



# China's Apparel Market, 2014

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# Executive summary

China's apparel market remains one of the **fastest growing** markets in the world. The rise of e-commerce and the rise in fast fashion have fuelled the fast growth of the market.

**Ladies' wear** is the major contributor to total apparel sales. Its growth rate is still ahead of the overall apparel sales growth.

**Outdoor apparel** is growing fast. Chinese consumers' growing interest in outdoor activities has underpinned the strong growth of outdoor apparel.

**Department stores** and **specialty stores** remain the major distribution channels for apparel in China. Nevertheless, **online retailing** is the fastest growing sales channel for apparel in China.

Chinese consumers are prudent when spending on luxury apparel. Meanwhile, **affordable luxury apparel** at relatively cheaper prices are becoming popular.

**Fast fashion** players have continued their growth momentum in China. Apart from adopting aggressive expansion strategy, they have pursued multi-brand strategy to capture larger market share in China.



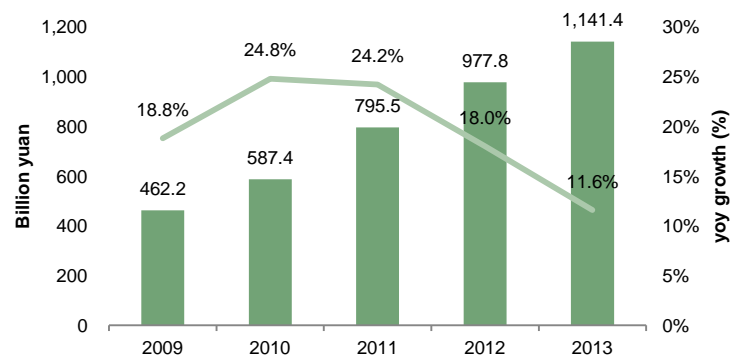
## Market overview

# Market overview

## China's apparel market remains strong despite slower growth

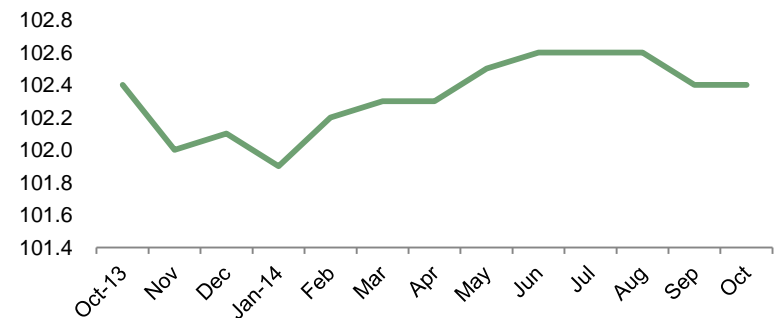
- China's apparel market remains one of the fastest growing markets in the world. According to Euromonitor, China is set to overtake the U.S. and become the world's largest apparel market by 2017\*.
- Retail sales value in 2013 showed slower growth against 2012
  - According to the National Bureau of Statistics of China (NBS), the total retail sales of clothing, shoes, hats and textiles by enterprises above designated size\*\* in 2013 rose nominally by 11.6% year-on-year (yoy), down from 18.0% yoy growth in 2012.
- Growth of unit price of clothing slowed
  - According to the NBS, the clothing price index has increased by 2.3% yoy in FY13, down from 3.1% yoy in FY12.
  - Facing the less favorable economic conditions and fierce competition, many apparel enterprises resorted to frequent promotions to attract consumers.

**Exhibit 1: Total retail sales of clothing, shoes, hats and textiles by enterprises above designated size, 2009 - 2013**



Source: NBS

**Exhibit 2: Monthly clothing price index, October 2013 – October 2014**



Source: NBS

\* "China to overtake US as largest apparel market by 2017." 26 April, 2014. Euromonitor International.

\*\*Enterprises above designated size refer to enterprises with annual sales of 5 million yuan or above and with an employment of or over 60.



# Market overview

## Annual expenditure on clothing increases steadily

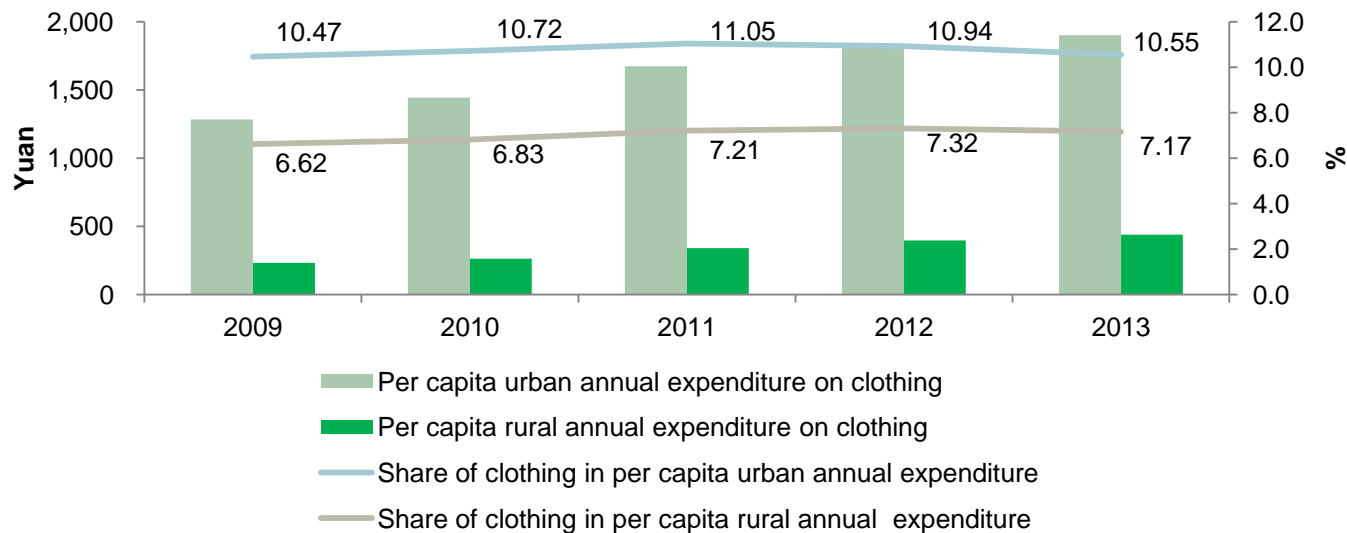
### Urban households

- The annual per capita disposable income of urban households grew by 7% yoy to 26,955 yuan in real terms in 2013.
- Urban households spent 1,902 yuan on clothing in 2013, accounting for 10.6% of the total annual expenditure.

### Rural households

- The annual per capita net income of rural residents grew by 9.3% yoy to reached 8,896 yuan in 2013.
- Rural households spent 438.3 yuan on clothing in 2013, accounting for 7.2% of the total annual expenditure.

**Exhibit 3: Per capita annual expenditure on clothing of urban and rural households, 2009- 2013**



Source: NBS, CNCIC

# Market overview

## Ladies' wear is the largest sector

- Ladies' wear is the major contributor to total apparel sales and total sales volume according to the China National Commercial Information Centre (CNCIC)\*.

