CHINA COMMERCE ASSOCIATION FOR GENERAL MERCHANDISE
HKUST LI & FUNG SUPPLY CHAIN INSTITUTE

China's Department Stores Report 2024-2025

April 2025







Preface

HKUST Li & Fung Supply Chain Institute and China Commerce Association for General Merchandise are pleased to present the *China's Department Stores Report 2024-2025*.

The report highlights five main trends in the department store industry in 2024: First, both revenue and net profit of department stores shrank; second, high-end consumption showed significant decline; third, cost reduction and efficiency improvement across the industry became priorities; fourth, department stores reshaped their business through multi-dimensional iterative adjustments and breakthroughs; fifth, mergers and acquisitions for asset optimization increased.

The industry faces several challenges, including insufficient demand and limited coverage of government stimulus measures, conflicts between store renovations and return on investment, the impact of e-commerce and the dilemma of full-domain integration, retailer homogeneity and challenges of differentiation strategy, bottlenecks in product capability improvement and direct sales business, and conflicts between digital transformation outcomes and return on investment.

To effectively respond to market challenges, department store operators are actively pursuing business transformation and upgrades. Five trends have emerged this year: First, accelerating transformation and upgrades is the primary trend in 2025; second, department stores are partnering with brands to enhance product competitiveness; third, department stores are undergoing profound scenario-based transformation to fulfil consumers' shopping needs; fourth, digitalization and AI-powered operation will be adopted to streamline operations and reduce costs; fifth, as green consumption is gaining traction, department stores are innovatively transitioning to green and low-carbon practices.

The report emphasizes that merely 'renovation' on the surface is not a sustainable strategy for department stores. Instead, the transformation and upgrading of the department store industry should focus on engaging in deep partnerships and joint business plans with brands, developing private domain operations to engage members, and enhancing capabilities of online platforms while attracting customers to physical stores through various means.

Furthermore, government policies play a crucial role in the development of the department store industry. The government plans to implement more proactive macro policies this year, including proactive fiscal policies and moderately loose monetary policies. With strong policy support, the retail industry will usher in a broader development space. The transformation and upgrading of the retail industry as a whole will also drive the development of related industries, promote the optimization and upgrading of industrial structure, and contribute to the high-quality development of China's economy.

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1 Overview of China's retail market development

1.1 The macroeconomy

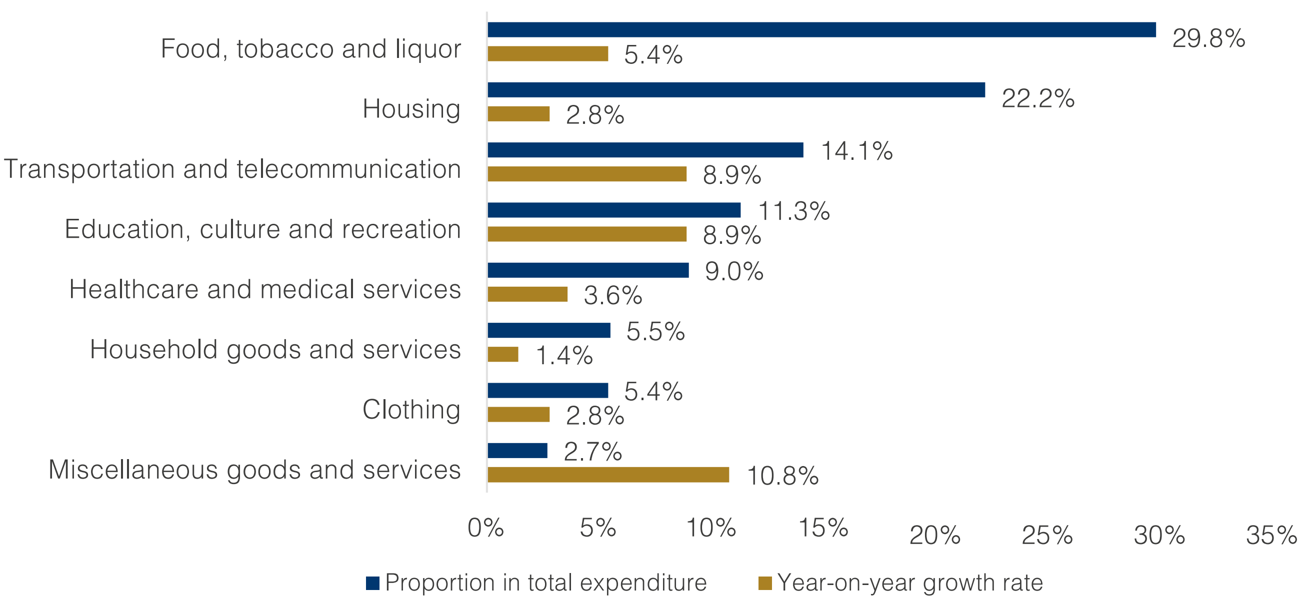
China's economy showed signs of steady development in 2024. Preliminary data show that the gross domestic product (GDP) reached 134.9084 trillion yuan in 2024, representing a year-on-year increase of 5.0% (at constant prices), with greater coordination between urban and rural development. Looking at quarterly trends, the first quarter started with a year-on-year growth rate of 5.3%, the second and third quarters achieved growth of 4.7% and 4.6% respectively, and the fourth quarter growth rate rebounded to 5.4%.

Nationwide per capita disposable income rose to 41,314 yuan, an increase of 5.3% in nominal terms. The urban-rural income gap narrowed further. Urban residents' per capita disposable income increased by 4.6% to 54,188 yuan; rural residents' income was 23,119 yuan, increasing by 6.6% -- exceeding the urban growth rate by 2 percentage points.

National per capita consumption expenditure was 28,227 yuan, increasing by 5.3%. In terms of regional distribution, urban residents' per capita consumption expenditure was 34,557 yuan, an increase of 4.7%, while rural residents' per capita consumption expenditure reached 19,280 yuan with a growth rate of 6.1%, indicating that consumption was trickling down to lower-tier markets.

Consumption categories also showed structural differences. In terms of daily expenditures, food, tobacco, and liquor expenditure was 8,411 yuan, an increase of 5.4%, accounting for 29.8% of the total and representing residents' largest expenditure item. Housing expenditure increased by 2.8% to 6,263 yuan, accounting for 22.2% of the total. Basic security expenditures remained stable, with healthcare and medical expenditure at 2,547 yuan, an increase of 3.6%. Clothing expenditure was 1,521 yuan, an increase of 2.8%. Emerging consumption modes led the growth, with miscellaneous goods and services expenditure increasing by 10.8% as personalized, quality-oriented consumption became new growth drivers. Transportation and telecommunication expenditure was 3,976 yuan, an increase of 8.9%; education, culture, and recreation expenditure increased by 9.8% to 3,189 yuan, reflecting strong demand for greater travel convenience and improvement in the quality of life (Figure 1-1).

Figure 1-1: National per capita consumption expenditure growth rates and proportions, 2024



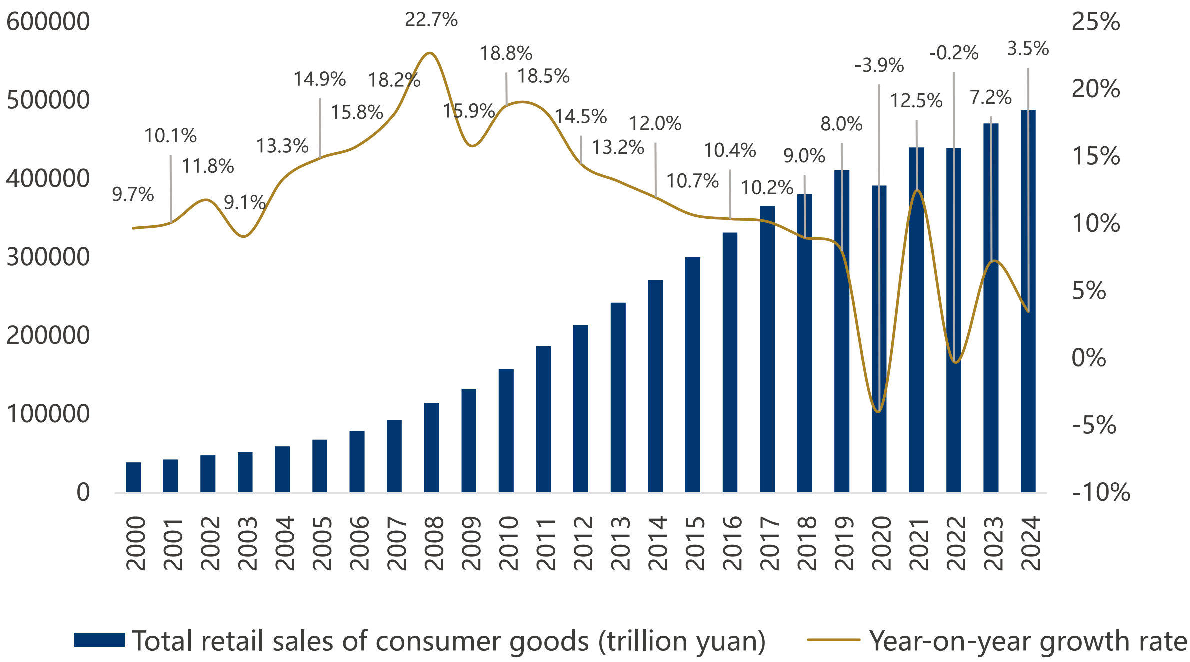
Source: National Bureau of Statistics of China; compiled by CCAGM and HKUST Li & Fung Supply Chain Institute

1.2 Development of the retail market

1.2.1 Insufficient growth momentum

In 2024, total retail sales of consumer goods reached 48.7895 trillion yuan, an increase of 3.5% compared to the previous year. Of which, retail sales of consumer goods excluding automobiles amounted to 43.7581 trillion yuan, a year-on-year increase of 3.8% (Figure 1-2).

Figure 1-2: China's total retail sales of consumer goods and growth rates, 2000-2024



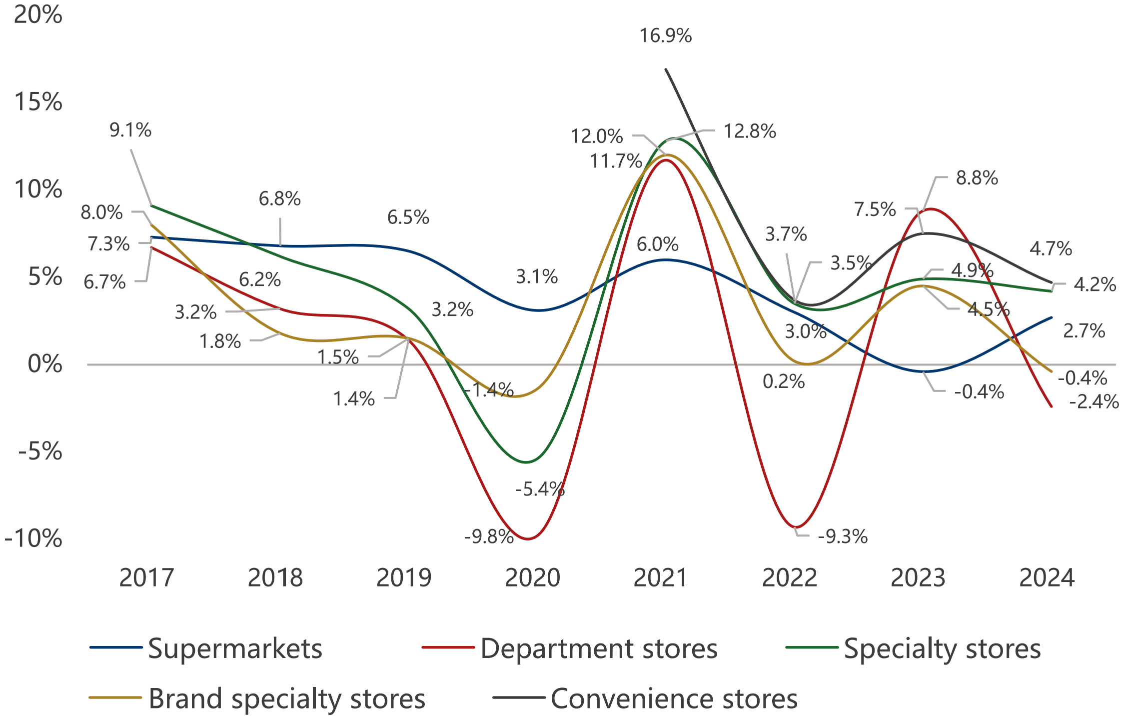
Source: National Bureau of Statistics of China; compiled by CCAGM and HKUST Li & Fung Supply Chain Institute

Retail sales in urban areas rose by 3.4% year-on-year to 42.1166 trillion yuan, while retail sales in rural areas increased by 4.3% year-on-year to 6.6729 trillion yuan. By consumption type, retail sales of goods reached 43.2177 trillion yuan, up by 3.2% year-on-year, while catering sales reached 5.5718 trillion yuan, up by 5.3% year-on-year – showing significantly stronger growth than the sales of goods.

The growth rate of total retail sales of consumer goods in 2024 was lower than that in 2023, and also significantly lower than pre-pandemic levels. E-commerce and catering growth rates maintained only single-digit growth, providing limited support for the overall retail market. Insufficient consumer spending power and a lack of willingness to consume remained major constraining factors as growth momentum remains low.

In terms of retail formats, in 2024, among retail enterprises above designated size, the retail sales of convenience stores, specialty stores, and supermarkets increased by 4.7%, 4.2%, and 2.7% respectively compared to the previous year; department stores and brand specialty stores saw retail sales decrease by 2.4% and 0.4% year-on-year respectively (Figure 1-3).

