

ResearchInChina

China Retail Industry Report Sample, 2009-2010

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2. Current Development of China Retail Industry

2.1 Retail Industry in Rapid Growth

After more than three decades' development, Chinese retail industry is amid sustained and rapid progress, with the total retail sales climbing to RMB*** trillion in 2009 from RMB4.8 trillion in 2002.

Total Retail Sales & Growth of Social Consumer Goods, 2002-2009



Source: National Bureau of Statistics of China; ResearchInChina

Most of the retail enterprises witnessed nice growth of both revenue and net income in 2009: the retail index of 1000 core commercial enterprises was ***; the total retail sales of social consumer goods in China hit RMB***3 trillion, and the per capita retail sales of social consumer goods surpassed RMB10, 000. The consumer goods market stepped into a new development stage and the upgrading of consumption structure became its vital drive.

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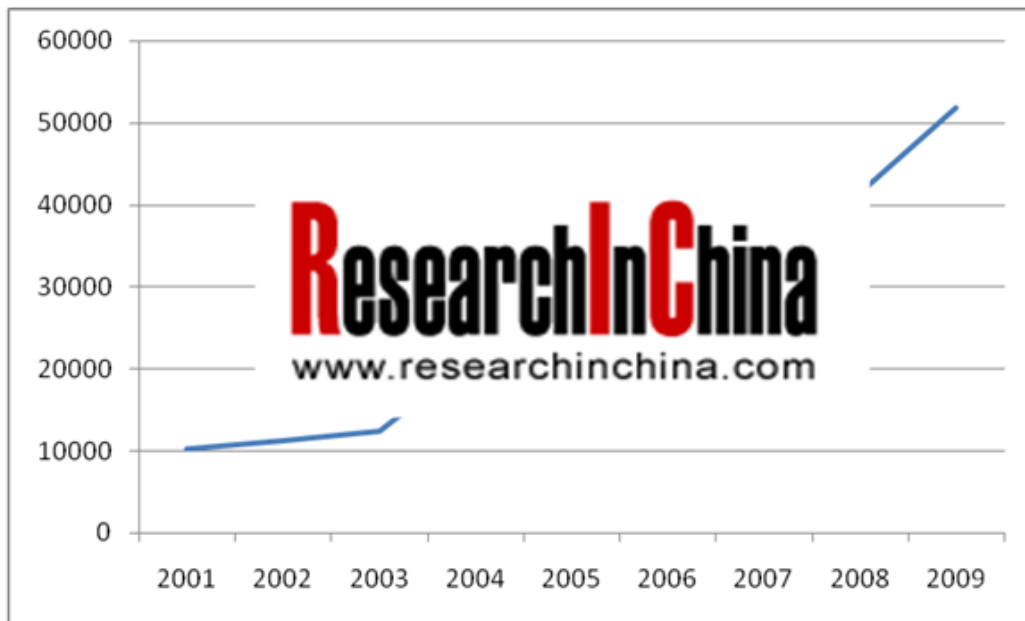
Growth of Various Retail Sectors, 2006-2009



Source: WIND; ResearchInChina

The rising income of residents and the progressed urbanization compose the major drives of consumption growth. Considering the relatively sustainable and steady influence of urbanization, the actual growth rate of the total retail sales of social consumer goods is currently stable. In regard to the quantity of industrial enterprises, the quantity of chain retail groups above designated size in China is on the rise.