**Exhibit 4: Retail sales volume of selected apparel categories in 100 major retailers in China, 2012 – 2013**

	2012		2013	
	Million pieces	yoy % growth	Million pieces	yoy % growth
Men's suit	12.94	5.2	14.08	9.4
Men's shirt	9.90	-1.7	8.78	-5.9
T-shirts	13.23	0.7	11.28	-8.2
Ladies' wear	141.71	4.1	142.31	7.3
Children's wear	34.53	5.1	36.38	11.1
Denim wear	4.78	-7.9	4.10	-6.6
Jackets	7.44	-2.8	5.97	-2.9
Sportswear	25.38	4.6	28.58	5.4
Thermal clothing	9.51	-1.5	9.45	-6.9
Leather wear	1.16	11.9	1.09	1.1
Trousers	10.29	-2.9	9.49	-3.5
Knitted underwear	58.12	1.1	54.30	-2.9
Woolen wear	21.51	-6.7	19.37	-4.8

Source: CNCIC

**Exhibit 5: Retail sales of selected apparel categories in 100 major retailers in China, 2012 – 2013**

	2012		2013	
	Retail sales (billion yuan)	yoy % growth	Retail sales (billion yuan)	yoy % growth
Overall	207.01	12.5	214.80	5.1
Menswear	40.97	12.4	42.06	0.5
Ladies' wear	60.09	15.6	67.77	6.2
Children's wear	5.54	14.8	6.31	12.7

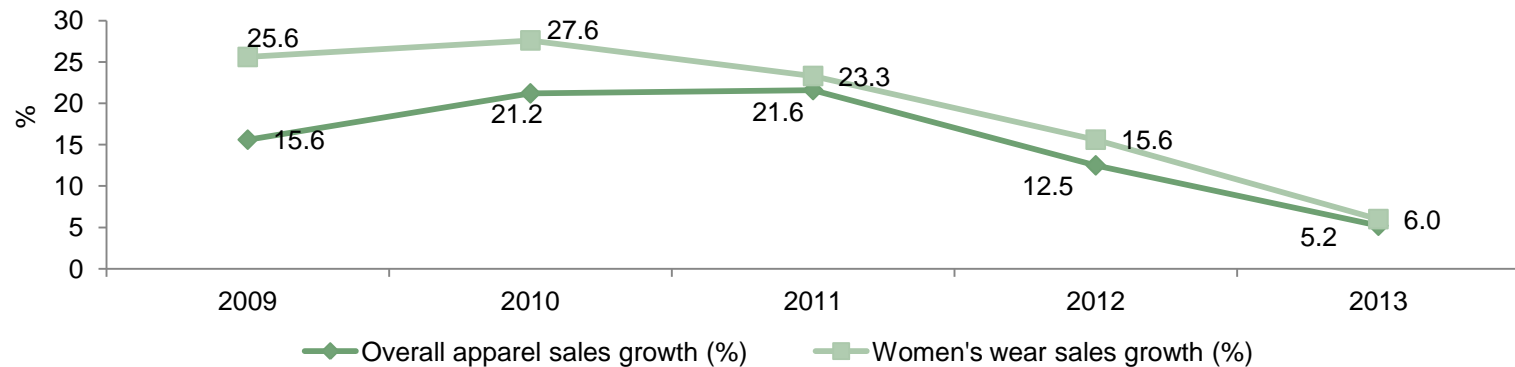
Source: CNCIC

## Analysis of sub-sectors

### Ladies' wear: Growth is decelerating but is still ahead of overall apparel market

- Sales growth for ladies' wear market has been slowing over recent years amid the sluggish economy; however, its growth rate is still ahead of the overall apparel sales growth, suggesting the relatively stable demand for women's wear against other apparel sub-sectors\*.

**Exhibit 6: Overall apparel and women's wear sales growth in major retailing enterprises, 2009-2013**



Source: CNCIC

- Ladies' wear market remains highly segmented – casual wear, fashion for young ladies, fashion for mature women, fast fashion, business casual and high-end fashion are some major sub-segments.
- Fast fashion market is growing fast. Consumers are becoming more familiar with international fast fashion brands which offer stylish clothing at affordable prices.
- Korean and Japanese fashions are increasingly popular among Chinese female shoppers as their designs are more appropriate for Chinese people given similar skin tone and stature\*\*.

\*"2013 Statistical Report on consumer goods." 2013. The China National Commercial Information Centre. P.28.

\*\* "Womenswear in China." 28 May 2014. Euromonitor International.



## Analysis of sub-sectors

### Menswear: Growth is slowing; designs are growingly fashionable

- ❑ In 2013, growth of menswear decelerated and the market share of Top 10 brands in the men's suit and men's shirt also shrank.
- ❑ Men's suits saw the slowest growth in 2013 due in part to consumers' prudent spending amid flagging economy as well as the government's anti-corruption drive.
- ❑ The growing fashion trend for casual wear, especially among younger generations, has further undermined the sales of men's suits.
- ❑ Fast fashion for men is gathering pace for its modern and fashionable design as well as competitive prices.

# Analysis of sub-sectors

## Children's wear: Growth is strong; consumers are brand-conscious

- ❑ Children's wear registered dynamic growth of 12.7% yoy in 2013, with total sales reaching 6.31 billion yuan\*.
- ❑ Population of children aged 0-14 years totaled 223.16 million in 2013, accounting for around 16.4% of the total population in China\*\*. The Chinese leaders relaxed the national “one-child policy” in December 2013, allowing couples to have two children if one spouse is an only child. China is expected to add 1-2 million extra kids over the next few years. The increasing children population offers the children's wear players a solid base for expansion.
- ❑ As income levels rise, Chinese parents are more willing to spend money to make their children look fashionable. Consumers are generally more brand-conscious and drifting towards fashion and lifestyle brands. Children's wear made from soft and comfortable materials and casual children's sportswear with cozy fabrics and loose-fitting designs have become the market trend.
- ❑ Although consumption needs have gradually switched from practical considerations to aesthetic and fashion considerations, the majority of parents in China still look for “value for money” products.
- ❑ Competition in the children's wear sector is getting fierce. Many apparel brands have tried to ride the booming children's wear market by extending their product lines.
  - Foreign examples: Baby Dior, D&G Baby, ARMANI Junior, Gucci, Adidas, Nike
  - Domestic examples: Xtep, Anta, 361 Degree, Li Ning, Stepwolves, Baoxiniao, JNBY, GXG

\*China National Commercial Information Centre (CNCIC)

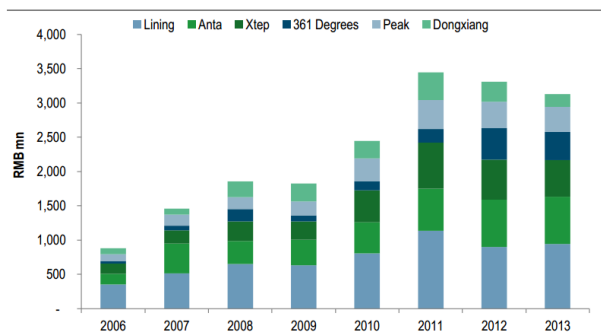
\*\*National Bureau of Statistics of China website - <http://data.stats.gov.cn/search/keywordlist2>

# Analysis of sub-sectors

## Sportswear: Lower-tier cities are becoming the major battlefield

- Sportswear market in China is a relatively concentrated and mature sub-sector.
- Domestic sportswear brands are dominating the lower-tier cities while international brands are mainly concentrated in tier 1 and tier 2 cities. However, leading players such as Nike and Adidas are adjusting their market strategies and shifting their focus to lower-tier cities in search for further growth.
  - Nike has announced plans to enter smaller cities in China, targeting customers with a low-price strategy\*.
  - Adidas has been aggressively adding new stores in tier 2 to tier 4 cities. By the end of 2013, the firm had 7,600 stores in China, covering around 1,000 cities, ahead of Li Ning (5,915 stores) and subsequently following Anta (7,760 stores)\*\*.
- Overstocking remains a major concern for domestics leading sportswear players; an increasing number of international giants are planning to open discount stores to sell their huge stockpile.
  - Nike registered revenue decline of 5% in China in 2013\*\*. The firm has announced plans to set up 40-50 factory outlets in China to sell product at a discount to clear its high inventory\*.

