by outdated formats, lower brand positioning, and a lack of experiential offerings, failing to meet the rising demand for quality consumption. This creates ample strategic space for county-level department stores to reposition themselves. Compared to the intense competition in core business districts of Tier-1 cities, county-level markets offer lower competitive pressure, reduced operating costs (such as rent and labour), and greater profit potential.

4.6 Steady Expansion of REITs; Monetization Channel for Quality Assets

The expansion of the Real Estate Investment Trust (REIT) market—especially the steady broadening of the pilot scope for consumer infrastructure REITs—has opened a channel for China's department store industry, deep in the waters of transformation, to revitalize and monetize its quality property portfolios. As the core vehicle for offline consumption, department store retailers hold premium properties in core business districts. Historically, the intrinsic value of these assets has been difficult to fully unlock through traditional financing. Meanwhile, the industry faces massive capital requirements for renovation, digital transformation and the creation of experiential spaces. REITs, as a standardized equity financing tool, enable asset revaluation, public listing and capital recycling—perfectly aligning with the strategic needs of the department store industry during its transition.

For department store retailers, the core opportunities of REIT expansion lie, first, in monetizing quality assets and optimizing financial structures. By injecting mature properties in core business districts—characterized by stable footfall and robust rental yields—into REITs, companies can unlock significant equity capital. This effectively lowers leverage, eases liquidity pressure, and releases them from the debt constraints of traditional mortgage financing.

More importantly, REITs establish a comprehensive "invest—finance—manage—exit" closed-loop model. The recycled capital can then be reinvested into format upgrades and operational enhancements, driving the transition from single merchandise sales channels to immersive, multi-functional consumer spaces that integrate culture, commerce, and tourism. Furthermore, REITs facilitate an asset-light transformation, enabling companies to shift from property ownership to the provision of brand and operational management services. This allows them to generate steady income through management fees and performance-based incentives, ultimately strengthening their core competitiveness.

It is worth noting that the benefits of REITs are not a "universal windfall" for the industry. They entail stringent requirements regarding the cash flow stability, operational compliance, sustainable high-payout ratios, and long-term growth potential of the underlying assets. This necessitates a strategic shift for department store retailers towards the precision management of their core assets—deepening their focus on consumer needs, optimizing tenant mixes, and enhancing the appeal of experiential scenarios to solidify the long-term yield potential of these assets.

Looking ahead, as REIT market regulations mature and the pilot expansion continues, retailers with premium core assets and strong operational capabilities are well-positioned to leverage this tool to deepen their transformation, injecting new momentum into the upgrading and expansion of China's domestic consumption market.



5 Development Challenges for Department Store Industry

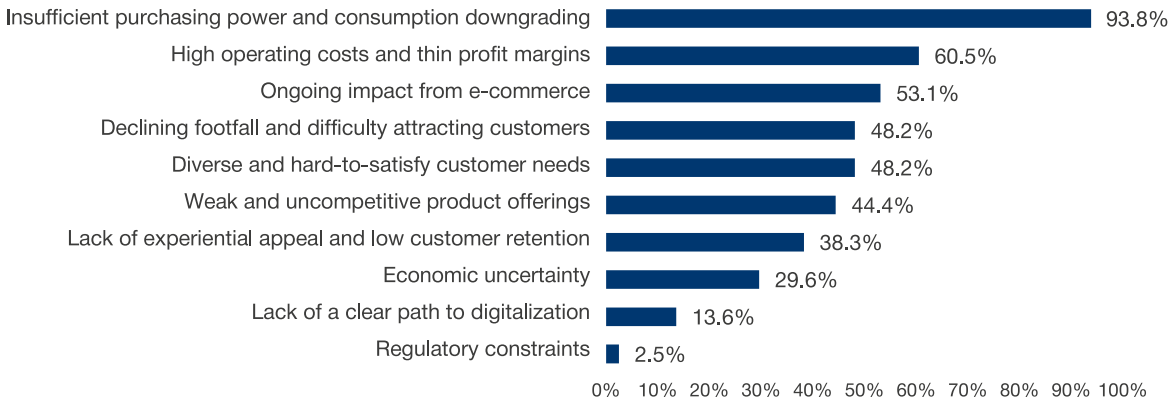
5.1 Insufficient Consumption as a Common Challenge

The survey shows that 93.8% of surveyed enterprises cited “insufficient purchasing power and consumption downgrading” as a major current development challenge—the top-ranked item among all options and the main common challenge facing the department store industry today. Meanwhile, 29.6% selected “economic uncertainty”, and only 2.5% cited “regulatory constraints” as a challenge (Figure 5-1). This data shows that the industry’s core pressure stems from persistently weak consumer fundamentals in the macroeconomic environment.

In 2025, China’s total retail sales of consumer goods surpassed 50 trillion yuan, with final consumption expenditure contributing 52% to GDP growth. However, retail sales from physical stores above designated size grew by only 1.7%—significantly lagging behind the 3.7% overall growth rate of total retail sales. The department store retailers in this survey are predominantly enterprises above designated size, with core categories concentrated in discretionary sectors such as apparel, beauty, jewellery, and home furnishings—all of which are directly tied to income expectations and consumer confidence. Currently, a sustained rise in precautionary savings has led to a continued contraction in non-essential spending. The market is now characterized by “stable demand for essentials vs. shrinking discretionary spend”, which directly impacts the core revenue of department store retailers. Furthermore, economic uncertainty has made enterprises hesitant to commit to long-term strategic investments or store upgrades. Most have adopted contractionary operating strategies, further deepening the sense of conservatism across the industry.

Supply-demand mismatch is another critical driver of consumption weakness: 48.2% of enterprises cited “diverse and hard-to-satisfy customer needs”; 44.4% said “weak and uncompetitive product offerings”; and 38.3% faced a “lack of experiential appeal and low customer retention” (Figure 5-1). These three pain points expose the inherent capability gaps of department store retailers and are the core root of homogeneous industry competition. China’s consumer market has entered a new phase of demand reconstruction—not simply “consumption downgrading”. Gen Z has become the main consumer force; silver economy, self-gratification economy and experience economy have risen rapidly; and consumer needs have shifted from material satisfaction to value, experience and emotional fulfillment—moving away from standardized product purchasing to personalized, diversified and scenario-based consumption.

Figure 5-1: Major challenges facing surveyed department store operators (multiple choice)



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

5.2 Rising Costs and Falling Footfall: A Negative Feedback Loop

The survey shows that 60.5% of surveyed enterprises faced “high operating costs and thin profit margins”—the second-ranked challenge across the industry—while 48.2% cited “declining footfall and difficulty attracting customers” (Figure 5-1). These two pain points have created a structural conflict—“persistently declining revenue with rigidly rising costs”, further squeezing the survival space of enterprises.

Core costs for department store retailers—property rent, labour, utilities, and marketing—are largely rigid and difficult to compress significantly. Yet revenue continues to contract on the back of weak consumption and declining footfall, with the industry’s overall profitability deteriorating. Many department store retailers are on the breakeven boundary, and some stores even face closure risk.

The “declining footfall and difficulty attracting customers” problem has formed a vicious cycle with high operating costs. Commercial oversupply in cities, densely concentrated homogeneous commercial projects and the persistent siphoning of online channels have made offline footfall an extremely scarce resource. Traditional footfall-driving tools like “discount promotions and holiday events” are yielding diminishing marginal returns—traffic acquisition costs keep rising while conversion rates and repeat purchase rates keep falling.

5.3 Online Competition Intensifies Channel Diversion

The survey shows that 53.1% of surveyed enterprises faced “ongoing impact from internet platforms, e-commerce and livestreaming”—the third-ranked challenge across the industry (Figure 5-1). Over the past two decades, retail channels have continuously iterated—from traditional e-commerce to social commerce, and further to livestreaming e-commerce and instant retail—driving a steady rise in online penetration. The impact of online channels on traditional department stores extends beyond simple footfall diversion; it represents a comprehensive disruption of supply chain architectures, pricing systems, and profit models.

Historically, department store retailers have relied on a “brand concession and sub-leasing” model, characterized by multi-layered supply chains that are difficult to transform. In contrast, livestreaming e-commerce and direct-to-factory (D2F) models have streamlined the link between production and consumption. By bypassing intermediaries, these models enhance supply chain efficiency—lowering prices and optimizing fulfillment to redefine the consumer experience, effectively eroding the competitiveness of traditional department stores.

Meanwhile, the rapid rise of instant retail has further weakened the transactional role of physical stores. With front-warehouse models proliferating and “delivery to your door” services pervasively available, consumers can place orders on online platforms and enjoy “same-hour delivery”—completing full-category daily shopping without leaving home. This has further eroded the footfall dividends long enjoyed by traditional department stores, significantly undermining the spatial value of their physical locations.

5.4 Brands Building Direct Channels Competing for Market Share

In recent years, the direct-to-consumer (DTC) model has emerged as a dominant retail channel, with many brands now seeing DTC sales exceed 50% of their total revenue. This trend is driven by a convergence of shifting supply-demand dynamics, technological advancements, and evolving consumer logic.

In traditional distribution chains, brands face inefficiencies in circulation and margin compression caused by multiple channel layers, while struggling with price control and consistent brand messaging. In contrast, the DTC model shortens the supply chain, enabling brands to engage directly with end-consumers. This not only optimizes operational efficiency but also grants brands greater autonomy over their operations.

Furthermore, the deep penetration of online shopping and the demand for personalized experiences among younger consumers—coupled with the maturity of livestreaming and private-domain operations—have expanded the reach of DTC. By bypassing intermediaries, brands can now respond directly to user needs and cultivate user assets, ultimately reshaping value distribution and channel authority across the retail landscape.

Against this backdrop, the core channel advantages of department stores face continued challenges. Department stores are gradually seeing their bargaining power in brand partnerships weakened, while facing ongoing customer diversion and narrowing profit margins. DTC's development compels department stores to move away from homogenized operations: without timely reconstruction of scenario value and improvement of digital capabilities, they risk gradually losing their core competitiveness.

5.5 Major Obstacles to Renovation and Transformation

5.5.1 Imbalanced investment-to-return ratio

The survey shows that over 70% of respondents cited funding as the core obstacle to renovation—the number-one challenge. From the investment perspective, renovation costs are characterized by "high rigidity, multi-dimensionality and exceeding expectations": major capital investment is required for structural reinforcement, fire safety upgrades, traffic flow planning and equipment updates of ageing properties; experiential format creation, scenario space upgrading and first-store brand attraction also require sustained investment in fit-out subsidies, rent-free periods and operational traffic generation; and hidden costs—labour, taxes, rent and operational losses during renovation—add significant burden.

From the return perspective, high initial investment, long payback periods, and high revenue uncertainty are common industry pain points. Most enterprises reported that remodeling often leads to a direct drop in footfall, a sharp decline in sales, and tenant loss. Even after completion, factors such as market downturns, cautious spending, and intensified competition often mean that rent hikes, margin growth, and footfall recovery fall short of expectations, resulting in a mismatched investment-to-return ratio.

Furthermore, the financial pressure on enterprises is intensified by a general shortage of internal capital, limited external financing channels with high credit thresholds, and significant difficulties in securing government subsidies, which are often hampered by complex application processes and lengthy approval cycles. This financial pressure often forces projects into minor patchwork repairs rather than achieving a comprehensive revitalization.

5.5.2 Hardware limitations

Nearly 60% of surveyed enterprises cited property hardware limitations—an inherent constraint that cannot be circumvented in renovation. Department store buildings, many of which are older properties, commonly have structural constraints: low ceiling heights, dense columns, limited load-bearing capacity and poor traffic flow layouts cannot accommodate the space and engineering requirements of dining, family, entertainment and sports experience formats. Furthermore, some properties are restricted by fragmented ownership or zoning regulations, preventing structural reconfiguration and limiting the scope for spatial innovation and tenant mixing.

5.5.3 Scarcity of brand recruitment resources

Over 60% of surveyed enterprises cited leasing and brand-related obstacles. In the current environment, brands are broadly retrenching, with insufficient budgets, low enthusiasm for new store openings and cautious investment attitudes. Most suppliers are reluctant to increase investment; leading brands and trend brands are spending much longer time in leasing negotiations; and attractive brands are often unwilling to enter lower-tier market locations. Department store retailers also broadly lack quality brand resources, with persistent vacancy problems that cannot be fully resolved.

5.5.4 Unclear strategy and weak operations

Nearly half of surveyed enterprises cited positioning, planning and operations-related issues. Most department stores face unclear positioning and severe homogeneity; formats are convergent, merchandise is homogeneous, retail share is high and experiential formats are insufficient. Decision-making relies heavily on experience rather than data and systematic planning, making it difficult to match rapidly changing market needs.

5.5.5 Weak organizational coordination and difficult execution

Talent shortages are prevalent, with insufficient skills fit, inadequate team innovation and a lack of digital and operational specialists. Organization and mindset rigidity also presents obstacles, as does low cooperation from existing tenants facing concerns over declining sales and rent changes during renovation periods. State-owned department stores also face the rigid challenge of placing redundant employees after restructuring.