Quantity of Chain Retail Enterprises above Designated Size in China, 2001-2009



Source: WIND; ResearchInChina

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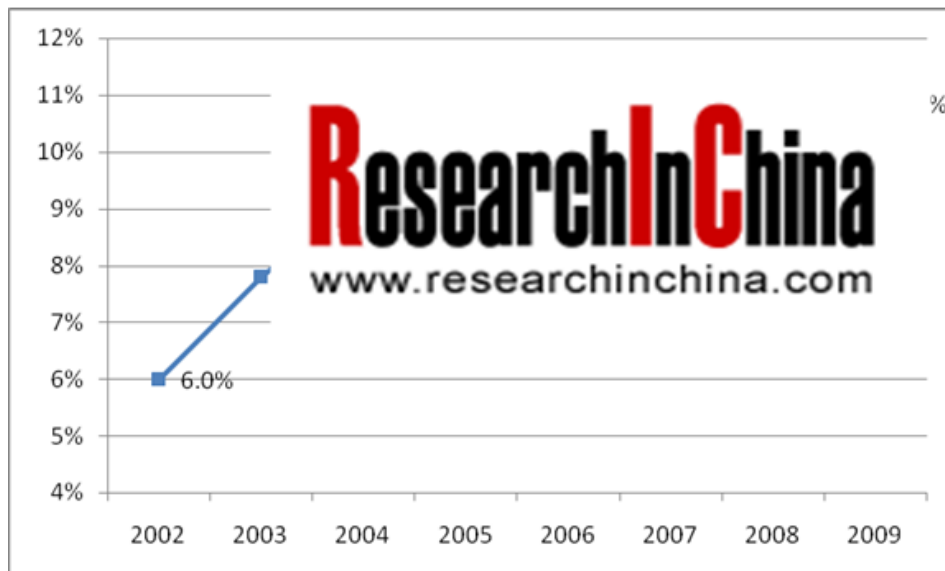
2.2 Development Characteristics

2.2.1 Top 100 Chain Retailers in Steady Growth

China's retail industry has rapidly developed from the single-department store and neighborhood store mode to multi-format mode. In 2002, the chain supermarket format accounted for 52% of the retail sales of all above-quota chain retailers in China (an above-quota retailer is a retailer with annual sales over RMB5 million and over 60 employees in the year end), and exceeded the long-existing department store format to become the largest retail format in China. In 2004, the chain specialty store format represented by Gome and Suning rose rapidly, and exceeded the chain supermarket format in terms of overall sales scale to become the largest retail format in China. In 2009, specialty chain stores accounted for over ***% of the retail sales of above-quota chain retailers, and a modern retail industry pattern led by specialty stores, supermarkets and department stores has come into being.

In 2009, the mixed-format continued to show advantages. Mixed-format commercial enterprises achieved average sales of RMB*** billion, which were over RMB*** billion more than single-format enterprises'. Among mixed-format enterprises, department store + convenience store, department store + supermarket + convenience store, and supermarket + convenience store were the mainstream business formats, while among single-format enterprises, department store, supermarket and specialty store accounted for a relatively large proportion.

Sales Proportion of Top 100 Chain Retailers in Total Retail Sales of Social Consumer Goods, 2002-2009



Source: China Chain Store & Franchise Association; ResearchInChina

In 2009, the sales of top 100 chain enterprises grew by ***.5% year on year to RMB*** trillion, a record low growth rate since 1999 when China Chain Store & Franchise Association started to make statistics of top 100 chains, and for the first time lower than the growth rate of total retail sales of social consumer goods. In 2009, the total sales of social consumer goods grew by **.5%, and the sales of automobiles, furniture and building & decoration materials grew by **.3%, **.5% and **.6% respectively, which were the main driving force for the rapid growth of the total retail sales of social consumer goods. Grain & oil, meat, poultry and eggs, accounting for a large proportion of the sales of top 100 chain enterprises, only grew by 13% and 8.3%. Therefore, the sales growth rate of top 100 enterprises was still higher than the average level of society.

Sales & Growth Rate of Top 100 Chain Retailers, 2006-2009



Source: China Chain Store & Franchise Association; ResearchInChina

In 2009, the total number of stores of top 100 enterprises increased by **.9% to **. Top 100 enterprises accounted for **% of the total retail sales of social consumer goods, down 0.23 percentage point compared with 2008, and the concentration was still low. At present, most of the chain retailers are still regional enterprises, and it's hard for them to improve the sales scale proportions.