**Exhibit 7: Domestic sportswear company inventory levels, 2006-2013**



Source: Standard Chartered

\*\* "Foreign sportswear brands up the ante." 15 March, 2013. China Daily.

[http://usa.chinadaily.com.cn/weekly/2013-03/15/content\\_16309896.htm](http://usa.chinadaily.com.cn/weekly/2013-03/15/content_16309896.htm)

\*\* "China consumer: From factory to franchise store." 27 August 2014. Standard Chartered.





[https://research.standardchartered.com/configuration/ROW%20Documents/China\\_consumer\\_From\\_factory\\_to\\_franchise\\_store\\_27\\_08\\_14\\_08\\_50.pdf](https://research.standardchartered.com/configuration/ROW%20Documents/China_consumer_From_factory_to_franchise_store_27_08_14_08_50.pdf)

## Analysis of sub-sectors

Outdoor: Both domestic and foreign players are expanding their market shares

- Thanks to Chinese consumers' growing interest in outdoor activities such as skiing, hiking and mountain climbing, outdoor apparel has continued to register strong growth in China, with total retail sales hitting 12.4 billion in 2013, up by 35% yoy\*.
- Functional products with fashionable designs are the keys to win the market. Domestic outdoor player such as Tread, and foreign players such as Columbia, The North Face and Jack Wolfskin continue to gain market share in China over recent years.

**Exhibit 8: Market share of selected outdoor brands in China, 2010-2013 (%)**

	2010	2011	2012	2013
 <b>TREAD</b>	0.5	0.9	1.3	2.1
 <b>Columbia</b>	0.5	0.8	1.0	1.2
 <b>THE NORTH FACE</b>	0.5	0.6	0.9	1.1
 <b>Jack Wolfskin</b>	0.2	0.3	0.6	0.8

Source: Euromonitor International

\* "Sportswear in China." 28 May 2014. Euromonitor International.



## Competitive landscape

# Competitive landscape

## Domestic brands

- Domestic brands continue to dominate the mass market, especially in lower-tier cities and the rural market. Generally they have more extensive footprint than their foreign counterparts.
- Exhibit 9 and 10 show the top 10 domestic apparel enterprises by sales revenue and profits, respectively in 2013. Most enterprises in the list are from Jiangsu, Shandong and Shanghai.

**Exhibit 9: Top 10 domestic apparel enterprises by sales revenue, 2013**

<b>01</b> Youngor Group Co., Ltd. 雅戈爾集團股份有限公司 Ningbo (Zhejiang)	<b>02</b> Hongdou Group Co., Ltd. 紅豆集團有限公司 Wuxi (Jiangsu)
<b>03</b> Heilan Group 海瀾集團有限公司 Wuxi (Jiangsu)	<b>04</b> ShanShan Enterprise 杉杉投資控股有限公司 Shanghai
<b>05</b> Bosideng Co., Ltd. 波司登股份有限公司 Suzhou (Jiangsu)	<b>06</b> Shandong Ruyi Science & Technology Group 山東如意科技集團有限公司 Jining (Shandong)
<b>07</b> Peacebird Group Co., Ltd. 太平鳥集團有限公司 Ningbo (Zhejiang)	<b>08</b> Qingdao Jifa Group 青島即發集團 Qingdao (Shandong)
<b>09</b> Shandong Sinoer Group Co., Ltd. 新郎希努爾集團股份有限公司 Weifang (Shandong)	<b>10</b> China Ballon Apparel Group 巴龍集團有限公司 Qingdao (Shandong)

**Exhibit 10: Top 10 domestic apparel enterprises by profits, 2013**

<b>01</b> Bosideng Co., Ltd 波司登股份有限公司 Suzhou (Jiangsu)	<b>02</b> Heilan Group 海瀾集團有限公司 Wuxi (Jiangsu)
<b>03</b> Youngor Group Co., Ltd. 雅戈爾集團股份有限公司 Ningbo (Zhejiang)	<b>04</b> Shandong Ruyi Science & Technology Group 山東如意科技集團有限公司 Jining (Shandong)
<b>05</b> China Ballon Apparel Group 巴龍集團有限公司 Qingdao (Shandong)	<b>06</b> Hongdou Group Co., Ltd. 紅豆集團有限公司 Wuxi (Jiangsu)
<b>07</b> Shandong Sinoer Group Co., Ltd. 新郎希努爾集團股份有限公司 Weifang (Shandong)	<b>08</b> Dongdu Textile Group 江蘇東渡紡織集團有限公司 (Jiangsu)
<b>09</b> Semir Group Co., Ltd. 浙江森馬集團有限公司 Shanghai	<b>10</b> Luthai Textile Co., Ltd. 魯泰紡織股份有限公司 Shandong



# Competitive landscape

## Domestic brands

**Exhibit 11: Most Valuable Apparel Brands in China, 2014**

Rank in 2014	Rank in 2013	Brand	Brand value (billion yuan)	% of market value	Major product category	Headquarter
1	9	Heilan	7.8	19%	Menswear	Wuxi (Jiangsu)
2	1	Anta	6.4	25%	Sportswear	Xiamen (Fujian)
3	4	Semir	4.8	22%	Casual wear/ Children wear	Shanghai
4	2	Metersbonwe	2.3	23%	Casual wear	Shanghai
5	12	Linin	1.7	30%	Sportswear	Beijing
6	3	Bosideng	1.6	20%	Down wear	Suzhou (Jiangsu)
7	6	Aokang	1.4	24%	Leather shoes	Wenzhou (Zhejiang)
7	10	Fuanna	1.4	30%	Home textile	Shenzhen
7	6	Joeone	1.4	20%	Menswear	Wuxi (Jiangsu)
7	11	Luolai	1.4	23%	Home textile	Shanghai

Exhibit 11 shows China's most valuable apparel brands in the Hurun Top 200 Most Valuable Chinese Brands 2014 (Top 200s) list. The number of apparel brands among the Top 200s decreased from 13 in 2013 to 10 in 2014, suggesting the general slowing of the apparel market.

Heilan has replaced Anta to top the list of the most valuable Chinese apparel brand. Its brand value amounted to 7.8 billion yuan in 2014.

Most of the brands in the list were specialised in menswear, sportswear, casual wear, with two specialised in home textile.

Apparel companies in Shanghai and Jiangsu are very strong in branding; 6 out of the top 10 most valuable apparel brands are based in these two provinces.

Source: Hurun Research Institute, compiled by Fung Business Intelligence Centre

# Competitive landscape

## Domestic brands

- ❑ Facing the overall economic slowdown and relentless competition from overseas players, Chinese apparel retailers have expanded their product range to maintain growth.
  - Boisdeng, a major down apparel brand, invested 150 million yuan in a Shenzhen-based women's wear brand Buou Buou in July 2013, on track for its diversification beyond down apparel\*.
  - Semir, which sells youth clothing under the Semir brand and children's clothing under the Balabala brand acquired 71% of Ningbo Zhongzhe Group, a local men's wear company, in June 2013\*\*, aiming to develop an up-scale and multi-brand menswear business\*.
  - Anta, a leading sportswear brand, created its first range of outdoor products for the summer season in 2013\*.
- ❑ Increasing numbers of retailers have invested heavily in marketing and promotions to boost their image.
  - In April 2013, Metersbonwe, a domestic casual wear brand, partnered with Hong Kong-based streetwear fashion brand Subcrew to promote its MJeans collection.
  - Anta has extended its partnership with Chinese Olympic Committee until the end of 2016\*, expanding its sponsorships to weight-lifting, wrestling and judo teams\*\*\*.
- ❑ Some retailers have sought to attract more customers by introducing foreign fashion brands.
  - In August 2013, Semir forged a deal with an Italian apparel company Minconf SPA under which Semir has become the exclusive distributor of two Italian premium children's wear brands Minibanda and Sarabanda in China. The debut store of Sarabanda was set up in Shanghai in September 2013\*.
  - Semir also formed a joint venture with South Korean women's wear company Sisun International in September 2013, aiming to open 500 stores of Michaa, a high-end women's wear brand under Sisun International, in China over the next five years\*\*\*\*.