Figure 1-3: Growth rates of retail sales of enterprises above designated size by retail format, 2017-2024



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

1.2.2 Service consumption shows healthy growth

As China's economy transitions from a rapid growth phase to a high-quality development phase, it continues to solidify consumption's fundamental role in economic development. Consumption is going through structural upgrades as consumption patterns gradually shift from mainly consumption of goods to an equal emphasis on goods and service consumption. In recent years, the supply of service consumption has improved in quality and expanded in capacity, consumption scenarios have diversified, consumption experiences have become richer, and the service industry has continuously tapped into consumption demand. In 2024, service retail sales increased by 6.2% compared to the previous year, 3 percentage points higher than the growth rate of retail sales of goods during the same period. Nationwide per capita service consumption expenditure increased by 7.4% compared to the previous year, accounting for 46.1% of residents' per capita consumption expenditure, up 0.9 percentage points from the previous year.

In terms of tourism consumption, as people's living standards improve and consumption concepts change, tourism has become more common. The domestic tourism market continues to thrive, with various forms of tourism such as short-distance trips, local tours, and long-distance travel flourishing. At the same time, with the expansion of visa-free and transit visa-free policies, inbound tourism has been steadily growing. This has not only driven the development of tourism services but also strengthened related industries such as transportation, catering, accommodation, and shopping, injecting solid momentum into service consumption growth.

In terms of cultural and entertainment consumption, cultural products and services such as films, music, and theatres have surged in popularity. Online cultural and entertainment consumption has also rapidly risen as the Internet continues to evolve. Membership subscriptions to video platforms continue to grow, and the user base for digital music, online reading, and other services is also expanding, providing new growth spots for service consumption.

From a macroeconomic perspective, service consumption shows healthy growth, with its proportion in overall consumption continuously increasing, demonstrating strong vitality and potential and showing signs of sustained improvement.

1.2.3 Rise of consumption in lower-tier markets

In 2024, consumption in rural areas outperformed urban areas, and lower-tier markets outperformed first and second-tier cities. For example, in 2024, Beijing's total retail sales of consumer goods decreased by 2.7% year-on-year, while Shanghai's decreased by 3.1%. There are several contributing factors to this phenomenon. From a macroeconomic perspective, the overall economic slowdown has made residents uncertain about future economic conditions and income expectations. As such, they are more likely to increase precautionary savings while reducing consumption. In terms of consumption structure, the high-end market has encountered bottlenecks, with some consumers beginning to shift towards value-for-money consumption, affecting overall growth. Additionally, as market competition intensifies, large shopping malls and physical retail stores in Beijing and Shanghai have experienced reduced customer traffic – and in turn, declining sales.

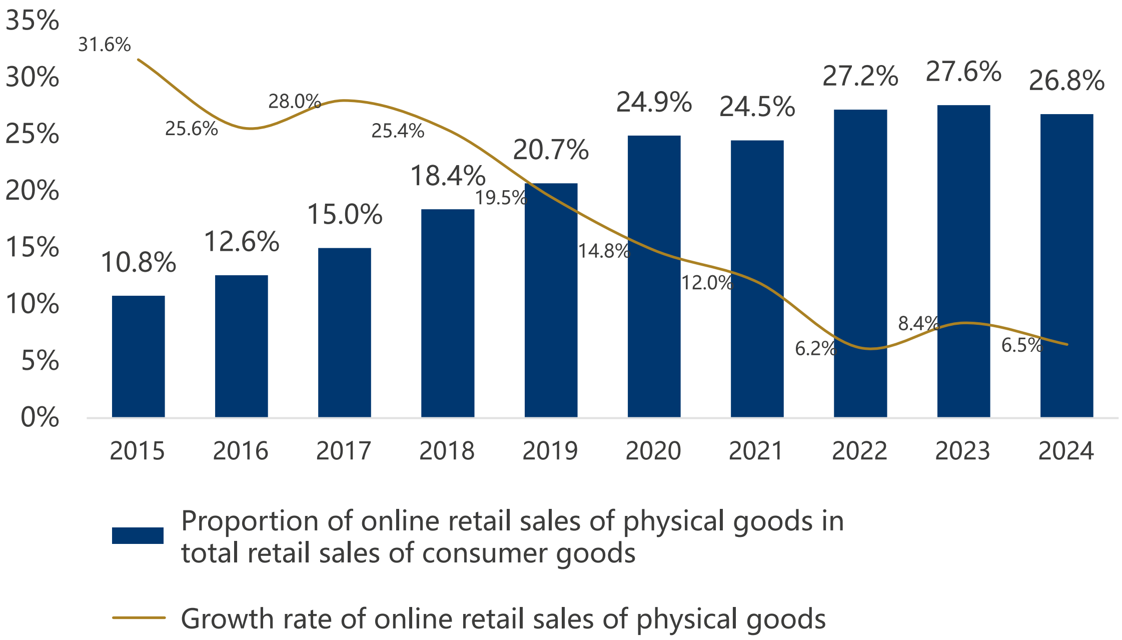
In stark contrast to the slowing consumption growth in first and second-tier cities, lower-tier markets and rural consumption have performed well. In 2024, consumption growth in small and medium-sized cities – such as Shaoxing, Jiaxing, and Yangzhou in the Yangtze River Delta region – was particularly notable: total retail sales of consumer goods increased by 6.7%, 5.3%, and 6.6% year-on-year respectively. This phenomenon has been driven by favourable policies introduced by national and local governments to expand domestic demand and promote consumption, such as trade-in programmes for consumer goods, which have greatly stimulated consumption vitality in lower-tier markets. On the other hand, the consumption ideals of residents in lower-tier markets are gradually changing as they begin to pursue quality and diversified goods and services, with continuous upgrades in consumption structures. At the same time, some cities have constructed unique models that support consumption growth by leveraging their industrial foundations and economic development advantages.

In 2024, the growth rate of rural retail sales of consumer goods was 4.3%, outperforming the urban growth rate of 3.4%. The growth of rural consumption has benefited from multiple factors. The government has increased investment in rural infrastructure construction and public services, improving the rural consumption environment and elevating the convenience and comfort of consumption. Additionally, the relatively lower prices of goods and services in rural areas can meet consumption demands at different levels, which also provides space for growth. Importantly, rural residents' demand for basic living consumer goods and agricultural production materials is relatively stable and less affected by economic fluctuations, making consumption growth more sustainable.

1.2.4 Stabilization of online retail growth and its market share within overall retail sales

In 2024, online retail sales of physical goods rose by 6.5% year-on-year, a slowdown from previous years as it gradually approaches the growth rate of total retail sales of consumer goods. Online retail sales of physical goods accounted for 26.8% of total retail sales of consumer goods, lower than in 2022 and 2023, indicating a trend toward stabilization of online retail's market share (Figure 1-4).

Figure 1-4: Growth rates of online retail sales of physical goods and their proportions in total retail sales of consumer goods, 2015-2024



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

This phenomenon reflects that online traffic is beginning to offer diminishing returns. With the rapid development of the mobile Internet, online shopping momentum has grown continuously, sustaining the rapid development of online retail. However, the online retail market's traffic is now approaching saturation, with fewer new users joining. Online retail platforms are finding it increasingly difficult to acquire new users as customer acquisition costs continue to rise. This has made growth in online retail more challenging; it is more difficult to further increase its market share within overall retail sales.

On the other hand, this phenomenon also reflects changes in the consumption environment and consumer attitudes. As downward economic pressure increases, consumers' financial situations and confidence have been affected to some extent. Consumer attitudes are becoming more rational, with greater emphasis on product quality and value for money rather than simply pursuing convenience and low prices through online shopping. In the current consumption environment, consumers want products and services that save money, time, and effort while also offering quality, interest, and substance. This means that online retail's reliance on price advantages is becoming less appealing, further limiting its growth and expansion of market share within overall retail.

Furthermore, the rise of emerging retail formats has also diverted some traffic from the online retail market. In recent years, offline discount snack stores, warehouse membership stores, and other emerging retail formats have attracted many consumers with their unique advantages. These formats have met certain consumer needs, attracting customer flow to offline purchases, which has also contributed to the gradual stabilization of online retail's market share.

1.2.5 Policy support boosts consumption

In 2024, China implemented a series of special policy and measures to boost consumption. Trade-in activities for consumer goods were strongly promoted, with the central government allocating 150 billion yuan in special treasury bonds to support local implementation of the trade-in policies, driving sales of automobiles, home appliances, and other applicable consumer goods to exceed 1.3 trillion yuan. For example, automobile trade-ins exceeded 6.8 million vehicles with sales reaching 920 billion yuan, while home appliance sales reached 270 billion yuan. These initiatives greatly stimulated consumer enthusiasm while heating up the consumer market. Fiscal and monetary policies also worked in tandem, providing greater support at the macro level. In terms of fiscal policy, China has actively utilized idle social resources, raised the nominal deficit ratio, expanded expenditure scale, and focused support on middle and low-income groups and consumer-oriented enterprises. It has also implemented a moderately loose monetary policy to reduce financing costs and promote consumer credits.

Under the dual stimulus of fiscal and monetary policies, the liquidity in the consumer market improved, providing consumers with more funds for consumption and further promoting market recovery. Meanwhile, improvements to the income distribution system and measures to increase income and reduce financial burdens for middle and low-income groups enhanced residents' consumption capacity and willingness, providing strong support for the long-term development of the consumer market. According to data from the Ministry of Commerce and other departments, policies to boost consumption have been highly effective as new growth points in consumption continue to emerge. New consumption concepts such as China-chic (Guochao) are emerging alongside innovative consumption scenarios like community markets, and online retail has been relatively active. Policy support for new consumption models has boosted the vitality of the consumer market.

The pro-consumption policies of 2024 brought new vigor to the consumer market, injecting vitality and laying a solid foundation for continued prosperity going forward. With ongoing policy guidance and support, it is predicted that the consumer market will continue to recover, injecting continuous vitality into China's high-quality economic development.

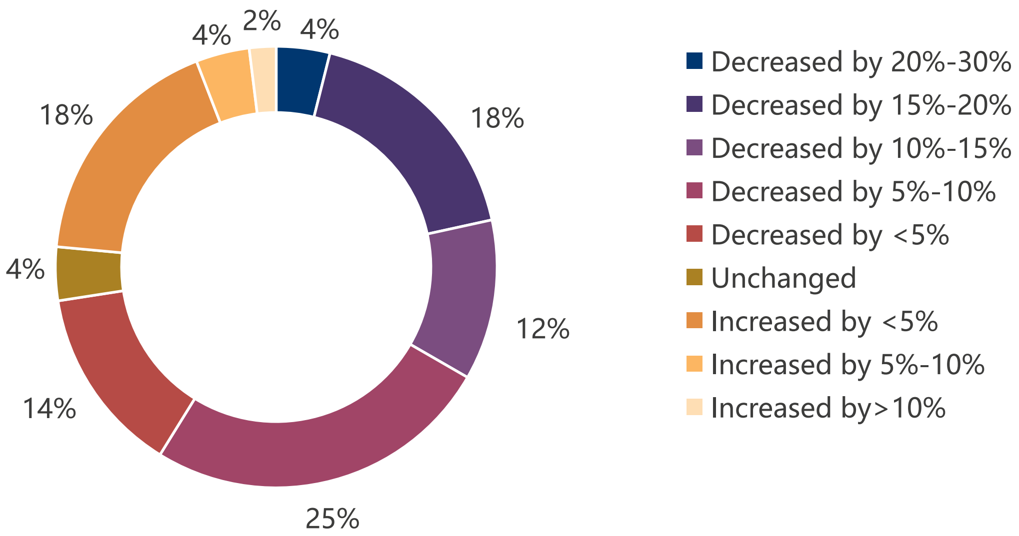
2 Trends and developments in the department store industry

2.1 Both revenue and net profit decline

A joint survey by the CCAGM and the HKUST Li & Fung Supply Chain Institute shows that in 2024, 73% of surveyed department store operators experienced year-on-year sales declines:14% had slight decreases of less than 5%, 25% saw moderate decreases of 5-10%, 29% declined by 10-20%, and a small number faced significant pressure with an over 30% decline in sales. Only 24% of surveyed department store operators achieved sales growth, with 18% growing less than 5% and only a few breaking into higher growth ranges; 4% of department store operators saw sales flat against the previous year (Figure 2-1).

Corporate profits faced pressure in light of declining sales. The survey shows that, in 2024, 72% of surveyed department store operators experienced year-on-year net profit declines: 22% declined by more than 20%, 24% declined between 10-20%, and 26% declined less than 10%. Only 22% of surveyed department store operators achieved growth in net profit, but the growth remained low, mostly within 5% (Figure 2-2).

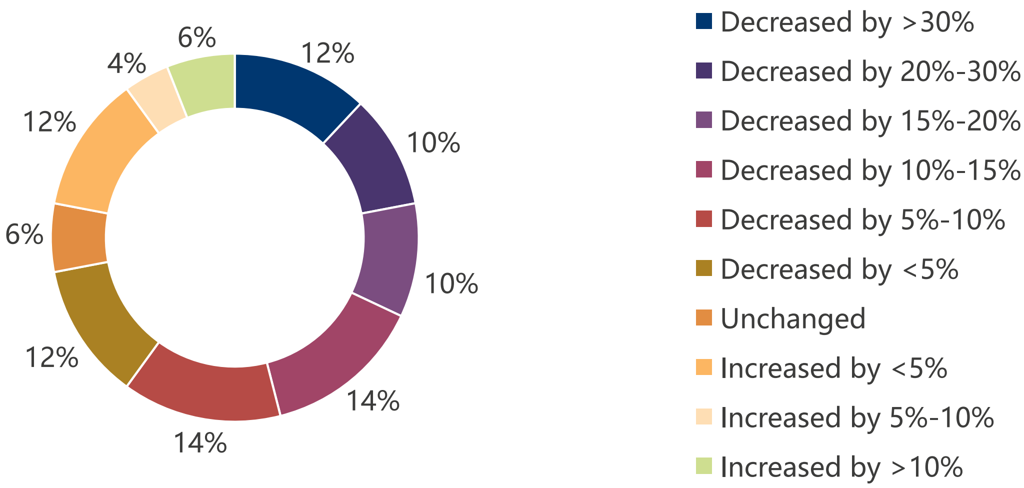
Figure 2-1: Year-on-year sales growth of surveyed department store operators in 2024



Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

Under declining sales, corporate profits faced pressure. The survey shows that, in 2024, 72% of sampled enterprises experienced year-on-year net profit declines: 22% declined by more than 20%, 24% declined between 10-20%, and 26% declined less than 10%. Only 22% of sampled enterprises achieved positive net profit growth, but the growth was mostly concentrated within 5% (Figure 2-2).