Overall, the challenges in department store renovation and transformation are interconnected and compounding, forming an industry dilemma of “dare not transform, don’t know how to transform, can’t afford to transform, can’t transform effectively”. There is also a general problem of “emphasizing hardware over software and emphasizing the renovation process over subsequent operations”.

5.6 Developing Self-Operated (Direct-Purchase) Business: A Long Road Ahead

5.6.1 Financial and cost pressures as primary constraints

Survey results show that over half of department store enterprises report capital-level constraints in developing self-operated (direct-purchase) business. This is primarily reflected in the massive upfront capital requirements, heavy capital tying, and low turnover efficiency associated with the direct-purchase model. Coupled with a general

lack of internal funding, these factors constitute a major barrier to entry and expansion. Additionally, direct-purchase models have long return payback periods and slow profit realization, further exacerbating enterprise cash flow pressures. Furthermore, rising operational costs in procurement, warehouse logistics, store rental, and personnel, combined with industry-wide price war competition, result in persistent compression of gross margins and severely squeezed profit margins. This has become the core concern preventing retailers from easily committing to deeper development of self-operated business.

5.6.2 Supply chain and inventory management as critical painpoints

Supply chain capability shortfalls and inventory risks represent the second major core obstacle the industry faces in launching self-operated businesses. On one hand, enterprises universally face difficulties in product selection and a scarcity of high-quality merchandise resources—category R&D progresses slowly, prediction capability regarding consumption trends and customer demands is lacking, making it difficult to build differentiated product competitiveness and easily falling into homogeneous price wars. On the other hand, high-quality supply channels are unstable; insufficient procurement scale results in weak negotiation power, making it difficult to obtain first-hand resources and price advantages, while supply chain iteration remains inefficient. At the same time, the self-operated model ties up significant capital in inventory. The difficulty in managing inventory clearance and shrinkage—coupled with imbalances in purchase-sales-inventory (PSI) management—further amplifies operational risks and complicates supply chain and cost control efforts.

5.6.3 Talent scarcity and team capabilities as internal bottlenecks

Survey data frequently highlights the operational complexity of direct-purchase models and the acute shortage of specialized personnel. A primary industry pain point is the absence of professional buyer teams and insufficient procurement expertise. There is also a severe lack of talent skilled in precision operations, specialized marketing, and full-lifecycle product management, making it increasingly difficult to support the end-to-end efficient operation of the self-operated business chain.

5.6.4 Operational management and market-oriented capabilities constrain long-term growth

Most existing management systems are ill-suited to the demands of direct-purchase operations. Inadequate operational frameworks, coupled with a lack of management depth and efficiency, create a significant gap in precision management. The end-to-end management of self-operated business is often seen as cumbersome and overly complex, requiring disproportionate energy for tasks such as procurement.

Furthermore, enterprises face a general lack of market-oriented capabilities: a fragile foundation in direct-purchase operations, difficulty in building brand power, and reliance on single sales channels that are highly vulnerable to online diversion. A lack of store scale also prevents retailers from gaining bargaining power, while internal channel conflicts and an inability to grasp shifting customer needs remain unresolved. These ultimately result in weak sales growth and sluggish business development.

6 Development Trends in China's Department Store Industry



6.1 2026 Performance Outlook

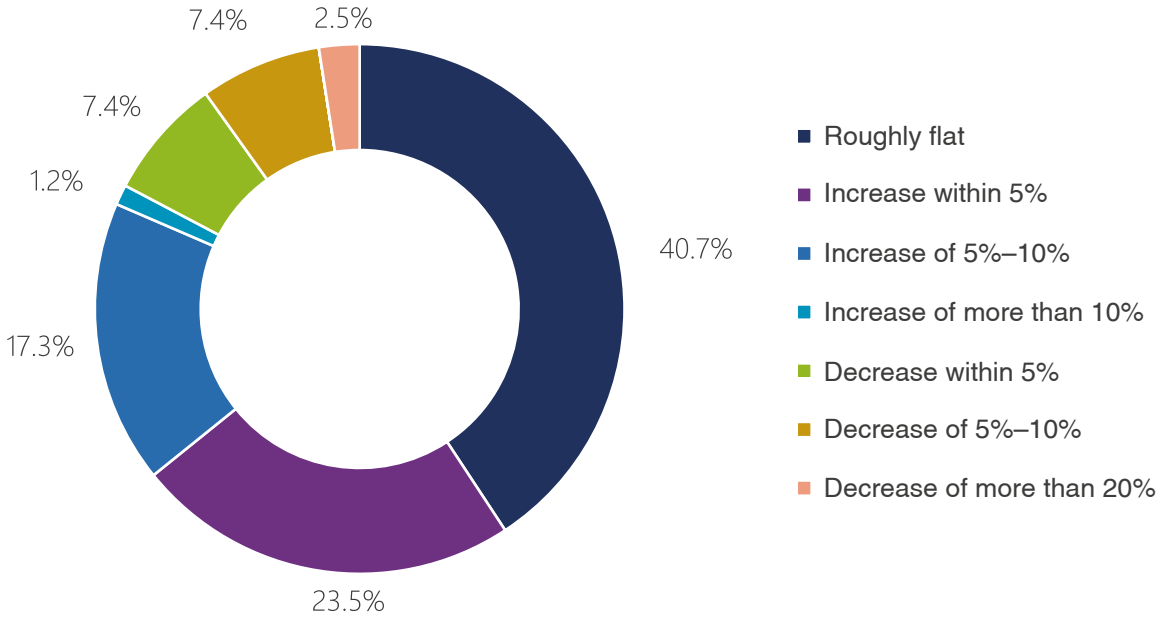
The survey shows that companies' expectations for 2026 sales performance are predominantly cautious and conservative. The largest share of respondents—40.8%—expected sales to remain "roughly flat", indicating that most companies believe the department store industry will maintain stable operations in 2026 without major fluctuations.

Companies expecting sales growth in 2026 accounted for a combined 42%, of which "growth within 5%" represented 23.5%, "growth of 5–10%" made up 17.3%, and only 1.2% of respondents expected growth exceeding 10%. This reflects a rational expectation of moderate market growth.

Companies expecting sales to decline accounted for a combined 17.3%, of which "decline within 5%" and "decline of 5–10%" each represented 7.4%, while only 2.5% expected a significant decline—indicating that the industry's pessimism about severe downturns has eased somewhat. With continued pro-consumption policy support and richer offline experience scenarios, negative sentiment has moderated.

Overall, the 2026 outlook points to a cautious recovery. More than 80% of companies expect flat or modest growth, suggesting a gradual, moderate upturn is underway (Figure 6-1).

Figure 6-1: 2026 sales expectations compared to 2025 among surveyed department store operators



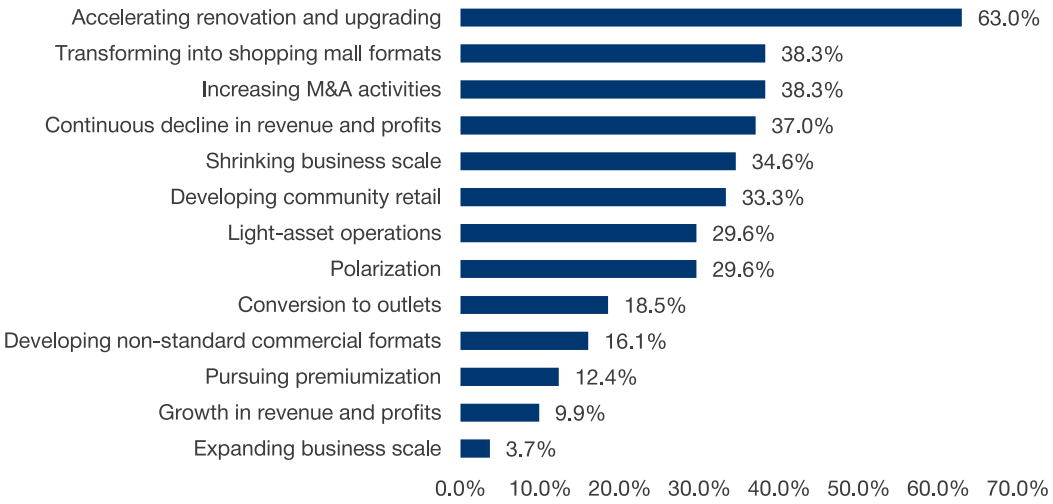
Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

6.2 Future Development Directions

6.2.1 Renovation and upgrade as top priority; format restructuring as main direction

Facing the pressures of a saturated market, surveyed companies show a high degree of consensus on their breakthrough strategies. "Accelerating renovation and upgrading" tops the list with 63% of respondents citing it as the most critical development direction for the next three years (Figure 6-2). In an environment of severely limited incremental growth, revitalizing existing assets through comprehensive format and operational upgrades has become the industry's primary lever.

Figure 6-2: Perceived development directions for department store industry over next three years (multiple choice)



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

Traditional department stores have long suffered from single-format offerings, brand homogeneity, lack of experiential elements, and poor scenarization. Under the dual pressures of shopping malls and e-commerce, the traditional "concession/tenancy + brand sales" profit model faces existential challenges. The core objective of renovation is to break the traditional boundary of department stores—shifting from "selling goods" to "selling lifestyles". Survey data shows that 38% of respondents believed department stores would trend towards "mall-ification"—transforming into shopping mall formats: reconfiguring space and diversifying formats to replace traditional counter-style layouts with dining, entertainment, family and kids, cultural and social experience areas, elevating the project from a simple sales venue into a multifaceted urban lifestyle destination (Figure 6-2).

Renovation and upgrading is not merely about stacking formats or refreshing spaces. It requires precise repositioning and brand elevation in response to structural changes in consumer demand. As consumer segmentation deepens, demands are becoming increasingly personalized, refined, and community-oriented. In the coming years, renovation efforts will place greater emphasis on accurate customer targeting, competitive differentiation through brand mix adjustments, experiential design, and service upgrades.

6.2.2 Increased M&A activity; market consolidation accelerating

Survey respondents share a broadly consistent outlook on the industry's overall trajectory over the next three years: the sector has entered a deep adjustment phase of zero-sum competition, with industry consolidation and market restructuring emerging as the dominant themes.

First, expectations for scale and profitability are relatively pessimistic. 37% of surveyed companies believed revenues and profits would continue declining over the next three years, while only 10% expected genuine improvement. 34.6% expected a contraction in their overall business scale, and only 3.7% expected it to expand. This confirms that the traditional logic of "scale expansion, race for incremental gains" has fundamentally failed. Survival, operational stability, and risk control have replaced scale expansion as the industry's core priorities.

Second, consolidation and polarization are becoming clearer. 38.3% of respondents believed M&A would increase in the coming years, while 29.7% predicted that the rich-get-richer dynamic would intensify further—totalling nearly 70% of respondents. This signals that in a broadly declining market, consolidation and tiered competition will become entrenched features of the new industry landscape (Figure 6-2).

The current wave of M&A in department retail is characterized by cross-sector actors and outside capital entering the space. On one hand, companies with strong balance sheets are consolidating retail property and operations in core cities—for example, Youngor's acquisition of Intime Department Store. On the other hand, private equity firms and industrial investment funds are emerging as key deal-makers. Boyu Capital has taken controlling stakes in landmark properties such as Beijing SKP and Badaling Outlets, moving from pure financial investment to strategic control with deep operational involvement. E-commerce platforms and cross-sector industrial capital are also treating department retail assets as a way to anchor offline retail presence and build out their consumer ecosystem.

6.2.3 Community retail as new growth engine; neighbourhood consumption rising

As competition in core urban commercial districts intensifies, department stores are diversifying into community-based formats. 33.3% of surveyed companies saw developing community retail as a key direction for the next three years—ranking just behind renovation, mall-ification, and M&A (Figure 6-2).

In recent years, as core city commercial districts become saturated, proximity-based consumption and convenience-driven retail have seen growing demand. Community retail—with its advantages of closeness, stickiness, and convenience—has emerged as a new opportunity. For traditional department stores, the transition is both an escape from core-district competition and a path to new incremental gains. Unlike the mid-to-high-end positioning of flagship stores, community-oriented formats focus on meeting the everyday needs of residents within a 3-kilometre radius: fresh groceries, living services, family and kids, education, and convenient dining—creating a neighbourhood lifestyle centre that competes on differentiation rather than direct rivalry.

Community retail is also more resilient through economic cycles, less affected by macroeconomic swings, and provides a more stable cash-flow foundation. Over the next three years, some department stores are expected to reposition parts of their portfolios towards community-based formats, building a multi-tiered commercial layout—flagship projects in core business districts plus convenient neighbourhood outposts—covering full-scenario consumer needs. A prime example is Xinchen Commercial, which is further integrating projects like Beijing Ito Yokado into its existing Xinchenli foundation.