\* "Top 100 Chinese brands Report." 2014. Millwardbrown.

\*\* "Chinese billionaire Qiu Guanghe's retailer Semir to buy menswear brand." 18 May, 2013. Forbes.

<http://www.forbes.com/sites/russellflannery/2013/06/18/chinese-billionaire-qiu-guanghes-retailer-semir-to-buy-menswear-brand-stock-resumes-trade-today/>

\*\*\* Anta expands its sponsorship to more national sport teams"

<http://industry.ijnews.com/system/2014/09/12/010781210.shtml>

\*\*\*\* "Fast Fade: Once-Hot Retailers Are Some Of The Biggest Losers On This Year's Forbes China Rich List." 15 October, 2013. Forbes.

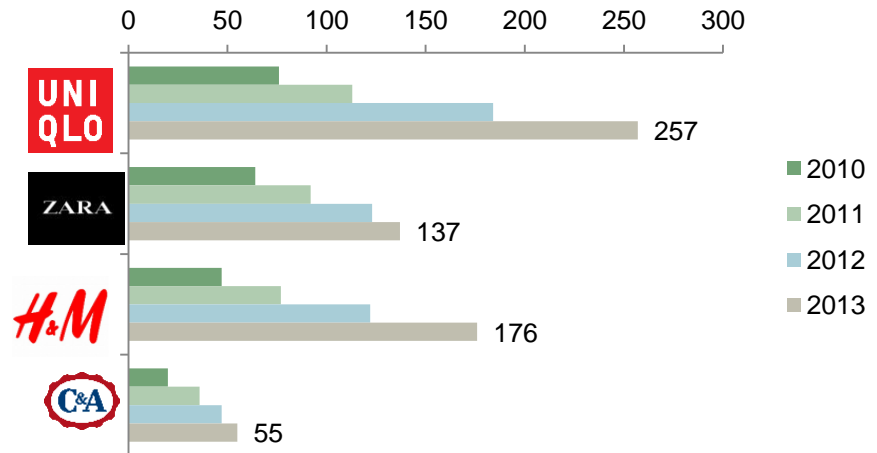
<http://www.forbes.com/sites/russellflannery/2013/10/15/fast-fade-once-hot-retailers-are-some-of-the-biggest-losers-on-this-years-forbes-china-rich-list/>

# Competitive landscape

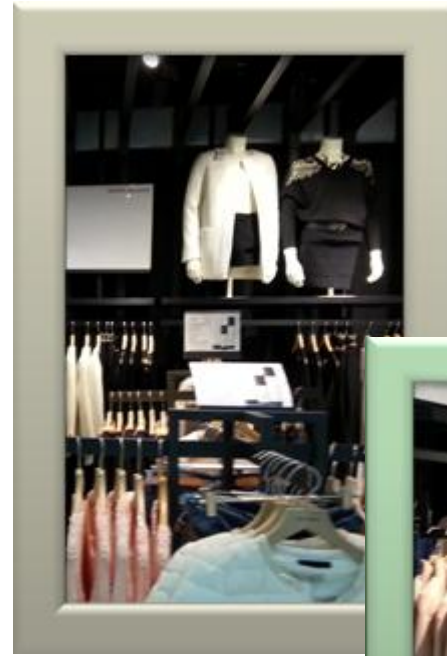
## Foreign brands

- As Chinese consumers increasingly demand for stylish and quality products, foreign players, particularly fast fashion retailers, are expected to see strong growth in China. Indeed, they have increased their investment in China over recent years.
- In terms of store numbers, China is now the most important international market for many major fast fashion brands. It is the largest international market for ZARA and Uniqlo, and the largest international market in Asia for H&M and C&A. Exhibit 12 shows the store count of the four major fast fashion brands in China during from 2010 to 2013.

**Exhibit 12: Store count of fast fashion brands in China, 2010-2013**



Source: CNCIC, Linkshop; compiled by Fung Business Intelligence Centre



## Distribution channels

## Distribution channels

Department stores and specialty stores are the main channels for apparel distribution

- Department stores and specialty stores remained the main channels for apparel distribution in 2013, accounting for 36.3% and 29.7% of market share, respectively.
- Other emerging new retail formats such as discount stores, outlets, and multi-brand stores are gaining increasing attention over recent years. Online retailing channel is also growing very fast.

**Exhibit 13: Market share of apparel by retail format, 2013**

Retail format	Shares
Department stores	36.3%
Apparel specialist retailers	29.7%
Grocery retailers	5.6%
Leisure and personal goods specialist retailers	12.0%
Non-store retailing	11.0%
Other non-grocery retailers	5.4%

Source: Euromonitor International

## Distribution channels

Department store is the main channel for mid-to high-end apparel distribution; but it is facing increasing pressure from other retail formats

- Department store is still the main channel for mid- to high-end apparel; around 50% of the total revenue of department stores come from apparel sales. However, recently, some department stores have restructured their merchandise mix to include more entertainment elements and reduce their dependency on apparel sales.
  - Oriental Department Store, a domestic department store in Fuzhou, has started to restructure its merchandize mix since 2013. It has significantly reduced the floor areas for apparel tenants and increased the floor space for catering and children education services\*.
  - Wanda Department Store has also announced plans to reduce the number of apparel products and increase the proportion of home décor products to enrich its product mix\*\*.
  - West Lake Intime City, a shopping mall under Intime Retail Group, was revamped and re-opened in November 2014. The number of apparel brands have been reduced by one-third. 40% of the retail space are given to catering services\*\*\*.

\* "Department stores in Fuzhou increased space for food services." 7 March, 2014. FZNEWS. <http://news.fznews.com.cn/fzjj/2014-3-7/201437BviGvkANss2228.shtml>

\*\* "Wanda to decrease the dependence on apparel sales." 15 August, 2014. Winshang. <http://sh.winshang.com/news-276034.html>

\*\*\* "West Lake Intime City re-opens, catering services is the focus." 3 November, 2014. Linkshop. <http://www.linkshop.com.cn/web/archives/2014/308473.shtml>



# Distribution channels

## Specialty store is increasingly preferred by brand owners

- ❑ According to Euromonitor, growth in store number of apparel specialties has been impressive, at almost 12% yoy in 2013, with the number of outlets of apparel specialist specialties reaching 584,800 in 2013\*.
- ❑ Specialty stores are increasingly preferred by apparel brand owners. When operating specialty stores, brand owners can have more control over price, promotion activities and store design and layout, and thus can better deliver their brand message to customers and provide a unique shopping experience for them. Specialty store operators are usually more profitable than concessionaires in department stores as they do not need to pay the high commissions.
- ❑ A majority of apparel brand owners and manufactures in China adopt a combination of both self-operated stores and franchised stores. Very often, they manage the stores in key cities or strategic or profitable locations directly while leaving other locations to franchisees as distributors.
  - Direct-operated stores are more efficient when compared with franchise stores. Normally, the average sales per store of direct-operated stores is higher than that of franchise stores. Direct-operated stores are also better managed than franchise stores in terms of visual merchandizing, image control, and price control.
  - In general, the more high-end the brands are, the more likely the brand owners will directly control the stores. However, it is relatively more costly to run direct-operated stores because of the higher capital expenditure (CAPEX) and higher rental costs in key cities.

\* "Apparel and Footwear Specialist Retailers in China", March 2014. Euromonitor International.