Figure 2-2: Year-on-year growth in net profits of surveyed department store operators in 2024



Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

According to data from 17 department store operators that have released their 2024 preliminary financial results, 6 companies (35%) had net loss after deducting non-recurring gains and losses. Another 6 companies (35%) saw increased profits or reduced losses. Although most companies (65%) showed net profits after deductions, among these profitable companies, 65% experienced profit declines, some significantly (Table 2-1), challenged by continuously shrinking overall profit margins.

Table 2-1: 2024 preliminary financial results of selected department store operators

Company name	Net profit after deducting non-recurring gains and losses (yuan)	Year-on-year change	Cited reasons for the change
Inzone Group	14.5 million to 21.5 million	Decreased by 68.21% to 78.56%	Asset disposal; impairment loss on goodwill, etc.
Xujiahui Shopping Mall	1.6 million to 2.4 million	Decreased by 94.09% to 96.06%	Major investment and store renovations/ upgrades
Chongqing Department Store	1.22 billion	Increased by 8.16%	Total expenses decreased by 9.14% yoy
Xinjiang Youhao Group	-10.1 million to -11.4 million	-164.69 million yuan in 2023	Management optimization; Reduction in rental payments
Shanghai New World	36 million to 44 million	Increased by 122% to 172%	Significant improvement in department store business and hotel business; increase in pharmaceutical sales

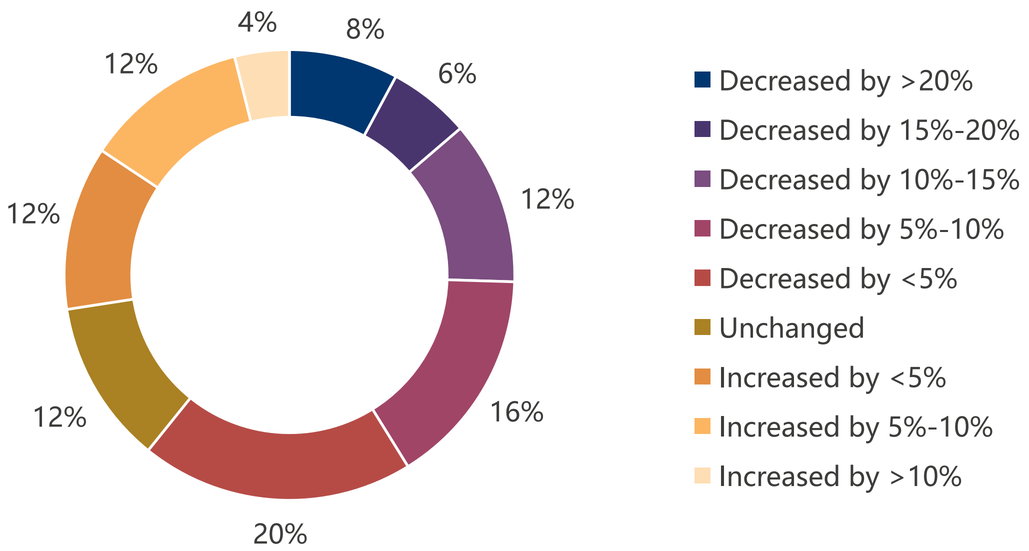
China Duty Free Group	4.145 billion	Decreased by 37.68%	Slowdown in consumer demand and downturn in the industry
Yuyuan Tourist Mart	-2.05 billion to -2.2 billion	Decreased by 387.63% to 354.38%	Reduced margins in property development and sales; structural adjustments in the consumption industry
Guangzhou Lingnan	60 million to 67 million	Increased by 0.38% to 12.09%	Dividends from joint ventures and compensation received due to arbitration awards
Guofang Group	62.23 million to 81.27 million	Decreased by 46.11% to 29.63%	Upgrade and adjustment of subsidiary Lanzhou Guofang
Better Life Commercial Chain Share	-760 million to -1,120 million	Loss decreased by 31.35% to 53.42%	Gains from restructuring; adjustment in business strategy that focuses on advantageous regions and store optimization
Beijing Cuiwei Tower Co.	-650 million to -690 million	-287 million yuan in 2023	Business decline of a subsidiary; closure of a shopping mall for reconstruction
Nanjing Central Emporium	-95 million to -157.5 million	-125.24 million yuan in 2023	Impairment losses on property inventory; decrease in operating income due to sales decline
Changchun Ou Ya Group	-40 million to -60 million	-1.25 million yuan in 2023	Impairment loss on assets such as inventory, investment properties, and goodwill
Rainbow Digital Commercial	10 million to 15 million	Decreased by 88.30% to 92.20%	Intensified market competition; losses from asset disposal and store closures
Guangzhou GrandBuy	22 million to 28 million	Increased by 3.41%-31.61%	Improvement in business management; asset disposal, etc.
Bailian Group	85 million to 127 million	Decreased by 67.42 million to 109.42 million yuan	Investment gain from the issuance of Hua'an Bailian Consumer REIT
Wangfujing	250 million to 340 million	Decreased by 295.98 million to 385.98 million yuan	Industrywide pressure due to changes in the consumer market; expenses due to business adjustment and development of new businesses

Source: Compiled by CCAGM based on publicly available data (some companies have yet released their annual reports as of the time of writing)

The decline in operating revenue and net profits can be attributed primarily to decreased foot traffic and consumer spending power. More specifically, 61% of surveyed department store operators saw decreased foot traffic, with 25% experiencing declines exceeding 10%, and 35% seeing declines within 10%. 27% of department store operators saw increased foot traffic, mostly within 10%, while 12% maintained the same foot traffic levels as 2023 (Figure 2-3).

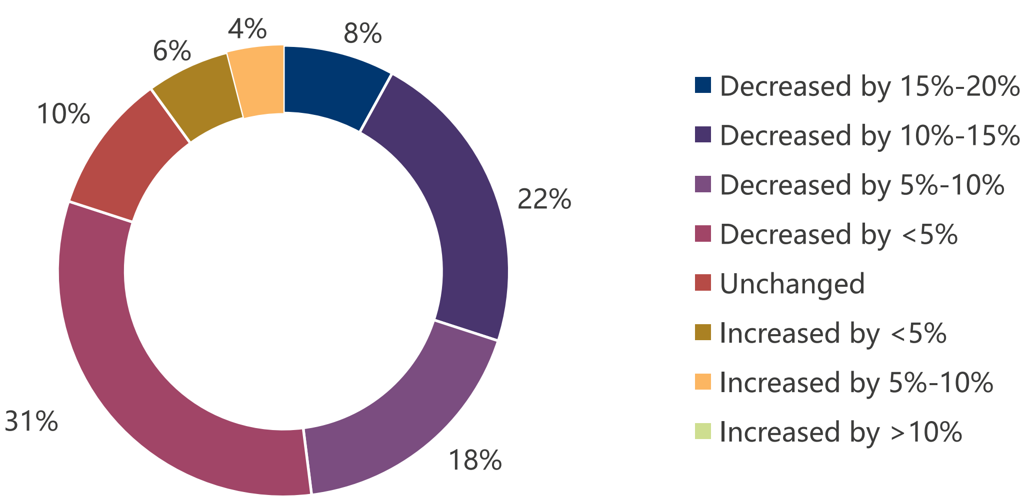
20% of surveyed department store operators saw year-on-year increases in average order value, 31% remained flat, and 47% experienced decreases (Figure 2-4). Overall, department store operators showed a weak performance trend.

Figure 2-3: Year-on-year change in foot traffic of surveyed department store operators in 2024



Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

Figure 2-4: Year-on-year change in average order value of surveyed department store operators in 2024



Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

2.2 High-end consumption shows significant decline

According to a Bain & Company report released in January 2025, China's luxury market experienced its largest decline in 13 years during 2024, with sales dropping by 20% year-on-year. The market size shrunk to near-2020 levels, marking the end of the post-pandemic rapid growth. Various core retail channels faced pressure, with high-end malls experiencing significant growth slowdown due to their high dependence on luxury sales; some regions even showed negative growth.

This trend aligns with financial results of numerous international luxury companies. LVMH's 2024 financial results showed revenue of €84.7 billion, declining 2% year-on-year, with organic growth of 1%. The share of Asia (excluding Japan) in the total revenue decreased from 31% in 2023 to 28% in 2024, with organic revenue declining 11%. Asia (including China but excluding Japan), LVMH's largest overseas market, showed negative organic revenue growth in 2024, with organic revenue decline exceeding 10% in three quarters except for the first quarter (which only saw a 6% decrease).

Italian luxury group Zegna's 2024 financial results showed annual revenue growth of 2.2% to €1.947 billion, but organic revenue declined 1.9%; revenue in the fourth quarter grew by 3.3% to €589 million. Despite strong performance in the Zegna brand boosted by the growth in direct-to-consumer channel, the company's revenue in China dropped by 14.5% year-on-year to €509 million, the only region with negative growth globally.
Richemont's preliminary financial results for the third quarter of the 2024/25 fiscal year showed global sales growth of 10% at constant exchange rates, reaching €6.2 billion for the three months ending 31 December 2024. While all regions outside Asia-Pacific achieved double-digit sales growth, Asia-Pacific sales declined by 7%, mainly due to an 18% drop in combined sales from the Chinese mainland, Hong Kong SAR, and Macao SAR.

Increased economic uncertainty led to unstable investment and employment markets, weakened wealth effects, and pessimistic consumer outlook. Changes in income and asset expectations caused high-income groups to adopt conservative spending habits and increase savings to hedge against potential economic risks, significantly impacting high-end consumption. Additionally, the recovery of outbound tourism and favourable exchange rates led to outflow of luxury consumption, with a higher proportion of luxury spending shifting overseas, particularly to Asia-Pacific and Europe, further contributing to the contraction in the domestic high-end market.

2.3 Cost reduction and efficiency improvement across the industry

As the market becomes saturated, companies can no longer rely on external expansion for growth. They are shifting focus to internal optimization, improving management efficiency, and reducing operational costs. Previously, businesses were focused on channel development, including new store openings, omnichannel systems, and customer acquisition. Currently, with limited breakthrough opportunities in new channels and normalized marketing activities, companies must shift their management focus to improving workforce efficiency and organizational reform, supply chain management and process optimization, energy consumption management and space restructuring, and more in-depth brand partnerships.

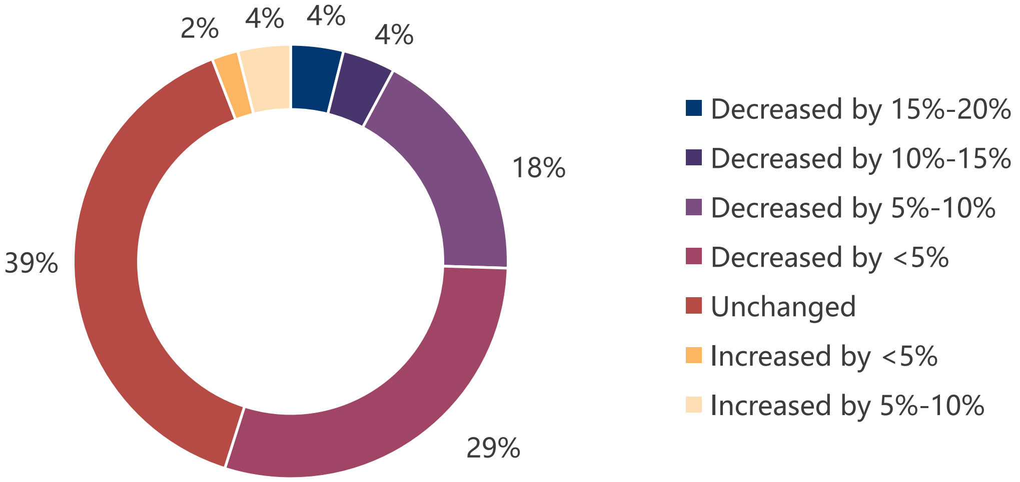
Cost reduction and efficiency improvements have emerged as an industry-wide objective, having been frequently mentioned in many companies' annual reports. For example, Rainbow mentioned in its 2024 semi-annual report that the company continues to optimize its cost structure, improve comprehensive budget management, and advance its 'wringing the towel' cost control initiative.

Chongqing Department Store has also mentioned its plans to continuously reduce costs and improve operational efficiency through promotiong business and finance integration: strengthening management of cash flow, capital, expenditure, debt, and inventory, optimizing processes, increasing business guidance, and improving the efficiency and quality of operations. Furthermore, the company aims to optimize its organisational structure at all levels, including increasing the proportion of flexible employment, and reducing labour costs. It will implement a staff assessment system based on value creation, encouraging value (co)creation and sharing. Ultimately, Chongqing Department Store aims to build a self-driven organization through continuous organizational reforms alongside market-oriented talent acquisition and development.

On the other hand, Ou Ya Group is implementing efficiency improvements through management approaches. The company is practicing strict cost control, focusing on reducing costs, expenses, and waste. It will follow the principle of maximizing repair and utilization of existing resources while strengthening cost and budget management, thoroughly incorporating its economical philosophy into a refined management strategy.