6.2.4 Multi-track niche strategies; model innovation breaking homogeneity

Survey data shows that department stores are exploring diverse niche segments and innovative business models to carve out differentiated positioning. "Light-asset operations" (29.6%) has emerged as a key model innovation direction (Figure 6-2). In a broader market downturn with increasing heavy-asset investment risks, companies are moving towards fee-based management service models—exporting brand, management

capability, and supply chain resources to third-party asset holders and earning management fees and performance commissions. This reduces capital exposure and risk while scaling proven operational capabilities. Over the next three years, leading operators with mature management systems and brand influence are expected to accelerate light-asset expansion.

On the niche format side, outlet conversion is an increasingly viable direction. With consumption tiering deepening, demand for high-quality branded goods at discounted prices continues to grow, and the outlet model has demonstrated strong countercyclical resilience. For department stores, a portion of underperforming locations can be converted to outlet formats—leveraging existing brand relationships and supply chain advantages to revitalize assets, avoid direct competition with malls, and serve value-seeking shoppers.

Additionally, non-standard commercial formats (16.1%) and premiumization (12.4%) remain valid choices for surveyed companies (Figure 6-2). Non-standard formats—such as themed streets, cultural creative spaces, and immersive experience zones—cater to the individualized demands of younger consumers. Premiumization involves curating international luxury brands and delivering bespoke high-net-worth services. It is worth noting that these three directions—outlet conversion, non-standard commercial, and high-end positioning—are not one-size-fits-all solutions, but rather niche strategies tailored to specific store profiles.

6.2.5 Precision operations as core lever; deep joint operations as development mainstream

The department store industry is entering an era of refined, efficiency-first, value-deepening operations. With digital tools as the enabler, companies are connecting data across front-end store sales, mid-level inventory management, and back-end supply chains—transitioning from “experience-based decisions” to “data-driven decisions”. Real-time analysis of foot traffic, conversion rates, and consumer behaviour is being used to optimize category structure, store layouts, and merchandise displays, maximizing per-square-metre productivity. At the same time, full-lifecycle member operations systems are being built, segmenting users by purchasing preferences to deliver tailored benefits and experiences, converting traffic into a long-term private-domain asset base.

Simultaneously, department stores are deepening their engagement with brand partners through collaborative operating models centred on joint business planning (JBP), designed to reshape supply chain value and build differentiated competitive advantages. The core of deep JBP is a profit-sharing, risk-sharing symbiotic framework: jointly setting annual business plans across dimensions of merchandise planning, marketing, inventory turnover, and customer operations. Department stores open full-domain consumer data and user insights to brand partners, who in turn tailor their strategies to the channel’s customer profile. Jointly executed omnichannel marketing campaigns, integrated membership systems, and shared inventory management mechanisms reduce stockpiling risks and improve merchandise velocity.

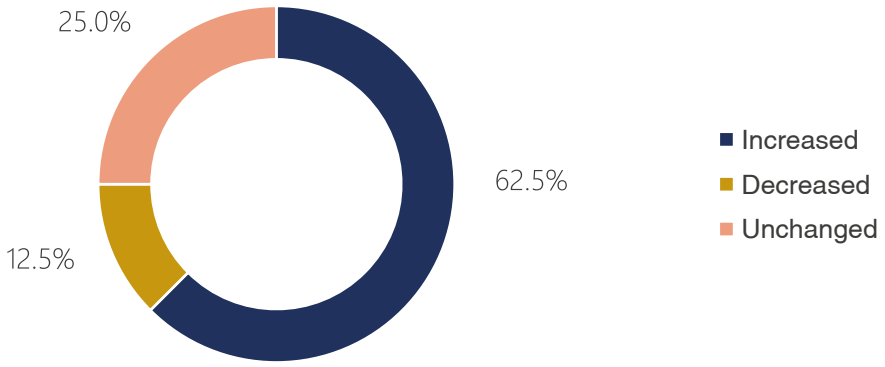
This deep JBP model enables department stores to move beyond rent-collection dependency and participate substantively in the merchandise business, while helping brand partners achieve more precise channel alignment—ultimately driving joint improvement in sales and profitability.

6.3 Renovation and Upgrade Trends

6.3.1 Format structure restructuring: Anchoring customer needs and optimizing product offerings

Survey data shows that 62.5% of companies reported an increase in the number of stores undergoing renovation in 2025, affirming that active upgrading and transformation is a dominant industry trend (Figure 6-3).

Figure 6-3: Store renovation and upgrading status, 2025



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

China's department store sector is at a critical inflection point of deep consumer demand evolution and accelerating commercial restructuring. As consumption shifts from simple goods purchasing towards experience, social, and emotional value, combined with the pressures of e-commerce diversion, saturated competition, and generational consumer shifts, renovation and upgrading has become the primary mechanism for department stores to break through growth bottlenecks and rebuild core competitiveness.

Business format optimization and upgrading emerged as the most frequently cited strategic direction in this survey. Over 70% of enterprises identified it as their core priority for 2026.

In terms of format mix optimization, the industry has reached broad consensus around "increasing the proportion of experiential and dining formats while eliminating low-efficiency traditional retail formats". Enterprises widely plan to raise the share of dining and experience formats, reduce pure retail, and integrate lifestyle, immersive, and social experience formats—blurring the boundaries of the traditional department store and building a composite ecosystem of "retail + dining + experience". Some enterprises go further, pointing towards "cultural–tourism–sports" integration—introducing cultural tourism, entertainment, sports, and health formats that create multi-dimensional consumption scenarios that e-commerce cannot replicate.

Regarding brand portfolio evolution, the core focus is on "quality enhancement and precise customer alignment". Leading enterprises are continuing to upgrade their brand mix—prioritizing regional or city first-entry stores, exclusive brands, and premium cosmetics to boost project differentiation and prestige. Meanwhile, more enterprises are pivoting towards value-for-money brands and high-traffic brands while decisively phasing out low-performing, low-productivity tenants to ensure brand matrices match target customer profiles.

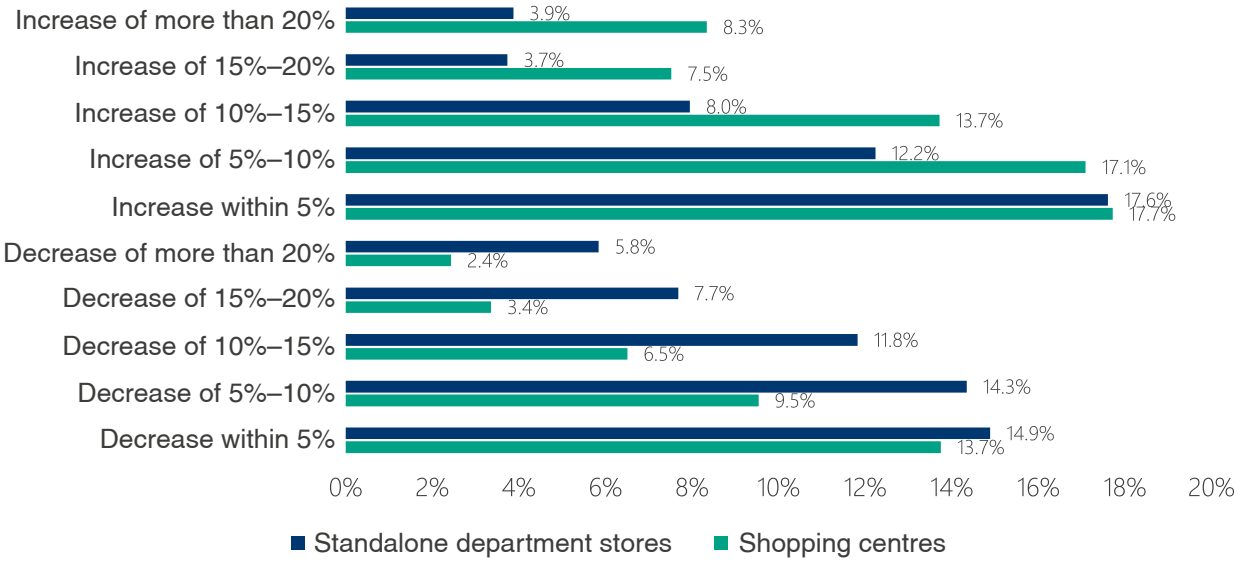
On customer targeting, store optimization now features “youth-first, all-age coverage”. More than half of surveyed enterprises aimed to build youth-focused hubs via trendy formats, social scenes and influencer brands. Meanwhile, the silver economy and community services are gaining traction, with a focus on age-friendly upgrades. Retailers are moving away from all-inclusive positioning towards deep engagement with specific customer groups.

6.3.2 Space and scenery renewal: Creating immersive, socialized consumption venues

Space and hardware renovation is the second most-cited strategic direction in this survey, with nearly 60% of companies identifying it as a key 2026 priority. The core logic is activating spatial value to transition from a shopping venue into a social lifestyle destination.

Comparative data with shopping malls illustrates the impact of experiential design on footfall. In 2025, only 45.4% of surveyed department stores saw year-on-year footfall growth, while among shopping malls—benefiting from immersive scenarization and multi-format integration—64.4% reported footfall growth, with 29.5% achieving growth exceeding 10% (Figure 6-4).

Figure 6-4: Year-on-year footfall change: Department stores vs shopping centres, 2025



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

Regarding hardware infrastructure and property quality improvement, renovation encompasses both foundational upgrades (outdated property renovation, equipment renewal, layout optimization, expanded parking, upgraded building facilities) and precision improvements (energy-efficiency projects, accessible design for older shoppers, staircase upgrades, smart building management). The philosophy is “micro-renewal rather than full demolition”—achieving broad quality improvements while managing renovation costs.

On immersive scene creation and commercial atmosphere, clear trends towards thematic, social, and “Instagrammable” design are emerging. Enterprises plan to create immersive, socially charged, experiential multi-scene spaces—through thematic zone renovations, “photo-op” installations, and atmosphere upgrades to activate public space value and reinforce social identity. Some enterprises plan facade renovations to incorporate naked-eye 3D visual effects, optimize outdoor commercial spaces and signage, and launch night-time economy formats to extend dwell time and create new consumption scenarios.

6.3.3 Rebuilding product core: Developing self-operated (direct-purchase) capabilities for refined management

Returning to the essence of retail and rebuilding product appeal is the fundamental logic behind department store turnarounds. Over half of the enterprises prioritized product competitiveness, with adjustments spanning the supply chain, category management, and self-operation (direct-purchase) capabilities.

Regarding merchandise structure optimization, the core thrust is “value-for-money and precision”. Enterprises are optimizing assortments, eliminating underperforming categories, highlighting key brands, and introducing high-value products tailored to mainstream consumer demand. On the operational side, category management is deepening—expanding trending categories like outdoor gear, adding fresh on-site preparation offerings, and improving product display to boost exposure and conversion.

In terms of direct-purchase (self-operation), the industry is adopting a “cautious but strategic” approach. Some firms are expanding their direct-purchase footprint to increase profit margins and operational autonomy. Others are reducing non-core self-operated lines to focus on dominant categories, balancing risk and return to achieve an optimal mix of concession and direct-purchase models.

6.3.4 Full-chain digitalization: Driving operational efficiency and omnichannel growth

Digital transformation and operational efficiency improvements are key priorities for the department store industry in 2026. Nearly 50% of surveyed enterprises listed digital upgrading as a core mandate, shifting from simple tool-level applications to deep penetration across the full chain and full scenario set.

Regarding technology application, enterprises are prioritizing digital system upgrades, smart property management, and AI-driven full-domain operations—transforming management, procurement, operations, and fulfilment through end-to-end digital control. Some companies have begun deploying AI-powered replenishment systems and digital supply chain management tools to optimize inventory and reduce waste, driving a transition from experience-driven to data-driven operations.

In terms of the omnichannel layout, the core focus is deeper online-offline integration: leveraging online channels to funnel traffic into stores, achieving two-way empowerment via “online acquisition → offline experience → in-store conversion”, and driving data-led personalization to deepen membership operations. This strategy aims to build private-domain traffic pools, transitioning from traffic acquisition to user relationship management.

On operational efficiency, adjustments centre on cost reduction and organizational upgrades. Many enterprises prioritize optimizing cost structures through headcount reduction and category refinement, while driving sales volume through intensified promotions. Simultaneously, firms are strengthening professional staffing and operational teams. By treating service excellence as the foundation and execution as the driver, they aim to align organizational capabilities with business ambitions, providing the structural support necessary for long-term development.

6.3.5 Innovative differentiation: The "Department Store+" model to break homogenization

Facing intense competition in a saturated market, differential positioning and model innovation have become critical breakthrough directions. Over 40% of enterprises have proposed clear plans for transformation and innovation.