# Distribution channels

## Hypermarkets and supermarkets target the lower- to middle-mass

- Hypermarkets and supermarkets are popular retailing channels for lower-priced apparel; many of which are with poor brand recognition or unbranded. Unit price is generally lower than that in department stores.
- Over recent years, some hypermarket retailers have introduced their private clothing brands targeting the mass market
  - Auchan, a hypermarket chain from French, introduced low-priced private women's wear brands Grey, Monochrome, Pretty and Blue Jeans in selected stores in China in 2014\*.
  - Wal-Mart, a hypermarket chain from the U.S., has also introduced private denim brand Simply Basic in selected stores in China, targeting the mass market\*.

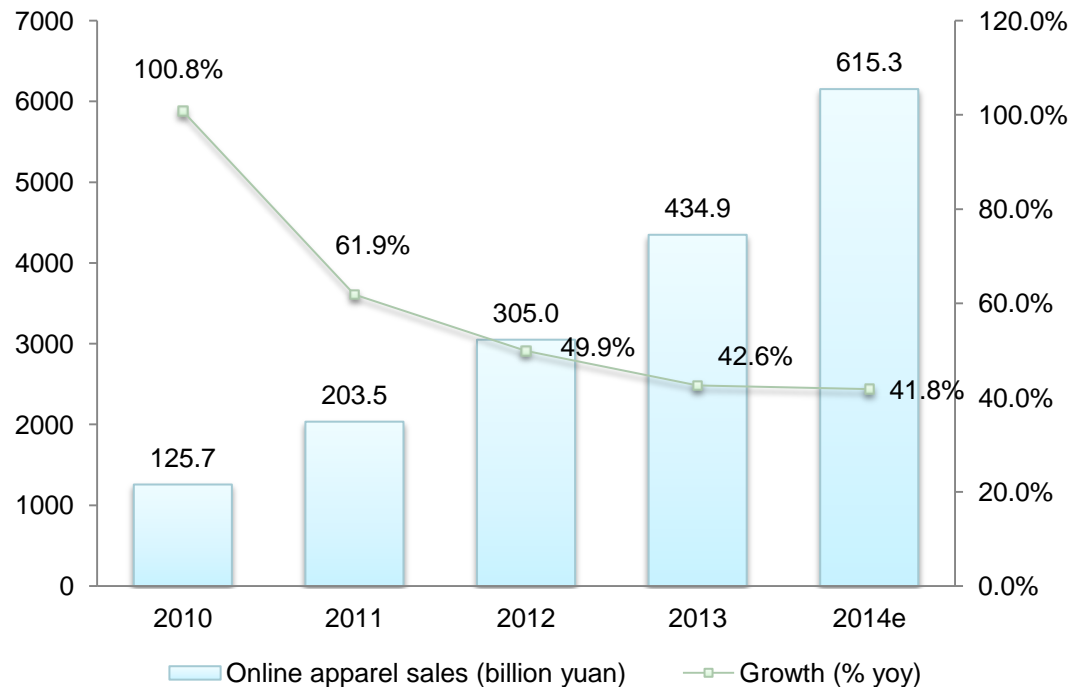
\*"Supermarket chains introduce low-priced private clothing brands." 20 February, 2014.  
[http://big5.southcn.com/gate/big5/lady.southcn.com/6/2014-02/20/content\\_92997396.htm](http://big5.southcn.com/gate/big5/lady.southcn.com/6/2014-02/20/content_92997396.htm)

# Distribution channels

## Online retailing is the fastest growing retail channel in China for apparel

- Online retailing is the fastest growing retail channel for apparel in China. It is observed that many consumers are shifting their apparel spending offline to online.
  - According to China e-Business Research Centre, the total online apparel transaction value in China grew sharply by 42.6% yoy to reach 434.9 billion yuan in 2013.
- “Showrooming” is becoming a popular phenomenon. Physical stores in shopping malls and department stores have now more or less become the “fitting rooms” for consumers to try on products before they purchase online.

Exhibit 14: Online apparel sales, 2010 – 2014 (estimates)



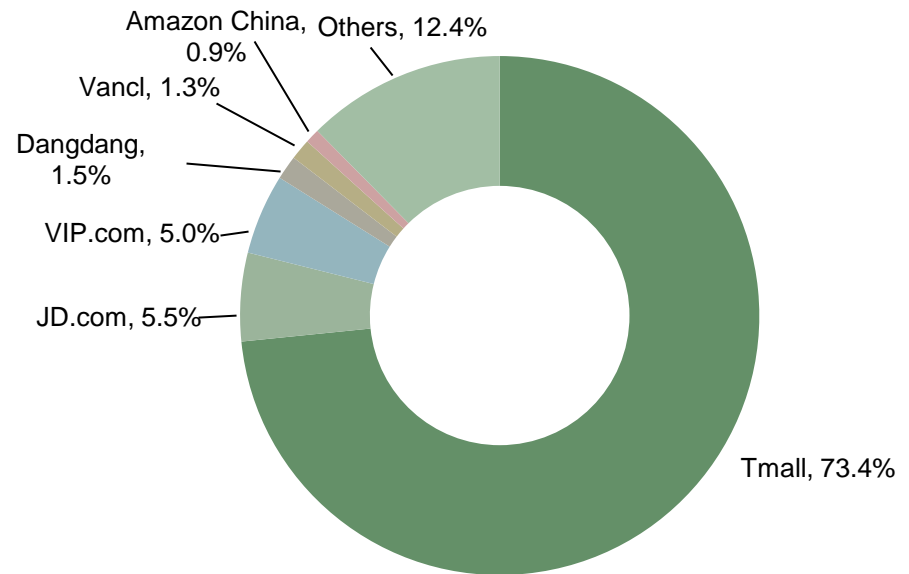
Source: China e-Business Research Center, compiled by Fung Business Intelligence Centre

## Distribution channels

### B2C segment becomes increasingly important in apparel online retailing

- The B2C segment is becoming a more and more important segment for China's online apparel retailing. According to EnfoDesk, the online transaction value of the B2C segment in China reached 91.6 billion yuan in 3Q14, up 54.2% yoy.
- With a market share of 73.4%, Tmall remains an absolute market leader in the market B2C segment for apparel retailing. JD.com and VIP.com come in second and third, with 5.5% and 5.0% market share, respectively.

**Exhibit 15: Market share of B2C apparel market, 3Q14**



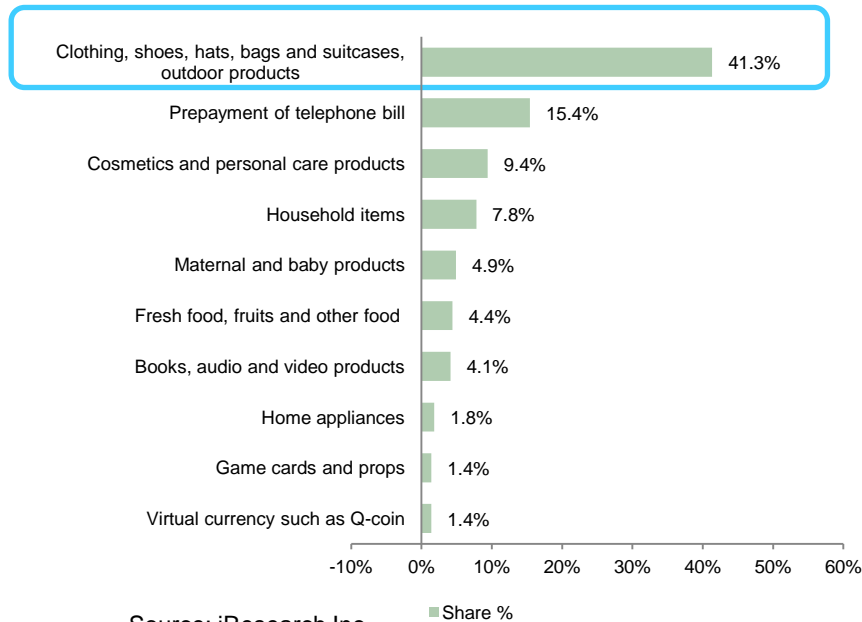
Source: China e-Business Research Center, compiled by Fung Business Intelligence Centre