According to the joint survey by the CCAGM and the HKUST Li & Fung Supply Chain Institute, the most direct reflection of cost reduction is the decrease in full-time employees. The survey shows that 55% of surveyed department store operators reduced their workforce in 2024, 39% maintained the same workforce, and only 6% increased their workforce. This reduction in workforce reflects both increasing operational pressures and proactive internal efficiency improvements (Figure 2-5).

Figure 2-5: Year-on-year change in number of employees of surveyed department store operators in 2024



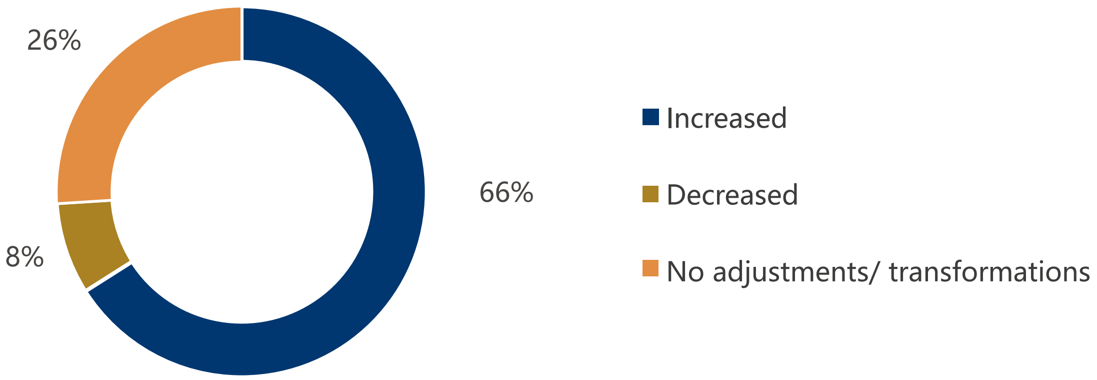
Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

2.4 Multi-dimensional iterative adjustments and breakthroughs

In light of diverging consumer demands and intensifying competition, department store operators are reshaping their business through multi-dimensional adjustments. Through systematic upgrades in physical spaces, business formats, product categories, and strategic positioning, the department store industry is accelerating its transformation from traditional sales spaces.

The joint survey shows that in 2024, 66% of surveyed department store operators reported an increase in renovation and upgrade projects compared to the previous year. Consumer trends are driving these transformations, pushing department store formats into a new cycle of diverse iterations (Figure 2-6).

Figure 2-6: Renovation and upgrade projects in 2024 compared with 2023



Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

Many department store operators are adapting to structural changes in consumer demands through strategic transformation. In April 2024, Guofang Group announced an investment project to upgrade Lanzhou Guofang Department Store Shopping Plaza's main building. The project revolves around implementing an innovative third-generation 'super department store' business positioning and strategy. The partially opened sections have already gained widespread recognition from consumers and industry peers, which is expected to increase the company's market share and core competitiveness.

In September 2024, Shuang'an Mall initiated a floor-by-floor renovation, targeting communities within a 5-kilometre radius. The renovation focuses on innovating spatial scenarios, business format structures, and category and brand layouts to create innovative markets and community activity centres as social gathering spots. This transformation from a traditional department store to a quality lifestyle experiential venue involves simultaneous renovation of both the exterior facade and interior spaces in order to create a new living experiential space. The third through fifth floors in particular are being transformed through content incubation, ultimately providing customers with a refined space that is relaxed, vibrant, and full of everyday warmth.

During its 31st anniversary celebration, Hangzhou Tower unveiled its new look after an extensive four-month external renovation of its plaza and facade. The renovated plaza and passage between Tower A and B buildings have been transformed into a new T-shaped section, positioning itself as a venue for world-class fashion events and global debuts of international luxury brands. The passage between buildings and surrounding areas underwent significant adjustments, with former parking areas redesigned into pedestrian zones featuring water features and art installations, bringing new vitality to the Wulin Square commercial district. In terms of brands, numerous renowned domestic and international brands have established their presence, including several brands new to the Chinese market. This renovation integrates commerce with art, culture, and tourism, delivering diverse content and emotional value to consumers.

Bailian Group recently upgraded its UMall Plaza with a focus on ACG (Animation, Comics, and Games) culture. In December 2024, it officially reopened as 'Bailian ZX Crafted Fun Zone', becoming Shanghai's largest ACG commercial landmark. As Bailian's second ZX project, Bailian ZX Crafted Fun Zone positions itself as 'China's first ACG lifestyle hub', targeting three main consumer groups: ACG enthusiasts, casual ACG fans and trendy young people, establishing itself as a commercial landmark for ACG lifestyle in North Shanghai. The space features multiple zones including themed dining areas, multi-functional creative spaces, and gaming experience areas. In terms of business format, Bailian ZX Crafted Fun Zone will expand beyond merchandise retail to introduce more diverse business types, enhancing the overall consumer experience.

2024 has been a significant year for commercial renovations, with many retailers undertaking various levels of business transformations. These ranged from image upgrades or content update to business format transitions, or even a combination of these, showing a variety of transformation approaches.

2.5 Increased mergers and acquisitions for asset optimization

The retail industry faced multiple challenges in 2024, including weak consumption recovery and rising costs. In response, it aimed to reshape competitive landscapes through mergers and acquisitions, resulting in several such cases.

On 7 March, Chongqing Department Store announced changes in its share issuance registration as part of an absorption merger. The company issued shares to Chongqing Yufu Capital Operation Group Co., Ltd, Tianjin Binhai New Area Wumart Jinrong Trading Co., Ltd, Shenzhen Jiajing Smart Retail Co., Ltd, Chongqing Commercial Huilong Enterprise Management Consulting Partnership (Limited Partnership), and Chongqing Commercial Huixing Enterprise Management Consulting Partnership (Limited Partnership) to absorb and merge Chongqing Commercial, while retiring the Chongqing Department Store shares held by Chongqing Commercial.

On 28 September, Beijing Hualian Commercial Building Co., Ltd announced that it had aqcuired 100% equity of Beijing Hualian Meihaoshenghuo Department Store Co., Ltd from Beijing Hualian (SKP) Department Store Co., Ltd for 192.4394 million yuan using its own funds. The full payment has been made to Beijing SKP, and the equity transfer has now been completed.

On 11 December, Friendship & Apollo Commercial released an announcement which detailed its plans to acquire 100% equity of Shenzhen Sanrise Technology Co., Ltd through a combination of share issuance and cash payment,while also raising the required funds. Established in 2014, Shenzhen Sanrise Technology focuses on the research and design of high-end semiconductor power device chips, specifically concentrating on the development, manufacturing, and sales of industrial-grade and automotive-grade advanced power device chips.

On 17 December, Alibaba announced that the company, together with another minority shareholder, has agreed to sell 100% equity of Intime for 7.4 billion yuan to Youngor Group and Intime's management team. Alibaba held approximately 99% of Intime's shares before the deal. On 17 February 2025, the State Administration for Market Regulation disclosed several cases regarding business operator concentration unconditionally approved between 5 February and 9 February, which include the acquisition of Intime Commercial (Group) Co., Ltd by Youngor Group (Ningbo) Co., Ltd. and Hangzhou Zhenyi Commercial Management Co., Ltd, marking Youngor's official takeover of Intime.

The increase in mergers and acquisitions in the retail industry is a global trend. Bain & Company's recent M&A Report 2025 mentions that despite stricter regulatory policies, both the transaction value and volume of mergers and acquisitions in the retail industry rebounded in 2024.

3 Major development issues and challenges

3.1 Insufficient demand and limited coverage of government stimulus measures

Issues such as weak consumption and consumer diversion are directly reflected in insufficient store traffic, becoming a catalyst for subsequent problems. Our survey shows that nearly all surveyed department store operators (98%) believe that the current biggest challenge is the insufficient purchasing power and consumption downgrade (Figure 3-2).

Figure 3-1: The chain effects of weak consumption

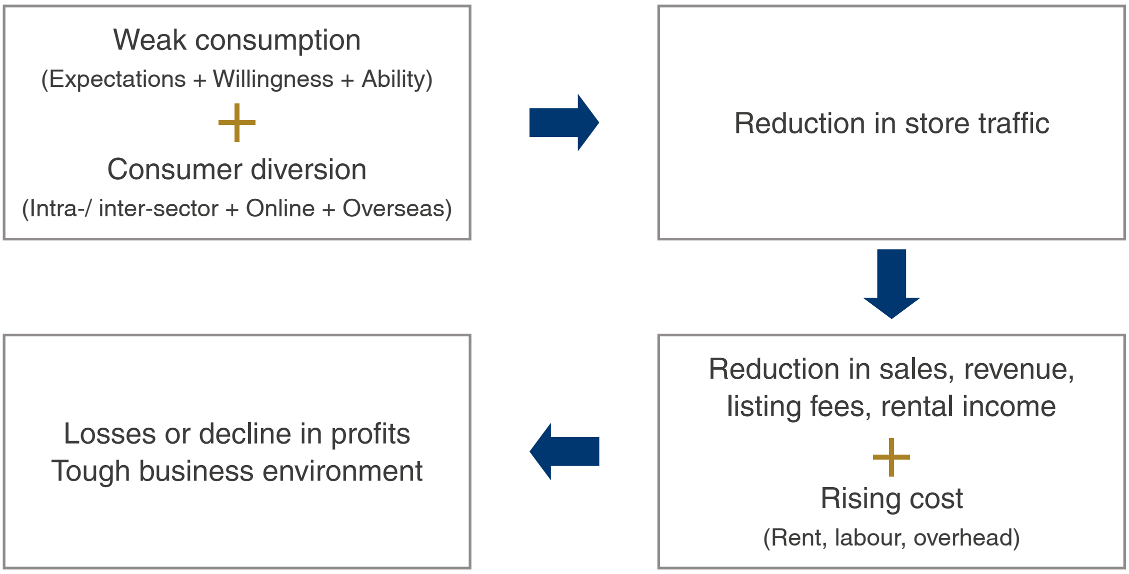
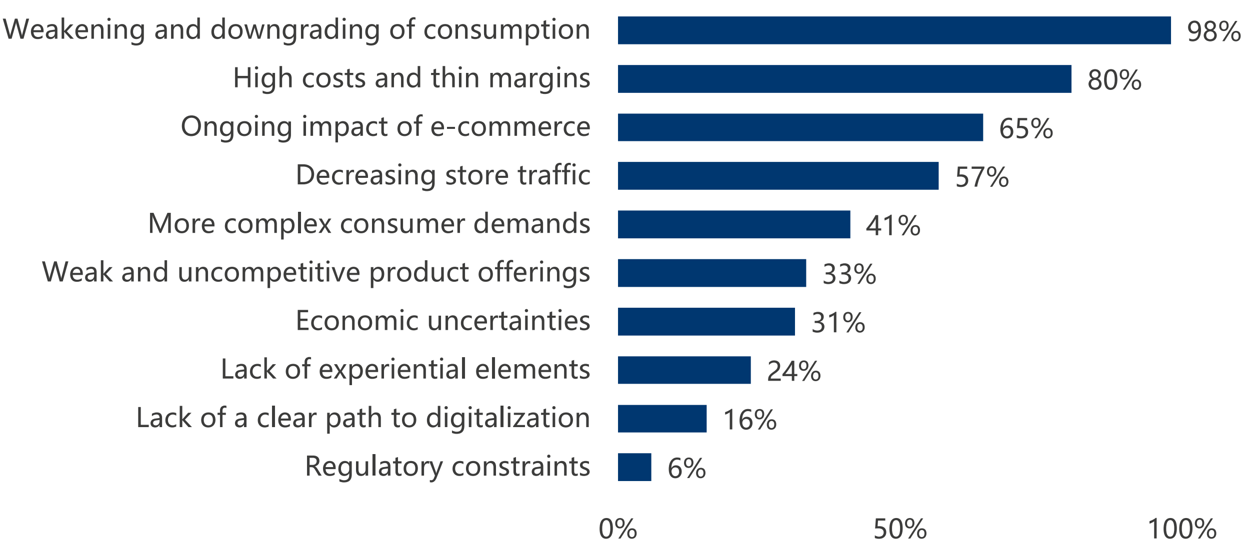


Figure 3-2: Major challenges facing surveyed department store operators



Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

To boost consumption, in March 2024, the State Council issued an action plan to promote large-scale equipment renewal and trade-in of consumer goods. The document emphasized that the renewal and trade-in scheme is an important measure to 'accelerate the construction of a new development pattern and promote high-quality development'. The trade-in programme in the consumption sector covers automobiles and electric bicycles, home appliances, and materials for home renovations (including kitchen and bathroom renovations) and age-friendly home modifications. The policy has achieved good results since its implementation. To further stimulate consumer demand, trade-in support has been expanded in 2025 to cover more electronic products such as mobile phones and tablets.

However, the main categories in department store retail are cosmetics, gold and jewellery, clothing and footwear, etc. Most of these consumer goods are not covered by the trade-in programme. Further consumption stimulus measures are needed to cover a wider range of goods and service consumption.

3.2 Conflicts between store renovations and return on investment

Within the broader context of structural adjustments in the consumer market, department store retail is facing unprecedented pressure to transform their business. However, the industry has reached an impasse due to declining operating efficiency and high renovation costs.

On one hand, renovations and transformations are almost a must. Changes in consumer behaviour are reshaping the values and standards of offline commerce. New core consumer groups have significantly higher expectations for experiential scenarios compared to traditional shopping needs. Hybrid spaces with social attributes and immersive experiences have surpassed pure shopping venues, driving the urgent need for department store renovations.

On the other hand, department store operators are faced with a dilemma with regards to return on investment. The main obstacles to implementing renovations are the substantial initial investments required, such as in facade improvements and smart operation system upgrades, and loss of investment by merchants caused by adjustment in brand portfolios. The increase in operational costs post-renovation also creates pressure on profits, such as increased energy consumption from experiential formats and premium compensation for cross-industry talent with diversified skills.