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3. General Merchandise Industry

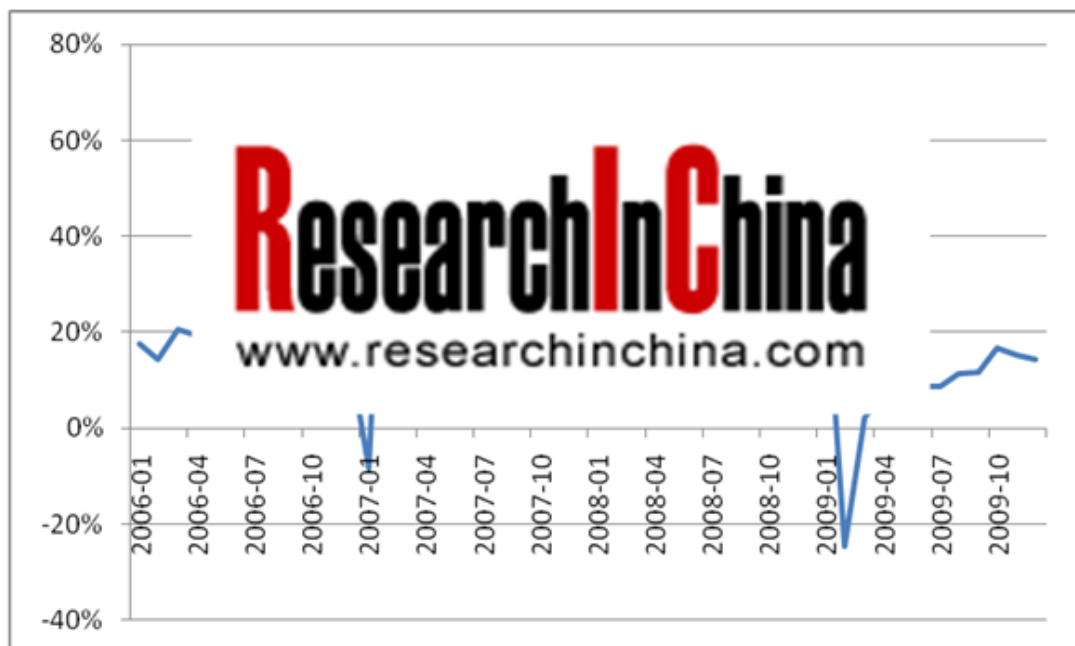
3.1 Current Development

Benefited from consumption upgrade and economic recovery, the revenue and profit of general merchandise during the half year of 2009 and the first quarter of 2010 rebounded obviously. In January and February of 2010, the outlets revenue of most companies kept two-digit growth, even amounted 20% growth. General merchandise consumption in first tier cities demonstrated to be high grade and individualized; regional general merchandise quickened its expansion step in third tier cities, and the consumption entered into explosion period.

The growth of general merchandise business type was faster than that of fast-moving goods enterprises represented by supermarket , and was 16.6%, 4.3 percentage points higher than that of fast-moving goods sales.

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Sales Growth Rate of General Merchandise Industry, Jan.2006 – Dec.2009