Regarding positioning reconstruction, firms are moving away from traditional "all-inclusive" models towards specialized development. Some are re-planning malls based on regional characteristics to achieve precise targeting and full format upgrades. A clear dual-track growth pattern is emerging: projects in core business districts focus on premium, high-end landmarks, while those in non-core areas strengthen community attributes to become neighbourhood service centres.

In terms of model transformation, "pan-department store" formats and integrated culture-commerce-tourism models are the two main frontiers. Many firms aim to transform into shopping centres or "Department Store+" models, including niche community outlets, shifting from closed retail spaces to complex ecosystems. Additionally, by integrating cultural and tourism resources to create themed streets, enterprises are achieving mutual empowerment between commerce and tourism to build new urban consumption landmarks.

Overall, the core logic of China's department store upgrades in 2026 is a deep transition from "managing products" to "managing products and people". Whether through format optimization, scene renewal, or digital upgrades, all adjustments centre on evolving consumer needs. As market divergence intensifies, only those who uphold the essence of retail, grasp customer demands, and achieve multi-dimensional synergy will break through the competition and unlock the long-term value of physical commerce.



7 Digitalization of China's Department Store Industry

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The China Commerce Association for General Merchandise (CCAGM) has consistently held that digitalization is simultaneously a tool for cost reduction and efficiency improvement, and a means of delivering enhanced experiences; it is both an instrument for driving offline foot traffic and a channel for direct sales. Digital transformation is complex in its architecture, but represents an inevitable direction. Accordingly, this report dedicates a specific chapter to the industry's digital development.

7.1 The Digitalization Journey

China's department store industry's digitalization journey mirrors the broader trajectory of the entire Chinese retail sector. Accompanying the evolution of internet technology and shifting consumer behaviour over more than thirty years, it can be divided into five phases.

7.1.1 Phase 1: Early initiation (1990–2000)

This was the enlightenment period for marketization and informatization in modern Chinese retail. The core focus was solving basic retail management needs through early explorations of retail informatization and the Internet.

Following the reform and opening-up in 1978, the retail sector transitioned from a planned to a market economy. Major state-owned department stores such as Wangfujing and Wushang Group completed shareholding reforms, becoming listed companies and setting industry benchmarks for marketization. Subsequently, the combined forces of private capital, state-owned enterprise reform, and foreign investment drove rapid retail expansion, which in turn promoted the development of retail informatization.

Early IT departments—sometimes called "Computer Departments" or "Information Departments"—typically reported to finance and focused on software / hardware maintenance and delivering sales reports to management. As large department stores marketized and chain supermarkets scaled up, demands for more sophisticated information management intensified. Retail informatization formally began with the development of management information system (MIS) projects by several large state-owned department stores in the mid-1980s. The chain supermarkets that emerged thereafter, operating at scale, required unified procurement, unified management, cost accounting, and other functions, further advancing retail informatization and deepening the role of corporate IT departments. The focus in this period was building basic purchasing, sales, and inventory management systems; the first retail IT service providers, such as Changyi Technology, emerged, and investments in informatization were primarily hardware-oriented. In the Internet domain, e-commerce models based on Electronic Data Interchange (EDI) began to appear and domestic Internet infrastructure started to be built, but at that time the Internet and the retail industry had not yet developed deep connections.

7.1.2 Phase 2: Rapid advancement (2000–2008)

This phase represented the golden period of retail scale expansion, with informatization focused on completing internal management integration; this era also witnessed the rise and fall of China's first Internet bubble.

Around 2000, department store retail boomed, with the top 100 chains maintaining annual growth of about 50%. Three forces drove rapid expansion: surging consumer demand, the scalable franchise model, and post-WTO market opening. Cross-regional, multi-format growth requirements drove informatization beyond basic purchasing–sales–inventory systems to the entire value chain. ERP systems began rolling out in major retailers, and supply chain management (SCM), warehouse management (WMS), and transportation management (TMS) systems were progressively implemented. Foreign retail entrants introduced advanced concepts including category management and vendor-managed inventory (VMI), which leading domestic players began adopting. This phase can be summarized as: strong headquarter systems, standardized store systems, efficient supply chain management, and progressive supply chain platform integration.

7.1.3 Phase 3: Comprehensive development (2008–2015)

During this period, the retail sector shifted from scale expansion to efficiency improvement. Informatization deepened towards refined management while e-commerce experienced a second surge and physical retail began its first wave of large-scale digital channel building.

Offline retailers focused on strengthening IT systems and building logistics infrastructure. Leading companies such as Suning introduced SAP ERP systems, and the informatization level of internal management systems and supply-chain collaboration improved significantly. Around 2008 the industry entered a peak of logistics-centre construction, which drove continued upgrades to warehousing and logistics management systems.

On the e-commerce side, 2008 is often called the inaugural year of B2C: platforms such as Tmall, JD.com, and Suning.com launched; Alipay's payment license was secured, and a socialized logistics system matured. Coupled with policy support, online retail sales grew at an average annual rate exceeding 50%, and leading platforms rapidly expanded. Under online pressure, about 20 leading retail enterprises launched PC e-commerce sites between 2009 and 2011, but ultimately only a few retained e-commerce functions. Overall, the first wave of offline retail's move online produced limited results; in this phase, brick-and-mortar retail's online efforts were generally not very successful.

7.1.4 Phase 4: Intense Competition (2015–2020)

In this period the mobile Internet became fully pervasive, bringing online and offline into direct competition; omnichannel transformation became the core agenda for brick-and-mortar retail. In 2012 mobile phones became the nation's primary Internet access

device, marking the official arrival of the mobile-commerce era, and in 2015 mobile orders accounted for more than half of industry orders for the first time. Supporting ecosystems such as Cainiao Network and Ant Financial rapidly matured, and Alibaba completed its US IPO. The e-commerce sector saw increasing concentration and market share growth, dealing a significant blow to offline retail, with large declines in in store sales of categories such as home electronics, fashion, and packaged food.

Physical retailers then scrambled into O2O, multi-channel, and omnichannel strategies. Omnichannel became a buzzword. Some leading companies achieved meaningful online sales contributions, but most found that the heavy investment required dragged down overall profitability, while their gap with the leading e-commerce platforms continued to widen.

This period also saw rising demands from multi-format operations on digital strategy—characterized by the principles of "scale operations, centralized management, delegated authority, full-process monitoring". Omnichannel coordination, smart retail, big data applications, and cloud services became new industry focus areas, with early "middle-platform" concepts beginning to take hold.

7.1.5 Phase 5: Integration and complementarity (2020–Present)

In this phase, online and offline have moved from adversarial competition to mutual integration and complementarity. As the online traffic dividend wanes, two-way penetration accelerates and the digital transformation of physical retail enters a more rational and pragmatic stage.

On one hand, online platforms are increasingly deepening their integration with offline channels; on the other hand, brick-and-mortar-retailers—having gone through earlier confusion, impulsive moves, and failures—are adopting a more pragmatic approach to online business and digitalization. Examples include abandoning large, costly-to-operate PC e-commerce sites and native apps in favor of lighter mini-programs; placing greater emphasis on private-domain traffic marketing and improving membership services; and drawing on new models such as community marketing and group buying to expand promotion and sales channels. At the same time, the industry faces an imbalance of over-digitalization coexisting with under-digitalization: some firms blindly invest in large ERP, middle-platform construction, or facial-recognition projects, causing poor input-output balance and resource waste; meanwhile, most companies still contend with weak digital awareness among senior management, insufficient digital skills among frontline staff, outdated member digital systems, and inadequate IT infrastructure support—these remain the core bottlenecks of digital transformation.

With the mature application of technologies such as artificial intelligence and the Internet of Things, retail digital construction has entered a new development stage, evolving from omnichannel integration towards intelligent upgrades of operations, management, services and the entire supply chain. Digitalization is no longer simply a channel tool but has become the core engine driving business development, permeating all business processes including brand and merchant recruitment, supply-chain management, store operations, user operations, marketing services, and financial management.

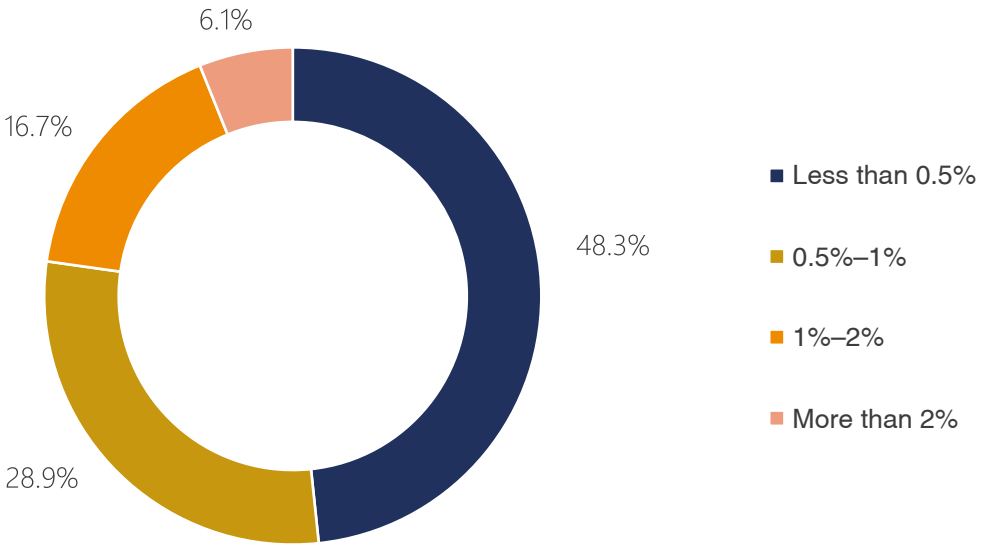
7.2 Current State of Digitalization

7.2.1 Digital investment levels

China's department store sector faces mounting challenges from consumption upgrading and online channel diversion, and digital transformation has become a critical lever for breaking through operational bottlenecks and building core competitiveness.

However, overall investment levels remain relatively low. Survey data shows that 48.3% of companies reported digital investment as a proportion of revenue below 0.5%, and 28.9% were in the 0.5–1% range—nearly 80% of companies invested less than 1% of revenue in digitalization. Only 16.7% invested 1–2%, and just 6.1% invested more than 2% of revenue. The gap between leading companies and smaller players is stark; a large number of smaller department stores remain at the early stages of transformation, and insufficient investment is a key bottleneck constraining transformation outcomes (Figure 7-1).

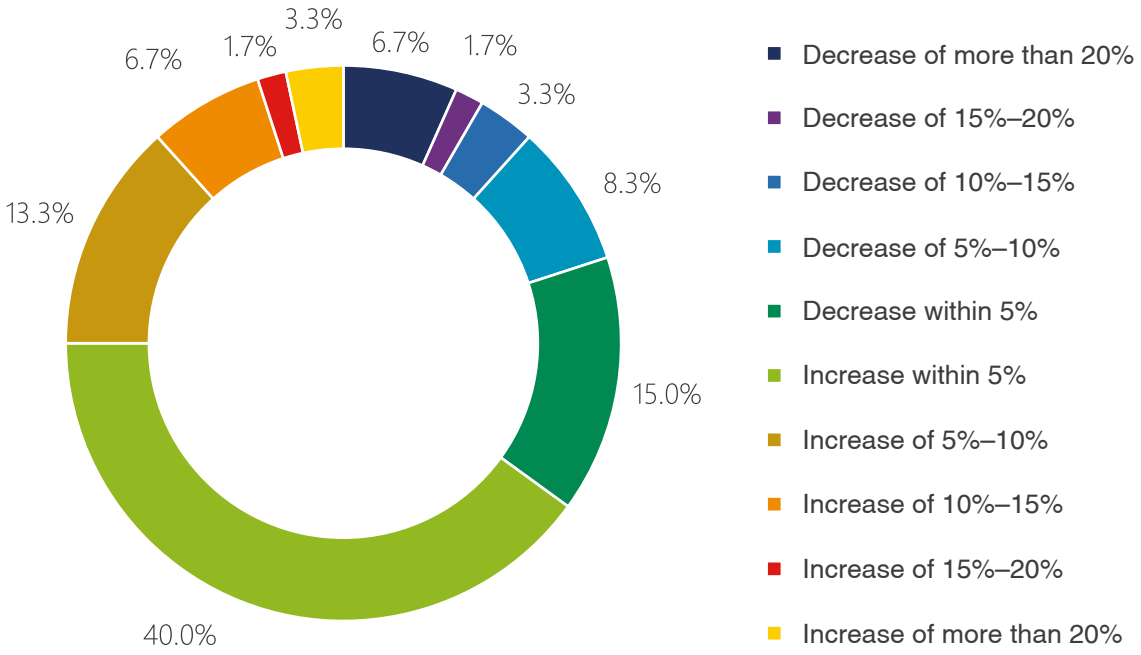
Figure 7-1: Overall digital investment as a share of operating revenue



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

In terms of year-on-year change in 2025 investment, the sector shows a pattern of modest overall growth. 65% of surveyed companies increased digital investment year-on-year in 2025, though growth levels were generally small: 40% of companies saw growth under 5%, and only 3.3% saw growth exceeding 20%. Simultaneously, 35% of companies reduced investment by varying degrees, with 6.7% cutting by more than 20%—reflecting tightening cash flow management in the context of broader operational pressure (Figure 7-2).