Third is the conflict between transformation investment and traditional business conventions. Revenue per square metre decreases as experiential space expands, reducing gross margins. While traffic flow redesign may increase dwell time, average transaction value may not achieve expected growth. More importantly, post-renovation results remain difficult to predict. Although introducing experiential formats and improving shopping environments can attract consumers to some extent, consumers also need time to adapt to new environments. Given intense market competition, it is also uncertain whether newly introduced brands and formats will gain immediate consumer acceptance.

Renovated stores need to achieve profitability in the short term to avoid greater operational pressure. However, the current investment-return situation often means high costs and slow returns. While renovation investments require a long payback period, newly introduced brands and formats need a market cultivation period to become profitable, making it difficult for department stores to see significant efficiency improvements in the short term.

Although renovation is essential for improving competitiveness, achieving high returns for their high investment remains an urgent issue for department store operators.

3.3 The impact of e-commerce and the dilemma of full-domain integration

E-commerce has attracted many consumers through convenient shopping experiences, diverse product offerings, and more competitive prices, significantly impacting the store traffic and sales of traditional malls. This ongoing impact has created various challenges for retail enterprises attempting to operate across both online and offline domains.

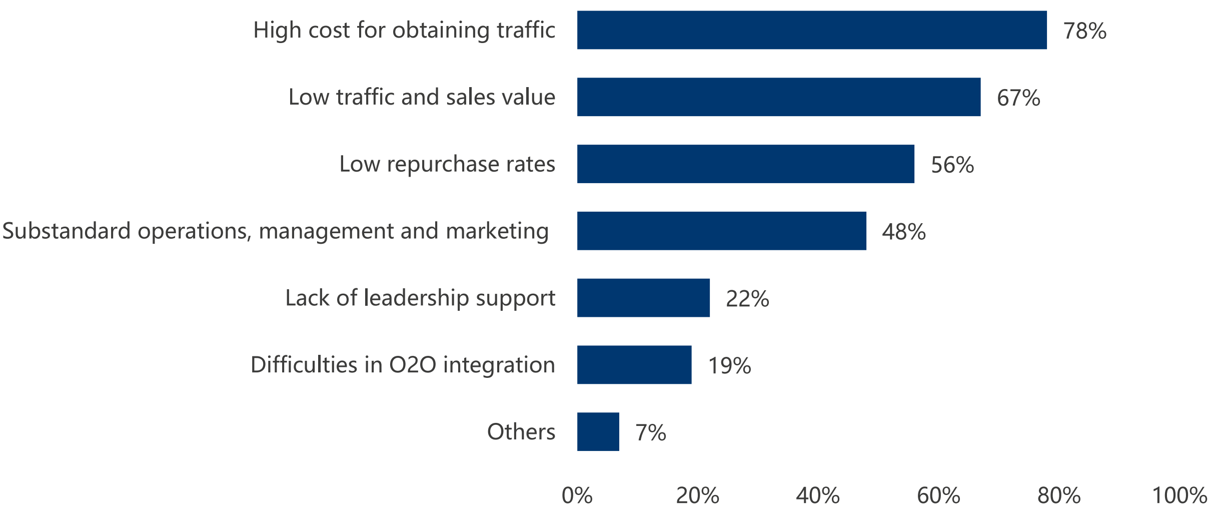
Our survey indicates that disruptions from e-commerce ranks third among the main challenges facing department store operators today (Figure 3-2). In this context, department store operators attempt to address these challenges through online-offline integration, but they also face multiple difficulties during this process.

According to CCAGM's *2024 Retail IT and Digital System Demand Survey*, since the O2O trend began in 2013, offline retailers' online sales have remained relatively low overall despite spending years developing their omnichannel business. The main challenges are: the difficulty and high costs of attracting traffic (78%), low traffic leading to low sales (67%), low repurchase rates, and substandard operations, management and marketing (Figure 3-3).

Furthermore, department store operators face significant challenges in digital transformation, with most department stores investing a low percentage of revenue in digitalization and having deficiencies in technology application and data integration with brands. Additionally, aging hardware, services, and product supply chains are unfit to meet consumers' high expectations for shopping experiences. Rising operational costs and compressed profit margins also create financial pressure during the implementation of transformation initiatives.

E-commerce has continued to impact the department store industry, while retailers advancing online-offline operations must overcome insufficient digital capabilities, cost pressures, and supply chain coordination issues.

Figure 3-3: Major obstacles encountered by surveyed department store operators when developing online business



Source: 2024 Retail IT and Digital System Demand Survey by CCAGM

3.4 Retailer homogeneity and challenges of differentiation strategy

The department store industry has long been plagued by homogeneity, with highly similar product structures, business formats, service models, and consumer experiences. Consumers visiting malls in different cities often find identical brands, similar displays, and comparable prices. As e-commerce platforms continue to divert customers with their advantages, physical retail spaces have lost their competitive edge to a degree.

Homogeneity in business formats leads to heightened industry challenges. Over the past decade, restaurants, children's playgrounds, and cinemas have become 'standard configurations' for shopping centres, but issues caused by rigid combinations and lack of innovation are becoming apparent. Some department stores have increased the proportion of dining and children's playgrounds, but have fallen into a cycle where dining areas draw traffic which is not effectively converted into retail sales.

Currently, standardized service models no longer meet the new scope of consumer demands. Traditional shopping guides, promotions, and membership systems cannot satisfy modern consumers' complex and personalized needs, especially as young consumers value 'emotional value' and 'social experience' far more than traditional service dimensions. Most enterprises are sluggish in responding to new consumption patterns favoured by Generation Z. While personalized service becomes a new retail battleground, department store service upgrades remain at basic levels, such as adding nursing rooms and renovating restrooms.

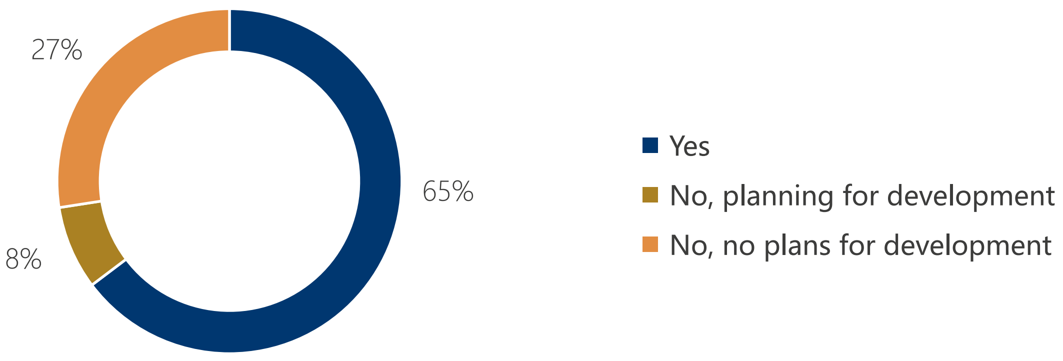
Facing these challenges, there is an industry-wide consensus that differentiation is a crucial next step, but businesses must first overcome various challenges. The primary barrier to product differentiation lies in supply chain systems. In the traditional consignment model, department store operators lack control. Some attempt to transition to the direct sales model but struggle with building procurement teams, managing inventory, and dealing with capital constraints caused by tied-up capital, making the transformation challenging.

The innovation dilemma stems from intensified market competition. After concepts like 'experience economy' and 'social spaces' have become overused, truly technically innovative or original business models are rare. More critically, rapidly evolving consumer demands significantly shorten innovation windows, forcing enterprises into a cycle of continuous innovation that quickly becomes outdated.

3.5 Bottlenecks in product capability improvement and direct sales business

Our survey shows that in 2024, 65% of surveyed department store operators have engaged in direct sales business, 8% did not have direct sales business but were planning to do so, and nearly 30% did not have direct sales business and had no plans to establish one in the near future (Figure 3-4). Among the survey respondents, most companies fall under comprehensive formats, operating shopping centres, outlets, supermarkets, etc., in addition to department stores. This figure mainly represents the situation of operators of comprehensive formats.

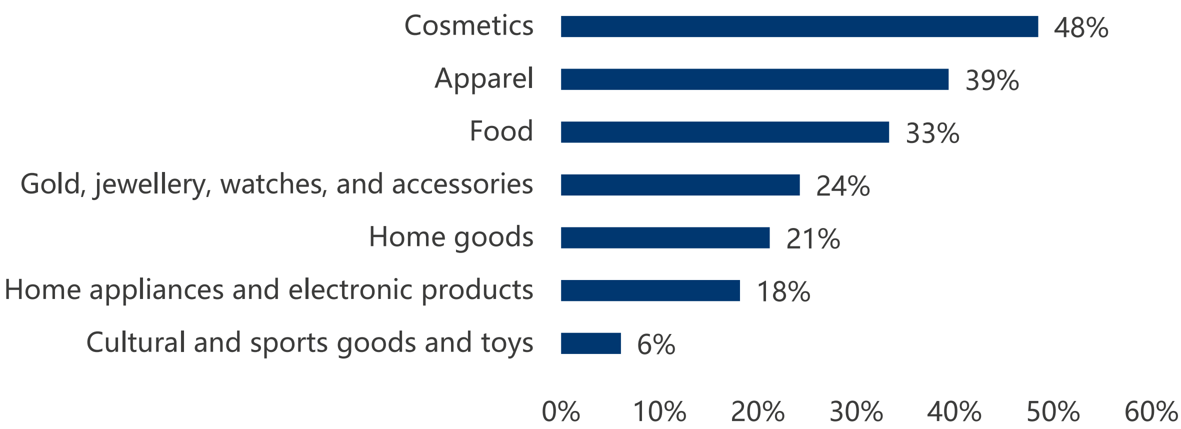
Figure 3-4: Status of direct sales business of surveyed department store operators



Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

Among the surveyed companies that had established direct sales business, the category with the highest proportion of direct sales is cosmetics, followed by apparel and food. Among the survey respondents, most companies mainly operate department stores, with some other formats like supermarkets as well (Figure 3-5).

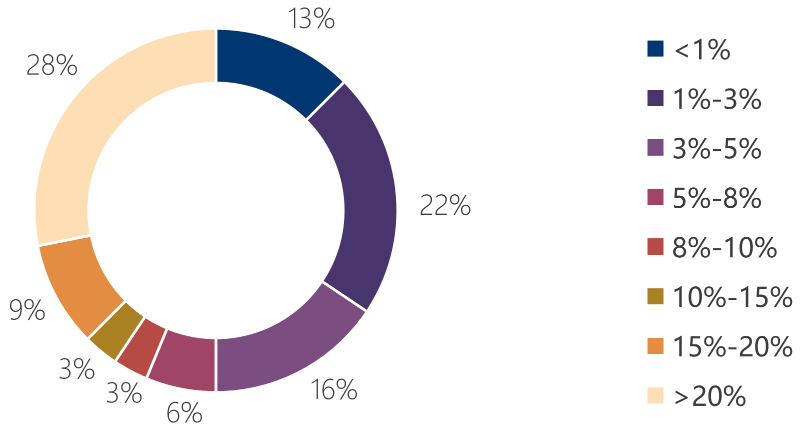
Figure 3-5: Top three categories with the highest proportion of direct sales



Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

Our survey also reveals that the proportion of direct sales in total sales is generally low. For 50% of survey respondents, this proportion is less than 5%, while 28% of enterprises have a proportion exceeding 20% (Figure 3-6), demonstrating polarization among enterprises in their scale of direct sales business.

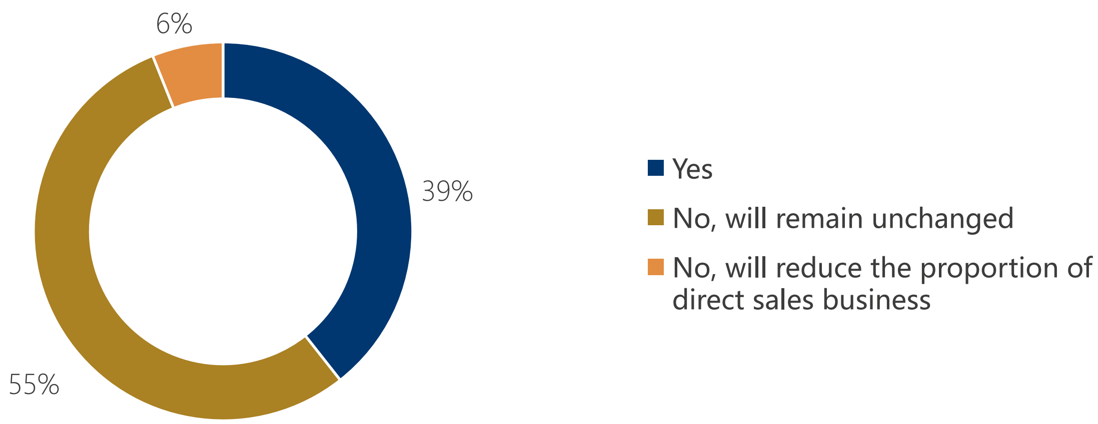
Figure 3-6: Proportion of direct sales revenue across surveyed department store operators



Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

When asked about their plans for expanding direct sales business in the coming year, 61% of the surveyed companies indicated they would not, including 55% that plan to maintain the current status and the remaining that plan to scale down the business. Meanwhile, 39% stated they would further expand their direct sales business (Figure 3-7). Overall, the surveyed companies do not have a strong intention to expand their direct sales business.

Figure 3-7: Plan for expanding direct sales business in the coming 12 months



Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

Although direct sales business is one of the main ways for department store retailers to enhance their product capabilities, they face numerous bottlenecks, mainly in capital management, channels and sourcing, team building, and inventory management. The primary issue is that a significant amount of funds is tied up in merchandise and inventory, leading to cash flow difficulties.

Secondly, there is a lack of stable and reliable procurement channels, making it difficult to obtain high-quality products. Among numerous sources, it is also challenging to select marketable products, which affects sales performance. Additionally, the current distribution and agency model is not well-suited for this transition.