## Distribution channels

Apparel is the most popular sub-category purchased online; female online shoppers purchase apparel more frequently than male shoppers

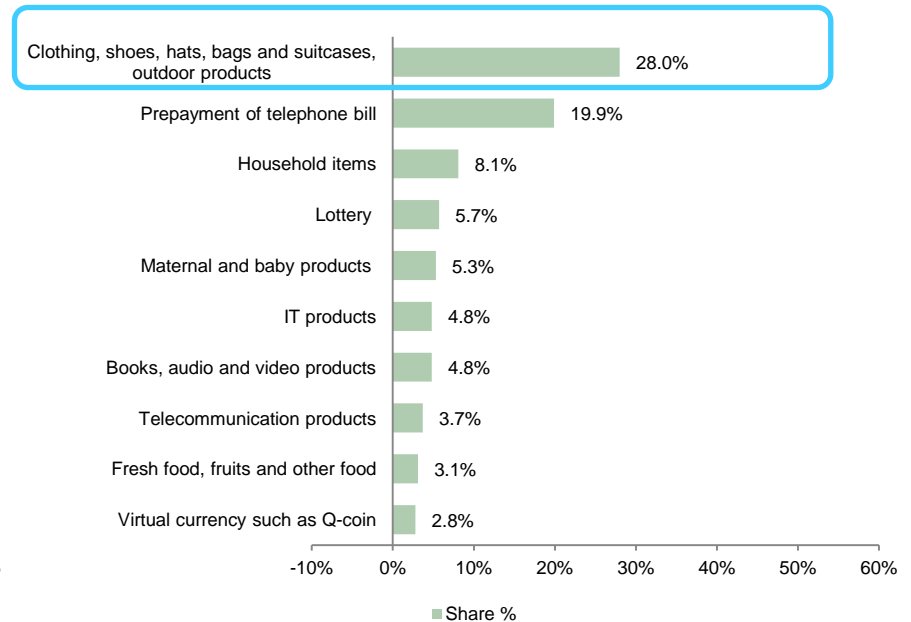
- According to iResearch, “clothing, shoes, hats, bags and suitcases, outdoor products” were the most popular categories purchased online in 2013, respectively taking up 41.3% and 28.0% of shares among the top 10 favorite commodities purchased by shoppers online. Female online shoppers also bought apparel more frequently than male shoppers.

**Exhibit 16: Top 10 commodities favoured by Chinese female online shoppers in 2013**



Source: iResearch Inc.

**Exhibit 17: Top 10 commodities favoured by Chinese male online shoppers in 2013**



## Distribution channels

### Online players are enhancing competitiveness with upgraded services

- ❑ Excess inventory remains a concern for many online retailers. Some online apparel players have set up new websites to offer deep discounts to clear their obsolete inventories.
  - Dangdang and JD.com launched Weipinhui (尾品匯) and Shantuan (閃團) respectively in May 2014 to sell apparel products at clearance prices.
- ❑ Some apparel retailers have launched online pre-order services for better inventory management.
  - Anta rolled out an online pre-order service in 2014, allowing customers to order products in advance on its online store.
  - In 2014, Septwolves also launched an online pre-order service for its tailor-made clothing products.
- ❑ In addition to setting up new website to clear surplus inventories, some online retailers have also developed their own apparel brands to enhance competitiveness.
  - Yihaodian rolled out its own apparel products under the Bestluck brand on its online platform in May 2013.
- ❑ Given the increasing popularity of online shopping, many foreign apparel retailers have set up online stores on third-party e-commerce platforms such as Tmall.

**Exhibit 18: Selected foreign apparel retailers that have opened their online stores on Tmall in 2014**

Apparel brands	Tmall store	Date
Boss Orange by Hugo Boss	<a href="http://hugoboss.tmall.com/">http://hugoboss.tmall.com/</a>	November, 2014
Zara	<a href="http://zara.tmall.com/">http://zara.tmall.com/</a>	October, 2014
Topshop	<a href="http://topshop.tmall.com/">http://topshop.tmall.com/</a>	September, 2014
Burberry	<a href="http://burberry.tmall.com/">http://burberry.tmall.com/</a>	April, 2014

Source: Internet resources, compiled by Fung Business Intelligence Centre





# Key highlights

## Multi-label stores (also known as “concept stores”) increasingly in focus












- Multi-label stores (also known as “concept stores”) which stock lesser-known designer brands have been growing in prevalence in China. These stores, emphasising on unique and contemporary fashions and bringing together talented designers locally and internationally, have responded to the needs of increasingly sophisticated Chinese customers, particular in key cities, who are moving from big names to brands with personal style and individuality.



# Multi-label stores (also known as “concept stores”) increasingly in focus (Cont’d)

- Exhibit 19 below lists some examples of multi-label stores in China.

**Exhibit 19: Selected examples of multi-label stores**

Multi-label store	Product offerings					Store location
	Women’s clothing	Men’s clothing	Children’s clothing	Footwear	Accessories	
<b>Triple-Major</b> <a href="http://www.triple-major.com/">http://www.triple-major.com/</a>						 Beijing  Shanghai  Chengdu
<b>Xinlelu</b> <a href="http://www.xinlelu.com/">http://www.xinlelu.com/</a>						 Shanghai
<b>The Villa Shanghai</b> <a href="http://www.shopthevilla.com/asia/main/ind">http://www.shopthevilla.com/asia/main/ind</a>						 Shanghai
<b>Alter</b> <a href="http://www.alterstyle.com/">http://www.alterstyle.com/</a>						 Shanghai

# Fast fashion brands remain strong

- Fast fashion brands have sustained high growth momentum in China over recent years.
- To meet the strong demand of Chinese customers and capture a larger market share, many fast fashion players have continued to ramp up their presence in China.



**Current:** > 40 stores in China  
**Planning:** 150 stores by 2015

**INDITEX**



**Current:** 450 stores in China  
**Planning:** over 500 stores in China by January 2015



**Planning:** add 200 new stores in smaller Chinese cities in the fiscal year of 2014



**Planning:** over 100 stores in China over the coming decade

- Apart from expansion, some fast fashion retailers have pursued multi-brand strategy and launched new brands to capture larger market share
  - Fast Retailing, Japan's leading fast fashion group which holds Uniqlo, made debut of two more fast fashion brands GU and PLST in Shanghai in September and October 2013.
  - Mango, a Spanish fast fashion brand, introduced a plus-size line Violeta on its China's official website in January 2014.

# Luxury apparel brands see flagging demand; affordable luxury apparel on the rise

- ❑ The growth of China's luxury sales has started to slow since 4Q11. Bain & Company expects luxury consumption in China to reach 15 billion euros, or 117.8 billion yuan in 2014, down 2% yoy\*, the first decline over a decade of growth in luxury sales. Luxury apparel also saw significant drop in sales.
- ❑ That said, driven by a number of positive factors such as strong economic underpinnings, household disposable income and a fast growing affluent middle class, China remains to be one of the most important markets for global luxury retailers. Exhibit 20 on the next slide highlights some common strategies pursued by global luxury players.
- ❑ Given the tighter anti-extravagance measures, Chinese consumers are now more prudent when spending on premium luxury apparel. The skyrocketing prices of some premium luxury brands have prompted consumers to turn to alternative affordable luxury apparel and designer clothes at relatively cheaper prices.