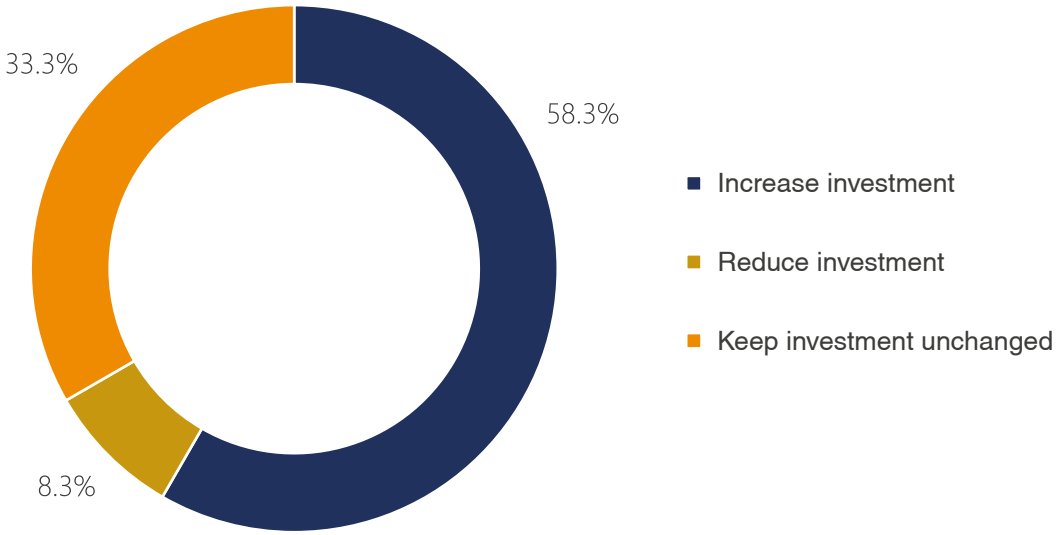
Figure 7-2: Year-on-year change in digital investment, 2025



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

Despite this caution, the long-term commitment to digital transformation has not weakened. 58.3% of companies plan to increase digital investment in 2026; 33.3% plan to maintain current levels; only 8.3% plan to reduce investment. This signals that even where companies pulled back in 2025, the sector's strategic commitment to digital transformation as a core lever for managing market change and improving operational efficiency remains firmly in place (Figure 7-3).

Figure 7-3: Planned digital investment in 2026



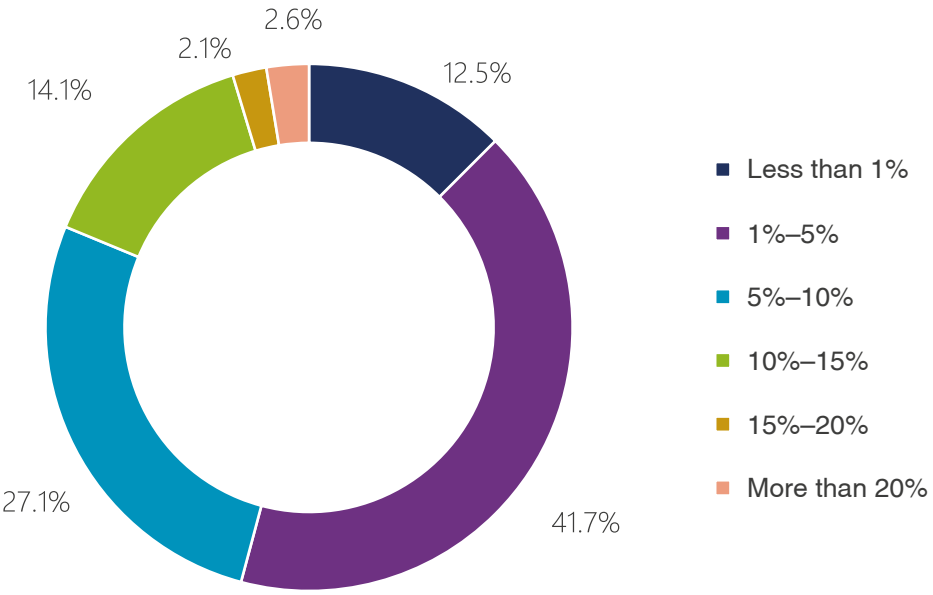
Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

7.2.2 Online and omnichannel operations

The proportion of companies operating online businesses has remained above 80% for multiple consecutive years, reflecting that online channels have become a mainstream choice—an important component of operations as companies transition towards integrated online-offline models.

Despite high penetration, online revenue contribution remains generally low. Survey data shows that 41.7% of companies had online sales accounting for 1–5% of total sales; 27.1% were in the 5–10% range; 12.5% were below 1%. Together, these three groups accounted for over 81.3% of respondents; only 4.7% of companies reported online sales exceeding 15% of total revenue (Figure 7-4).

Figure 7-4: Online sales as a share of total sales

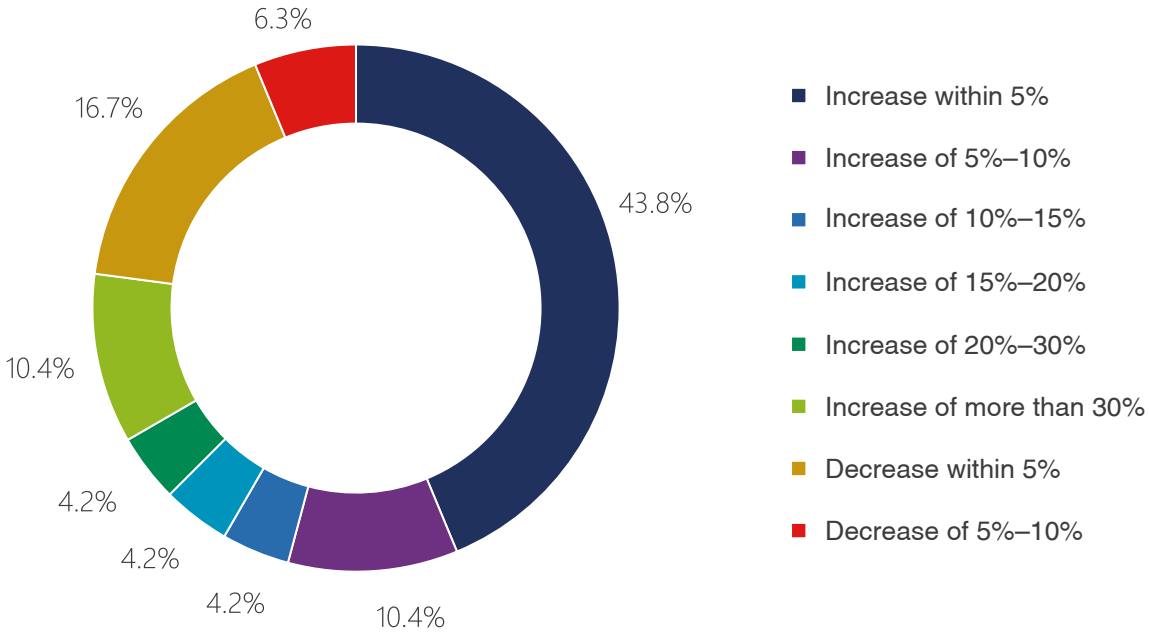


Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

For most department stores, online channels function more as a supplement to offline operations and a marketing tool, rather than a meaningful revenue contributor. Core reasons include: most companies have only completed the technical build-out of online channels without achieving integrated supply chain, membership, and fulfilment capabilities across online and offline; digital marketing capabilities remain insufficient; and the marginal returns on continued investment are low.

On year-on-year growth trends: in 2025, 43.8% of surveyed enterprises saw their online sales share grow within 5%, while enterprises reporting growth together accounted for nearly 80% of respondents. Only 22.3% saw a modest decline, with no company declining by more than 10%—suggesting that even amid consumer market volatility, online sales in the department store sector maintained broadly positive growth momentum (Figure 7-5).

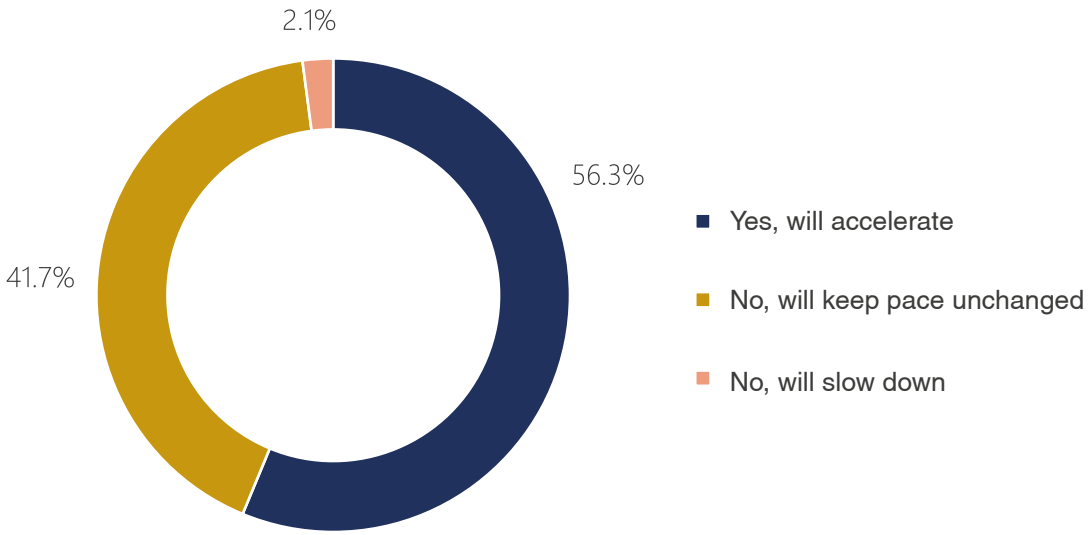
Figure 7-5: Year-on-year change in online sales, 2025



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

Looking ahead, the sector is optimistic about online business growth: 56.3% plan to accelerate online development in the next 12 months; 41.7% plan to maintain current pace; only 2.1% plan to slow down (Figure 7-6). This means 98% of surveyed enterprises will maintain or accelerate their online expansion, confirming that omnichannel operations have become a long-term core strategic commitment.

Figure 7-6: Plans to accelerate online business over next 12 months

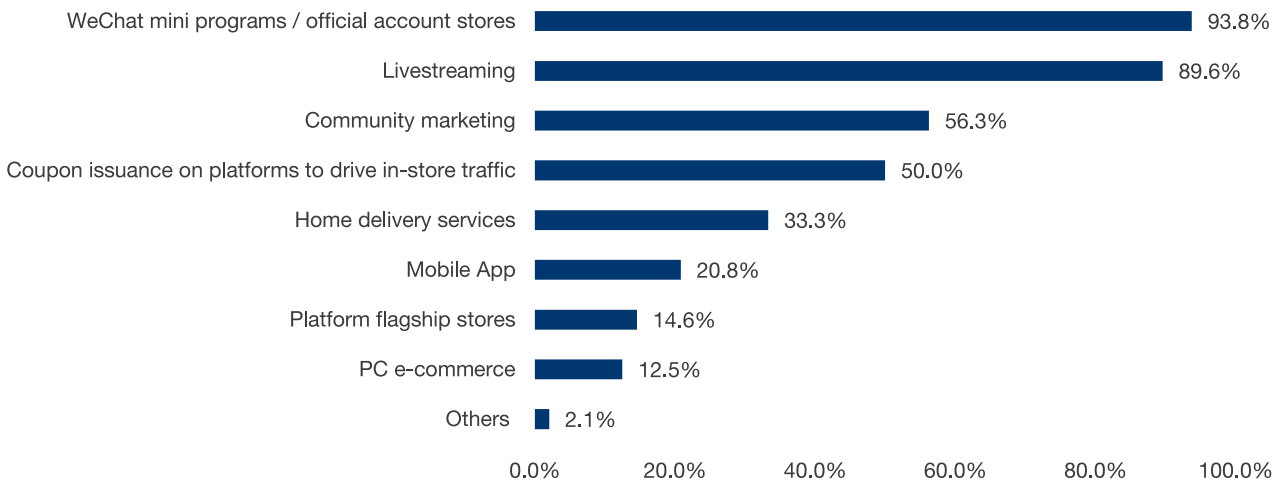


Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

Among enterprises that have already developed online business, their choice of online channels reflects a pattern of prioritizing private domain development and empowering offline operations. WeChat mini programs and official account stores rank first with a selection rate of 93.8%, establishing themselves as the core digital infrastructure for department stores' online presence. Livestreaming channels follow closely at 89.6%, becoming a standard component of enterprises' online operations. Community marketing and platform coupon issuance to drive in-store traffic were selected by 56.3% and 50.0% of respondents respectively, also representing priority areas of investment. By contrast, traditional PC-based e-commerce and platform flagship stores were selected by only 12.5% and 14.6% of respondents respectively (Figure 7-7), reflecting significantly lower penetration rates.