Thirdly, there is a shortage of professional buyers, resulting in insufficient expertise across procurement, sales, and technical aspects. The stability of personnel in the direct sales business is also lacking, with frequent staff turnover affecting business continuity and stability.

Furthermore, there are also shortcomings in operational capabilities, including a lack of operation and management experience and skills. This leads to serious inventory buildup, increased capital tie-up and storage costs, and potentially risks of obsolete and unsold inventory, unreasonable inventory levels, and slow inventory turnovers.

3.6 Conflicts between digital transformation and return on investment

Digitalization is a primary path for the transformation of department stores, but there are conflicts between transformation outcomes and investments, particularly regarding technology investment costs versus uncertain short-term returns and alignment with long-term strategy. Although companies have generally increased infrastructure investment in online malls, smart marketing platforms, and digital membership systems, many projects still fail to meet actual needs due to discrepancies between properties of industry assets and technology iteration cycles.

Meanwhile, disjointed systems and severe data silos significantly limit the effectiveness of digital transformations, with many companies wasting digital budgets on unnecessary development and system compatibility issues. Deeper contradictions materialize in the disconnect between organizational development and strategic objectives, resulting in many systems failing to deliver their intended value, leaving operational strategies at a theoretical level. The disparities between consumer expectations and the reality of their digital experience further intensify these conflicts. In their pursuit of digitalization, some enterprises have implemented applications where marketing hype exceeds practical value, neglecting the emotional and interactive value of offline scenarios, leading to disjointed customer experiences and a decline in customer loyalty.

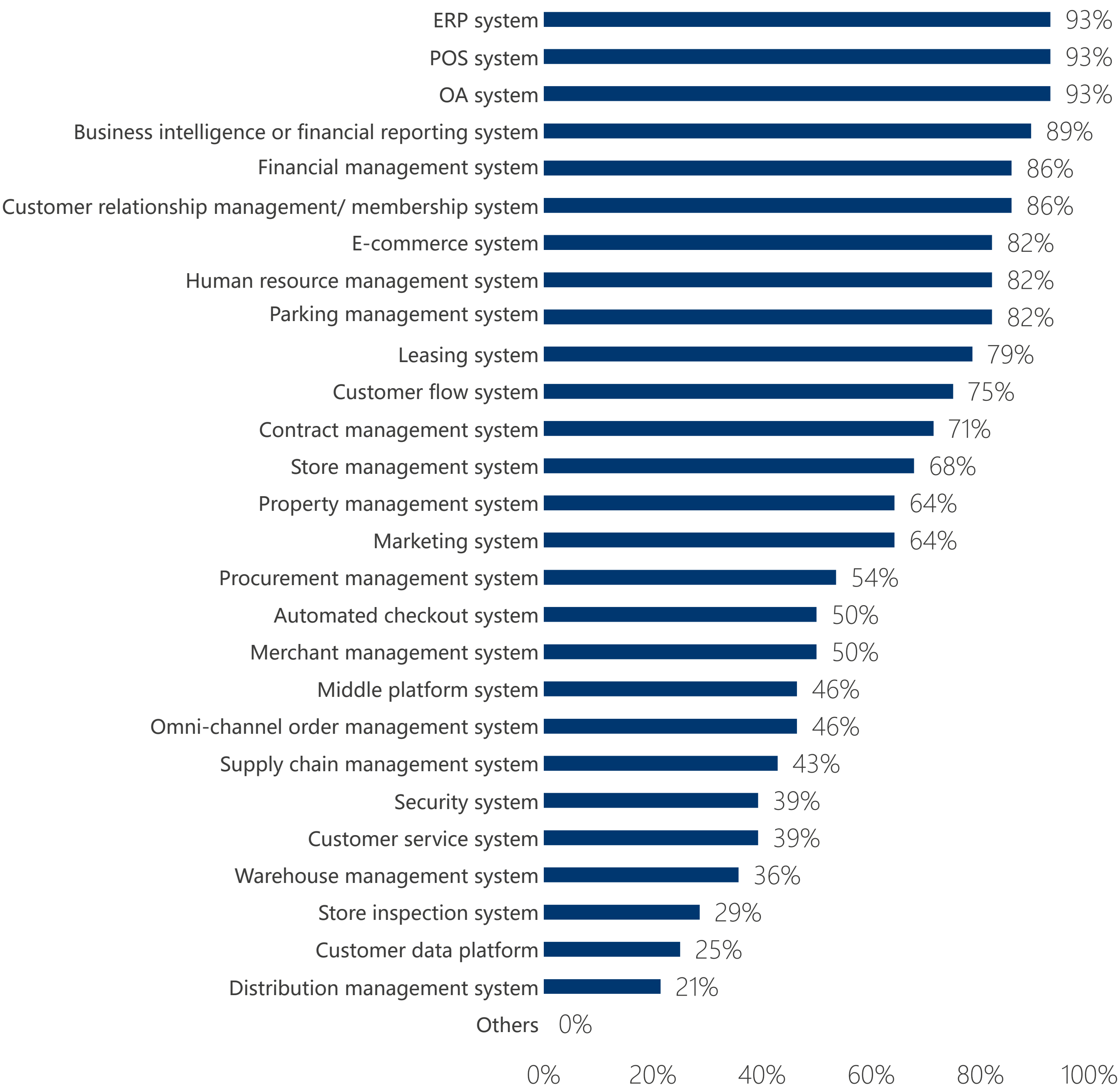
On the other hand, digital investment outcomes do not necessarily directly translate to sales increases; instead, they are reflected in broader capabilities that are typically difficult to evaluate accurately and objectively. This creates a dilemma for companies: slowing digital transformation risks future competitiveness, while continued investment generates short-term profitability pressures. The key to resolving these conflicts lies in focused (rather than comprehensive) digital strategies, targeting business pain points, modular development, and leveraging deeper digital upgrades. Simultaneously, the evaluation system for digital investment should be restructured to incorporate long-term indicators such as customer lifetime value, full-domain penetration, experience enhancement, and internal efficiency improvements; ongoing digital projects should not be measured by the traditional ‘retail space efficiency’ standards. The current retail industry must combine precise investment, technical practicality, and organizational agility to solve the dilemma of balancing digital transformation investment against adequate returns.

4 Key areas of digital transformation of the department store industry

4.1 Pain points in digital implementation

Nowadays, retail enterprises operate with the support of numerous IT systems. Our survey reveals that the respondents are commonly using some major systems including ERP, POS, OA, Business Intelligence (BI) or financial reporting systems, financial management systems, CRM or membership systems, e-commerce systems, human resource management systems, leasing systems, parking systems, customer flow systems, and store management systems (Figure 4-1).

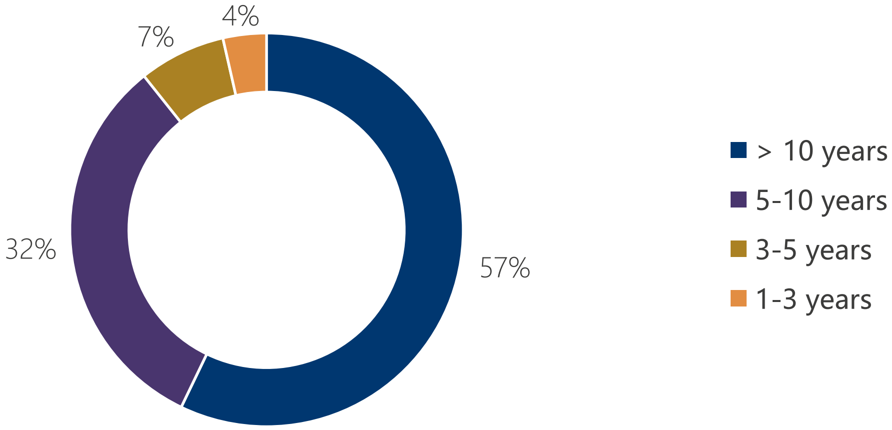
Figure 4-1: IT systems used by surveyed department store operators



Source: 2024 Retail IT & Digital System Demand Survey by CCAGM

Our survey also shows that the respondents have been using their existing core IT systems for a long time. 57% of sampled enterprises report using their core systems for over 10 years, 32% for 5-10 years, and only 11% for less than 5 years (Figure 4-2). The primary reason for companies' dissatisfaction with system performance is the obsolescence of the systems, prompting the need for updates.

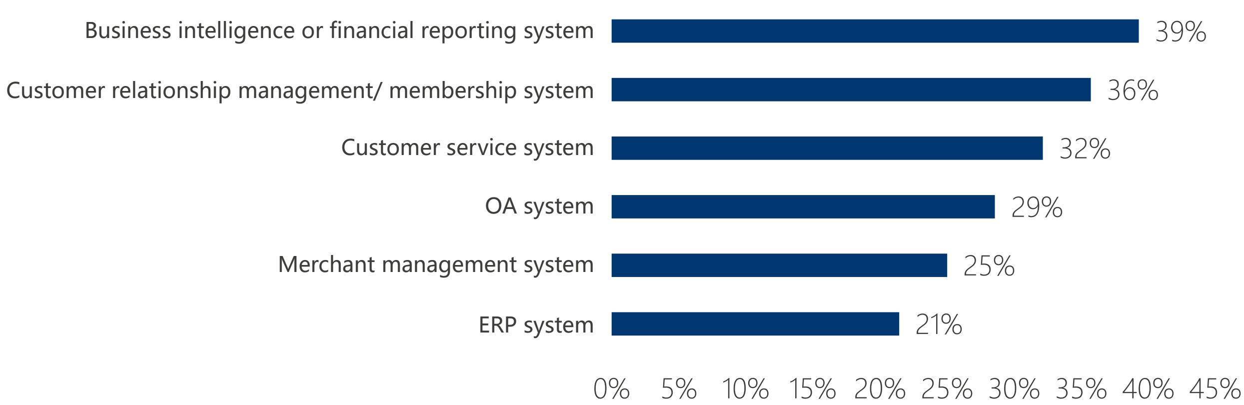
Figure 4-2: Time in service of IT systems by surveyed department store operators



Source: 2024 Retail IT & Digital System Demand Survey by CCAGM

Among these systems, 39% of enterprises are dissatisfied with the Business Intelligence (BI) or financial reporting systems. At the 2024 Digital Conference held by the CCAGM in Chongqing, several business owners criticized the performance of vendor-developed financial reporting systems, which aligns with the survey findings. Besides, surveyed respondents are also discontented with the performance of CRM or membership systems (36%), customer service systems (32%), OA systems (29%), merchant management systems (25%), and ERP systems (21%) (Figure 4-3).

Figure 4-3: The adoption of IT systems with the least satisfaction level among surveyed department store operators

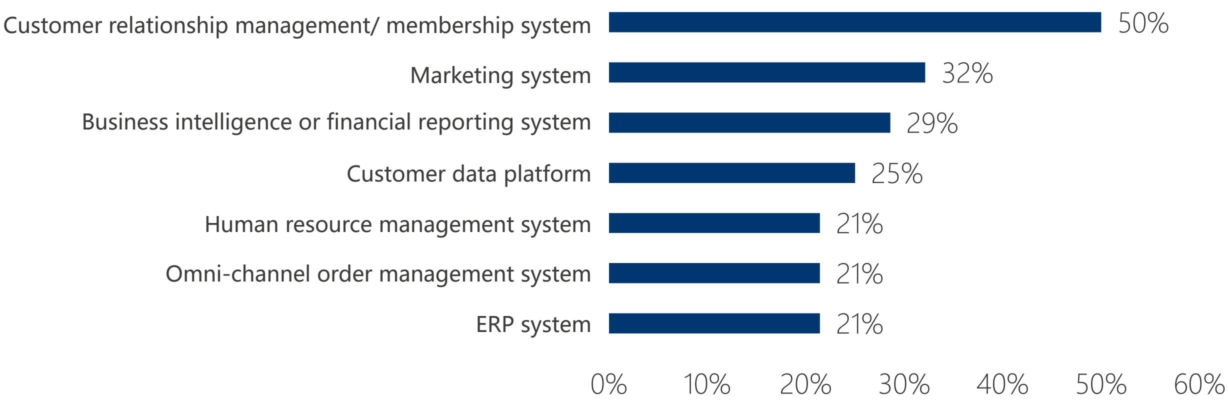


Source: 2024 Retail IT & Digital System Demand Survey by CCAGM

4.2 Major Development and Upgrade of IT systems

About 50% of the survey's respondents plan to upgrade their CRM or membership systems. This is followed by marketing systems (32%), business intelligence or financial reporting systems (29%), customer data platforms (25%), and human resource management systems, omni-channel order management systems, and ERP systems (21%) (Figure 4-4).