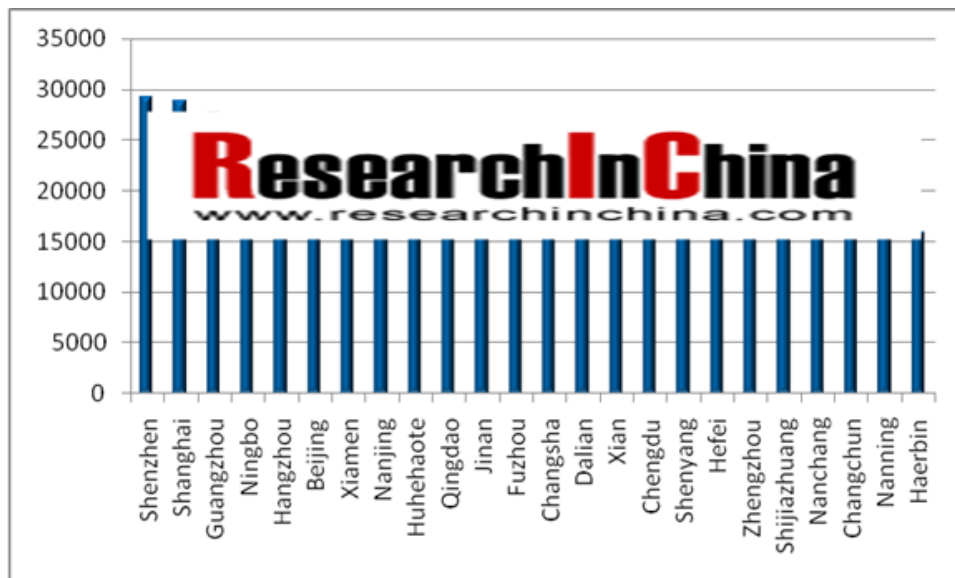


Source: WIND, ResearchInChina

3.1.1 First & Second Tier Cities: High Grade

In 2009, there were following cities with per capita disposable income above RMB20,000: Shenzhen RMB **, Shanghai RMB29,759, Beijing ***, Guangzhou ***, Xiamen RMB26,131, Nanjing RMB25,504, Huhehaote RMB22,397, and Qingdao RMB***. Dalian (RMB19,093), Xi'an (RMB18,963), and Chengdu (RMB18,659) were also with high-level per capita income.

Per Capita Disposable Income of First & Second Tier City Residents, 2009



Source: WIND, ResearchInChina

With the improvement of average income in the first tier cities and increase of well-offs in the second and third tier cities, luxury consumption in China continued warming up, and showed fast growth trend. In 2009 that heavily affected by the financial crisis, China had become the second largest luxuries consumer worldwide. Along with economic recovery in 2010, the luxury market dominated by well-offs and post-1980s would warm up continuingly.

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Brand Positioning of Most Department Stores in Chinese First & Second Tier Cities

Category	Positioning
Cosmetics	*****
Gold and Jewellery	*****
Medium and high-grade Men and Women's clothing	*****
Medium and high-grade leather products	*****
Medium and high-grade shoes	Dominated by domestic brands
Sportswear	*****
Children's clothing	*****
Furniture and articles	*****

Source: Guotai Junan Securities, ResearchInChina

3.1.2 Second & Third Tier Cities: Rapid Growth

The per capita income in second & third tier cities had reached the level in the high growth period of general merchandise. In 2008, the per capita annual income of most provinces reached the average level of Shanghai and Beijing in 2002-2003, that was about RMB13,000-14,000.

The growth of top chain 100 enterprises in second & third tier cities was obviously faster than that in first tier cities. Sampling with ten enterprises in first tier cities and 20 enterprises in second & third tier cities, the sales of enterprises in first tier cities increased by **%, outlets up 7.2%; while the sales of enterprises in second & third tier cities rose **.3%, and outlets up 14.7%.

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Total Social Retail Sales Growth of Cities, Counties, and Regions below County Level, Jan.2007 – Dec.2009



Source: WIND, ResearchInChina

Current general merchandise enterprise is mainly regional, and the expansion in first tier cities and second tier provincial capital cities already faced with bottleneck. While the general merchandise consumption in third tier cities entered into explosion period, and the prosperous development of third tier cities and county & town consumption offered good opportunities for down expansion of general merchandise enterprise, which caused the quick expansion of regional general merchandise in third tier cities:

- Nanjing Central Emporium (Group) Stocks Co., Ltd.: it already had outlets in Huai’an, Xuzhou, Taizhou, Lianyungang and Zibo, Jining of Shandong, but many of the outlets were still under cultivation. It was expected that it will get good development prospect in these regions because of short profitability period, and the company will continue expand its outlets in the second and third tier cities in Jiangsu and Shandong.

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**Prefecture-level Cities with Higher Consumption Growth in Various Provinces & Cities and
Prefecture-level Cities Occupied by Listed Companies**

	Prefecture-level Cities with Higher Consumption Growth in Various Provinces	Listed General Merchandise Companies	Cities located by the listed companies
Shandong	*****	Silver Plaza Group Co., Ltd.	Jinan, Taian, Dongying, Binzhou, Linyi, Heze, Laiwu, Weifang, Dezhou, Qingzhou
Zhejiang	Quzhou, Taizhou	Hangzhou Jiebai Group Co., Ltd.	Hangzhou
		Baida Group Co., Ltd.	Hangzhou
Anhui	*****	Hefei Department Store Group Co., Ltd.	*****
Hubei	*****	Wuhan Department Store Group Co., Ltd.	*****
		Wuhan Zhongnan Commercial Group Co.,Ltd.	*****
Guangdong	*****	*****	
Sichuan	*****	*****	
Liaoning	*****	*****	
Jilin	*****	*****	
Heilongjiang	*****	*****	