The distribution of online business channels reflects the core logic behind department store operators' online transformation—the objective is not simply to establish online selling channels, but rather to leverage the member resources, experiential advantages, and brand equity of physical stores to build private traffic pools. WeChat mini programs and official account stores seamlessly connect with offline membership systems, supporting a range of functions including product sales, marketing campaigns, and member services. Livestreaming and community marketing strengthen user stickiness, while drive-traffic-to-store and home delivery channels directly channel online traffic back to physical stores, creating a virtuous cycle of mutual empowerment between online and offline.

Figure 7-7: Major online channels used by surveyed department store operators (multiple choice)



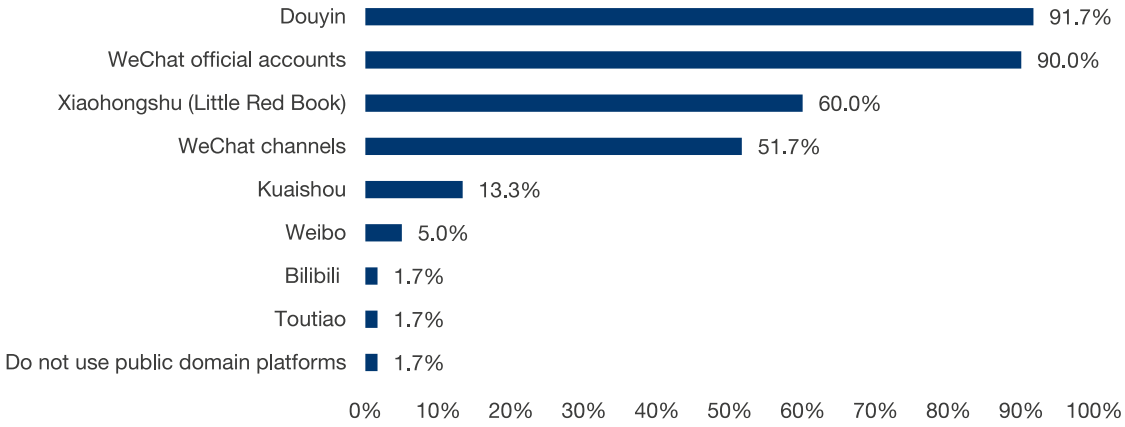
Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

7.2.3 Omni-domain traffic operations

Enterprises are highly focused in their approach to acquiring public domain traffic, with short-video and social media ecosystems emerging as the primary traffic entry points. The survey shows that department store operators' use of public domain platforms is heavily concentrated among leading platforms, with platform selection closely aligned to retail transaction conversion scenarios. Douyin and WeChat official accounts lead with penetration rates of 91.7% and 90.0% respectively (Figure 7-8), cementing their position as the industry's dominant public domain channels. This highlights the traffic conversion power of video livestreaming and the social reach of the WeChat ecosystem, both of which have become standard infrastructure for department store operators to engage online users.

At the same time, Xiaohongshu and WeChat channels—both platforms with strong product discovery and recommendation attributes—achieved penetration rates of 60% and 51.7% respectively, serving as important complements to enterprises' public domain strategies. This reflects growing industry recognition of content-driven discovery and social sharing as new modes of traffic acquisition. By contrast, traditional news and mid-to-long-form video platforms registered considerably lower penetration: Toutiao and Bilibili each at 1.7%, Weibo at 5.0%, and Kuaishou at 13.3%. Only 1.7% of enterprises reported not using any public domain platform (Figure 7-8). This indicates that department store operators are shifting towards a more precision-oriented public domain strategy centred on traffic conversion, prioritizing short-video and social content platforms that are better suited to retail transaction scenarios.

Figure 7-8: Top public domain platforms used by surveyed department store operators (multiple choice)

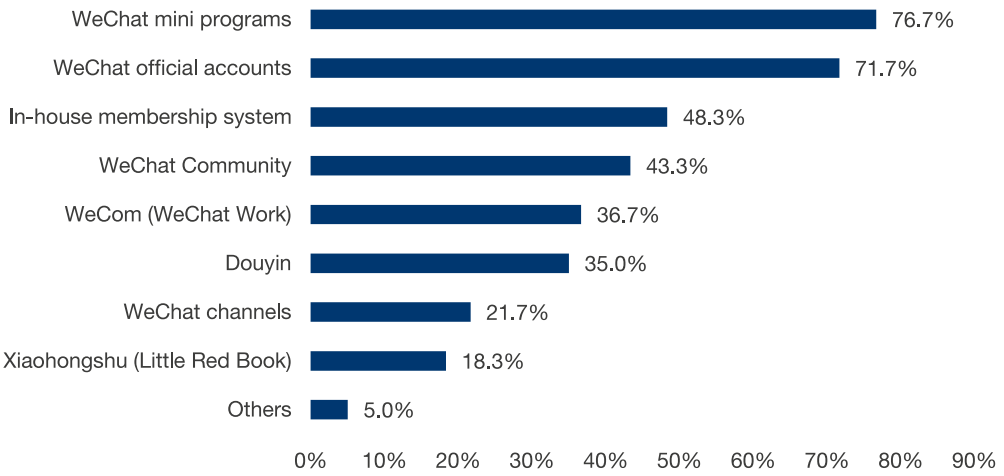


Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

Private domain operations have become a core pillar of department store operators' online business, with the industry having established a fully integrated closed-loop ecosystem within the WeChat environment, and member asset development emerging as the central focus. The survey shows that WeChat mini programs and WeChat official accounts are used by 76.7% and 71.7% of surveyed enterprises respectively, making them the most important private domain vehicles. In-house membership systems have been adopted by 48.3% of enterprises, while WeChat Community and WeCom (WeChat Work) are used by 43.3% and 36.7% respectively, forming the core supporting infrastructure for private domain operations. In addition, private domain conversion capabilities within public platforms such as Douyin and Xiaohongshu are gradually being activated, with adoption rates of 35% and 18.3% respectively (Figure 7-9).

This indicates that department store operators' private domain strategies have evolved beyond simple traffic accumulation to encompass full lifecycle user management. An integrated operational framework—with WeChat mini programs as the transactional interface, WeChat official accounts as content touchpoints, WeChat Community and WeCom as interactive channels, and proprietary membership systems as the asset repository—has become the industry standard. The fact that nearly half of enterprises are operating through membership management systems further underscores the industry's drive to maintain independent control over user data and deepen member asset management, signalling that private domain operations have entered a more refined, user-centric stage of development.

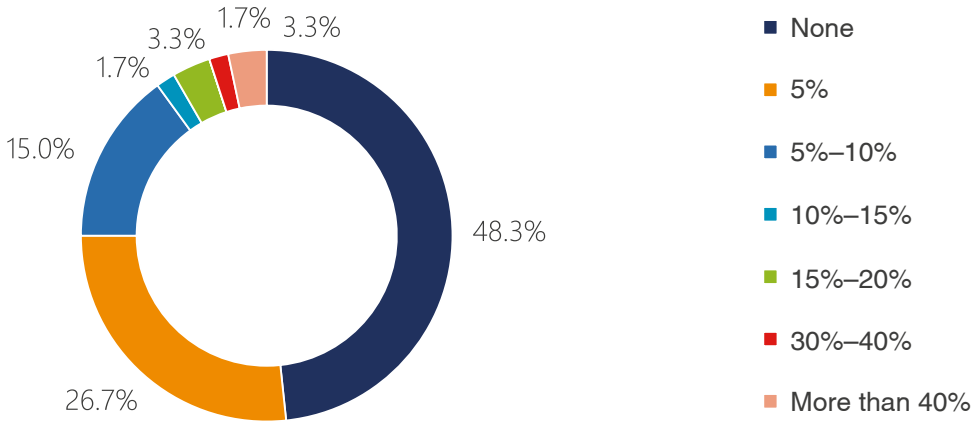
Figure 7-9: Top private domain platforms used by surveyed department store operators (multiple choice)



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

The membership system has become the cornerstone of department store operators' revenue base, with member spending serving as a critical driver of stable revenue growth. However, data fragmentation and insufficient cross-format integration have emerged as the core weaknesses in membership operations. The survey identifies two major outstanding issues in membership system development: The first is a severe lack of co-membership linkage between shopping centres and their in-store brands. 48.3% of enterprises have not established any co-membership arrangements with brands in their stores, and 26.7% have co-membership coverage of no more than 5% of in-store brands—meaning that in total, 75% of enterprises have co-membership coverage below 5% (Figure 7-10). As a result, membership resources are not being shared within the store ecosystem, and the potential for amplifying member value remains largely unrealized. The second issue is a low level of cross-channel data integration. Only 15% of enterprises have achieved full integration of membership data and traffic across all their business formats and platforms, 40% have only partially integrated their data, and 21.7% have not integrated their data at all (Figure 7-11). Data silos are widespread, constraining enterprises' ability to optimize the omnichannel user experience and extract deeper value from their member assets.

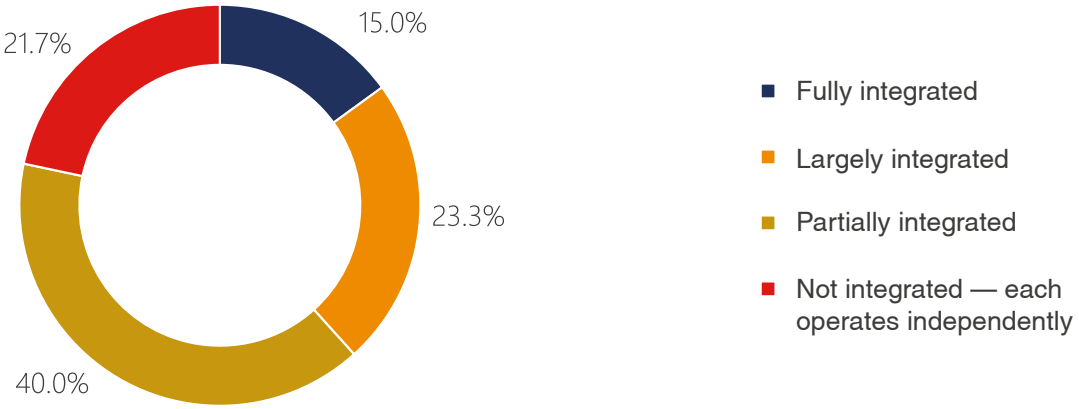
Figure 7-10: Proportion of brands with co-membership arrangements with the shopping centre



NOTE: The "20%–30%" share recorded 0%.

Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

Figure 7-11: Integration of membership data and traffic across the company's business formats and platforms

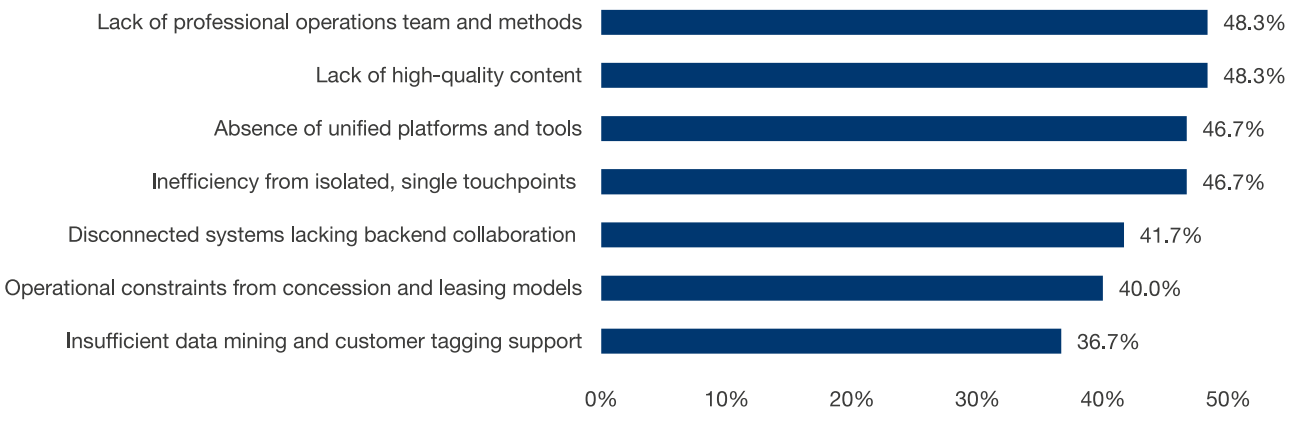


Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

The current pain points in private domain operations across the industry are primarily reflected in constraints on refined operational capabilities. The key difficulties are concentrated at the level of operational soft skills: a lack of sustained high-quality content and a lack of professional operations teams and operational methods were each cited by 48.3% of respondents, ranking joint first among all identified challenges. Most department store operators have insufficient operational capabilities—they are neither able to achieve long-term user retention and stickiness through quality content, nor do they possess a professional operational framework suited to online scenarios, both of which constrain online conversion efficiency and the ability to extract user lifetime value.