Figure 4-4: Plan for new installation or upgrade of IT systems among surveyed department store operators



Source: 2024 Retail IT & Digital System Demand Survey by CCAGM

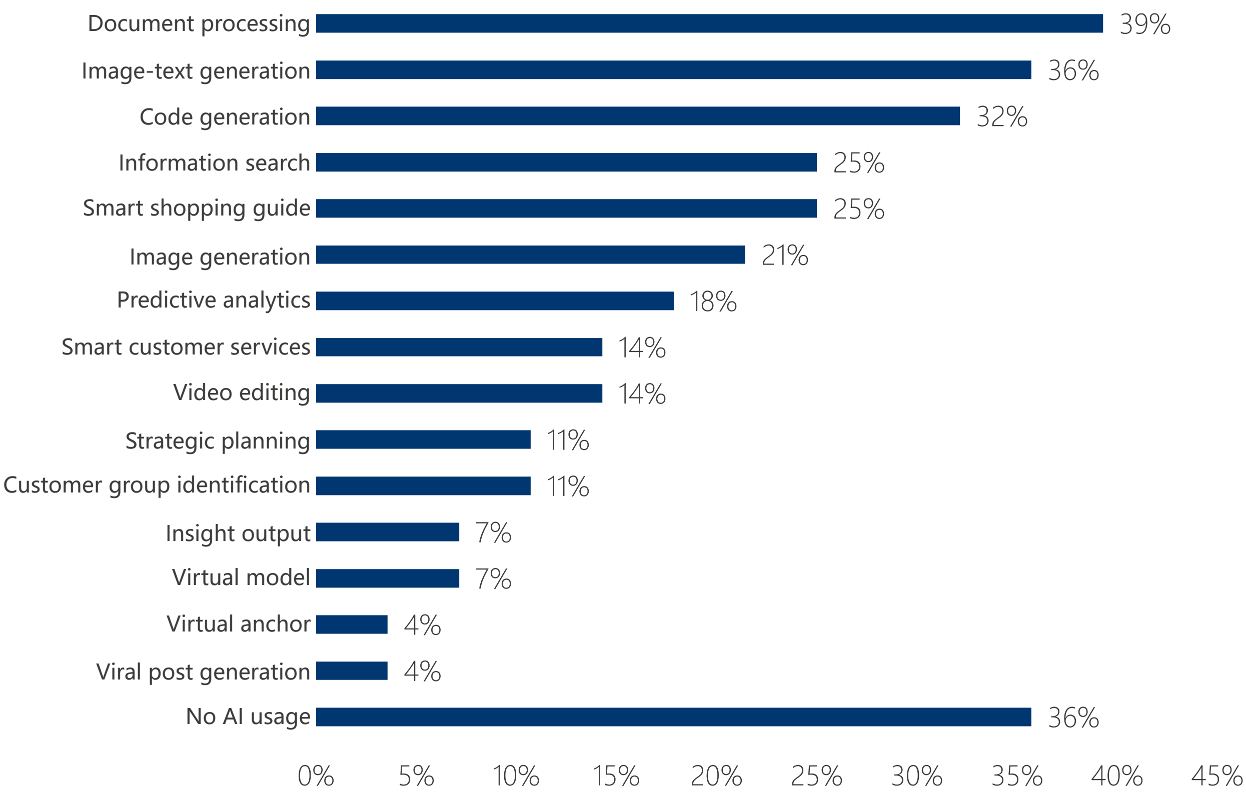
Enterprises have adopted ongoing digital transformation projects mainly in marketing, membership, full-domain operations, livestreaming, data governance and application, and operation-finance integration. Additionally, systems related to customer flow, smart POS, and shopping guide are also being implemented by some enterprises. In comparison, it is less common for enterprises to invest in relatively large system projects, such as ERP upgrades, due to lower urgency and spending capacity of enterprises.

4.3 Accelerating AI Applications in the Industry

While the rapid proliferation of AI is revolutionizing the retail sector, the development of industry-specific large language model is still trailing behind. AI applications in the retail sector remain at an early stage, with surveyed enterprises showing low utilization rates across various functions. The survey indicates that among major applications, 39% of enterprises use document processing, 36% use image-text generation functions, and 32% use code generation. In general, the AI adoption rate of each function among surveyed department store operators is lower than 50%. Furthermore, 36% of enterprises report no AI usage in their operations (Figure 4-5).

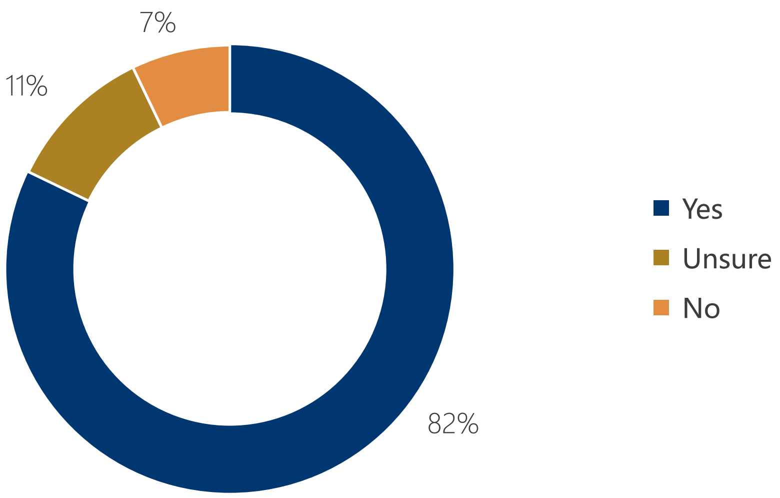
Even so, retail operators agreed that AI empowers retail digitalization, with 82% of enterprises indicating AI will profoundly influence the industry's digital development (Figure 4-6). Catalysed by Deepseek, it is expected that the AI applications in the retail industry will increase significantly in the future.

Figure 4-5: AI applications used by surveyed department store operators



Source: 2024 Retail IT & Digital System Demand Survey by CCAGM

Figure 4-6: Will AI revolutionize retail digitalization?

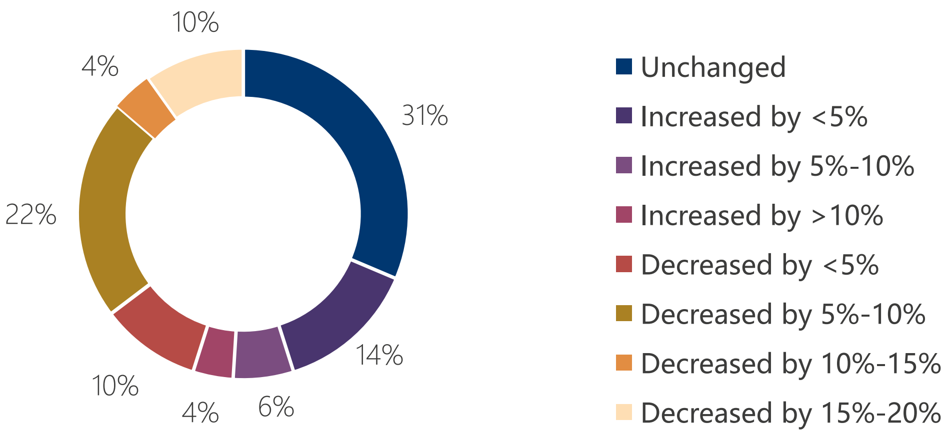


Source: 2024 Retail IT & Digital System Demand Survey by CCAGM

5 Direction of transformation and upgrading initiatives

Our survey reveals that 31% of sampled department store operators expect their 2025 sales to remain the same as in 2024, while 45% expect a decline. Around 31% anticipate a decrease within 10%, and 14% predict a decline exceeding 10%. Only 24% of respondents expect their sales to grow in 2025 (Figure 5-1). Overall, department store operators maintain a cautious outlook for the industry development in 2025.

Figure 5-1: 2025 sales expectations compared to 2024 among surveyed department store operators



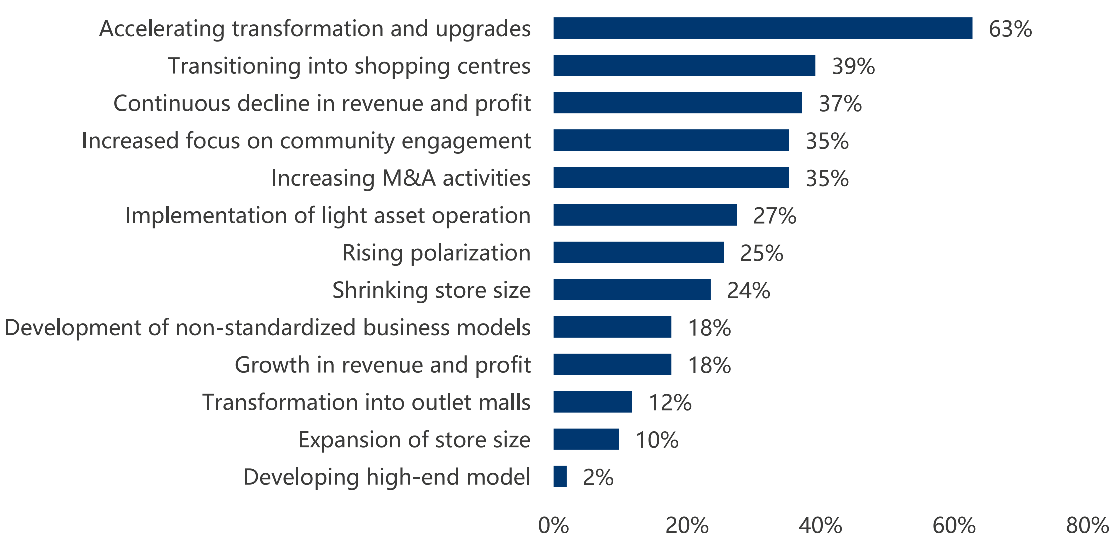
Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

To effectively respond to market challenges, department store operators are actively pursuing business transformation and upgrades, showing the following trends.

5.1 Accelerating transformation and upgrades

The survey shows that 63% of department store operators believe accelerating transformation and upgrades will be the primary trend in the industry over the next three years—a significantly higher percentage than other options (Figure 5-2).

Figure 5-2: Expectations for development directions among surveyed department store operators in the next three years



Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

While the number of new store openings has decreased in recent years, enterprises have increasingly invested in renovation and transformation projects. More importantly, many of these projects have significantly boosted store traffic and average transaction value.

In late 2024, the Ministry of Commerce and six other departments jointly issued the *Implementation Plan for Retail Industry Innovation and Upgrade* (the 'Plan'), outlining guidelines to drive modernization in China's retail sector. The plan aims to establish, by 2029, a modern retail system characterized by abundant supply, balanced distribution, multi-channel integration, quality services, smart technologies, convenience, and green and low-carbon practices.

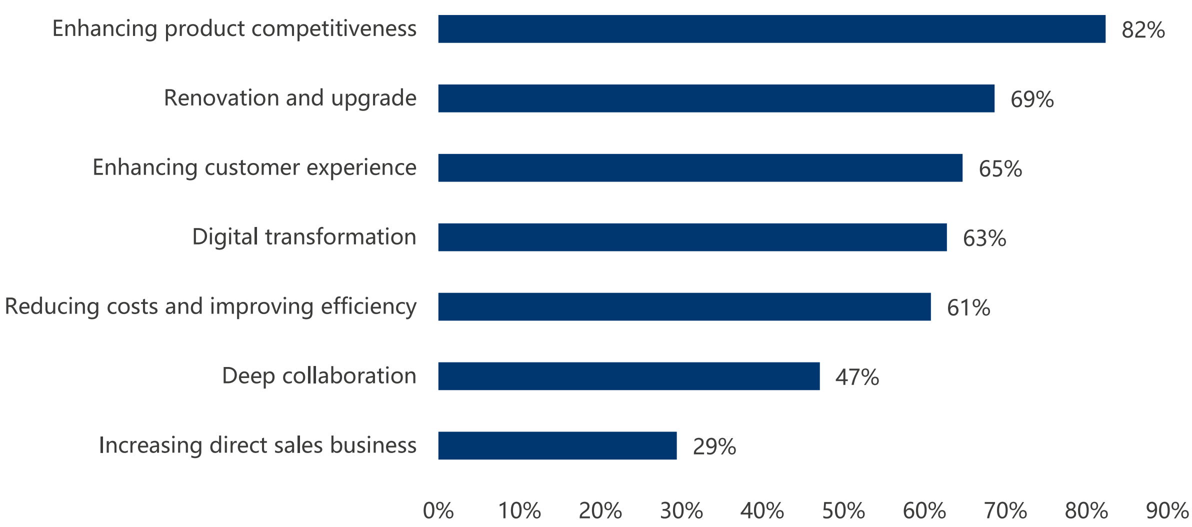
The Plan outlined five main tasks, including: 1. promoting scenario-based transformation; 2. ensuring quality supply and optimizing consumer experiences; 3. facilitating digital empowerment; 4. diversifying approaches to innovation and integrating various business formats; and 5. improving supply chain to minimize costs and enhance efficiency.

With the sector's intensified focus on modernization, it is anticipated that more renovation and transformation projects will be launched across retail formats in 2025.

5.2 Partnering with brands to enhance product competitiveness

To boost business growth, department stores should enhance product competitiveness. Offering single product categories and traditional operating models no longer fulfill the demand of the discerning consumers. Instead, many department stores have actively explored solutions to improve their market competitiveness, such as optimizing product structure, strengthening supply chain management, and enhancing product innovation. Our survey shows that 82% of respondents consider improving product competitiveness to be the future operational focus of department stores (Figure 5-3).

Figure 5-3: Future focus areas of surveyed department store operators



Source: China department store survey 2024-2025 by CCAGM and HKUST Li & Fung Supply Chain Institute

Based on the 2024 financial releases of some listed retail companies and interviews with some unlisted retailers, the CCAGM discovered a common trait among high-performing department stores: the retailers have established close partnerships with brand owners. In contrast, department stores whose relationships with brands are loose showed poorer performance.

For instance, when Guofang Group and its brand partners engaged in some business collaboration, they first defined some mutual goals, such as new product development, market expansion, and sales performance enhancement. The partners also agreed on respective responsibilities and profit-sharing arrangements to ensure a fair and reasonable partnership. In addition, they leveraged digital tools to enhance operational efficiency and explored online-offline integrated business models. Through these approaches, Guofang Group has effectively implemented collaborative business initiatives, achieving mutually beneficial growth for both parties.

Xilinhot Minsheng Shopping Mall, which is located at a lower-tier city, is home to over 400 brand tenants. Minsheng deeply engages in the operations of its brand partners, empowering their business growth and helping them boost sales performance. As a result, Minsheng has nurtured over 50 leading brands in Inner Mongolia and North China.

In sum, successful transformation strategies of department stores include aligning interests with brand partners, enabling seamless digital collaboration, and restructuring organizational frameworks. This goes beyond merely upgrading store appearances and decorations, adjusting brand tiers, or increasing the number of brands.