\* "Worldwide Luxury Market Monitor." Oct 2014. Bain & Company. P29.

# Luxury apparel brands see flagging demand; affordable luxury apparel on the rise (Cont'd)

**Exhibit 20: Common strategies adopted by selected global luxury apparel players**

Strategies pursued in China	Luxury brand	Announced date	Strategies in China
Tapping the online retail market	Burberry	April 2014	<ul style="list-style-type: none"> <li>Launched its flagship store on Tmall, China's largest online shopping platform, in April 2014. This is the first time that an international luxury brand entered the third-party online shopping platform in China</li> </ul>
	Calvin Klein	August 2014	<ul style="list-style-type: none"> <li>Opened its online store on Tmall in September 2014</li> </ul>
Taking back China franchises	Hugo Boss	July 2014	<ul style="list-style-type: none"> <li>Bought back a 40% stake in its Chinese mainland and Macau joint venture from franchise partner Rainbow Group</li> </ul>
Ramping up presence in China	Max Mara	July 2014	<ul style="list-style-type: none"> <li>Opened its largest Asian store in Beijing</li> </ul>
		August 2014	<ul style="list-style-type: none"> <li>Announced plans to open 25 to 35 new stores in China every year</li> </ul>

Source: Internet resources, compiled by Fung Business Intelligence Centre



# Apparel retailers step up efforts to explore O2O initiatives

- An increasing number of apparel retailers are making more efforts to explore “O2O”, or “online and offline integration”, to reach more customers.
  - In Metersbonwe, a unique QR code is printed on the product tag of each of the products available at its stores; customers can use their mobile devices to scan the QR code and they will be directed to the product page on Banggo.com, Metersbonwe’s online store. They will receive the product information and can shop online via their mobile devices.
  - Zara set up an online store, [www.zara.cn](http://www.zara.cn), in China in September 2013. The company encourages consumers to collect online purchases from their physical outlets; it also hopes to boost store visits\*.
  
- Metersbonwe, Uniqlo and Zara are some prominent apparel retailers that have implemented O2O initiatives in various aspects.

**Exhibit 21: O2O initiatives adopted by selected apparel retailers, as of September 2014**

Specialty stores	Online/mobile initiatives					In-store initiatives	Online and offline integration
	Online website	Third party platforms	Mobile portal	Social media : Sina Weibo	Social media: WeChat		
	√	√	√	√	√	<ul style="list-style-type: none"> <li>• Free WiFi</li> <li>• Touch-screen device in some store branches</li> <li>• Display QR codes on tags, directing to Banggo.com</li> <li>• Support mobile payment</li> </ul>	<ul style="list-style-type: none"> <li>• Integrate online and offline membership</li> <li>• Same products and same price for online and offline channels</li> </ul>
	√	√	√	√	√	<ul style="list-style-type: none"> <li>• Display QR codes in-store, which has to be scanned by Uniqlo’s mobile app</li> <li>• Support mobile payment</li> </ul>	<ul style="list-style-type: none"> <li>• Integrate online and offline membership</li> <li>• Same products and same price for online and offline channels</li> </ul>
	√	√	√	√	√	<ul style="list-style-type: none"> <li>• Display QR codes on tags</li> </ul>	<ul style="list-style-type: none"> <li>• Integrate online and offline membership</li> <li>• Same products and same price for online and offline channels</li> <li>• Order online, collect in offline stores</li> <li>• Goods purchased online can be returned to stores or by post</li> </ul>

Source: Internet sources; compiled by Fung Business Intelligence Centre

# 3D virtual dressing rooms gain in popularity

- To optimise consumer shopping experience, some apparel brands have rolled out 3D virtual dressing rooms in-store, a fitting technology which allows shoppers to see how they look in selected fashion and accessories without physically trying them on.
  - Lilanz, a domestic men's wear retailer, launched a 3D virtual dressing room at its Yiwu outlet in March 2014.
  - Kaiser, a domestic high-end apparel retailer, also rolled out a 3D virtual dressing room at its first O2O experience store in Guangzhou in April 2014.
  
- Some shopping malls, department stores and online retailers have also launched 3D virtual fitting technology.
  - Teemall, a domestic shopping mall in Guangzhou, introduced a 3D virtual dressing room in August 2014. It is the first shopping mall in Guangzhou to launch 3D virtual fitting technology.
  - Xinghua Department Store, a domestic department store in Foshan, also launched a 3D virtual dressing room in August 2014.
  - JD.com, a leading B2C online retailer in China, added a 3D virtual fitting function on its iPad app in January 2014.
  - Rainbow Department Store, a leading department store chain in China, also announced its plans to launch a 3D virtual dressing room in November 2014.

# Department store operators develop their own private apparel labels or proprietary brands

- Introducing private labels or proprietary brands is a good way for retailers to strengthen core competence. Private labels and proprietary brands may also lift profit margin and garner consumer loyalty. Exhibit 22 shows some of the private brands launched by selected department stores.

**Exhibit 22: Private labels of selected department stores**

Department store	Private label	Product category
Intime Department Store	Just Intime	Women's apparel
Ito Yokado Department Store	pbi	Apparel
Wangfujing Department Store	FIRST WERT	Men's apparel
Golden Eagle Department Store	Aquila D'oro	Men's apparel
	IVREA	Men's apparel
	LISALEN	Women's apparel
	Antonghui	Kids' apparel

Source: Internet resources, compiled by Fung Business Intelligence Centre

# Overseas apparel brands explore new ways to tap the China market

Eyeing the huge potential of the China market, overseas apparel brands are selling to Chinese consumer via various ways:

- ❑ Some foreign apparel brands or retailers choose to enter the China market via online platforms without setting up physical stores.
  - U.K.’s fast fashion brand Topshop entered China in September 2014 through setting up online stores respectively on Chinese online retail platforms Shangpin.com and Tmall.
  - Another U.K.’s high street brand Miss Selfridge also made its debut in China in September 2014 through opening an online store on Shangpin.com.
- ❑ Some apparel brands also sell to Chinese consumers by opening stores on “Haitao” platforms - B2C platforms which sell imported products to Chinese consumers. Over recent years, the Chinese government has launched several regulations to promote cross-border e-commerce business. One such initiative is the establishment of pilot zones to facilitate cross-border e-commerce businesses\*. Brands that are sold on “Haitao” platforms and are imported through these pilot zones can enjoy lower import duties at rates applicable to personal items, which are usually lower than the tax rates for general trade.
  - e.g. Juicy Couture and Sugarman have set up online stores on tmall.hk, a global B2C marketplace under Alibaba; all imported products are processed via pilot zones.
- ❑ Some overseas apparel e-commerce players partner with local third-party online payment providers, to allow Chinese customers to settle payment in yuan when they shop on U.S. websites.
  - Borderfree, a leading cross-border ecommerce services provider based in New York, entered into a partnership with Alipay, China’s leading e-payment service provider, bringing the latter’s ePass payment system to apparel brands such as Ann Taylor and Aéropostale.