At the same time, weaknesses in digital infrastructure and business models have emerged as core bottlenecks for online business development. Isolated and inefficient touchpoints, and the absence of unified operational platforms and tools, were each cited by 46.7% of respondents; disconnected systems and lack of backend collaboration were cited by 41.7%; and the constraints imposed by concession and leasing models on unified operations were cited by 40.0%. The concession and leasing structures that are characteristic of the department store industry, compounded by fragmented digital systems and a lack of operational tools, make it difficult to achieve synergy between online and offline business, and prevent the formation of a closed-loop approach to full-funnel user operations. In addition, 36.7% of enterprises faced challenges with insufficient data mining capabilities and customer tagging support (Figure 7-12).

Figure 7-12: Major challenges in private domain and membership operations (multiple choice)



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

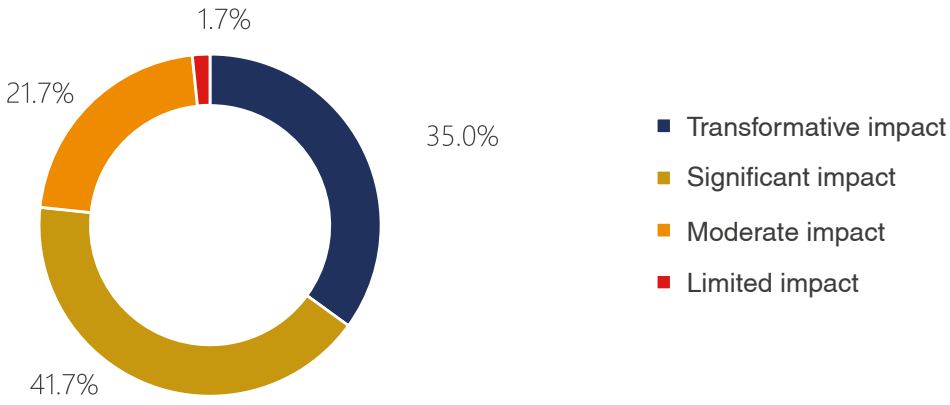
Overall, effective traffic operations in the department store industry require concerted effort across three dimensions. The first is deepening omnichannel ecosystem integration. With the WeChat ecosystem as the core, operators should build linkages with public domain platforms such as Douyin and Xiaohongshu, connecting the full chain from public domain traffic acquisition to private domain consolidation and ultimately member conversion. This means enriching the touchpoints through which users can be reached and achieving coordinated operations across public and private domains. The second is accelerating digital infrastructure upgrades. Operators should build unified member operations platforms and data middle platforms to break down the data silos that exist across different business formats and platforms, enabling unified user profiling and deeper extraction of data value, thereby providing the technical foundation for refined operations. The third is breaking through the constraints of existing business models. Operators should deepen co-membership partnerships with in-store brands to enable the co-creation and sharing of member benefits, traffic resources, and data assets. At the same time, they should build dedicated professional operations teams, strengthen quality content production capabilities, and raise the overall standard of omnichannel refined operations.

7.2.4 Artificial intelligence applications

The digital transformation of the department store industry is entering deeper territory, with artificial intelligence (AI) applications emerging as a critical variable in breaking through existing bottlenecks and rebuilding core competitiveness. In terms of how seriously enterprises regard AI, the survey shows that over 70% of respondents believed AI would have a transformative or significant impact on the retail industry: 35% considered the impact to be transformative, and 41.7% considered it significant, together accounting for 76.7% of respondents. Only 1.7% of surveyed enterprises believed AI would have limited impact on the industry (Figure 7-13).

As the core format of physical retail, the department store industry has navigated successive challenges—from the diversion of traffic to e-commerce and the new retail revolution, to the diversification of consumer demand—and has continually sought the key lever for transformation and upgrading. The explosion of AI technology, and generative AI in particular, has given the industry a glimpse of entirely new possibilities: from traffic operations to efficiency improvement, and from standardized services to personalized experiences. This near-universal recognition signals that AI applications will shift from being an optional innovation concept to a mandatory industry imperative, and heralds the beginning of a new phase in the industry's digital transformation.

Figure 7-13: What degree of impact do you think AI will have on retail industry?

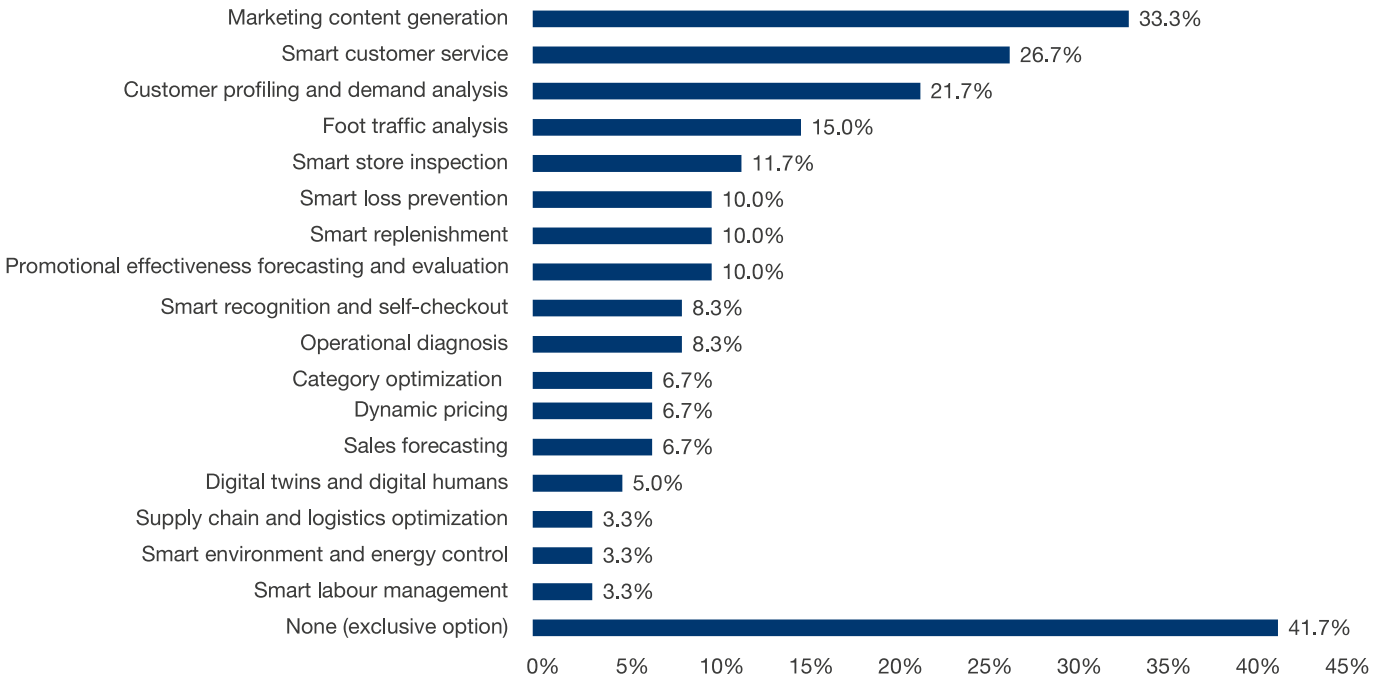


Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

In sharp contrast to this broadly aligned recognition of AI's importance, however, is the uneven and shallow nature of actual AI implementation. Overall, the industry remains at an early stage of AI adoption, characterized by a clear divide of "front-end hot, back-end cold; marketing hot, operations cold". The survey shows that 41.7% of surveyed enterprises did not implement any AI applications—nearly half have yet to take their first step towards AI adoption. Among enterprises that have adopted AI, implementation is heavily concentrated in front-end marketing and customer service functions. Marketing content generation is the most widely adopted use case at 33.3%, followed by intelligent customer service and customer profiling and demand analysis at 26.7% and 21.7% respectively.

By contrast, AI penetration in back-end functions that are critical to core operational efficiency and supply chain capabilities remains generally below 10%: intelligent replenishment, intelligent loss prevention, and promotional effectiveness forecasting each stand at 10%; dynamic pricing, category optimization, and sales forecasting are all below 7%; and AI adoption in labour management, environmental and energy consumption management, and supply chain and logistics optimization is as low as 3.3% (Figure 7-14). Behind this divide lies the uneven digital foundations of department store operators. The prevailing pattern of heavy front-end adoption and light back-end adoption also suggests that AI applications in the industry remain at the level of simple tools, and have yet to penetrate the deeper territory of restructuring the core logic of people, products, and place. Significant room for improvement remains.

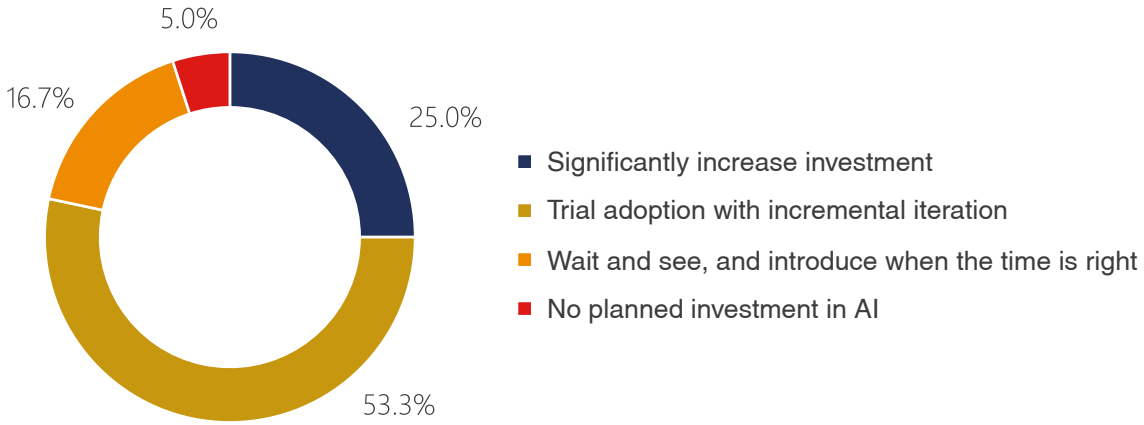
Figure 7-14: AI applications used by surveyed department store operators



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

Looking ahead, the department store industry's approach to AI investment is characterized by cautious optimism and a pragmatic, results-oriented mindset. The survey shows that over the next two years, 53.3% of surveyed enterprises will adopt a "trial and incremental iteration" approach to AI, while 25% plan to "significantly increase investment", together accounting for 78.3% of respondents—meaning that nearly eight in ten enterprises plan to continue advancing AI adoption over the next two years. Only 5% of enterprises explicitly stated they would make no investment in AI, while 16.7% chose to adopt a wait-and-see stance (Figure 7-15).

Figure 7-15: Plans for AI application over the next two years



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

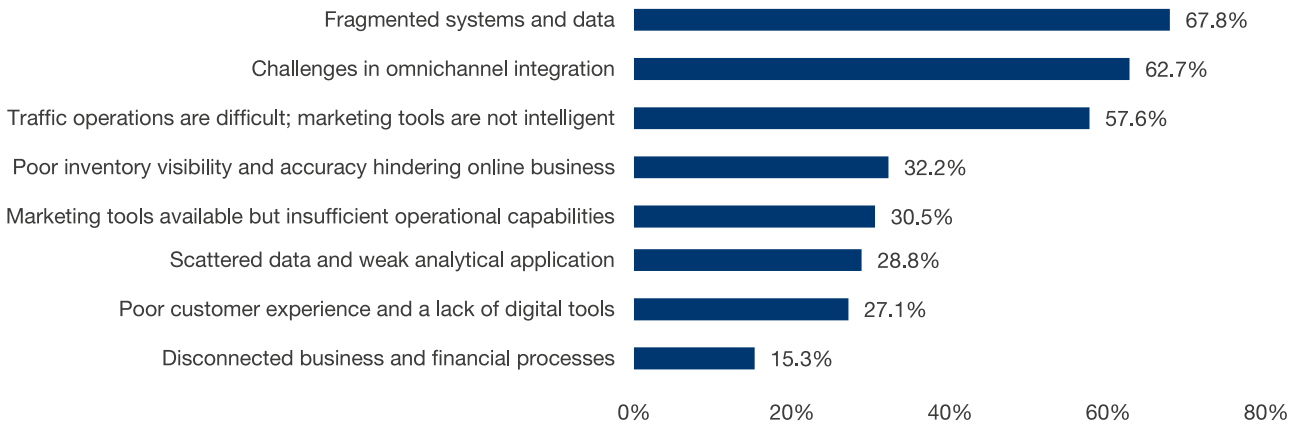
7.3 Key Challenges, Difficulties, and Priorities in Digitalization

7.3.1 Pain points and difficulties in digitalization

In terms of operational pain points in digitalization, the department store industry exhibits a pattern of adequate basic capabilities, shortfalls in more advanced functions, and prominent bottlenecks in systems integration and channel connectivity. The survey shows that "multiple systems, fragmented data, and difficulty in integration" is the industry's top pain point, cited by 67.8% of respondents. Most enterprises have accumulated multiple business systems over years of operation, creating severe data silos that prevent unified data consolidation and deeper data application. Close behind is the "challenges in omnichannel integration", cited by 62.7% of respondents: membership, product, inventory, and service systems across online and offline channels have not been effectively connected, making it difficult to deliver a seamless, integrated consumer experience. In addition, "difficulty in traffic operations and insufficient intelligence in marketing tools" was cited by 57.6% of respondents (Figure 7-16), representing a core bottleneck in enterprises' ability to acquire and retain customers.