5.3 Scenario-based transformation enhances consumer engagement

The fusion of immersive and experiential consumption is redefining retail. Department stores and shopping centres have undergone profound scenario-based transformations to fulfil consumers' shopping needs. They are dedicated to offer holistic, immersive shopping experiences through carefully designed spatial layouts and store atmosphere creation.

Take Shanghai New World City as an example. Its renovation project has introduced various groundbreaking attractions, such as the world's tallest indoor climbing wall, the first global 'Naruto theme park', Madame Tussauds Wax Museum, Ice World, and the first in-mall ocean aquarium in China. The renovation transcended traditional shopping and prioritized experiential offerings to satisfy consumers' diverse needs for entertainment, cultural enrichment and social interaction. Through providing diverse experiential activities, commercial venues can attract consumers of different age groups and interests, extend their dwell time within the venue, thereby increasing conversion rates and customer satisfaction.

Amid subdued consumer sentiment and market fragmentation, offline retailers struggle with low store traffic. Short-term solutions, like discounts, coupons, or paid promotions, often erode margins and are not sustainable. Instead, department stores should invest in interactive in-mall scenarios and activities and enhance consumer experiences, thereby increasing customer stickiness and generating new growth. It is noteworthy that outstanding commercial projects generally have distinctive features in scenario-based design and experiences, and this trend will become even more prominent in 2025.

5.4 Digitalization and AI-powered operation

In the digital era, department stores and retailers are actively adopting AI and digital technologies to streamline operations and reduce costs. Pioneering enterprises have achieved notable progress in digital transformation and AI applications, injecting new vitality into the industry.

Take Intime department store as a case in point. It is one of the retail pioneers in digitalization and AI innovation. It developed an AI-powered self-checkout surveillance combining video analytics and AI algorithms to deter theft, improve operational efficiency, and optimize space utilization. Additionally, Intime leverages AI-generated content (AIGC) technology to generate automated product visuals, reducing content production costs and boosting conversion rates. The company also collaborates with brands to streamline operating flows by using AI to diagnose operational bottlenecks and project sales forecasts.

Chongqing Department Store has advanced digital and intelligent transformation through management efficiency improvement and organizational process reengineering. By establishing unified standards, centralized auditing, and streamlining processes, the company has built 'six core capabilities': a shared data middle platform + smart settlement, smart fund management, smart tax processing, smart receivable tracking, smart expense control, and digital archive. Through the integration of data, operation-finance alignment, and process optimization, the company has turned administrative work into managerial work, significantly reducing labour costs.

A leading retail enterprise enabled 24/7 support across platforms after implementing an AI-powered customer service system. Consumers can interact with an AI assistant for product inquiries, order tracking, and feedback submission through the company's official websites and mobile apps. The AI system not only responds instantly but also delivers personalized recommendations and promotions based on each consumer's shopping history and preferences. This intelligent service model enhances both customer satisfaction and operational productivity.

As digitalization and AI applications continue to evolve, the department store industry will see increasingly diverse innovative practices in operational efficiency improvement and cost control. Catalysed by Deepseek, retailers can utilize AI analytics tools to monitor and analyse key indicators such as consumer behaviour and preferences and sales data in real-time. AI tools can also help implement refined management strategies and precise marketing strategies to further improve operational efficiency and profitability. Smart infrastructure upgrades, such as intelligent lighting, smart air conditioning systems, and energy management solutions, further reduce costs while improving sustainability and shopping comfort. These advancements not only lower carbon footprints but also improve customer experience, positioning retailers for long-term success in an increasingly competitive landscape.

5.5 Green transformation and sustainable development

Green consumption is gaining traction in recent years, with consumers increasingly focusing on the sustainability of products. Along with the national dual carbon goal, the green consumption revolution is reshaping the retail ecosystem. Many department stores are innovatively transitioning to green and low-carbon practices, committed to promoting sustainable development.

Shanghai's Huangpu District is actively implementing the concept of green and low-carbon shopping by introducing the 'Zero-Waste Commercial District' initiatives. Key projects include:

- New World Daimaru Department Store launched closed-loop waste management programs, including unwanted cosmetic containers recycling and incentives for reusable coffee cups.
- Hong Kong Plaza has set up bookshelves to promote book circulation among consumers.
- BFC Bund Finance Center has implemented a smart energy management system, which provides real-time monitoring of energy consumption of its major facilities and enables automatic adjustments to reduce energy waste.

In addition, the Nanjing East Road Commercial District is integrating cutting-edge technologies such as virtual power plants and blockchain to conduct energy audits for landmarks like Henderson Metropolitan and Shanghai No.1 Department Store. Upon project completion, the estimated energy savings could reach nearly 10,000 tons of standard coal equivalent annually, positioning the district as a national pilot demonstration for green shopping malls.

Government policies also promote the green and low-carbon development of the retail industry by incentivizing the adoption of energy-saving and environmentally friendly technologies. This will help reduce environmental footprints, and balance economic growth with societal benefits.

In summary, merely 'renovation' on the surface is not a sustainable strategy for department stores. Instead, the transformation and upgrading of the department store industry should focus on: first, engaging in deep partnerships and joint business plans with brands to address the disconnect between brands and stores; second, developing private domain operations to engage members, arranging member-exclusive sales, and unlocking the potential of VIP customers; and third, enhancing capabilities of online platforms while attracting customers to physical stores through methods like coupons and promotions.

6 Policy needs and recommendations

6.1 Issue consumption vouchers to stimulate demand

Consumption vouchers are an effective policy tool to stimulate consumption. They directly reduce consumers' purchasing costs, spark their desire to consume, increase purchasing willingness and ability, and drive domestic demand to promote internal economic circulation. For example, Shanghai has allocated 500 million yuan from the 2025 municipal budget to issue consumption vouchers across multiple sectors, including dining, tourism, movies, sports, and other fields, effectively supporting the development of related industries.

Consumption vouchers generally have a multiplier effect of 4-6 times, which can both directly stimulate consumer demand and indirectly increase tax revenue. It is recommended that local governments expand the issuance of consumer vouchers, allowing more people to enjoy the benefits and fully unleash consumption potential. The vouchers should also be extended to cover broader product categories and scenarios by breaking through geographical and commercial limits. Achieving full coverage across all business formats and scenarios, both online and offline, will allow wider stimulation of consumption. This will provide continuous momentum for sustainable and healthy economic development, making consumer vouchers an important policy tool for boosting domestic demand and promoting positive economic circulation.

6.2 Implement special subsidies to upgrade existing retail

Implementing special subsidies will encourage the renovation and upgrading of existing department stores. It can effectively provide incentives to them for upgrading and transforming from traditional business models to experiential, scenario-based business models that appeal to the modern consumer.

For many department stores and shopping malls that have operated with outdated facilities for years, special subsidies provide the much-needed financial support for renovations: renewing decor, upgrading equipment, and optimizing layouts can all enhance the aesthetics and comfort of the shopping environment, attracting more consumers back to physical retail spaces. These subsidies can also encourage businesses to increase investment in digital technology applications such as building omni-channel platforms, introducing intelligent operating systems, improving operational efficiency, and enhancing customer service – all of which will make businesses more competitive. Additionally, special subsidy policies can promote collaborations between department stores and other surrounding businesses, creating clustering effects that boost the vitality and commercial value of the local area.

Special subsidies provide several incentives for existing department store operators to renovate and upgrade their physical stores. They can help guide the optimization of urban commercial layouts and enhance the city's image and consumer appeal. By supporting the renewal of traditional shopping centers in core urban areas, they can fill gaps in emerging commercial formats, improve the distribution of urban commercial networks, provide consumers with more convenient and diverse shopping options, and strengthen the city's overall cohesion as a consumption center. On the other hand, special subsidies can drive the development of related industries, create employment opportunities, and promote economic growth. From digital technology service providers and mall operators to various supporting service providers, the commercial renovation activities triggered by special subsidies will provide growth momentum for many supporting enterprises, leading to a positive cycle in the retail ecosystem.

6.3 Optimize business environments to maximize operational vitality

In the current economy, optimizing the business environment is crucial for stimulating market vitality and promoting high-quality economic development. As major contributors to the economy, retail enterprises play a key role in activating consumer optimism and meeting their needs.

Therefore, it is recommended that relevant departments create a more relaxed business environment which will allow enterprises to maximize operational strengths and boost consumption.

Firstly, restrictions on outdoor promotional activities for retail enterprises should be eased. For example, during holidays and peak consumption seasons, enterprises should be allowed to use their own resources to temporarily occupy outdoor spaces for promotional activities. This would boost sales while attracting more consumers and enhancing urban commercial vitality. Meanwhile, businesses should maintain a clean, safe, and orderly environment. Therefore, regulatory departments should simplify relevant approval processes, clarify regulatory requirements, and allow businesses to freely conduct promotional activities within compliance boundaries, thereby unleashing operational vitality.

Secondly, regulatory approaches for retail enterprises should be optimized. Relevant government departments – such as market regulation, fire safety, health, environmental protection and taxation – should maintain reasonable inspection frequencies for routine checks. Additionally, joint inspections should be encouraged, with multiple departments working collaboratively to reduce resource requirements and business disruptions. Education and guidance should be emphasized, rather than relying solely on enforcement through penalties, to help enterprises improve their compliance awareness and capabilities.

The above measures will foster a more relaxed business environment for enterprises, stimulating market innovation and development, thereby promoting the prosperity of the retail industry and injecting new impetus into economic growth.

6.4 Strengthen commercial regulations and reduce excessive competition

Currently, some commercial districts are struggling with excessive competition due to an overly dense concentration of retail outlets. This affects the profitability of businesses, and poses challenges to the sustainable development of the industry as a whole. Reasonable commercial planning not only contributes to healthy industry development, but can also bring positive impacts to the overall development of cities, enhancing their commercial image and attractiveness, promoting consumption growth, and driving coordinated regional economic development. Simultaneously, it helps optimize resource allocation and reduce waste, achieving equilibrium between economic, social, and environmental factors. Therefore, commercial planning should be emphasized as an important means to promote the healthy and sustainable development of the retail industry.

During the planning process, factors such as the city's development positioning, population distribution, consumption habits, and transportation conditions should be fully considered when deciding the quantity, scale, and distribution of commercial outlets. Supervision and implementation of commercial layout planning should be strengthened to avoid shortsighted construction and duplicative investments. Reasonable commercial planning will guide retail enterprises to compete in an orderly manner, avoiding vicious competition due to excessive concentration, thereby improving the operational efficiency and economic benefits for the entire industry.

6.5 Increase financial support and promote asset consolidation

In light of an economic slowdown and a changing consumer environment, a large number of existing commercial assets have become stagnant, constraining industry development and optimal resource allocation. Therefore, establishing an information exchange mechanism for existing commercial assets is particularly important, paving the way for commercial mergers and consolidations.

Retail enterprises face challenges in capital turnover and fundraising, whether undertaking major construction projects or mergers and acquisitions.

Financial support can motivate enterprises to actively expand. For example, extending repayment periods gives enterprises more buffer space by relieving them from short-term financial pressures. Lowering interest rates can directly reduce financing costs, allowing companies to invest more in the expansion and optimization of their core business. Interest subsidies can effectively reduce the financial burden on enterprises, encouraging them to actively pursue asset acquisitions and consolidations.

Increasing financial support not only helps retail enterprises break through funding bottlenecks, but also triggers chain reactions at the industry level. Through convenient mergers and acquisitions channels, retail enterprises can acquire quality resources based on their strategic planning and market layout, improve their asset structure, enhance market competitiveness, and enable rational allocation of commercial resources.

6.6 Provide policy support to reduce operating costs

High operating costs are a major challenge for retail enterprises. Therefore targeted policy support to reduce these costs should be provided in order to ensure steady business development and increase market vitality.

Rent, labour, and electricity are the three key operating expenditures for retail enterprises. In terms of rent, property owners should be encouraged to engage in friendly negotiations with retail enterprises and offer flexible rent payment methods, such as adjusting rent based on a certain percentage of business turnover to avoid high fixed rents during difficult operating periods. In terms of labor costs, measures such as reducing social security contributions for retail enterprises can both alleviate financial pressure on businesses and ensure stable employment for employees. For electricity costs, optimizing peak electricity pricing policies and reducing peak period electricity prices while encouraging retail enterprises to use off-peak electricity for equipment maintenance, restocking, and other operations can improve energy efficiency and reduce costs. Furthermore, preferential tax policies are equally crucial. Comprehensive consideration of factors such as enterprise contributions, product categories, and employment situations can provide targeted tax reduction plans for enterprises, such as increasing tax rebates for retail enterprises with large numbers of employees, thereby reducing enterprise burdens and increasing business competitiveness. This will promote the prosperity of the entire retail industry while boosting economic growth.

Consumption is the key to unlocking China's continued prosperity. In 2025, the government plans to implement proactive macro policies, including more proactive fiscal policies and moderately loose monetary policies, while emphasizing that "expanding domestic demand is a strategic move, and boosting consumption is the top priority." The government has placed high importance on the domestic market, introducing a series of policies to boost consumption. On 16 March 2025, the General Office of the CPC Central Committee and the General Office of the State Council issued the Special Action Plan for Boosting Consumption, aiming for increasing income and reducing burdens to enhance consumption capacity, creating effective demand through high-quality supply, improving the consumption environment to enhance spending willingness, vigorously boosting consumption and addressing major constraints, and expanding domestic demand with a comprehensive approach.

With strong policy support, the retail industry will usher in a broader development space, building new momentum for economic growth. As an important pillar of the retail industry, department stores and shopping malls will enhance their competitiveness and influence through transformation and upgrades, providing consumers with higher quality, more convenient, and personalized experiences. At the same time, the transformation and upgrading of the retail industry as a whole will also drive the development of related industries, promote the optimization and upgrading of industrial structure, and contribute to the high-quality development of the economy.

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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