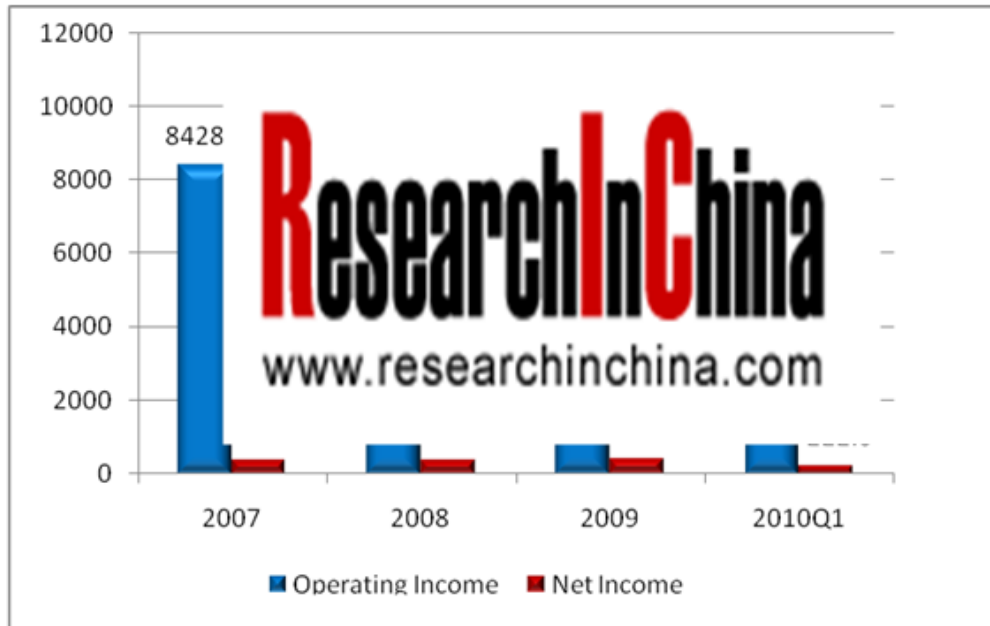
3.2 Bailian Group

3.2.1 Profile

Shanghai Bailian Group Co., Ltd. was established in 1990 at its location in Shanghai, China. It is a joint venture-based corporation formed by Taiwanese/Chinese investors. Shanghai Bailian Group Co., Ltd. is a vertical-integrated organization that manages the entire operation process from product design to production to sales. Shanghai Bailian Trading Co., Ltd. is one of the subsidiaries of Shanghai Bailian Group. At present, products under the brand name of "Bailian" are sold in more than 300 direct outlets throughout China. Lingerie, brassiere, underwear and swimwear are manufactured at three of Bailian's production facilities which are located in the greater Shanghai area.

3.2.2 Operation

Operating Income and Net Income of Bailian Group, 2007-2010Q1 (RMB mln)



Source: Yearly Report of Bailian Group; ResearchInChina

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Business Revenue and Growth Rate of Bailian Group (by Industry), 2009

Industries	Operating Income (RMB mln)	Operating Cost (RMB mln)	Operating Margin	YoY Growth of Operating Income	YoY Growth of Operating Cost	YoY Growth of Operating Margin
Commerce	9502.9	7486.6	21.22%	11.14%	14.37%	-2.22%
Office Building Renting	****	****	*****	****	****	****
Tourism & Food Service	****	****	****	****	****	****
Supermarket	****	****	****	****	****	****
Revenue from Advertisement	****	****	****	****	****	****
Total	****	****	****	****	****	****

Source: Yearly Report of Bailian Group; ResearchInChina

In 2009, the operating income of Bailian Group increased by 11.95% year-on-year to RMB**.274 billion, with the total profit and net income of RMB641 million and RMB507 million, up 14.11% and 17.33% year-on-year, respectively. And the net income owned by the parent company was RMB404 million, up 13.40% year-on-year.