*\*In December 2012, the government has established pilot zones in Shanghai, Chongqing, Hangzhou, Ningbo and Zhengzhou. Guangzhou and Shenzhen Qianhai also joined the pilot program in September 2014.*



## Snapshots of sub-sector performance

# Background

- The China National Commercial Information Centre (CNCIC) conducts monthly survey to around 200 major department stores\* in China to study the performance of different cosmetics sub-sectors.
- In this newsletter, performance of the following product sectors is examined:



**Ladies' wear**



**Menswear (men's suits and men's shirts)**



**Children's wear**



**Sportswear**



**Ladies' underwear**

# Ladies' wear

Exhibit 23: Ladies' wear - Brand share of the top 10 players, 2013



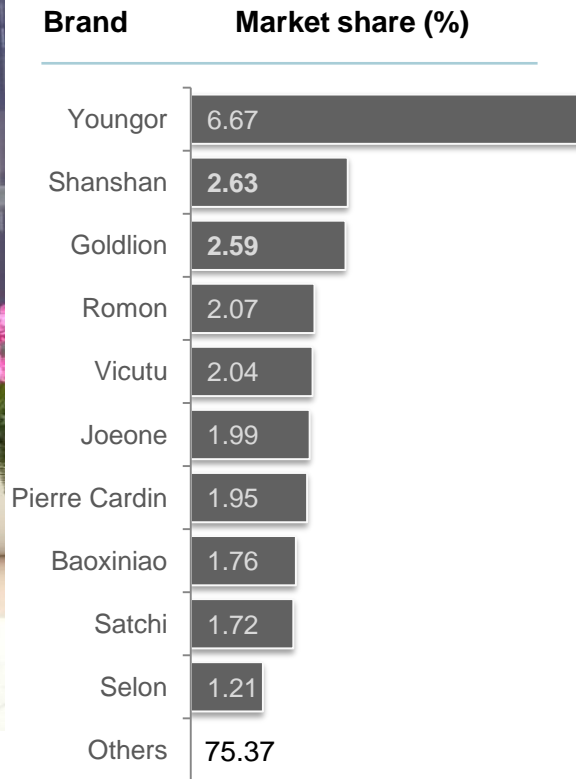
Brand	Market share (%)
Vero Moda	3.82
Only	3.78
Girdear	2.37
Ochirly	1.66
Jiuzi	1.61
Marisfrolg	1.52
Elegant Prosper (EP)	1.51
La Chapelle	1.46
E-land	1.36
Amass	1.34
Others	79.57

Source: CNCIC

# Menswear

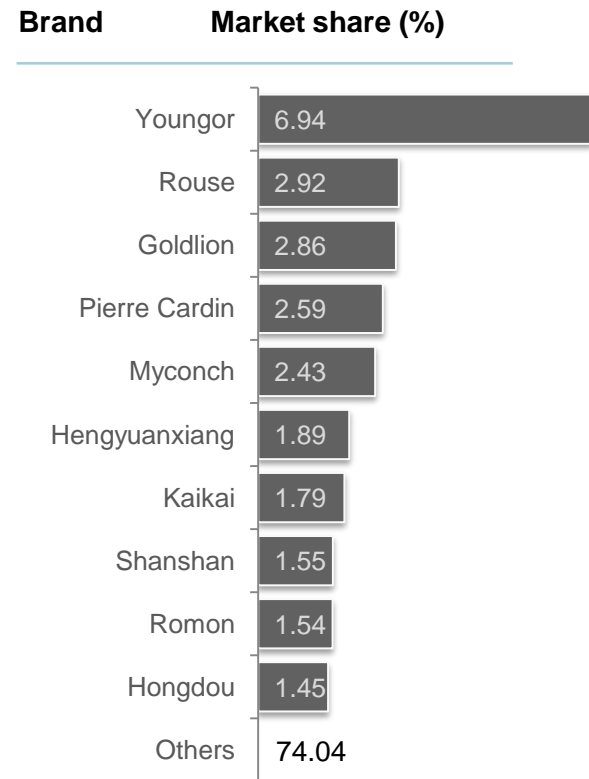


**Exhibit 24: Men's suit -  
Brand share of the top 10  
players, 2013**



Source: CNCIC

**Exhibit 25: Men's shirt -  
Brand share of the top 10  
players, 2013**





# Children's wear

Exhibit 26: Children's wear - Brand share of the top 10 players, 2013

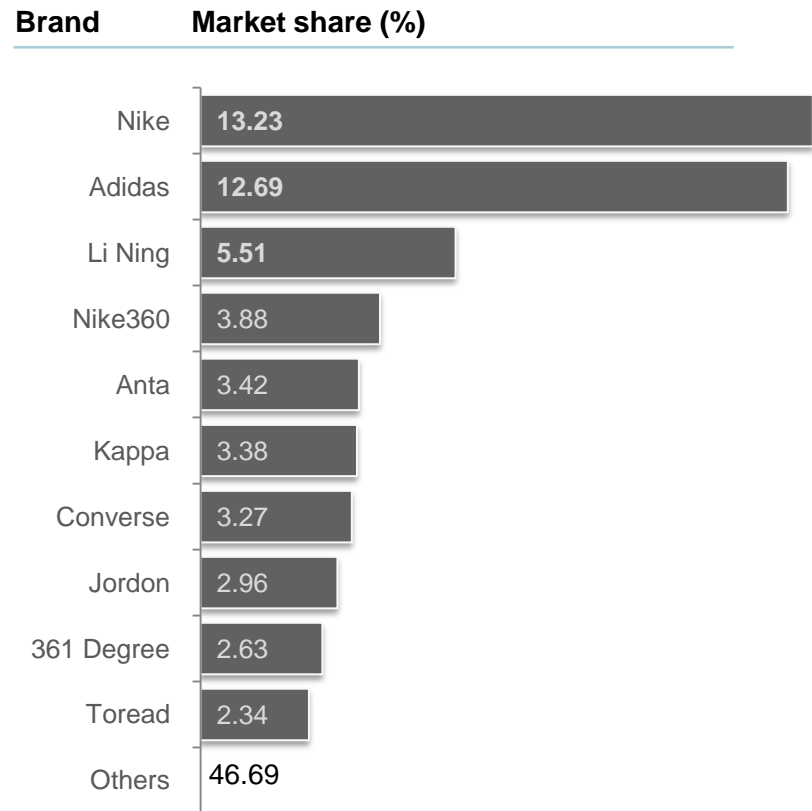


Brand	Market share (%)
Balabala	4.81
Adidas	4.10
Nike	3.84
Annil	3.66
Les Enphants	2.80
Souhait	2.30
Paw in Paw	1.97
Eland	1.75
Snoopy	1.69
Goodbaby	1.68
Others	71.40

Source: CNCIC

# Sportswear

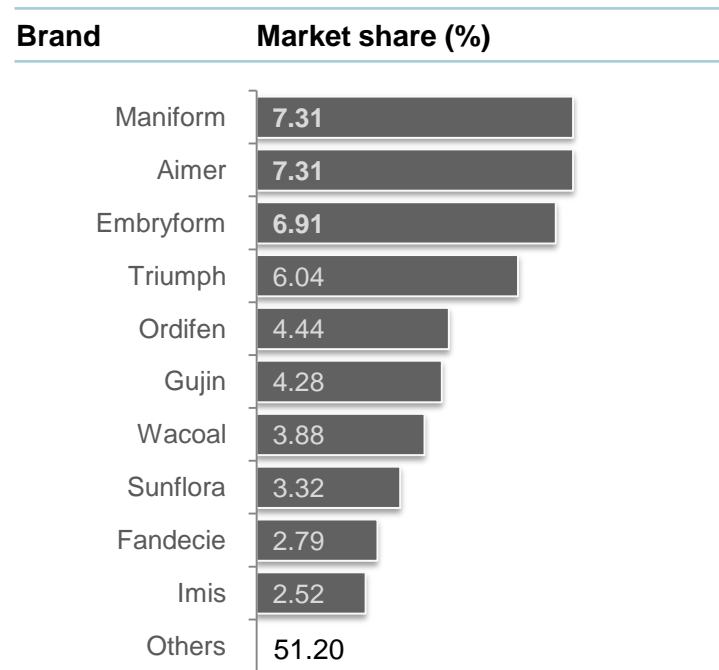
Exhibit 27: Sportswear - Brand share of the top 10 players, 2013



Source: CNCIC

# Ladies' underwear

Exhibit 28: Ladies' underwear - Brand share of the top 10 players, 2013



Source: CNCIC

# For more information

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