At the same time, issues including "poor inventory visibility", "insufficient marketing and operational capabilities", and "weak data application capabilities" were each reported by more than 28% of enterprises. This suggests that while the industry has established a basic level of digitalization in core processes, its key shortfalls are concentrated in more advanced areas such as data value extraction and omnichannel operations.

Figure 7-16: Major digital operational pain points in department store retail (multiple choice)



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

In terms of the difficulties in implementing transformation, the industry has moved beyond the initial stage of inadequate awareness, with the core obstacles now concentrated across three dimensions: technology implementation, investment decision-making, and resource support. “Too many systems, difficulty in integration, and high investment costs” emerged as the primary transformation challenge, cited by 60% of respondents. Compounded by “complex legacy systems and difficult overhauls” (56.7%), these technical constraints and remediation costs represent the core resistance to transformation. At the same time, “unquantifiable return on investment (ROI) which hinders decision-making” was cited by 55% of respondents—the long payback period and difficulty in measuring the value of digital transformation directly undermines enterprises’ commitment to investment and strategic implementation. In addition, insufficient funding, mismatches between talent and organizational structure, and lack of internal alignment were each reflected to varying degrees. Notably, “insufficient leadership support” was cited by only 5% of respondents (Figure 7-17), indicating that the industry has reached a broad consensus on the necessity of digital transformation, and that the central question has shifted from whether to transform, to how to transform effectively and successfully.

Figure 7-17: Major difficulties in digital transformation (multiple choice)



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute

Overall, the digital transformation of the department store retail industry has entered a critical and complex stage. Enterprises need to focus on three core directions—systems integration, omnichannel connectivity, and investment value quantification—to break through the key bottlenecks of data fragmentation, difficulty in committing to investment, and insufficient capabilities, and to drive digital transformation forward from tool adoption towards genuine value creation.

7.3.2 Priorities in digital development

In terms of priority areas for digital investment, enterprises are primarily focused on building foundational capabilities and operating core assets. The survey shows that respondents’ core investment priorities are concentrated in four areas.

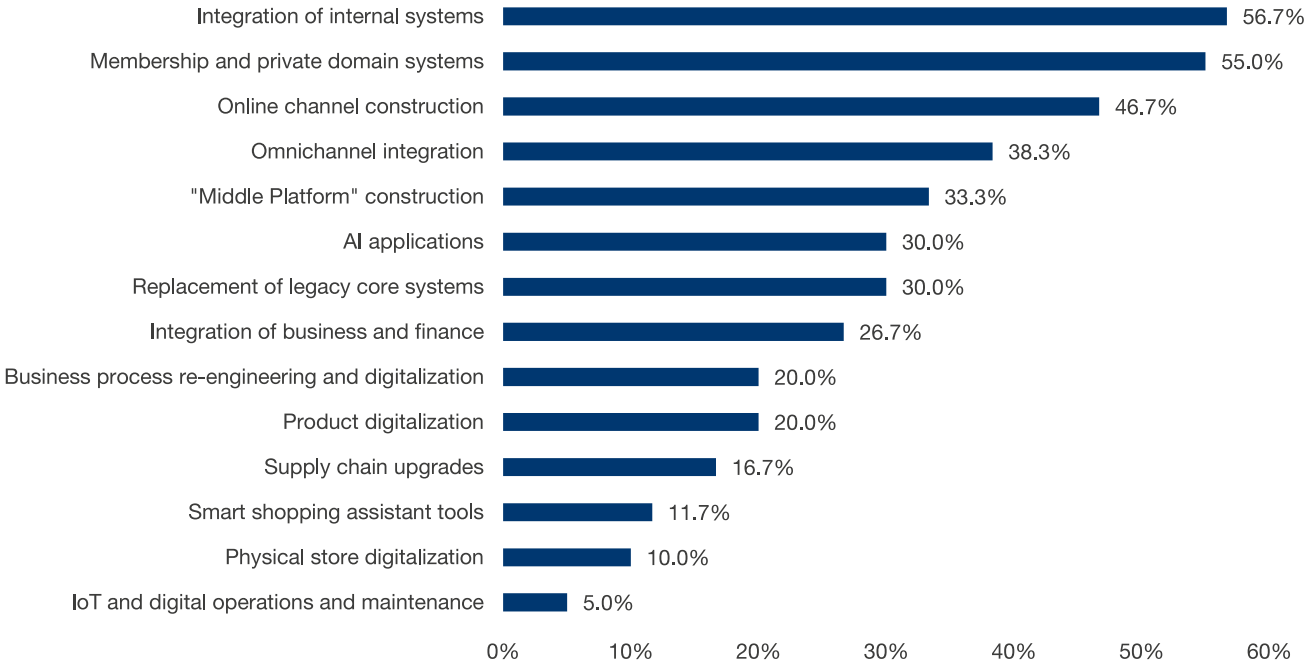
The first is “internal systems integration”, cited by 56.7% of respondents and ranking first among all options. System silos and data disconnection are the industry’s foremost transformation pain points, and achieving interoperability across business data is a fundamental prerequisite for transformation.

The second is “membership and private domain system development”, cited by 55.0% of respondents. Offline customer traffic is regarded as a core asset of department store operators, and private domain operations have become the primary lever for improving user stickiness and repeat purchase rates.

The third is “online channel construction” and “omnichannel integration”, cited by 46.7% and 38.3% of respondents respectively. Integrated online-offline operations have become an industry-wide consensus, and strengthening online channel capabilities while achieving full omnichannel connectivity are core transformation priorities.

In addition, “middle platform construction”, “AI applications”, and “replacement of legacy core systems” were each selected by more than 30% of respondents, reflecting growing industry attention to underlying system upgrades and the implementation of intelligent technologies. By contrast, “IoT and digital operations and maintenance”, “digitalization of physical retail spaces”, and “intelligent shopping assistant tools” were each selected by fewer than 15% of respondents (Figure 7-18), indicating that the industry’s digital transformation remains largely in the phase of building foundations and establishing systems, with significant room remaining for digital innovation in offline consumer experience scenarios.

Figure 7-18: Major digital transformation investment areas (multiple choice)



Source: China department store survey by CCAGM and HKUST Li & Fung Supply Chain Institute



8 Policy Recommendations

The healthy development of the department store industry requires not only enterprises that are committed to sound management and bold transformation, but also a policy environment that is fair, orderly, and supportive of innovation. The Report puts forward the following recommendations on policy issues of broad concern to the industry:

8.1 Strengthening Planning for Commercial Development

To address the oversupply of certain retail formats, the Report recommends formulating a national-level Special Plan (or Measures) for Commercial Development to facilitate an institutional shift from “expanding new supply” to “optimizing existing stock”.

Three priorities are identified. First, aggregate supply controls should be introduced. Shanghai’s offers a useful model, setting a cap on the city’s total commercial floor area and structuring development around a tiered system of commercial centres and specialized zones. Second, differentiated guidance should be applied by retail category and format: formats that no longer meet current economic development needs (such as hypermarkets) or that are already in significant oversupply and whose further expansion harms surrounding businesses should be subject to stricter restrictions. Third, a risk prevention framework should be established, incorporating a commercial vacancy rate early-warning mechanism, a return-on-investment monitoring system, and a developer credit assessment scheme.

8.2 Streamlining Approvals for Outdoor Retail Operations

Outdoor retail activations—such as pop-up stalls, alfresco dining, and market events—help extend services, stimulate spending, and bring vibrancy and character to urban commercial areas. They can also contribute to the development of distinctive public art and cultural precincts.

In practice, however, enterprises face significant barriers. Approval channels are fragmented, with no clear single point of contact across government departments, leaving many enterprises unable to identify who is responsible for processing their applications. Even where enterprises’ plans are fully confined to their own premises, comply with all relevant noise, safety, and public order requirements, and cause no disturbance to residents, official approvals are often unattainable. In some localities, outdoor retail operations are also prohibited from conducting on-site merchandise sales, undermining their commercial purpose entirely.

The Report recommends establishing a single-window acceptance mechanism for outdoor retail approvals; strengthening inter-departmental coordination to eliminate approval barriers; optimizing the handling of public complaints to balance business and residents’ needs; and designating clearly defined open, restricted, and time-limited vending zones to enable more nuanced and effective urban governance.

8.3 Supporting Industry Consolidation and M&A

Against a backdrop of widespread operational difficulties, accelerating store closures, and rising industry concentration, the government should develop a comprehensive policy framework to facilitate retail sector mergers and acquisitions—shifting the dynamics from passive survival measures towards proactive strategic consolidation, and supporting the emergence of Chinese retail groups with global scale and competitiveness.

Specific recommendations include: broadening tax relief coverage for retail M&A transactions, including exemptions on property transfer taxes, intangible asset transfers, and employee resettlement costs; encouraging policy banks to offer dedicated retail M&A loans with interest subsidies and extended repayment terms during post-acquisition integration periods; supporting large retail groups in issuing M&A bonds and exploring public REITs issuance for quality retail and logistics assets; and establishing a fast-track M&A review mechanism under the State Administration for Market Regulation for non-monopolistic transactions, reducing the time and administrative burden of the approval process.

8.4 Coordinating Online and Offline Development

Online platforms have made a valuable contribution to China's retail landscape, expanding consumer choice and, through collaboration with physical retailers, helping to improve operational efficiency and service capabilities. At the same time, certain practices by online platforms have created unfair competitive pressures for offline businesses.

Offline retailers broadly welcome the growth of online commerce. Their concerns are directed specifically at platforms that exploit their market position or use unfair means to compete against brick-and-mortar operators—for example, using absolute claims such as "lowest price" in promotions, misleading consumers with products marketed as "the same as in-store", or permitting the sale of counterfeit and substandard goods.

The Report recommends that policy should aim to restore the vitality of offline commerce. This includes giving due recognition to the tax contributions, employment generation, and social value created by offline enterprises; strengthening penalties for online platform violations; and providing targeted subsidies to support offline retailers in their omnichannel transformation.

About the Organizations

CHINA COMMERCE ASSOCIATION FOR GENERAL MERCHANDISE

Founded in January 1990, China Commerce Association for General Merchandise (CCAGM) is a non-profit social organization endorsed by the Ministry of Civil Affairs, under the guidance of the Stated-owned Supervision Administration Commission and the Ministry of Commerce. The CCAGM has more than 1,000 members, encompassing large-and medium sized domestic department stores, enterprises engaging in retail, wholesale, and manufacture of daily industrial products, and enterprises which provide related services to the department store industry. Its members come from 34 provinces, autonomous regions and municipalities in the country, covering all forms of ownerships. The CCAGM also has corporate members, including City Department Store Industry Association, Trade Association and Trans-regional Department Store Company Union Organisation, linking more than 15,000 indirect members.

After 30 years of growth and development, the CCAGM has completed the transformation of its work model from one that was influenced by the planned economy to one influenced by socialist marketing economy. In 2009, the CCAGM was appraised as a 4A social organisation by the Ministry of Civil Affairs.

HKUST LI & FUNG SUPPLY CHAIN INSTITUTE

The HKUST Li & Fung Supply Chain Institute (Institute) accelerates the creation, global dissemination, and practical application of new knowledge for managing tomorrow's supply chains.

The Institute seeks to develop local and international talent in supply chain management through teaching, professional development, and exchanges at specialist conferences. It brings together leaders in industry, academia, and the public sector in a new collaboration for research, executive education and practice focused on innovation in business models, sustainable supply chain design, process re-engineering, and the rapid adoption of new technologies. These outcomes are vital in addressing the need for visionary, innovative supply chain management in the face of rapid technological advancements, disruption from geopolitical tensions, and concerns related to sustainability and climate.

Jointly established by HKUST and supply chain industry leader Li & Fung, the Institute brings together research excellence and industry expertise in supply chain management to drive real-world impact across the Greater Bay Area, Greater China, Asia, and globally, while contributing to Hong Kong's development as a multinational supply chain management center.

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China's Department Stores Report 2025-2026