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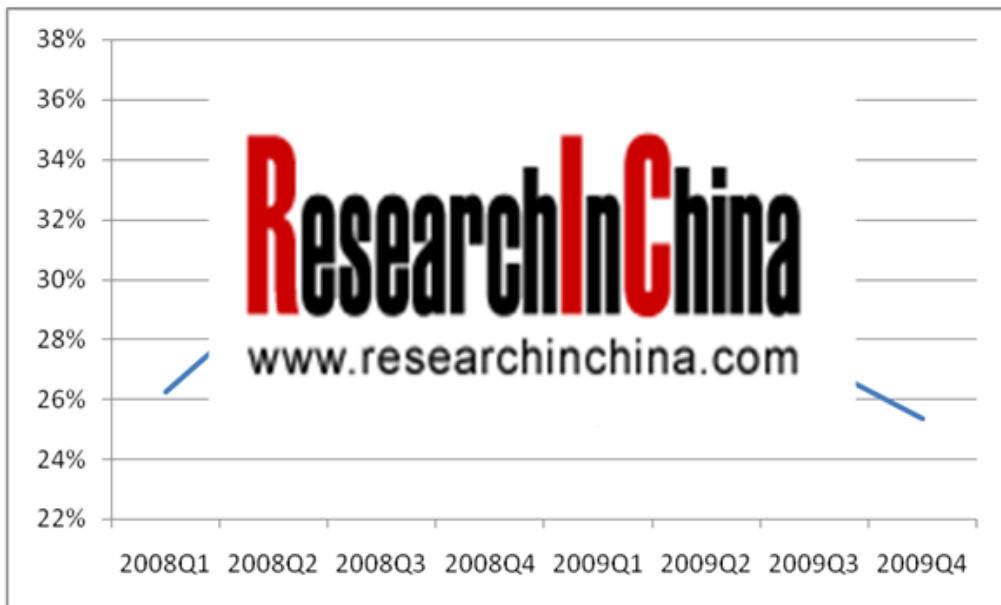
Profit Growth of Holding Subsidiaries of Bailian Group

Net Income (RMB mln)	Shareholding Proportion	2005	2006	2007	2008	2009	Growth
No.1 Yaohan Department Store	64%	173.8	****	****	****	****	1.25%
Dongfang Mall	100%	44.0	****	****	****	****	****
SHANGHAI NO.1 DEPARTMENT STORE, Songjiang Outlet	100%	1.4	****	****	****	****	****
Wing On	100%	13.2	****	****	****	****	****
Shanghai New Hualian Mansion	70%	15	****	****	****	****	****
Shanghai Yangpu Dongfang Commercial Mall	100%	7.5	****	****	****	****	****
Shanghai Pudong Hualian Shopping Center	100%	2.1	****	****	****	****	****
SHANGHAI OUTLETS BRAND DIRECT SALE PLAZA	100%		****	****	****	****	****
Shanghai YouYiCheng Shopping Mall	100%			****	****	****	****
Shanghai Bailian Middle-Ring Shopping Plaza	51%	acquired in Apri.2006			-78.4	****	****

Source: Yearly Report of Bailian Group; ResearchInChina

In 2009, the sales gross margin of Bailian Group reached **.19%, down 1.5 percentage points compared to that in 2008, which mainly contributed to the global financial meltdown. But in the second and third quarters of 2009, its sales gross margin lifted up, while in the fourth quarter, due to intensified promotion activities plus the presence of Nanping outlet of Chongqing in December, the sales gross margin experienced downward mobility in 2010 Q4.

Gross Margin of Bailian Group, 2008Q1-2009Q4



Source: Yearly Report of Bailian Group; ResearchInChina

Operating Income and Growth Rate of Bailian Group (by Region), 2009

Regions	Operating Income (RMB mln)	YoY Growth
Shanghai	****	****2%
Zhejiang	****	****%
Liaoning	****	45.48%
Chongqing	2.7	
Total	****	****%

Source: Yearly Report of Bailian Group; ResearchInChina

3.2.3 Strategy

Bailian is projected to carry out three kinds of new commercial retail businesses: firstly, promoting the development of on-line shop. It was expected that the sales revenue of Bailian Group’s on-line shop would realize RMB10 million in 2010 and hit RMB100 million as of 2013; secondly, deepening the operation of self-management brands and private brands, in an attempt to improve gross margin and the overall profitability of the company; thirdly, carrying out the new model of “department store plus food supermarket”, in a bid to provide much richer selections for consumers.

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